INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2017

1. BACKGROUND CORPORATE INFORMATION

SOPHARMA AD is a business entity registered in Bulgaria with a seat and registered address of management: Sofia, 16, Iliensko Shousse St. The Company was entered in the Commercial Registry on 11 April 2008 with UIC 831902088.

The Company was registered with court on 15 November 1991 by Decision No 1 / 1991 of Sofia City Court.

1.1. Ownership and management

Sopharma AD is a public company under the Public Offering of Securities Act.

As at 30 September 2017, the structure of Company's joint-stock capital was as follows:

	%
Donev Investments Holding AD	25.19
Telecomplect Invest AD	20.41
Rompharm Company OOD	17.68
ZPAD Allianz Bulgaria	5.17
Sopharma AD (treasury shares)	3.83
Other legal persons	22.67
Natural persons	5.05

Sopharma AD has a one-tier management system with a five-member Board of Directors. Company's management in the form of Board of Directors is composed as at 30 September 2017 as follows:

Ognian Donev, PhD	Chairman
Vessela Stoeva	Member
Ognian Palaveev	Member
Alexander Chaushev	Member
Andrey Breshkov	Member

The Company is represented and managed by its Executive Director Ognian Donev, PhD.

The Audit Committee supports the work of the Board of Directors and plays the role of those charged with general governance that exercise monitoring and control over the internal control system, risk management and Company's system of financial reporting.

The composition of the Audit Committee is as follows:

Vasil Naidenov	Chairman
Tsvetanka Zlateva	Member
Kristina Atanasova	Member

The average number of Company's personnel for 2017 is 1,915 workers and employees (2016: 2,076).

1.2. Principal activities

The principal activities of the Company include the following types of transactions and deals:

- production and trade in medicinal substances and finished drug forms;
- research and development as well as engineering and implementation activities in the field of medicinal products.

The Company holds manufacturing / import authorisation for medicinal products No P-I-10-14/B-I-21-002 dated 28 October 2016, issued by the Bulgarian Drug Agency (BDA).

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the separate financial statements

The separate financial statements of SOPHARMA AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2017 and have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

For the current financial year the Company has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which have been relevant to its activities.

The adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2017, has not caused changes in the accounting policies, except for some new disclosures and the expansion of those already adopted, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

At the date when these financial statements have been approved for issue, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2017, which have not been adopted by the Company for early application. The management has decided that out of them the following are likely to have a potential impact in the future for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements for subsequent periods, namely:

- *IAS 7 (Amended) Cash Flow Statement - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017 - not adopted by the EC).* This change is an important explanation of the standard itself, with a view to the information provided to users of the financial statements that can improve the understanding of the liquidity and financial operations of the company. The amendment requires additional disclosures and clarifications to be made regarding changes in the Company's liabilities in respect of: (a) changes in the financing activity resulting from operations that result in changes in cash flows; or (b) changes resulting from non-cash transactions such as acquisitions and disposals, interest accruals, exchange rate effects, changes in fair values, and the like. Changes in financial assets should be included in this disclosure if the resulting cash flows are presented to the financing activity (for example, in certain hedge transactions). It is also acceptable to include changes to other objects as part of the disclosure, as they are stated separately;

- *IAS 12 (amended) Income taxes (effective for annual periods beginning on or after 01/01/2017 - not adopted by the EC) - Recognition of deferred tax assets for unrealized losses.* This amendment clarifies deferred tax in the case that an asset is measured at fair value and the measurement at fair value is lower than the tax base. The clarification includes: (a) temporary differences arise whether the carrying amount of the asset is lower than its tax base; (b) the undertaking concerned should determine whether it would be able to deduct a greater amount than the carrying amount of the asset or not in determining its future taxable profits; (c) if, under tax law, there is a restriction on the use of taxable profits against which certain deferred tax assets can be recovered, the review and assessment of the deferred tax asset recovery must be made in combination with other deferred tax assets of the same type; and (d) tax deductions resulting from the reversal of deferred tax assets are excluded from the estimate of future taxable profits used to assess the recoverability of those assets;

- *IAS 40 (amended) "Investment Property" – regarding transfers of investment property (in force for annual periods beginning on or after 1 July 2018 – not endorsed by EC).* The amendment refers to an additional clarification regarding the terms and criteria that allow transfers of property to, or from, the category 'investment property'. More specifically, when the subject of transfer represents buildings under construction with a change in their use. Such transfers are possible and allowable only when the property meets, or respectively, ceases to meet, the criteria and definition of investment property – then it is deemed that evidence exists for a change in its use. A change in the intents and plans of the management are not regarded as evidence for a change in use;

- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* The amendment is related to a relief from the requirement to restate the comparative financial statements and the option to present modified disclosures on the transition from IAS 39 to IFRS 9 (when this happens) depending on the date of the standard application by the Company and whether it chooses the option to restate prior periods;

- *IFRS 9 "Financial Instruments" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).* This is a new standard for financial instruments. It is ultimately intended to replace IAS 39 in its entirety. The replacement project has passed through three phases: Phase 1: Classification and measurement of financial assets and financial liabilities; Phase 2: Hedge accounting; and Phase 3: Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 and finally in July 2014. Phase 1: Classification and measurement of financial assets and financial liabilities – by the first issues it replaces those parts of IAS 39 that refer to the classification and measurement of financial instruments. It sets out new principles, rules and criteria for classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. IFRS 9 introduces a requirement that financial assets are to be classified based on entity's business model for their management and on the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for financial assets: amortised cost and fair value. The new rules will lead to changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated at fair value through current profit or loss (for credit risk). A specific feature of the classification and measurement model for financial assets at fair value is the addition of a new category – fair value through other comprehensive income (for certain debt and capital instruments). Phase 2: Hedge accounting – a new chapter to IFRS 9 has been added for this purpose whereby a new hedge accounting model is introduced that permits consistent and complete reflection of all financial and non-financial risk exposures, subject to hedge transactions, and also, better presentation of risk management activities in the financial statements and especially, their relation to hedge transactions, and the scope and type of documentation to be used. In addition, the requirements to the structure, contents and presentation approach for hedge disclosures have been improved. Furthermore, an option is introduced fair value changes of own debts, measured at fair value through profit or loss, in the part thereof due to changes in the Group's own credit quality, to be presented in other comprehensive income rather than in profit or loss. The entities that apply IAS 39 will be able to apply this option but they will also be able to continue applying the requirements for fair value hedge accounting of an interest rate exposure under IAS 39 even when IFRS becomes effective. Phase 3: Impairment methodology – the amendment introduces the application of the 'expected loss' model. Under this model all expected credit losses of an amortisable financial instrument (asset) shall be recognised in three stages, depending on its credit quality change, and not only if a trigger event has occurred as per the current model under IAS 39. The three stages are: upon the initial recognition of the financial asset – impairment for the 12-month period or for the full lifetime of the asset; and respectively – upon the occurrence of the actual impairment. They also set out how to measure impairment losses and respectively the application of the effective interest rate;

- *IFRS 10 (amended) "Consolidated Financial Statements" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding the sale or contribution of assets between an investor and its associate or joint venture (in force for annual periods beginning on or after 1 January 2017 – the EC endorsement procedure has been postponed for an indefinite period).* This amendment arises as a result of the existing inconsistency between the requirements and rules of IFRS 10 and IAS 28 (as revised in 2011) regarding transactions between an investor and its associate or joint venture. It basically clarifies that in transactions, representing in substance a sale or contribution of an aggregate of assets but not constituting a business, gains or losses are recognised partially to the extent attributable to other equity holders, while in transactions, representing in substance a sale or contribution of assets but constituting a business within the meaning of IFRS 3 – gains or losses are recognised in full;

- *IFRS 15 "Revenue from Contracts with Customers" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).*This is an entirely new standard. It introduces a single complex of principles, rules and approaches for recognition, accounting for and disclosure of information about the nature, amount, timing and uncertainties related to revenue and cash flows arising from contracts with counterparts. The standard will supersede the effective to date standards related to revenue recognition, mainly IAS 18 and IAS 11. The main principle of the new standard is to provide a stepwise model whereby revenue amount and timing reflect the obligation characteristics and performance of each of the parties to the transaction. The key components include: (a) contracts with customers that are commercial in their substance and assessment of the probability for collecting contractual amounts by the entity in line with the terms and conditions of the particular contract; (b) identification of the separate performance obligations under the contract for providing of a good or service, that is distinct from the other assumed contractual commitments/promises, from which the customer would obtain benefits; (c) transaction price determination – the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer – special attention is paid to the variable component of price, the financing component, as well as the non-cash consideration; (d) allocation of the transaction price to separate performance obligations under the contract – usually on a stand-alone sale price of each component; and (e) the point of time or the period of revenue recognition – when an entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur at a point in time or over time. The expectation is that the introduction of this standard may lead to the following changes: (a) in complex contracts with bundled sales of goods and services a clear distinction will be required between the goods and services of each component and provision of the contract; (b) probability for a change in the time of sale recognition; (c) expanding of disclosures; and (d) introduction of additional rules for recognising the revenue from a particular type of contracts – licences; consignment; one-time collection of preliminary fees; guarantees and other similar. The standard allows a full retrospective approach or a modified retrospective approach from the beginning of the current reporting period with particular disclosures for prior periods;

- *IFRS 15 "Revenue from Contracts with Customers" – clarifications (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* These clarifications refer to (a) identifying performance obligations on the basis of distinct promises to transfer goods or services; (b) identifying whether an entity is a principal or an agent in the transfer of goods or services (principal versus agent considerations); and (c) licences transfer. In addition, this amendment also provides some relief in the transition to the new standard;

- *IFRS 16 "Leases" (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC).* This standard has an entirely new concept. It establishes new principles for the recognition, measurement and presentation of a lease by introducing a new model with the objective to ensure a more faithful and adequate representation of such transactions both for lessee and lessor. The standard will supersede the effective so far standard related to leases – IAS 17. (a) The main principle of the new standard is the introduction of a single lessee accounting model – an asset will be recognised for all contracts with duration of more than 12 months in the form of a 'right-of-use', which will be subsequently depreciated over the duration of the contract, and respectively, a financial liability will be stated for the lease liability under the contracts. This is the significant change in the current accounting practice. The standard allows an exception and retaining the old practice for leases of low-value assets and short-term leases; (b) There would not be any significant changes with the lessors and they would continue to account for leases as per the old standard IAS 17 – operating and finance. As far as the new standard introduces a more thorough concept, a more detailed analysis of contractual terms should be carried out on their part as well and it is possible that grounds for reclassification of particular lease transactions may occur for them (lessors), too. The new standard requires more extensive disclosures. Company's management is in a process of in-depth research of the possible effects and the cases of rental and lease contracts with customers where changes will be required in the accounting policies applied so far;

- *Annual Improvements to IFRSs 2014-2016 Cycle (December 2016) – improvements to IFRS 12 (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC), IFRS 1 and IAS 28 (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application of the rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) the scope and requirements to the disclosures in IFRS 12 shall apply also to entities that are classified under IFRS as held for sale, as held for distribution or as discontinued operations; (b) removal of certain exemptions in the application of IFRS 1; and (c) the choice of venture capital funds or other similar entities to measure their investments in associates or joint ventures at fair value through profit or loss and this choice is available on an investment-by-investment basis, upon initial recognition (IAS 28);

- *IFRIC 22 (amended) "Foreign Currency Transactions and Advance Consideration" (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* This Interpretation applies to the accounting for a foreign currency transaction or part of it on the receipt of advance consideration before the entity recognises the related asset, expense or income. In these cases the entities shall recognise an asset for the advance consideration (advance consideration paid on supply of assets or services) or a liability for deferred income (advance consideration received from clients on sales) and they are treated as non-monetary. Upon receipt of such advance consideration in a foreign currency, the transaction date shall be used to determine the exchange rate while in case of multiple payments the entity shall determine a date of the transaction for each individual payment.

In addition, with regard to the stated below amended/revised standards, issued but not yet in force for annual periods beginning on 1 January 2017, the management has concluded that they are unlikely to have a potential impact for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements, namely:

- *IFRS 2 (amended) "Share-based Payment" – clarifications (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* These clarifications specify the following: (a) the treatment of vesting conditions in the measurement and accounting for cash-settled share-based payment transactions; (b) approach for the classification of share-based payment transactions with net settlement features for the purposes of withholding personal tax for entity's employees (in the form of equity instruments) – by introducing an exception from the common rule in order to achieve a facilitation in the practice, these transactions shall be classified in a way as if in the absence of the net share settlement feature; and (c) a new rule of accounting whereby a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled;
- *IFRS 4 (amended) "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* This amendment is related to the need to synchronise the reporting of companies that issue insurance contracts, which fall within the scope of IFRS 9, by providing two approaches to account for income or expenses arising from designated financial assets – the overlay approach and the deferral approach.

The separate financial statements of the Company have been prepared on a historical cost basis except for property, plant and equipment, investment property and available-for-sale financial instruments, which are measured at revalued amount and respectively, at fair value.

The Company keeps its accounting books in Bulgarian Levs (BGN), which is accepted as being its presentation currency. The data in the separate financial statements and the notes thereto is presented in thousand Bulgarian Levs (BGN'000) except where it is explicitly stated otherwise.

The presentation of financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in *Note 2.29, Note 13, Note 15* and *Note 18*.

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated annual financial statements for as at 30 September 2017 in accordance with IFRS for year 2017 whereas these separate annual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated financial statements will be prepared for issue not later than 30 November 2017 and after this date the financial statements will be publicly made available to third parties.

2.3. Merger of Medica AD into Sopharma AD

(a) the legal form of the merger

The merger of Medica AD (transforming company) into Sopharma AD (receiving company) was realized through the legal form of transformation, regulated by the Commercial Law. The merger was registered in the Commercial Register at the Registry Agency on 08.08.2017. As a result of the transaction, all assets of Medica AD are transferred to Sopharma AD and Medica AD is terminated without liquidation. The purpose of the transformation transaction of the two companies is:

• restructuring of Sopharma Group companies in order to eliminate duplicate activities;

• focusing efforts on production and trade, respectively optimizing administrative costs;

• increasing efficiency and achieving a synergy effect both on management and performance of production and trade, and on optimizing costs.

(b) an accounting method of accounting for the merger

For accounting purposes, the date of the merger was adopted as of 01.01.2017. Until now Medica AD was a subsidiary of Sopharma AD. The deal was treated as a restructuring of the two companies' operations. The merger is accounted for using the "pooling" method. According to the requirements and rules of this method, the Company's operations and assets are presented in these financial statements as if they had always been consolidated since the beginning of the earliest period presented in the financial statements (01.01.2016), irrespective of legal events and procedures and their effects on the legal status and life of the receiving and transforming company. Effects of all business operations between the receiving and the transforming company, including the estimates between them, regardless of whether they occurred before or after the restructuring date, have been eliminated. All differences from the merger operation are reported in equity - the "retained earnings" component (Note 38).

2.4. Comparatives

The Company usually presents comparative information for one prior year in its financial statements.

Where necessary, comparative data is reclassified (and restated) in order to achieve comparability in view of the current year presentation changes.

2.5. Functional currency and recognition of exchange differences

The functional and reporting (presentation) currency of the Company is the Bulgarian Lev. Starting from 1 July 1997 the Bulgarian Lev was fixed under the Bulgarian National Bank Act to the German Mark at the ratio of BGN 1 : DEM 1, and with the introduction of the Euro as the official currency of the European Union, it has been fixed to the Euro at a ratio of BGN 1.95583 : EUR 1.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash and cash equivalents, receivables and payables, as monetary reporting items, denominated in a foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the

Bulgarian National Bank (BNB) for the last working day of the respective month. At 31 December, these amounts are presented in BGN at the closing exchange rate of BNB.

The non-monetary items in the statement of financial position, which have been initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the transaction date and are not subsequently revalued at the closing exchange rate.

Foreign exchange gains or losses arising on the settlement or recording of foreign currency transactions at rates different from those at which they were converted on initial recognition, are recognised in the statement of comprehensive income (within profit or loss for the year) in the period in which they arise and are treated as 'other operating income/(losses)' (within profit or loss for the year) and presented net.

2.6. Revenue

Revenue is recognised on accrual basis to the extent, and in the way, the economic benefits flow to the Company and respectively, the business risks are born thereby, and as far as revenue can be reliably measured.

Upon sale of finished products, goods and materials, revenue is recognised when all significant risks and rewards of ownership have passed to the buyer.

Upon rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the date of the statement of financial position, if this stage as well as the transaction and completion costs, can be measured reliably.

Revenue is measured on the basis of the fair value of the products, goods and services sold, net of indirect taxes (excise duties and VAT) and any discounts and rebates granted.

Net foreign exchange differences related to cash, trade receivables and payables, denominated in a foreign currency, are recognised in the statement of comprehensive income (within profit or loss for the year) when they arise and are presented net under 'other operating income/(losses)'.

Revenue from revaluation of investment property to fair value is presented in the statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses)'. Revenue from investment property leased-out under the terms of operating lease is also accounted for under this item.

Upon sale on an instalment plan, revenue is recognised on the date of sale, excluding the incorporated interest.

Finance income is presented separately on the face of the statement of comprehensive income (within profit or loss for the year) and is comprised of interest income on granted loans and term deposits, net gain on exchange differences from revaluation of loans in a foreign currency, proceeds/gains from investments in securities and shares, including dividends.

2.7. Expenses

Expenses are recognised as they are incurred, following the accrual and matching concepts, to the extent that this would not cause recognition of assets and liabilities that do not satisfy the relevant definitions under IFRS.

Deferred expenses are put off and recognised as current expenses in the period when the contracts, whereto they refer, are performed.

Losses from revaluation of investment property to fair value are presented in the statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses)'.

Finance costs are presented separately in the statement of comprehensive income (within profit or loss for the year) and are comprised of interest expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, expenses/losses on investments in securities and shares and impairment of granted commercial loans.

2.8. Property, plant and equipment

Property, plant and equipment (fixed tangible assets) are presented at revalued amount less the accumulated depreciation and impairment losses in value.

Initial acquisition

Upon their initial acquisition, property, plant and equipment are valued at acquisition cost (cost), which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition for its intended use. The directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes, expenses on capitalised interest for qualifying assets, etc.

Upon acquisition of property, plant and equipment under deferred settlement terms, the purchase price is equivalent to the present value of the liability discounted on the basis of the interest level of the attracted by the Company credit resources with analogous maturity and purpose.

The Company has set a value threshold of BGN 500, below which the acquired assets, regardless of having the features of fixed assets, are treated as current expense at the time of their acquisition.

Subsequent measurement

The chosen by the Company approach for subsequent measurement of property, plant and equipment, is the revaluation model under IAS 16, i.e. measurement at revalued amount less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The revaluation of property, plant and equipment is accepted to be performed by certified appraisers normally in a period of five years. Where the fair value changes materially in shorter periods, revaluation may be performed more frequently.

Subsequent costs

Repair and maintenance costs are recognised as current expenses as incurred. Subsequent costs incurred in relation to property, plant and equipment having the nature of replacement of certain components, significant parts and aggregates or improvements and restructuring, are capitalised in the carrying amount of the respective asset whereas the residual useful life is reviewed at the capitalisation date. At the same time, the non-depreciated part of the replaced components is derecognised from the carrying amount of the assets and is recognised in the current expenses for the period of restructure.

Depreciation methods

The Company applies the straight-line depreciation method for property, plant and equipment. Depreciation of an asset begins when it is available for use. Land is not depreciated. The useful life of the groups of assets is dependent on their physical wear and tear, the characteristic features of the equipment, the future intentions for use and the expected obsolescence.

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- facilities – 5-25 years;
- machinery and equipment – 7-34 years;
- computers and mobile devices – 2-5 years;
- servers and systems – 4-12 years;
- motor vehicles – 5-12 years;
- furniture and fixtures – 3-12 years.

The useful life, set for any tangible fixed asset, is reviewed at the end of each reporting period and in case of any material deviation from the future expectations on the period of use, the latter is adjusted prospectively.

Impairment of assets

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might permanently differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the statement of comprehensive income (within profit or loss for the year) unless a revaluation reserve has been set aside for the respective asset. Then the impairment is at the expense of this reserve and is presented in the statement of comprehensive income (within other comprehensive income) unless it exceeds the reserve amount and the surplus is included as expense in the statement of comprehensive income (within profit or loss for the year).

Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' group are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated under 'other operating income/(losses), net' on the face of the statement of comprehensive income (within profit or loss for the year). The part of 'revaluation reserve' component attributable to the sold asset is directly transferred to 'retained earnings' component in the statement of changes in equity.

2.9. Biological assets

Biological assets are measured at fair value less the estimated costs to sell. They are comprised of perennial plants.

The fair value of biological assets is determined on the basis of their present location and condition based on a price quoted in an active market. Gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and changes in fair value less estimated costs to sell is recognised in the statement of comprehensive income (within profit or loss for the year) in the period in which it arises and is presented in 'other operating income/(losses), net'. When the fair value of a biological asset cannot be reliably measured, it is measured at cost less accumulated depreciation or impairment losses. Subsequently, when the fair value of this biological asset becomes reliably measurable, the Company changes its approach and switches to measuring the asset at fair value less the estimated costs to sell.

2.9. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition (the consideration given) over the fair value of the share of Sopharma AD in the net identifiable assets of the subsidiaries (Bulgarian Rose Sevtopolis AD and Medica AD) at the date of its acquisition (the business combination).This goodwill on the merger of the subsidiaries into the parent company is recognised in the separate statement of financial position of the parent. Goodwill is presented within the 'intangible assets' group.

Goodwill is measured at acquisition cost (cost), determined at the date of the actual business combination, less the accumulated impairment losses. It is not amortised. It is subject to annual review for existence of impairment indicators. Impairment losses on goodwill are presented in the separate statement of comprehensive income (within profit or loss for the year) in the item 'impairment of non-current assets'.

Other intangible assets

Intangible assets are stated in the financial statements at acquisition cost (cost) less accumulated amortisation and any impairment losses in value.

The Company applies the straight-line amortisation method for the intangible assets with determined useful life of 5 – 10 years.

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Then impairment is recognised as an expense in the statement of comprehensive income (within profit or loss for the year).

Intangible assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated under 'other operating income/(losses), net' on the face of the statement of comprehensive income (within profit or loss for the year).

2.11. Investment property

Investment property is property lastingly held by the Company to earn rentals and/or for capital appreciation. They are presented in the statement of financial position at fair value *(Note 2.29)*. Gains or losses arising from a change in the fair value of investment property are recognised in the statement of comprehensive income (within profit or loss for the year) as 'other operating income/(losses), net' for the period in which they arise. The income gained on investment property is presented in the same item.

Investment property is derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. Gains or losses arising from the disposal of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset at the disposal date. They are presented under 'other operating income/(losses), net' in the statement of comprehensive income (within profit or loss for the year).

Transfers to, or from, the group of ‘investment property’ is made only when there is a change in the function and purpose of a particular property. In case of a transfer from 'investment property' to 'owner-occupied property', the asset is recognised in the new group at deemed cost, which is its fair value at the date of transfer. To the opposite, in case of a transfer from 'owner-occupied property' to 'investment property' the asset is measured at fair value at the date of transfer while the difference to its carrying amount is presented as a component of the statement of comprehensive income (within other comprehensive income) and within 'revaluation reserve – property, plant and equipment' in the statement of changes in equity.

2.12. Investments in subsidiaries and associates

Long-term investments representing shares in subsidiary and associate companies are presented in the financial statements at acquisition cost (cost) being the fair value of the consideration paid for the investment including any directly attributable costs incurred on the acquisition less accumulated impairment.

Company's investments in subsidiaries and associates are subject to annual review for impairment. Where conditions for impairment are identified, the impairment is recognised in the statement of comprehensive income (within profit or loss for the year).

In purchases and sales of investments in subsidiaries and associates the date of trading (conclusion of the deal) is applied.

Investments are derecognised when the rights related thereto are transferred to third parties as a result of occurrence of legal rights for that and thus the control over the economic benefits from the respective specific type of investments are being lost. Gain/(loss) on disposal is presented respectively as 'finance income' or 'finance costs' in the statement of comprehensive income (within profit or loss for the year).

2.13. Available-for-sale investments

Investments in the form of available-for-sale financial assets are non-derivative financial assets representing shares in the capital of other companies (minority interest), held for a long term.

Initial measurement

Available-for-sale investments (financial assets) are initially recognised at cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition *(Note 2.24).*

Subsequent measurement

The available-for-sale investments (financial assets), held by the Company, are subsequently measured at fair value (*Note 2.29*) with the assistance of an independent certified appraiser.

The effects of subsequent revaluation of securities to fair value are presented in a separate component of the statement of comprehensive income (within other comprehensive income) and are recognised in the statement of comprehensive income (within profit or loss for the year) on disposal (sale) of the respective investment by being stated as ‘finance income’ or 'finance costs'.

Dividend income related with long-term investments (financial assets) representing shares in other companies (minority interest) is recognised as current income and presented in the statement of comprehensive income (within profit or loss for the year) within the item 'finance income'.

When shares are written-off due to sale, the Company uses the method of weighted average price determined at the end of the month in which write-off is made.

Any purchase or sale of available-for-sale investments (financial assets) is recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

The available-for-sale investments (financial assets) are reviewed at the end of each reporting period and if conditions for permanent impairment are identified, the latter is recognised in the statement of comprehensive income (within profit or loss for the year) under 'finance costs'.

Where conditions for impairment are identified, the latter is determined as the difference between the carrying amount and the recoverable value of the investment and is recognised in the statement of comprehensive income (within profit or loss for the year) unless a positive reserve for this investment was formed in prior periods – then the impairment is at first covered at the account of this reserve and is presented net in the statement of comprehensive income (within other comprehensive income).

2.14. Inventories

Inventories are valued in the financial statements as follows:

- raw materials, materials and goods – at the lower of purchase cost (acquisition cost) and net realisable value;
- finished products, semi-finished products and work in progress – at the lower of production cost and net realisable value.

Expenses incurred in bringing a certain product within inventories to its present condition and location, are included in the acquisition cost (cost) as follows:

- raw materials, materials and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage/sale;

- finished products, semi-finished products and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs. Fixed production overheads are included in the production cost of manufactured finished products, semi-finished products and work in progress based on the normal operating capacity determined on the grounds of commonly maintained average volume of production confirmed by the production plan. The base, chosen for their allocation at unit-of-production level, is the standard rate of man-hours of directly engaged staff in the production of the particular unit.

The Company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard purchase cost' for basic raw materials and other production materials. At the end of each reporting period the management performs analysis of factors leading to variances on: (a) the supply of raw materials and other production materials – by comparing the actual and standard acquisition costs, and (b) the production of finished products, semi-finished products and work in progress – by comparing the actual and standard production costs. Where necessary, the value of inventories, included in the financial statements, is adjusted. On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the financial statements (*Note 2.30).*

Upon use (putting into production or sale) of inventories, they are currently expensed by applying the weighted average cost (cost) method.

The net realisable value represents the estimated selling price of an asset in the ordinary course of business less the estimated cost for completion of this asset and the estimated costs necessary to make the sale.

2.14. Trade and other receivables

Trade receivables are recognised and carried at fair value based on the original invoice amount (cost) less any allowance for uncollectable debts. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the receivables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method *(Note 2.24).*

An estimate allowance for doubtful and bad debts is made when significant uncertainty exists as to the collectability of the full amount or a part of it. Bad debts are written-off when the legal grounds for this are available. Impairment of trade receivables is being accrued through a respective corresponding allowance account for each type of receivable in the item 'other expenses' on the face of the statement of comprehensive income (within profit or loss for the year).

2.16. Interest-bearing loans and other financial resources granted

All loans and other financial resources granted are initially recognised at cost (nominal amount), which is accepted to be the fair value of the amount given in the transaction, net of the direct costs related to these loans and granted resources. After the initial recognition, the interest-bearing loans and other granted resources are subsequently measured at amortised cost by applying the effective interest method. Amortised cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) as finance income (interest) or costs throughout the amortisation period, or when the receivables are settled, derecognised or reduced.

Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) the Company has unconditionally the right to collect its receivable within a term of more than 12 months after the end of the reporting period (*Note 2.24*).

2.17. Cash and cash equivalents

Cash and cash equivalents include cash in hand, current accounts and short-term deposits with banks, with original maturity of less than three months (*Note 2.24*).

For the purposes of the statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on received investment purpose loans is reported as payments for financial activities while the interest on loans related to working capital for current activities is included in the operating activities;
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line 'taxes paid' while that paid on assets purchased from local suppliers is presented as 'cash paid to suppliers' in the cash flows from operating activities as far as it represents a part of the operating flows of the Company and is recovered therewith in the respective period (month).
- blocked funds for a period of more than 3 months are not treated as cash and cash equivalents.

2.18. Trade and other payables

Trade and other current amounts payable are carried at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method *(Note 2.24).*

2.19. Interest-bearing loans and other borrowings

All loans and other borrowings are initially recognised at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, net of the direct costs related to these loans and borrowings. After the initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost by applying the effective interest method. Amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement associated with these loans. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) as finance costs (interest) or income throughout the amortisation period, or when the liabilities are derecognised or reduced (*Note 2.24*).

Interest-bearing loans and other borrowings are classified as current ones unless (and for the relevant portion thereof) the Company has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period.

2.20. Capitalisation of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a period of at least 12 months to get ready for its intended use or sale.

The amount of borrowing costs eligible for capitalisation to the value of a qualifying asset is determined by applying a capitalisation rate. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when the following conditions are met: expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress.

Borrowing costs are also reduced by any investment income earned on the temporary investment of those borrowed funds.

2.21. Leases

Finance lease

Lessee

Finance leases, which transfer to the Company a substantial part of all risks and rewards incidental to ownership of the leased asset, are recognised in the statement of financial position of the lessee and are presented as a leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate.

Assets acquired under finance lease are depreciated on the basis of their useful economic life and within the lease term.

Lessor

Finance lease where a substantial portion of all risks and rewards incidental to the ownership of the leased asset is transferred outside the Company, is written-off from the goods of the lessor and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the non-earned finance income. The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the statement of comprehensive income (within profit or loss for the year) in the inception of the lease term (when the asset is delivered) as sales income.

The recognition of the earned finance income as current interest income is based on the application of the effective interest rate method.

Operating lease

Lessee

Leases where the lessor keeps a substantial part of all risks and economic benefits incidental to the ownership of the specific asset are classified as operating leases. Therefore, the asset is not included in the statement of financial position of the lessee.

Operating lease payments are recognised as expenses in the statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

Lessor

Lessor continues to hold a significant part of all risks and rewards of ownership over the said asset. Therefore the asset is still included in its tangible fixed assets while its depreciation for the period is included in the current expenses of the lessor.

Rental income from operating leases is recognised on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.22. Pensions and other payables to personnel under the social security and labour legislation

The employment and social security relations with the workers and employees of the Company are based on the provisions of the Labour Code and the effective social security legislation in Bulgaria.

Short-term benefits

Short-term benefits in the form of remuneration, bonuses and social payments and benefits (due for payment within 12 months after the end of the period when the employees have rendered the service or have satisfied the required terms) are recognised as an expense in the statement of comprehensive income (within profit or loss for the year) for the period when the service thereon has been rendered and/or the requirements for their receipt have been met, unless a particular IFRS requires capitalisation thereof to the cost of an asset, and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount.

At the end of each reporting period, the Company measures the estimated costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated amounts of employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Tantieme and bonus schemes

In accordance with Company's Articles of Association and upon a decision of the General Meeting of Shareholders, the Executive Director is entitled to one-off remuneration (tantieme) at the amount of up to 1% of Company's net profit and is empowered to determine the circle of employees among whom to distribute up to 2% of Company's profit for the year as a bonus for each calendar year. When a certain portion is required to be deferred for a period of more than 12 months, this portion is measured at present value at the reporting date and is stated within non-current liabilities in the statement of financial position in the item 'payables to personnel'.

Long-term retirement benefits

Defined contribution plans

The major duty of the Company as an employer in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, the Guaranteed Receivables of Workers and Employees (GRWE) Fund and for health insurance. The rates of the social security and health insurance contributions are defined annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC).

These pension plans, applied by the Company in its capacity as an employer, are defined contribution plans. Under these plans, the employer pays defined monthly contributions to the government funds as follows: Pensions Fund, GDM Fund, Unemployment Fund, LAPD Fund as well as to universal and professional pension funds – on the basis of rates fixed by law, and has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient means to pay the respective individuals the benefits they have worked-out over the period of their service. The obligations referring to health insurance are analogous.

There is no established and functioning private voluntary social security fund at the Company.

The contributions, payable by the Company under defined contribution plans for social security and health insurance, are recognised as a current expense in the statement of comprehensive income (within profit or loss for the year) unless a particular IFRS requires this amount to be capitalised to the cost of an asset, and as a current liability at their undiscounted amount along with the accrual of the respective employee benefits to which the contributions refer and in the period of rendering the underlying service.

Defined benefit plans

In accordance with the Labour Code, the Company in its capacity as an employer in Bulgaria is obliged to pay an indemnity to its personnel when coming of age for retirement, at an amount which, depending on the length of service with the entity, varies between two and six gross monthly salaries at the employment termination date. In their nature these are unfunded defined benefit schemes.

The calculation of the amount of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they shall be presented in the statement of financial position, and respectively, the change in their value – in the statement of comprehensive income as follows: (a) current and past service costs, interest costs and the gains/losses on a curtailment and settlements are recognised immediately when incurred and are presented in current profit or loss under 'employee benefits expense'; and (b) effects from remeasurement of obligations that in substance represent actuarial gains and losses are recognised immediately when occurred and are presented to other comprehensive income in the item 'remeasurements of defined benefit pension plans'. Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments.

At the end of each reporting period, the Company assigns certified actuaries who issue a report with their calculations about the long-term retirement benefit obligations to personnel. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in Bulgaria where the Company itself operates.

Termination benefits

In accordance with the local provisions of the employment and social security regulations in Bulgaria, the Company as an employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities.

The Company recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on a publicly announced plan, including for restructuring, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the statement of financial position at their present value.

2.23. Share capital and reserves

The Company is a joint-stock one and is obliged to register with the Commercial Register a specified ***share capital,*** which should serve as a security for the creditors of the Company for execution of their receivables. Shareholders are liable for the obligations of the Company up to the amount of the capital share held by each of them and may claim returning of this share only in liquidation or bankruptcy proceedings. The Company reports its share capital at the nominal value of the shares registered in the court.

According to the requirements of the Commercial Act and the Articles of Association, the Company is obliged to set aside a ***Reserve Fund*** by using the following resources:

- at least one tenth of the profit, which should be allocated to the Fund until its amount reaches one tenth of the share capital or any larger amount as may be decided by the General Meeting of Shareholders;
- any premium received in excess of the nominal value of shares upon their issue (share premium reserve);
- other sources as provided for by a decision of the General Meeting.

The amounts in the Fund can only be used to cover annual loss or losses from previous years. When the amount of the Fund reaches the minimum value specified in the Articles of Association, the excess may be used for share capital increase.

Treasury shares are presented in the statement of financial position at cost (acquisition price) and their gross amount is deducted from Company's equity. Gains or losses on sales of treasury shares are at the account of retained earnings and are carried directly to Company's equity in the 'retained earnings' component.

Revaluation reserve – property, plant and equipment is set aside from:

- the revaluation surplus between the carrying amount of property, plant and equipment and their fair values at the date of each revaluation; and
- gain from the difference between the carrying amount of property, stated within the group 'owner occupied property', and their fair value at the date on which they are transferred to the group 'investment property'.

Deferred tax effect on the revaluation reserve is directly carried at the account of this reserve.

Revaluation reserve is transferred to the 'accumulated profits' component when the assets are derecognised from the statement of financial position or are fully depreciated.

The revaluation reserve covers the impairment of the assets with which it relates. It may be used in the implementation of Company's dividend and capital policies only after it is transferred to the 'retained earnings' component.

Available-for-sale financial assets reserve is being set aside from the difference between the carrying amount of the available-for-sale financial assets and their fair values at the revaluation date. This reserve is transferred to current profit and loss in the statement of comprehensive income (within profit or loss for the year) when the financial assets are disposed of (sold) by the Company and/or on identified permanent impairment of particular financial assets.

2.24. Financial instruments

2.24.1. Financial assets

The Company classifies its financial assets in the following categories: 'loans and receivables' and 'available-for-sale financial assets'. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management determines the classification of Company's financial assets at the time of their initial recognition on the statement of financial position.

The Company usually recognises its financial assets in the statement of financial position on the trade date, being the date on which the Company commits to purchase the respective financial assets. All financial assets are measured at their fair value plus the directly attributable transaction costs.

Financial assets are derecognised from Company's statement of financial position when the rights to receive cash (flows) from these assets have expired or have been transferred, and the Company has transferred substantially all the risks and rewards of the asset ownership to another entity (person). If the Company retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognise the transferred asset on its statement of financial position but also recognises a secured liability (a loan) for the consideration received.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured in the statement of financial position at their amortised cost using the effective interest method less any allowance for impairment. These assets are included in the group of current assets when having maturity within 12 months or within a common operating cycle of the company while the remaining ones are carried as non-current assets.

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the statement of financial position (*Notes 2.54, 2.16 and 2.17*). Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

At the end of each reporting period, the Company assesses whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired (*Note 2.30*).

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are either acquired for the purpose of being sold or are not classified in any other category. These are usually shares or interest in other companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where the Company intends to sell them in the following 12 months and is actively searching for a buyer (*Note 2.13*).

Available-for-sale financial assets are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment.

The available-for-sale financial assets are subsequently measured at fair value except for the shares in closed-end companies not traded in a stock-exchange market (*Note 2.13*).

The effects, gains or losses, of revaluation to fair value of the available-for-sale investments are included in the statement of comprehensive income (within other comprehensive income) under the item 'net change in fair value of available-for-sale financial assets' and are accumulated to a separate equity component – 'available-for-sale financial assets reserve'.

Where subsequent permanent impairment is identified or on sale of an available-for-sale investment, the amount of impairment and all previously accumulated losses (net) to the reserve are recognised in the statement of comprehensive income (within profit or loss for the year) as 'finance costs' Analogously, on each sale of investments of this type, the unrealised gains accumulated in the reserve are recognised in the statement of comprehensive income (within profit or loss for the year) as 'finance income'.

The recycling of accumulated effects from change in the fair value of available-for-sale investments are presented with other comprehensive income (in the item 'net change in fair value of available-for-sale financial assets'), net of those resulting from new revaluations for the period.

Dividends on shares, classified as available-for-sale financial assets, are recognised in the statement of comprehensive income (within profit or loss for the year) when the Company's right to receive the dividends is established.

The available-for-sale investments are reviewed at each reporting date for events or circumstances indicating the existence of objective evidence for impairment of a particular financial asset or group of assets. They are impaired if their carrying amount is higher than the expected recoverable amount. The recognised impairment loss is equal to the difference between the acquisition cost less the repayments and their recoverable amount, which is accepted to be equal to the present value of the expected future cash flows, discounted at the current interest rate or through the yield for similar financial assets.

2.24.2. Financial liabilities and equity instruments

The Company classifies debt and equity instruments either as financial liabilities or as equity depending on the substance and the conditions of the contractual arrangements with the respective counterpart regarding these instruments.

Financial liabilities

Financial liabilities include loans and payables to suppliers and other counterparts. They are initially recognised in the statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method (*Note 2.18, Note 2.19 and Note 2.21*).

2.25. Income taxes

Company's *current income taxes* are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate in Bulgaria for 2017 is 10 % (2017: 10%).

Deferred income taxes are determined using the liability method on all of Company's temporary differences between the carrying amounts of the assets and liabilities and their tax bases, existing at the date of the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those originating from recognition of an asset or liability, which has not affected the accounting and the taxable profit/(loss) at the transaction date.

Deferred tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax losses, to the extent that it is probable they will reverse and a taxable profit will be available or taxable temporary differences might occur, against which these deductible temporary differences can be utilised, with the exception of the differences arising from the recognition of an asset or liability, which has affected neither the accounting nor taxable profit /(loss) at the transaction date.

The carrying amount of all deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, whereby they could be deducted or compensated.

Deferred taxes, related to items that are accounted for as other components of comprehensive income or an equity item in the statement of financial position, are also reported directly in the respective component of the comprehensive income or the equity item in the statement of financial position.

Deferred tax assets and liabilities are measured at the tax rates and on the bases that are expected to apply to the period and type of operations when the asset is realised or the liability – settled (repaid) on the basis of the tax laws that have been enacted or substantively enacted, and at tax rates of the country (Bulgaria) under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

The deferred tax assets of the Company are presented net against its deferred tax liabilities when and as much as it is the tax payer for them in the respective jurisdiction (Bulgaria), and this is only in cases where the Company is legally entitled to perform or receive net payments of current tax liabilities or income tax receivables.

The deferred income tax liabilities of the Company as at 30 September 2017 were assessed at a rate, valid for 2017, at the amount of 10% (31 December 2016: 10%).

2.26. Government grants

As at 30 September deferred taxes on profit of the company are calculated at 10% (31 December 2016: 10%) Government grants represent various forms of providing gratuitous resources by a government (local and central bodies and institutions) and/or intergovernmental agreements and organisations.

Governmant grants (municipal, government and international, including under the procedure of using the European funds and programmes) are initially recognised as deferred income (financing) when there is reasonable assurance that they will be received by the Company and that the latter has complied and complies with the associated thereto requirements.

A government grant that compensates the Company for expenses incurred is recognised in current profit or loss on a systematic basis in the same period in which the expenses are recognised.

A government grant that compensates investment expenses incurred to acquire an asset is recognised in current profit or loss on a systematic basis over the useful life of the asset proportionately to the amount of the recognised depreciation charge.

2.27. Net earnings or loss per share

The net earnings or loss per share are calculated by dividing net profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

In case of a capitalisation, bonus issue or split, the number of the outstanding ordinary shares as at the date of such event, is adjusted as to reflect the proportional change in the number of outstanding ordinary shares as if the event has occurred in the beginning of the earliest presented period.

The diluted net earnings or loss per share are not calculated because no dilutive potential ordinary shares have been issued.

2.28. Segment reporting

The Company identifies its reporting segments and discloses segment information in accordance with the organisational and reporting structure used by the management. Operating segments are business components, which are regularly measured by members of the management who take operating decisions by using financial and operating information prepared specifically on the segment for the purposes of current monitoring and assessment of results and allocating Company's resources.

Company's operating segments are are currently monitored and directed separately as each of them represents a separate business area that offers various products and bears various business risks and rewards. Company's operating segments include the business fields by individual lines of medicinal forms production – tablets, ampoules, other.

Information by operating segments

The Company uses one basic measuring unit – gross margin (profit) for measuring the results in the operating segments and allocation of resources between them. It is defined as the difference between segment revenue and segment expenses directly attributable to the respective segment.

Segment assets, liabilities, respective revenue, expenses and results include those that are and can be directly attributable to the respective segment as well as such that can be allocated on a reasonable basis. Usually they include: (a) for revenue - sales of finished products; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration; (c) for assets - property, plant and equipment and inventories; (d) for liabilities - payables to personnel and for social security. Capital expenditures (investments) by business segments are differentiated expenses incurred in the period of acquisition or construction of segment non-current assets, which are expected to be used for more than one period.

The Company manages its investments in securities, trade accounts and financial resources granted/received as well as taxes at entity's level and they are not allocated at segment level.

The results of the operations regarded as accidental ones compared to the main types of operations (activities) of the Company as well as revenue, expenses, liabilities and assets that are not subject to allocation are stated separately in the item 'total at Company level'. In general, these amounts include: other operating income unless originating from the operation of a particular segment, administrative expenses, interest income and expenses, realised and unrealised gains and losses from foreign currency transactions and investments, investments in other companies, trade and other receivables, trade payables and loans received, tax accounts, general-purpose production and administrative equipment.

The applied accounting policy for segment reporting is based on that used by the Company for the preparation of its statutory financial statements for public purposes.

2.29. Fair value measurement

Some of Company's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. Such are: *(a)* <u>on a recurring (annual) basis</u> – *available-for-sale financial assets, investment property, granted and received bank loans and loans from third parties, certain trade* *and other receivables and payables, finance lease receivables and payables; and other (b)* on a non-recurring (periodical) basis *– non-financial assets such as property, plant and equipment.*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date. Fair value is an exit price and is based on the assumption that the sale transaction will take place either in the principal market for this asset or liability or in the absence of a principal market – in the most advantageous market for the asset or liability. Both the designated as a principal market and the most advantageous market are markets to which the Company must have an access.

Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest.

In measuring the fair value of non-financial assets the starting point is always the assumption what would be the highest and best use of the particular asset for the market participants.

The Company applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which its has sufficient available inputs while trying to use at a maximum the publicly observable information, and respectively, to minimize the use of unobservable information. It uses the three acceptable approaches – *the market approach, the income approach and the cost approach* – whereas the most frequently applied valuation techniques include directly quoted and/or adjusted quoted market prices, market comparables (analogues) and discounted cash flows, including based on capitalised rental income.

All assets and liabilities that are measured and/or disclosed in the financial statements at fair value, are categorised within the following fair value hierarchy, namely:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques that use inputs other than directly quoted prices but are observable, either directly or indirectly, including where the quoted prices are subject to significant adjustments; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised at fair value in the financial statements on a recurring basis, the Company determines at the end of each reporting period whether transfers between levels in the fair value hierarchy are deemed to be made for a particular asset or liability depending on the inputs available and used at that date.

The Company has developed internal rules and procedures for measuring the fair value of various types of assets and liabilities. For the purpose, a specifically designated individual, subordinated to the Finance Director, organised the performance of the overall valuation process and also coordinates and observes the work of the external appraisers.

The Company uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: available-for-sale financial assets, investment properties, property, plant and equipment. The choice of such appraisers is made on an annual basis using the following criteria: applied professional standards, professional experience and knowledge, reputation and market status. The need for rotation of external appraisers is periodically assessed – every three to five years. The applied valuation approaches and techniques as well as the used inputs for each case of fair value measurement are subject to mandatory discussion and coordination between the external experts – appraisers and the specifically designated individual, engaged with measurements, and so is the acceptance of the issued appraiser's reports – especially with regard to the significant assumptions and the final conclusions and proposals for the fair value amount. The final fair value measurements are subject to approval by Company's Finance Director, Executive Director and the Board of Directors.

In accordance with Company's accounting policy, at the end of each reporting period the specifically designated individual, engaged with measurements, performs a general analysis of collected in advance information about the movement in the values of assets and liabilities that are subject to valuation or to a disclosure at fair value, the type of available data and the possible factors for the observed changes, and proposes for approval to the Finance Director, the approach for measuring the fair value of the respective assets and liabilities at that date. Where necessary, this is explicitly consulted with the involved external appraisers.

The results from the process of fair value measurement are presented to the audit committee and to Company's independent auditors.

For the purposes of fair value disclosures, the Company has grouped the respective assets and liabilities on the basis of their nature, basic characteristics and risks as well as of the fair value hierarchical level.

2.30. Critical accounting judgments on applying the Company's accounting policies. Key estimates and assumptions of high uncertainty.

Inventories

Normal capacity

Company's normal production capacity is determined on the basis of management assessments (made after relevant analyses) for optimum load of the production facilities and return on the investments made therein, with structure of the manufactured finished products accepted as being common for the Company. When the actually achieved volume for individual articles is below the volume at the normal production capacity, set by the Company, the relevant recalculation are made for the fixed overheads, included in the cost of stocks of finished products and work in progress.

Allowance for impairment

At the end of each financial year, the Company reviews the state, useful life and usability of the existing inventories. In case of identified inventories bearing a potential of not being realised at their current carrying amount in the following reporting periods, the Company impairs these inventories to net realisable value.

As a result of the tests and analysis as at 30.09.2017 no impairment of inventories has been undertaken (30.09.2016: none) *(Note 5 and Note 8).*

Actuarial calculations

Calculations of certified actuaries have been used when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor.

Long-term retirement benefit obligations to personnel at the amount of BGN 3,205 thousand (31 December 2016: BGN 2,930 thousand) have been stated as a result of these calculations *(Note 30)*.

Revaluation of property, plant and equipment

As at 30 September 2017, an overall review was performed in regard of the price changes in the fair value of Company's tangible fixed assets as well as of their physical and technical state, mode of operation and residual useful life. Respectively, revaluation was made because the adopted five-year period for their remeasurement, as per the policy adopted, endedd at that date. The review and remeasurement were performed with the professional assistance of certified appraisers.

The certified appraisers developed also a sensitivity test of the proposed thereby fair values, determined by using various valuation methods in line with the reasonably possible changes in the main assumptions and comments on the resulting deviations.

The management made detailed analysis of the reports of the certified appraisers, including the sensitivity tests. As a result thereof, the revaluation was accounted for, a new revaluation reserve was recognised at the amount of BGN 2,629 thousand, net of impairment (*Note 13*) and an impairment of BGN 342 thousand is bein accounted as a current expense.

The Company has decided to not revalue the following groups of assets: (a) fully depreciated assets, acquired before 31 December 2001, as far as the possible additional depreciation expenses for them are already being compensated by the increased maintenance costs; (b) computers and standard computer hardware, office equipment and furniture and fixtures – as far as these show a common trend of significant decrease in their current market prices within short terms juxtaposed to the expected term for their internal use by the Company; (c) assets, acquired in 2016, as far as the cost of these assets is close to their fair value; and (d) assets of all groups (exlusing properties), for which the analyses of the valuation effects show that they are not resultant from the price and market changes in the value of these asses, occurred during the period, but ensue from the differences in the assumptions for the useful life.

Operating lease

The Company has classified a building, partially leased to related parties under operating lease terms, in the group of 'property, plant and equipment'. Since a significant part of the building is used thereby in its own operations as well, the management has decided that the building shall not be treated as investment property.

Impairment of investments in subsidiaries

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in subsidiaries. The calculations were made by the management with the assistance of independent certified appraisers.

As a result of the tests and analysis as at 30.09.2017 no impairment of investments in subsidiaries has been undertaken (30.09.2016: none).

Impairment of trade receivables

The Company estimates the losses from doubtful and bad debts at the end of each reporting period on an individual basis. Where difficulties in collecting certain receivables are observed, they are subject to analysis in order to determine the actually collectable portion therefrom while the remaining portion to the nominal value of the respective receivable is recognised in the statement of comprehensive income (within profit or loss for the year) as impairment loss (*Note 8*).

After 180 days of delay it is already considered that indicators for impairment may exist. In the judgment of collectability of receivables, the management performs analysis of the total exposure of each counterpart in order to establish the actual chance for their collection and not only at the level of past due individual receivables of a counterpart, including the potential opportunities for collecting eventual interest for compensating delay. When the collectability of a receivable (a group of receivables) is highly uncertain, an assessment is made what part thereof is secured by collateral (pledge, mortgage, warrant, bank guarantee) and thus with ensured collection (through future realisation of the collateral or guarantee payment). Where the management has judged that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are fully written off.

As at 30.09.2017 the acknowledged impairment (net from recovered), related to the commercial receivables are BGN 625 thousand (2016: BGN (334) thousand) (Note 9).

Impairment of commercial loans granted

At the end of each reporting period, the Company performs a review of the commercial loans granted on an individual basis in order to identify and calculate impairment losses. When deciding whether to recognise impairment loss in the statement of comprehensive income (within profit or loss for the year), Company's management assesses whether and what visible indications and data exist as objective evidence that shows a measurable decrease in the expected cash flows from the respective counterpart – borrower. Such indications and data represent the existence of unfavourable change in the payment capacity of the borrower or national, economic or other conditions related to certain risk for a particular loan. The following basic criteria referring to borrowers are taken into account in the analysis of the risks of impairment losses: financial position and performance, including ability for generating own cash flows, problems in the servicing as well as in the quality of provided collateral in view of its type and realisation opportunities.

The recognised impairment (net of the reversed ones) for 2017, related to trade loans granted, amount totally to BGN 726 thousand (2016: (BGN (1,293 thousand) *(Note 10)*.

Deferred tax assets

There are unrecognised deferred tax assets at the amount of BGN 3,063 thousand (31 December 2016: BGN 3,063 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference on which no tax asset is recognised amounts to BGN 30,629 thousand (31 December 2016: BGN 30,629 thousand).

Litigation provisions

With regard to the pending litigations against the Company, the management, jointly with Company's lawyers, has decided that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, it has not included provisions for litigation payables in the statement of financial position as at 30 September 2017 (*Note 37*).

3. REVENUE

The *main revenue* earned from sales of Company's finished products includes:

	2017	***2016***
	BGN '000	***BGN '000***
Export	92,629	74,827
Domestic market	56,117	57,651
Total	**148,746**	**132,478**

Sales by product – export

	2017	***2016***
	BGN '000	***BGN '000***
Tablet dosage forms	71,334	57,825
Ampoule dosage forms	9,105	7,425
Ointments	5,301	3,339
Syrup dosage forms	4,104	3,954
Lyophilic products	1,170	545
Medicinal cosmetics	537	408
Suppositories	371	275
Plasters	281	213
Drops	169	130
Bandages	156	643
Sanitary-hygene products	100	66
Other	1	4
Total	**92,629**	**74,827**

Sales by product – domestic market

	2017	***2016***
	BGN '000	***BGN '000***
Tablet dosage forms	28,367	28,966
Ampoule dosage forms	12,705	12,072
Bandages	3,656	4,107
Lyophilic products	2,931	3,623
Plasters	2,063	2,102
Inhalation products	1,945	2,036
Ointments	1,409	1,676
Sanitary-hygene products	1,047	837
Syrup dosage forms	1,029	924
Drops	513	502

Suppositories	326	347
Medicinal cosmetics	73	234
Saches	31	27
Other	22	198
Total	**56,117**	**57,651**

The breakdown of *sales* by geographic region is as follows:

	2017 BGN '000	***Relative share***	***2016 BGN '000***	***Relative share***
Europe	76,342	51%	62,041	47%
Bulgaria	56,117	38%	57,651	44%
Other countries	16,287	11%	12,786	10%
Total	**148,746**	**100%**	**132,478**	**100%**

The total revenue from transaction with the largest clients of the Company is as follows:

	2017 BGN '000	***% of revenue***	***2016 BGN '000***	***% of revenue***
Client 1	50,900	34%	49,222	37%
Client 2	49,701	33%	40,078	30%
Client 3	14,441	10%	11,613	9%

4. OTHER OPERATING INCOME AND LOSSES

Company's *other operating income and losses* include:

	2017 BGN '000	***2016 BGN '000***
Services rendered	2,585	2,558
Income from government grants under under European projects	381	385
Sales of goods	*4,083*	*3,463*
Cost of goods sold	*(3,955)*	*(3,382)*
Gain on sales of goods	128	81
Sales of materials	*1,132*	*956*
Cost of materials sold	*(1,052)*	*(849)*
Gain on sale of materials	80	107
Sales of LTA	*39*	*337*
Balance sheet value of LTA	*(29)*	*(468)*

Gain from sale of LTA	10	(131)
Gain from revaluation of financial assets to fair value *(Note 26b)*	2	-
Net loss on exchange differences under trade receivables and payables and current accounts	(185)	(205)
Other income	309	135
Total	**3,310**	**2,930**

The *sales of materials* comprise mainly: sales of substances, chemical products and packaging materials.

Services rendered include:

	2017	***2016***
	BGN '000	***BGN '000***
Rentals	1,255	1,315
Social activities	610	579
Manufacturing services	338	312
Gamma irradiation	108	56
Regulatory services	79	72
Laboratory analyses	68	76
Transport organisation	16	30
Other	111	118
Total	**2,585**	**2,558**

Sales of goods include:

	2017	***2016***
	BGN '000	***BGN '000***
Foodstuffs	785	729
Cosmetics	272	84
Goods with technical designation	48	19
Food supplements	27	124
Total	**1,132**	**956**

The *cost of goods sold* is as follows:

`	***2017***	***2016***
	BGN '000	***BGN '000***
Foodstuffs	741	688
Cosmetics	246	93
Goods with technical designation	48	5
Food supplements	17	63

Total	**1,052**	**849**

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	2017	***2016***
	BGN '000	***BGN '000***
Basic materials	39,254	32,306
Electric energy	3,722	3,334
Heat power	2,186	1,697
Laboratory materials	1,797	1,691
Auxiliary materials	1,591	1,434
Spare parts	1,078	769
Working clothes and personal protective equipment for labour	538	437
Fuels and lubricating materials	496	500
Water	486	398
Technical materials	468	583
Scrapped materials	78	95
Total	**51,694**	**43,244**

Expenses on basic materials include:

	2017	***2016***
	BGN '000	***BGN '000***
APIs	16,996	15,684
Packaging materials	7,262	5,122
Liquid and solid chemicals	5,883	4,414
Herbs	2,631	1,404
Ampoules	1,645	1,271
Tubes	1,139	960
Bandages	987	1,397
Aluminium and PVC foil	980	796
Vials	801	235
Plasters	790	804
Sanitary-hygene materials	140	219
Total	**39,254**	**32,306**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2017	*2016*
	BGN '000	*BGN '000*
Manufacturing of medicinal products	7,035	6,252
Transportation	2,689	2,160
Advertising and marketing	2,527	2,317
Buildings and equipment maintenance	2,150	1,590
Consulting services	1,726	1,427
Rentals	1,539	1,510
Logistic services – domestic market	1,350	1,831
Local taxes and charges	1,028	922
Security	927	842
State and regulatory charges	855	749
Medical services	594	607
Services under civil contracts	590	519
Subscription fees	584	591
Logistic services (export)	388	227
Insurance	379	528
Vehicles repair and maintenance	376	357
Licence fees and charges	313	237
Taxes on expenses	300	372
Services on medicinal products registration	289	344
Destruction of pharmaceuticals	285	245
Announcements and communications	267	302
Documentation translation	192	206
Fees and charges on current bank accounts	143	118
Courier services	97	85
Commission fees	89	159
Clinical trials	8	354
Other	564	457
Total	**27,284**	**25,308**

7. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2017	***2016***
	BGN '000	***BGN '000***
Current wages and salaries	23,637	21,501
Social security/health insurance contributions	4,334	3,884
Social benefits and payments	1,461	1,487
Accruals for unused paid leaves	1,194	803
Tantiems	775	790
Social security/health insurance contributions on leaves	209	141
Accruals for long-term retirement benefit obligations *(Note 30)*	219	235
Total	**31,829**	**28,841**

8. OTHER OPERATING EXPENSES

Other expenses include:

	2017	***2016***
	BGN '000	***BGN '000***
Entertainment allowances	1,268	1,356
Business trip costs	553	355
Donations	264	178
Training courses	189	158
Scrapped finished products and work in progress	72	47
Other taxes and payments to the state budget	49	15
Unrecognised input tax under VATA	43	63
Scrapped goods	6	35
Scrapped LTA	4	47
Accured/(recovered) impairment on receivables, net (Note 9)	(625)	(334)
Other	94	32
Total	**1,917**	**1,952**

9. IMPARIMENT OF CURRENT ASSETS

Finance income includes:

	2017	***2016***
	BGN '000	***BGN '000***
Impairment of receivables	*523*	*239*
Recovered impairment of receivables	*(1,148)*	*(573)*
Net change in impairment of receivables (Note 8)	(625)	(334)
Total	**(625)**	**(334)**

10. FINANCE INCOME

Finance costs include:

	2017	***2016***
	BGN '000	***BGN '000***
Income from shareholding	7,539	7,838
Net gain from operations with	1,539	12,645
incl. gain from sale of subsidiaries	-	*12,721*
Income from interest on loans granted	1,291	1,699
Impairment on receivables on commercial loans granted	*(935)*	*(1,293)*
Recovered impairment on receivables on commercial loans granted	*1,661*	-
Net change of the impairment on commercial loans granted	726	(1,293)
Income from liquidation of subsidiaries	7	-
Total	**11,102**	**20,889**

11. FINANCE COSTS

Finance costs include:

	2017	***2016***
	BGN '000	***BGN '000***
Interest expense on loans received	993	1,564
Net loss from exchange rate differences on a receivable for sale of a subsidiary	398	-
Effect from merger of available and for sale investments	289	-
Bank fees and charges on loans and guarantees	161	248
Effects from derivatives	70	29
Impairment of cash *(Note 25)*	-	4
Interest expense on finance lease	-	3
Total	**1,911**	**1,848**

12. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2017	***2016***
	BGN '000	***BGN '000***
Net change in fair value of available-for-sale financial assets:		
Gains arising during the year	*2,039*	*1*
Less: Reclassification adjustments for (gains)/losses included in profit or loss for the current year	*(5)*	*(24)*
Following evaluations of plans with defined pension income	(22)	-
Total comprehensive income for the year	**2,012**	**(23)**

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Book value										
Balance at 1 January	**153,937**	**143,784**	**171,073**	**162,399**	**22,584**	**23,141**	**2,269**	**13,402**	**349,863**	**342,726**
Additions	67	63	957	1,198	86	97	5,104	8,528	6,214	9,886
Transfer to property, plant and equipment	1,888	9,880	1,977	8,307	204	1,474	(4,069)	(19,661)	-	-
Effect from remeasurement	-	280	-	763	-	(111)	-	-	-	932
Disposals	(46)	(70)	(119)	(1,594)	(73)	(2,017)	(15)	-	(253)	(3,681)
Balance at 30 September/31 December	**155,846**	**153,937**	**173,888**	**171,073**	**22,801**	**22,584**	**3,289**	**2,269**	**355,824**	**349,863**
Accumulated depreciation										
Balance at 1 January	**23,114**	**18,724**	**84,696**	**78,291**	**16,583**	**16,906**	**-**	**-**	**124,393**	**113,921**
Depreciation charge for the year	3,447	4,307	7,144	9,015	1,223	1,603	-	-	11,814	14,925
Depreciation written-off	(14)	-	(92)	(1,483)	(75)	(1,611)	-	-	(181)	(3,094)
Effect from remeasurement	-	83	-	(1,127)	-	(315)	-	-	-	(1,359)
Balance at 30 September/31 December	**26,547**	**23,114**	**91,748**	**84,696**	**17,731**	**16,583**	**-**	**-**	**136,026**	**124,393**
Carrying amount at 31 December	**129,299**	**130,823**	**82,140**	**86,377**	**5,070**	**6,001**	**3,289**	**2,269**	**219,798**	**225,470**
Carrying amount at 1 January	**130,823**	**125,060**	**86,377**	**84,108**	**6,001**	**6,235**	**2,269**	**13,402**	**225,470**	**228,805**

As at 30 September 2017, Company's tangible fixed assets include: land amounting to BGN 38,687 thousand (31 December 2016: BGN 37,821 thousand) and buildings of carrying amount BGN 90,612 thousand (31 December 2016: BGN 93,002 thousand).

Tangible fixed assets in progress as at 30 September include:

- advances for the purchase of machinery and equipment – BGN 2,171 thousand (31 December 2016: BGN 568 thousand);
- expenses on new buildings construction – BGN 899 thousand (31 December 2016: BGN 271 thousand);
- buildings reconstruction – BGN 3 thousand (31 December 2016: BGN 1,316 thousand);
- other – BGN 216 thousand (31 December 2016: BGN 82 thousand).

As at 30 September, the carrying amount of property, plant and equipment includes machinery and equipment, purchased using Grant Agreements under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 *(Note 29)* as follows:

- for a new tablet production facility at the amount of BGN 6,960 thousand (31 December 2016: BGN 7,429 thousand);

- for ampoule production at the amount of BGN 5,154 thousand (31 December 2016: BGN 5,457 thousand);
- exchange installations for ventilation and climatization BGN 134 thousand (31 December 2016: BGN 836 thousand).

The amount of other assets as at 30 September 2017 includes also biological assets – Golden Chain (Laburnum anagyroides) plantation at the amount of BGN 134 thousand (31 December 2016: BGN 134 thousand).

Operating lease

The Company has leased tangible fixed assets with carrying amount of BGN 6,304 thousand as at 30 September 2017 to related parties (31 December 2016: BGN 5,669 thousand). In addition, tangible fixed assets at carrying amount of BGN 237 thousand are leased to third parties as at 30 September 2017 (31 December 2016: BGN 246 thousand).

Finance lease

As at 30 September 2017, there are assets at the carrying amount of BGN 0 acquired under finance lease contracts (31 December 2016: BGN 29 thousand).

Other data

The book value of fully depreciated tangible fixed assets, used in the Company's activities by group, is as follows:

- Buildings – BGN 493 thousand (31 December 2016: BGN 410 thousand);
- Plant and equipment – BGN 36,921 thousand (31 December 2016: BGN 35,382 thousand);
- Other – BGN 12,060 thousand. (31 December 2016: BGN 11,218 thousand).

The following encumbrances were constituted on Company's tangible fixed assets as at 30 September 2017 in relation to received loans:

- Land and buildings with a carrying amount of BGN 22,316 thousand and BGN 55,133 thousand, respectively (31 December 2016: respectively, BGN 22,415 thousand and BGN 59,745 thousand) *(Note 27, Note 31 and Note 37);*
- Pledges on equipment – BGN 39,996 thousand (31 December 2016: BGN 42,600 thousand) *(Note 27, Note 31 and Note 37).*

Periodical fair value remeasurement

Revaluation of Company's property, plant and equipment was performed as at 31 December 2016 with the assistance of independent certified appraisers for the purpose of determining the fair value of the assets in accordance with the requirements of IFRS 13 and IAS 16.

The effects of the revaluation carried out at the amount of BGN 2,290 thousand are recognized in the statement of comprehensive income (in profit or loss for the year and other components of comprehensive income)*(Note 4 and Note 13).*

In this revaluation, the following two main approaches and valuation methods are used to measure the fair value of the individual types of tangible fixed assets:

• "Market Approach" through the "Market Analogue Method" - for the lands in regulation and the agricultural land for which there is a real market, analogous properties are monitored and transactions with them, and there is a basis for comparability - for market value Their price determined by the comparative method;
• "Cost Approach" through "Depreciated Recovery Method" and "Cost Based Asset Creation or Replacement Method" - for specialized buildings, machinery, equipment, equipment and other assets for which there is no real market and comparable sales of analogue Assets - the fair value of the depreciated replacement cost is based on an indexed historical cost of the asset and on the basis of the current costs of creating or replacing the asset

The valuation is recognized as a revaluation reserve amounting to BGN 2,629 thousand. Net of impairment.

14. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Assets in progress*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Book value										
Balance at 1 January	**1,445**	**1,445**	**1,579**	**1,747**	**3,890**	**3,803**	**72**	**113**	**6,986**	**7,108**
Additions	-	-	236	95	15	65	506	32	757	192
Transfer	-	-	-	13		22	-	(35)	-	-
Allowance for impairment	-	-	-	(61)	-	-	-	(6)	-	(67)
Disposals	-	-	(76)	(215)	-	-	(7)	(32)	(83)	(247)
Balance at 30 September/31 December	**1,445**	**1,445**	**1,739**	**1,579**	**3,905**	**3,890**	**571**	**72**	**7,660**	**6,986**
Accumulated amortisation										
Balance at 1 January										
Amortisation charge for the year	-	-	**1,245**	**1,197**	**2,561**	**2,343**	-	-	**3,806**	**3,540**
Amortisation written-off	-	-	110	197	161	218	-	-	271	415
Balance at 30 September/31 December	-	-	(76)	(149)	-	-	-	-	(76)	(149)
	-	-	**1,279**	**1,245**	**2,722**	**2,561**	-	-	**4,001**	**3,806**
Carrying amount at 30 September/31 December										
Carrying amount at 1 January	**1,445**	**1,445**	**460**	**334**	**1,183**	**1,329**	**571**	**72**	**3,659**	**3,180**
	1,445	**1,445**	**334**	**550**	**1,329**	**1,460**	**72**	**113**	**3,180**	**3,568**

The rights on intellectual property include mainly products of development activities.
Intangible assets in progress as at 30 September include:

- expenses for acquisition of software products – BGN 356 thousand (31.12.2016: none);
- expenses for licenses BGN 140 thousand (31 December 2016: none);
- expenses on permits for use of medicinal products – BGN 75 thousand (31 December 2016: BGN 72 thousand).

The book value of fully amortised intangible fixed assets, used in the Company's activities according to their groups, is as follows:

- rights on intellectual property (products of development activities) – BGN 1,925 thousand (31 December 2016: BGN 1,787 thousand);
- software – BGN 1,786 thousand. (31 December 2016: BGN 1,809 thousand);
- other – BGN 7 thousand (31 December 2016: BGN 7 thousand).

15. INVESTMENT PROPERTY

	30.09.2017	*31.12.2016*
	BGN '000	*BGN '000*
Balance at 1 January	**22,840**	**22,160**
Additions	511	913
Net loss on fair value adjustment, included in profit or loss	-	(233)
Balance at 30 September/31 December	**23,351**	**22,840**

Investment property represents buildings and the land they stand on, differentiated parts of buildings for independent use, intended for long-term lease to subsidiaries and third parties. By group they are as follows:

Group of assets	*30.09.2017*	*31.12.2016*
	BGN '000	*BGN '000*
Warehouse premises	19,088	18,671
Offices	2,342	2,342
Production buildings	1,032	1,032
Social objects	407	407
Investment property in progress	482	388
Total	**23,351**	**22,840**

There are established encumbrances as at 30 September 2017 on investment property as follows:

- mortgage of warehouse premises – BGN 8,226 thousand (31 December 2016: BGN 8,226 thousand) *(Note 31 and Note 37);*
- pledges on attached equipment – BGN 5,730 thousand (31 December 2016: BGN 5,730 thousand) *(Note 31)*.

The fair value evaluations of the groups of investment properties are categorized as fair values level 2 based on incoming data used for the evaluation technique.

The table below shows reconciliation between the opening and closing balances of the fair values of investment properties measured at Level 2:

	Warehouse premises	*Offices*	*Production buildings*	*Social objects*	*Assets in progress*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance at 1 January 2016	**18,380**	**2,331**	**1,056**	**393**	**-**	**22,160**
Acquired	525	-	-	-	388	913

Net change in fair value through profit or loss – unrealised	(234)	11	(24)	14	-	(233)
Balance at 31 December 2016	**18,671**	**2,342**	**1,032**	**407**	**388**	**22,840**
Acquired	29	-	-	-	482	511
Transfer	388	-	-	-	(388)	-
Balance at 30 September 2017	**19,088**	**2,342**	**1,032**	**407**	**482**	**23,351**

16. INVESTMENTS IN SUBSIDIARIES

The carrying amount of the investments by company is as follows:

		30.09.2017 BGN '000	***Interest %***	***31.12.2016 BGN '000***	***Interest %***
Unipharm AD	Bulgaria	32,218	98.77	26,749	77.88
Sopharma Trading AD	Bulgaria	29,998	72.63	29,824	72.56
Briz SIA	Latvia	22,270	66.13	22,270	66.13
Sopharma Ukraine EOOD	Ukraine	11,783	100.00	11,783	100.00
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Veta Pharma AD	Bulgaria	6,549	68.05	6,549	68.05
Momina Krepost AD	Bulgaria	4,874	93.54	4,874	93.54
Vitamina AD	Ukraine	1,980	99.56	1,980	99.56
Pharmalogistica AD	Bulgaria	1,261	89.39	1,190	84.93
Aromania OOD	Bulgaria	750	76.00	-	-
Sopharma Buildings REIT	Bulgaria	568	40.38	568	40.39
TOO Sopharma Kazakhstan	Kazakhstan	502	100.00	502	100.00
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
RAP Pharma International OOD	Moldova	293	51.00	-	-
Phyto Palauzovo AD	Bulgaria	57	95.00	57	95.00
Medica Zdrave EOOD – in liquidation	Bulgaria	-	100.00	5	100.00
Total		**122,194**		**115,442**	

As at 30 September 2017, the composition of investments in the subsidiaries includes the investment in Sopharma Poland OOD – in liquidation, Poland, which is fully impaired (31 December 2016: fully impaired investment in Sopharma Poland OOD – in liquidation, Poland).

Sopharma AD exercises a direct control on the above-mentioned companies.

The scope of activities of the subsidiaries and the dates of their acquisition are as follows:

- Pharmalogistica AD – Scope of activities: secondary packaging and real estate leases. Date of acquisition – 15 August 2002.

- Sopharma Poland OOD – in liquidation – Scope of activities: market and public opinion research. Date of acquisition – 16 October 2003. The company is in a procedure of liquidation.
- Electroncommerce EOOD – Scope of activities: trade, transportation and packaging of radioactive materials and nuclear equipment, household electronics and electrical equipment. Date of acquisition – 9 August 2005.
- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 2008.
- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 18 January 2008.
- Sopharma Buildings REIT – Scope of activities: investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale. Date of acquisition – 4 August 2008.
- Briz OOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 10 November 2009.
- Unipharm AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 27 October 2010.
- Sopharma Warsaw EOOD – Scope of activities: market and public opinion research. Date of acquisition – 23 November 2010.
- Sopharma Ukraine EOOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 7 August 2012.
- Phyto Palauzovo AD – Scope of activities: production, collection of crops and trade in herbs and medicinal plants. Date of acquisition (as from the merger of a subsidiary) – 1 January 2014.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of acquisition – 30 September 2014.
- Veta Pharma AD – Scope of activities: production of medicinal, non-medicinal and other products. Date of acquisition – 11 November 2016.
- Medica Zdrave EOOD – in liquidation – Scope of activities: trade with medicinal products, sanitary- hygene products. Date of acquisition (from the date of merger of the subsidiary) – 01.01.2016. Deletion of the company in the Commercial register at the Registrar Agency on 22 February 2017.
- RAP Pharma International OOD – Scope of activities: trade with pharmaceutical products. Date of acquisition – 14 April 2017.
- Aromania OOD – Scope of activities: trade with goods, purchase and management of real estate. Date of acquisition – 31 July 2017.

The movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
Acquisition cost	***30.09.2017 BGN '000***	***31.12.2016 BGN '000***
Balance at 1 January	**146,765**	**137,935**
Additional interest acquired	5,714	7,979
New interest acquired	1,043	6,549
Acquired through capital increase	-	48
Deletion of subsidiaries due to liquidation	(5)	-
Interest sold with loss of control	-	(5,739)
Interest sold without loss of control	-	(7)
Balance at 30 September/31 December	**153,517**	**146,765**
Impairment charged		
Balance at 1 January	**31,323**	**26,099**
Impairment charged	-	5,224
Balance at 30 September/31 December	**31,323**	**31,323**
Carrying amount at 30 September/31 December	**122,194**	**115,442**
Carrying amount at 1 January	**115,442**	**111,836**

17. INVESTMENTS IN ASSOCIATES

As at 30.09.2017 the book value of the investments in associates amounts to BGN 4,750 thousand. and includes a participation of 24.96% of the capital of Doverie Obedinen Holding AD (31 December 2016: BGN 5,219 thousand and a participation of 30.22%).

Doverie Obedinen Holding AD has as main activity the acquisition, management, evaluation and sale of shares and / or shareholdings in Bulgarian and foreign companies - legal entities.

The movement of investments in associates is presented below:

	30.09.2017 BGN '000	***31.12.2016 BGN '000***
Balance on 1 January	**5,219**	**-**
Acquisition of shares	1,062	3,117
Sales of shares	(1,531)	**-**
Transfer from available and for sale investnets *(Level 3)*	-	2,102
Balance on 30 September / 31 December	**4,750**	**5,219**

18. AVAILABLE-FOR-SALE INVESTMENTS

The *available-for-sale investments (financial assets)* at carrying amount include the interest (shares) in the following companies:

	30.09.2017 *BGN '000*	*Interest* *%*	*31.12.2016* *BGN '000*	*Interest* *%*
Lavena AD	2,896	11.34	2,883	11.29
Olainfarm AD - Latvia	2,171	0.77	1,796	0.77
Achieve Life Science Inc. – USA	1,663	3.28	-	-
Hydroizomat AD	202	13.53	131	10.67
Todorov AD	93	10.57	37	4.98
Sopharma properties REIT	32	0.03	-	-
BTF Expat Bulgaria	25	0.09	82	0.32
Elana Agrocredit AD	15	0.20	-	-
Chimimport AD	11	0.003	-	-
Ecobulpack AD	7	1.48	7	1.48
Sirma Group Holding AD	4	0.01	-	-
UniCredit Bulbank AD	3	0.001	3	0.001
Achieve Lifescience Inc.	-	-	290	4.70
Total	**7,122**		**5,229**	

All above companies except for Olainfarm AD, Latvia, and Achieve Life Science Inc., USA, have their seat and operations in Bulgaria.

The fair value per share is as follows:

Available-for-sale investments		***30.09.2017***			***31.12.2016***	
	Number of shares	***Fair value per share*** ***BGN***	***Fair value as per the statement of financial position*** ***BGN '000***	***Number of shares***	***Fair value per share*** ***BGN***	***Fair value as per the statement of financial position*** ***BGN '000***
Lavena AD	30,232	95.79	2,896	30,100	95.78	2,883
Olainfarm AD - Latvia	108,500	20.01	2,171	108,500	16.55	1,796
Achieve Life Science Inc. – USA	359,305	4.63	1,663	-	-	-
Hydroizomat AD	404,586	0.50	202	318,889	0.41	131
Todorov AD	359,501	0.26	93	169,468	0.22	37
Sopharma properties REIT	4,867	6.57	32	-	-	-
BTF Expat Bulgaria	20,000	1.25	25	74,550	1.10	82
Elana Agrocredit AD	10,000	1.50	15	-	-	-
Chimimport AD	6,201	1.77	11	-	-	-
Sirma Group Holding AD	3,000	1.33	4	-	-	-
Total			**7,112**			**4,929**

The investments in Ecobulpack AD, UniCredit Bulbank AD and Achieve Life Science Inc., USA, are valued and presented at acquisition price (cost).

The table below presents Company's available-for-sale investments, which are measured at fair value on a recurring basis in the statement of financial position:

Fair value hierarchy

The table below shows reconciliation between the opening and closing balances of the fair values at Level 1, Level 2 and Level 3:

Available-for-sale financial investments (shares)	***Fair value***	***Level 1***	***Level 2***
	30.09.2017		
	BGN '000	***BGN '000***	***BGN '000***
Lavena AD	2,896	-	2,896
Olainfarm AD - Latvia	2,171	2,171	-
Achieve Life Science Inc. – USA	1,663	1,663	-
Hydroizomat AD	202	202	-
Todorov AD	93	93	-
Sopharma properties REIT	32	32	-
BTF Expat Bulgaria	25	25	-
Elana Agrocredit AD	15	15	-
Chimimport AD	11	11	-
Sirma Group Holding AD	4	4	-
Total	**7,112**	**4,216**	**2,896**

Available-for-sale financial investments (shares)	***Fair value***	***Level 1***	***Level 2***
	31.12.2016		
	BGN '000	***BGN '000***	***BGN '000***
Lavena AD	2,883	-	2,883
Olainfarm AD - Latvia	1,796	1,796	-
Hydroizomat AD	131	131	-
BTF Expat Bulgaria	82	82	-
Todorov AD	37	37	-
Total	**4,929**	**2,046**	**2,883**

The table below shows reconciliation between the opening and closing balances of the fair values at Level 1, Level 2 and Level 3:

Available-for-sale financial investments (shares)	***Level 1***	***Level 2***	***Level 3***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Balance at 1 January 2016	**1,682**	**1,428**	**2,102**	**5,212**
Purchases	461	328	-	789
Issue of shares	230	-	-	230
Sales	(734)	(3)	-	(737)
Transfer to investment in associates *(Note 17)*	-	-	(2,102)	(2,102)
Transfer from Level 2 to Level 1	132	(132)	-	-
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securities*	24	2		26
Unrealised loss included in the current profit and loss for the year *(Note 10)*	(2)	(2)		(4)
Unrealised gain/(loss), net, included in other comprehensive income	253	1,262		1,515
Balance at 31 December 2016	**2,046**	**2,883**	**-**	**4,929**
Purchases	297	15	-	312
Shares acquired through merger	1	-	-	1
Sales	(172)	(4)	-	(176)
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securities*	10	2		12
Unrealised loss included in the current profit and loss for the year *(Note 12)*	2,034			2,034
Balance at 30 September 2017	**4,216**	**2,896**	**-**	**7,112**

19. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	30.09.2017	*31.12.2016*
	BGN '000	*BGN '000*
Long-term loans granted	12,986	10,780
Long-term rental deposit granted	235	267
Total	**13,221**	**11,047**

Long-term loans are granted to the *following related parties:*

	30.09.2017	*31.12.2016*
	BGN '000	*BGN '000*
Associate company	7,962	9,797
Other related parties	4,036	-
Subsidiary company	988	983
Total	**12,986**	**10,780**

The terms and conditions of the long-term loans granted to related parties are as follows:

Currency	*Contracted amount*	*Maturity*	*Interest %*	*30.09.2017*		*31.12.2016*	
	'000			*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
					including interest		*including interest*
EUR	17,915	31.12.2019	3.50%	*7,962*	*2*	*9,797*	*48*
BGN	4,000	11.06.2019	3.00%	*4,036*	*36*	*-*	*-*
EUR	500	01.03.2019	6.60%	*988*	*10*	*983*	*5*
				12,986	***48***	***10,780***	***53***

The long-term loans granted to related parties are intended to support the financing of these companies' activities under common strategic objectives. They are secured by pledges on securities (shares).

The long-term deposit receivable is from a company related through a main shareholder under a concluded rental contract for administrative offices with valid until 1 August 2022 and amounts to BGN 235 thousand (31 December 2016: BGN 267 thousand valid until 19 December 2019 and 1 August 2022).

20. OTHER LONG-TERM RECEIVABLES

Company's *other long-term receivables* include:

	30.09.2017 *BGN '000*	*31.12.2016* *BGN '000*
Receivables under transactions in securities	2,991	3,389
Receivables on sales of LTA	325	325
Total	**3,316**	**3,714**

The receivables under transactions in securities represent receivables under a sold investment in a subsidiary with deferred payment until the completion of regulatory actions for registration of permits for medicinal products at the amount of BGN 2,991 thousand and expected maturity on 31 December 2018 (31 December 2016: BGN 3,389 thousand).

The receivables on sales of non-current assets under deferred payment terms at the amount of BGN 325 thousand mature on 10 April 2021 (31 December 2016: BGN 325 thousand).

21. INVENTORIES

Company's *inventories* include:

	30.09.2017 *BGN '000*	*31.12.2016* *BGN '000*
Materials	26,329	27,549
Finished products	25,235	18,182
Semi-finished products	9,878	10,339
Work in progress	4,782	5,488
Goods	161	153
Total	**66,385**	**61,711**

Materials by type are as follows:

	30.09.2017 *BGN '000*	*31.12.2016* *BGN '000*
Basic materials	25,137	25,984
Auxiliary materials	482	330
Technical materials	393	461
Spare parts	217	218
Materials in transit	62	483
Other	38	73
Total	**26,329**	**27,549**

Basic materials by type are as follows:

	30.09.2017	*31.12.2016*
	BGN '000	*BGN '000*
Substances	11,463	12,602
Chemicals	3,752	3,789
Herbs	3,687	2,531
Ampoules	2,059	1,471
Packaging materials	1,359	2,388
PVC and aluminium foil	1,104	1,092
Plasters	637	577
Bandages materials	632	661
Vials	168	203
Tubes	166	585
Sanitary-hygene materials	110	85
Total	**25,137**	**25,984**

Finished products existing at 30 September include:

	30.09.2017	*31.12.2016*
	BGN '000	*BGN '000*
Tablet dosage forms	13,907	11,159
Ampoule dosage forms	4,410	2,323
Syrups	2,374	929
Ointments	1,344	1,499
Inhalation products	861	79
Bandages	755	742
Lyophilic products	486	239
Plasters	366	378
Sanitary-hygene materials	319	418
Suppositories	173	199
Drops	139	101
Medicinal cosmetics	101	116
Total	**25,235**	**18,182**

Pledges were established on Company's inventories with carrying amount of BGN 31,446 thousand as at 30 September 2017 as collateral to bank loans received (31 December 2016: BGN 24,425 thousand) *(Note 31 and Note 37).*

22. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	30.09.2017	*31.12.2016*
	BGN '000	*BGN '000*
Receivables from subsidiaries	*75,918*	*65,406*
Impairment of uncollectable receivables	*(1,085)*	*(3,243)*

	74,833	62,163
Receivables from companies related through key managing personnel	13,111	11,593
Impairment of uncollectable receivables	(741)	(269)
	12,370	11,324
Receivables from other related parties	84	96
Receivables from companies related through a main shareholder	12	13
Total	**87,299**	**73,596**

The receivables from related parties by type are as follows:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
Receivables on sales of finished products and materials	62,081	55,682
Impairment of uncollectable receivables	*(370)*	*(1,134)*
	61,711	54,548
Trade loans granted	27,044	21,426
Impairment of uncollectable receivables	*(1,456)*	*(2,378)*
	25,588	19,048
Total	**87,299**	**73,596**

The receivables on sales are interest-free and BGN 42,239 thousand of them are denominated in BGN (31 December 2016: BGN 38,891 thousand) and in EUR – BGN 19,472 thousand (31 December 2016: BGN 15,657 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 42,151 thousand as at 30 September 2017 or 68.30 % of all receivables on sales of finished products and materials to related parties (31 December 2016: BGN 38,828 thousand – 71,18%).

The Company usually negotiates with its subsidiaries payment terms of 180 days for receivables on sales of finished products and up to 90 days for receivables on sales of materials (incl. substances).

The Company determined a period of up to 270 days in total for which no interest was usually charged to sales counterparts - related parties and this was in line with the specifics of the end users – hospitals, Health Insurance Fund and other. Any delay after this period is regarded by the Company as an indicator for impairment. The management assesses collectability on an individual basis by analysing the specific receivables and the circumstances relating to the delay in order that impairment is charged.

The *age structure* of non-matured (regular) trade receivables from related parties is as follows:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
up to 30 days	9,381	6,321
from 31 to 90 days	17,073	24,421
from 91 to 180 days	27,696	19,527
from 181 to 240 days	507	862
over 241	1,356	1,639

Total	**56,013**	**52,770**

The *age structure* of past due but not impaired trade receivables from related parties is as follows:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
from 31 to 90 days	750	285
from 91 to 180 days	2,327	-
from 181 to 365 days	1,367	36
over 365	196	-
Total	**4,640**	**321**

The past due but not impaired receivables are mainly from subsidiaries, which are in a process of implementing the purposes of the Group for expanding its market share, promotion of its products and its strategic objectives for presence on the territory in which they operate. The collection methods and schemes are under current monitoring at 'company' level and 'group' level and comply with the achievement of the market objectives of the group.

The *age structure* of past due impaired trade receivables from related parties is as follows:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
From 91 to 180 days	1,428	429
from 180 to 365 days	-	528
over 365 days	-	1,634
Allowance for impairment	(370)	(1,134)
Total	**1,058**	**1,457**

The past due receivables are partially impaired by taking into account the collateral provided by debtor companies mainly as pledges on corporate shares and securities.

The *movement of the allowance for impairment* associated with the receivables, under sales of finished products and materials, from related parties is as follows:

	2017	***2016***
	BGN '000	***BGN '000***
Balance at 1 January	**1,134**	**1,062**
Impairment charge	369	288
Transfer of impairment from commercial receivables	1	-
Reversed impairment	(1,134)	(216)
Balance at 30 September/31 December	**370**	**1,134**

Special pledges have been established as at 30 September 2017 on receivables from related parties at the amount of BGN 58,345 thousand as collateral under bank loans received (31 December 2016: BGN 18,229 thousand) *(Note 31)*.

Loans granted to related parties by type of related party are as follows:

	30.09.2017 ***BGN '000***	***31.12.2016*** ***BGN '000***
Receivables from companies related through key managing personnel	13,111	11,593
Impairment of commercial loans	(741)	*(269)*
	12,370	11,324
Subsidiaries	*13,849*	*9,737*
Impairment of commercial loans	*(715)*	*(2,109)*
	13,134	7,628
Other related parties	84	96
Total	**25,588**	**19,048**

The *movement of the allowance for impairment* associated with loans granted to related parties is as follows:

	2017 ***BGN '000***	***2016*** ***BGN '000***
Balance at 1 January	**2,378**	**1,963**
Impairment charge	726	415
Recovered impairment	(1,648)	-
Balance at 31 March/ 31 December	**1,456**	**2,378**

The terms and conditions of the loans granted to related parties are as follows:

Currency	***Contracted amount '000***	***Maturity***	***Interest %***	***30.09.2017*** ***BGN '000***	***30.09.2017*** ***BGN '000 including interest***	***31.12.2016*** ***BGN '000***	***31.12.2016*** ***BGN '000 including interest***
to companies related through key managing personnel							
BGN	66,000	31.12.2017	3.50%	*6,317*	*20*	*4,472*	*72*
EUR	8,148	31.12.2017	4.10%	*6,053*	-	*6,292*	*5*
EUR	12,731	31.12.2017	3.05%	-	-	*560*	*1*
to subsidiaries							
BGN	11,979	31.12.2017	4.10%	*7,817*	*202*	*2,670*	*66*
EUR	2,770	31.12.2017	4.70%	*4,723*	*21*	*4,957*	-
EUR	350	10.05.2018	3.95%	*594*	*7*	-	-
BGN	600	31.12.2017	3.50%	-	-	*1*	-
to other related parties							
BGN	190	31.12.2017	3.50%	*84*	-	*96*	-
				25,588	***250***	**19,048**	***144***

The short-term loans granted to related parties are intended to support the financing of these companies' activities under common strategic objectives. They are secured by pledges on corporate shares and securities (shares).

23. TRADE RECEIVABLES

Trade receivables include:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
Receivables from clients	23,810	24,320
Impairment of uncollectable receivables	(420)	(286)
	23,390	24,034
Advances granted	1,337	1,377
Total	**24,727**	**25,411**

The *receivables from clients* are interest-free and BGN 2,345 thousand of them are denominated in BGN (31 December 2016: BGN 2,809 thousand), in EUR – BGN 19,525 thousand (31 December 2016: BGN 19,758 thousand) and in USD – BGN 1,520 thousand (31 December 2016: BGN 1,467 thousand.

One main counterpart of the Company is accountable for about 75.80 % of the receivables from clients (2016: one main counterpart accountable for 69.70%).

The Company usually agrees with its clients payment terms from 60 to 180 days for receivables under sales except for the cases when new markets and products are being developed and new trade counterparts are being attracted.

The Company has set a common period of 180 days for which no interest is charged to clients. Any delay after this period is regarded by the Company as an indicator for impairment. The management assesses collectability by analysing the individual exposure of the client as well as its repayment capacity and takes a decision as to whether to charge impairment.

Special pledges on trade receivables at the amount of BGN 21,066 thousand were established at 30 September 2017 as collateral to bank loans received (31 December 2016: BGN 21,312 thousand) (Note 31 and Note 37).

The *age structure* of non-matured (regular) trade receivables is as follows:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
up to 30 days	11,115	12,494
from 31 to 90 days	8,270	8,145
from 91 to 180 days	479	373
Total	**19,864**	**21,012**

The *age structure* of past due but not impaired trade receivables is as follows:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
from 31 to 90 days	2,007	1,085
from 91 to 180 days	110	349
from 181 to 365 days	633	600
over 365 dyas	244	45
Total	**2,994**	**2,079**

The *age structure* of past due impaired trade receivables is as follows:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
from 31 to 90 days	32	105
from 91 to 180 days	89	135
from 181 to 365 days	383	438
over 365 days	448	551
Allowance for impairment	(420)	(286)
Total	**532**	**943**

The *movement of the allowance for impairment* is as follows:

	2017	***2016***
	BGN '000	***BGN '000***
Balance at 1 January	**286**	**631**
Impairment charge	154	261
Reversed impairment	(19)	(362)
Transfer to impairment of receivables from related parties	(1)	-
Amounts written-off as uncollectable	-	(244)
Balance at 30 September/31 December	**420**	**286**

The *advances granted to suppliers* as at 31 December are for the purchase of:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
Inventories	679	753
Services	658	624
Total	**1,337**	**1,377**

The *advances granted* are regular. They include: in BGN – BGN 1,159 thousand (31 December 2016: BGN 1,119 thousand), in EUR – BGN 73 thousand (31 December 2016: BGN 209 thousand), in USD – 105 (31.12.2016: BGN 48 thousand) and in other currency – none (31 December 2016: BGN 1 thousand).

24(A). LOANS GRANTED TO THIRD PARTIES

The loans granted to third parties are intended to provide support for financing of activities, performed by these entities, but having common strategic objectives. They are secured through pledges on securities (shares) and receivables.

The terms and conditions under which loans are granted to third parties are as follows:

Currency	*Contracted amount*	*Maturity*	*Interest %*	*30.09.2017*		*31.12.2016*	
	'000			*BGN'000*	*BGN'000 including interest*	*BGN'000*	*BGN'000 including interest*
BGN	2,987	31.12.2017	4.30%	*2,779*	-	*1,769*	-
BGN	300	31.08.2018	3.10%	*302*	*2*	-	-
BGN	532	31.12.2017	4.50%	*257*	*6*	*130*	-
BGN	949	31.12.2017	4.70%	*117*	*1*	*546*	*3*
				3,455	**9**	**2,445**	**3**

24(B). OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	30.09.2017	*31.12.2016*
	BGN '000	*BGN '000*
Taxes refundable	4,096	3,655
Prepayments	1,030	969
Amounts granted to an investment intermediary	882	101
Claims	170	-
Dividends	138	189
Receivables on deposits placed as guarantees	47	-
Court and awarded receivables	*2,170*	*2,180*
Impairment of court receivables	*(2,163)*	*(2,163)*
	7	17
Financial assets to fair value through profit	-	316
Other	533	89
Total	**6,903**	**5,336**

Taxes refundable include:

	30.09.2017	*31.12.2016*
	BGN '000	*BGN '000*
Excise duties	3,434	2,737
Value added tax	662	442

Corporate tax	-	476
Total	**4,096**	**3,655**

Prepayments include:

	30.09.2017	*31.12.2016*
	BGN '000	***BGN '000***
Vouchers	388	11
Subscriptions	352	371
Insurance	164	387
Rentals	29	37
Licence and patent fees	23	38
Advertisement	4	-
Other	70	125
Total	**1,030**	**969**

Deposits placed as guarantees include:

	30.09.2017	*31.12.2016*
	BGN '000	***BGN '000***
Guarantees under contracts for fuel supply	86	86
Guarantees under construction contracts	44	66
Guarantees under rental contracts	2	12
Guarantees under contracts for supply of LTA	2	19
Other	4	6
Total	**138**	**189**

25. CASH AND CASH EQUIVALENTS

Cash includes:

	30.09.2017	*31.12.2016*
	BGN '000	*BGN '000*
Cash at current bank accounts	*8,138*	*9,341*
Impairment of cash at current bank accounts	*(172)*	*(172)*
Net change of cash in current accounts	7,966	9,169
Cash in hand	83	99
Blocked cash under issued bank guarantees	20	7
Total	**8,069**	**9,275**

Cash structure at current bank accounts is as follows: in BGN: BGN 7,081 thousand (31 December 2016: BGN 7,244 thousand), in EUR – BGN 674 thousand (31 December 2016: BGN 1,729 thousand), in USD – BGN 161 thousand (31 December 2016: BGN 185 thousand) and in other currency – BGN 50 thousand (31 December 2016: BGN 11 thousand).

Cash in hand includes: in BGN: BGN 75 thousand (31 December 2016: BGN 79 thousand), in EUR – BGN 4 thousand(31 December 2016: BGN 4 thousand), in USD – BGN 1 thousand (31 December 2016: BGN 1 thousand) and in other currency – BGN 3 thousand (31 December 2016: BGN 15 thousand).

26. EQUITY

Share capital

As at 30 September 2017, the registered share capital of Sopharma AD amounted to BGN 134,797 899 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

Ordinary shares issued and fully paid	***Shares***	***Share capital net of treasury shares***
	number	***BGN '000***
Balance at 1 January 2016	**129,578,603**	**117,201**
Treasury shares sold	300	1
Treasury shares	(443,418)	(1,207)
Expense on treasury shares	-	(6)
Balance at 31 December 2016	**129,135,485**	**115,989**
Balance at 1 January 2017	**129,135,485**	**115,989**
Treasury shares sold	419,931	1,399
Effects from merger of a subsidiary	181,302	602
Treasury shares	(99,580)	(437)
Expense on treasury shares	-	(2)

Balance at 30 September 2017	**129,637,138**	**117,551**

Company's shares are ordinary, non-cash, with right of dividend and liquidation share and are registered for trade in the Bulgarian Stock Exchange – Sofia AD and Warsaw Stock Exchange.

The ***treasury shares*** were 5,160,761 at the amount of BGN 17,247 thousand as at 30 September 2017 (31 December 2016: 5,662,416 shares at the amount of BGN 18,809 thousand). 99,580 shares were purchased in the current year (2016: 443,418 shares) and 419,931 shares were sold (2016: 300).

As at 30 September 2017, Company's shares ***held by its subsidiaries*** were as follows:

- by Unipharm AD – 151,166 shares (31 December 2016: 151,166 shares);

Company's ***reserves*** are summarised in the table below:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
Statutory reserves	51,666	47,841
Property, plant and equipment revaluation reserve	24,143	24,171
Available-for-sale financial assets reserve	4,839	2,805
Additional reserves	251,081	229,586
Total	**331,729**	**304,403**

Statutory reserves at the amount of BGN 51,666 thousand (31 December 2016: BGN 47,841 thousand) represent the Reserve Fund, which is set aside under a requirement of the Commercial Act and Company's Articles of Association, and includes two components: (a) amounts from distribution of profit for the Reserve Fund – BGN 42,881 thousand (31 December 2016: BGN 39,056 thousand), and (b) share premium representing the excess of the issue value over the nominal value of the issued shares on the merger of subsidiaries into Sopharma AD – BGN 8,785 thousand (31 December 2016: BGN 8,785 thousand)
The movements of statutory reserves were as follows:

	2017	***2016***
	BGN '000	***BGN '000***
Balance at 1 January	**47,841**	**45,256**
Distribution of profit	3,825	2,585
Balance at 30 September/31 December	**51,666**	**47,841**

The ***property, plant and equipment revaluation reserve***, amounting to BGN 24,143 thousand (31 December 2016: BGN 24,171 thousand), is set aside from the surplus between the carrying amount of property, plant and equipment and their fair value at the date of the respective revaluation. The deferred tax effect on the revaluation reserve was directly carried to this reserve.

The movements of property, plant and equipment revaluation reserve were as follows:

	2017	*2016*
	BGN '000	*BGN '000*
Balance at 1 January	**24,171**	**22,286**
Transfer to retained earnings	(28)	(481)
Revaluation of property, plant and equipment	-	2,629
Deferred tax relating to revaluations	-	(263)
Balance at 30 September/31 December	**24,143**	**24,171**

The ***available-for-sale financial assets reserve***, amounting to BGN 4,839 thousand (31 December 2016: BGN 2,805 thousand) was set aside from the effects of subsequent revaluation of available-for-sale investments to fair value.

The movements of available-for-sale financial assets reserve were as follows:

	2017	*2016*
	BGN '000	*BGN '000*
Balance at 1 January	**2,805**	**1,290**
Net gain arising on revaluation of available-for-sale financial assets	2,039	1,522
Cumulative (gains)/losses reclassified to current profit or loss upon sale/realisation of available-for-sale financial assets	(5)	(7)
Balance at 30 September/31 December	**4,839**	**2,805**

Additional reserves at the amount of BGN 251,081 thousand (31 December 2016: BGN 229,586 thousand) are set aside from distribution of profits under a decision of shareholders and can be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additional reserves are as follows:

	2017	*2016*
	BGN '000	*BGN '000*
Balance at 1 January	**229,586**	**215,395**
Distributed profit in the year	21,495	14,191
Balance at 31 March/ 31 December	**251,081**	**229,586**

Retained earnings amount to BGN 40,986 thousand as at 30 September 2017 (31 December 2016: BGN 42,483 thousand

The movements of ***retained earnings*** are as follows:

	2017	***2016***
	BGN '000	***BGN '000***
Balance at 1 January	**42,483**	**30,198**
Net profit for the year	31,642	37,770
Effect from treasury shares sold	170	-
Transfer from property, plant and equipment revaluation reserve	2	481
Distribution of profit to reserves	(25,320)	(16,776)
Distribution of profit for dividends	(12,930)	(9,070)
Effects from merger of a subsidiary		
Actuarial losses from remeasurements		
Effects from merger of a subsidiary of actuarial losses from remeasurements	-	(120)
Balance at 30 September/31 December	**36,047**	**42,483**

Net earnings per share

	30.09.2017	***31.03.2016***
Weighted average number of shares	129,278,391	129,480,789
Net profit for the year (BGN '000)	39,119	37,495
Net earnings per share (BGN)	**0.30**	**0.29**

27. LONG-TERM BANK LOANS

Currency	*Contracted loan amount*	*Maturity*	*30.09.2017* Non-current portion	*30.09.2017* Current portion	*30.09.2017* Total	*31.12.2016* Non-current portion	*31.12.2016* Current portion	*31.12.2016* Total
	'000		*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Investment-purpose loans								
EUR	32,000	15.04.2021	18,488	7,153	**25,641**	23,844	7,185	**31,029**
EUR	565	25.10.2018	13	276	**289**	220	276	**496**
			18,501	**7,429**	**25,930**	**24,064**	**7,461**	**31,525**

The investment-purpose loan received in Euro was agreed at interest rate based on three-month EURIBOR plus a mark-up of up to 1.7 points but not less than 1.7 points and one-motnh EURIBOR plus a mark-up of 3.9 points, but no less than 3.9 points (2016: three-month EURIBOR plus a mark-up of up to 2.2 points but not less than 2.2 points and one-month EURIBOR plus a mark-up of 3.9 points).

The following collateral was established under the loans in favour of the creditor bank:

- Mortgages of real estate with a carrying amount of BGN 42,834 thousand as at 30 September 2017 (31 December 2016: BGN 44,176 thousand) (*Note 13*);
- Special pledges on machinery and equipment with a carrying amount of BGN 17,742 thousand as at 30 September 2017 (31 December 2016: BGN 18,724 thousand) *(Note 13).*

The long-term bank loan contracts include clauses with covenants for maintaining certain financial ratios. Company's management currently controls the observance of these financial ratios in communication with the respective creditor bank.

28. DEFERRED TAX LIABILITIES

Deferred income taxes as at 30 September are related to the following items of the statement of financial position:

Deferred tax (liabilities)/ assets	*temporary difference*	*tax*	*temporary difference*	*tax*
	30.09.2017 ***BGN '000***	***30.09.2017*** ***BGN '000***	***31.12.2016*** ***BGN '000***	***31.12.2016*** ***BGN '000***
Property, plant and equipment	74,249	7,425	75,947	7,595
including revaluation reserve	*22,989*	*2,299*	*26,951*	*2,695*
Investment property	5,827	583	5,146	515
including revaluation reserve	*187*	*19*	*187*	*19*
Biological assets	14	1	14	1
Total deferred tax liabilities	**80,090**	**8,009**	**81,107**	**8,111**
Receivables	(5,148)	(515)	(6,861)	(686)
Payables to personnel	(7,256)	(726)	(5,900)	(590)
Inventories	(1,404)	(140)	(4,126)	(413)
Intangible assets	(841)	(84)	(1,194)	(119)
Accrued liabilities	(273)	(27)	(263)	(26)
Cash	(172)	(17)	(172)	(17)

Total deferred tax assets	**(15,096)**	**(1,510)**	**(18,516)**	**(1,852)**
Deferred income tax liabilities, net	**64,994**	**6,499**	**62,591**	**6,259**

On recognising deferred tax assets, the probability of a reversal of the individual differences and the abilities of the Company to generate sufficient taxable profit in the future, had been taken into account.

The change in the balance of deferred taxes for 2017 is as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2017*	*Recognised in the statement of comprehensive income*	*Recognised in equity*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 30 September 2017*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(7,591)	135	-	31	(7,425)
Investment property	(515)	(68)	-	-	(583)
Biological assets	(1)	-	-	-	(1)
Receivables	686	(171)	-	-	515
Payables to personnel	590	136	-	-	726
Inventories	413	(273)	-	-	140
Intangible assets	115	(31)	-	-	84
Accrued liabilities	26	1	-	-	27
Cash	17	-	-	-	17
Total	**(6,259)**	**(271)**	**-**	**31**	**(6,499)**

The change in the balance of deferred taxes for 2016 was as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2016*	*Recognised in the statement of comprehensive income*	*Recognised in the statement of comprehensive income*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 31 December 2016*
	BGN '000	*BGN '000*		*BGN '000*	*BGN '000*
Property, plant and equipment	(6,585)	(766)	(263)	24	(7,591)
Investment property	(459)	(56)	-	-	(515)
Biological assets	(1)	-	-	-	(1)
Receivables	639	47	-	-	686
Payables to personnel	520	70	-	-	590
Inventories	391	22	-	-	413
Intangible assets	177	(62)	-	-	115
Accrued liabilities	42	(16)	-	-	26
Cash	17	-	-	-	17
Total	**(5,258)**	**(762)**	**(263)**	**24**	**(6,259)**

29. GOVERNMENT GRANTS

The government grants are under concluded contracts with the Bulgarian Small and Medium Enterprises Promotion Agency for gratuitous financial aid under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013.
The table below presents the non-current and the current portion of the grants received by type:

	30.09.2017			*31.12.2016*		
	Non-current portion	***Current portion***	***Total***	***Non-current portion***	***Current portion***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Acquisition of machinery and equipment for a new tablets production line	2,862	179	**3,041**	2,996	179	**3,175**
Implementation of innovative products in the production of ampoule dosage forms	2,350	200	**2,550**	2,500	200	**2,700**
Acquisition of machinery and equipment for technological renovation and modernisation of tablet production	280	120	**400**	370	120	**490**
Acquisition of ventilation and climatization equipment	113	9		120	9	**129**
	5,605	**508**	**5,991**	**5,986**	**508**	**6,494**

The current portion of the financing will be recognised as current income over the following 12 months from the date of the separate statement of financial position and presented as 'other current liabilities' (*Note 39).*

30. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
Long-term retirement benefit obligations	2,958	2,731
Long-term benefit obligations for tantieme	247	199
Total	**3,205**	**2,930**

Long-term retirement benefit obligations

The long-term retirement benefit obligations to personnel include the present value of Company's liability at the date of the statement of financial position to pay indemnities to individuals of its employees upon coming of age for retirement.

In accordance with the Labour Code in Bulgaria, every employee is entitled to an indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for for the same employer during the last 10 years of their service the indemnity amounts to six gross monthly salaries at the time of retirement. This is a defined benefits plan *(Note 2.22)*.

For the purpose of establishing the amount of these obligations to personnel, the Company has assigned an actuarial valuation as at 30 September 2017 by using the services of a certified actuary.

Movements in the present value of retirement benefit obligations to personnel are as follows:

	2017	***2016***
	BGN '000	***BGN '000***
Present value of the obligation at 1 January	**2,731**	**2,516**
Current service cost	215	327
Interest cost	4	76
Net actuarial loss recognised for the period	-	2
Payments made in the year	(14)	(324)
Remeasurement gains or losses on the retirement benefit obligations	22	134
Present value of the obligation at 31 December	**2,958**	**2,731**

The amounts of long-term retirement benefits of personnel accrued in the statement of comprehensive income are as follows:

	2017	***2016***
	BGN '000	***BGN '000***
Current service cost	215	327
Interest cost	4	76
Net actuarial loss recognised for the period	-	2
Components of expenses on plans with defined income, acknowledged in the profit or loss *(Note 7)*		
Remeasurement gains or losses on the retirement benefit obligations	(14)	(324)
Components of expenses on plans with defined income, acknowledged in other component of comprehensive income *(Note 7)*	22	134
Present value of the obligation at 31 December	**2,958**	**2,731**

Long-term benefit obligations for tantieme

As at 30 September 2017, the long-term benefit obligations to personnel include also the amount of BGN 247 thousand (31 December 2016: BGN 199 thousand due in 2018 and 2019), representing a payable to personnel related to tantieme payment for a period of more than 12 months (from 20.06.2019 to 18.06.2020).

31. SHORT-TERM BANK LOANS

Currency	*Contracted amount*	*Maturity*	*30.09.2017*	*31.12.2016*
	'000		*BGN '000*	*BGN '000*
Bank loans (overdrafts)				
EUR	10,000	31.10.2017	15,688	11,603
BGN	10,000	31.12.2017	10,000	10,001
BGN	20,000	21.04.2018	6,985	9,242
BGN	9,779	01.06.2018	6,787	-
EUR	10,000	20.03.2017	-	6,827
			39,460	**37,673**
Extended credit lines				
EUR	5,000	31.08.2018	5,852	2,613
BGN	10,000	30.10.2017	-	8,005
			5,852	**10,618**
Total			**45,312**	**48,291**

The bank loans received in Euro have been agreed at interest rate based on a monthly EURIBOR plus a mark-up of up to 2.5 points, but not less than 2.5 points, monthly EURIBOR plus a mark-up of up to 1.7 points, but not less than 1.7 points, monthly EURIBOR plus a mark-up of up to 1.7 points, but not less than 1.5 points, while the loans received in BGN are based on a 3-month SOFIBOR plus 1.3 points, but not less than 1.45 points, monthly SOFIBOR plus 1.7 points, monthly SOFIBOR plus 1.5 points, and monthly SOFIBOR plus 1.5 points, but not less than 1.5 points and monthly SOFIBOR plus 1.7 points (2016: the loans received in Euro – 3-month EURIBOR plus a mark-up of up to 1.5 points and monthly EURIBOR plus a mark-up of up to 2.75 points, monthly EURIBOR plusa mark-up of 1.75 points, but no less than 1.75 points, while the loans received in BGN – 3-month SOFIBOR plus 1.7 points, but no less than 1.85, 1-month SOFIBOR plus 1.5 points and 1-month SOFIBOR plus 1.5 points, but no less than 1.5 points and 17.8% for a BGN loan of Medica AD (mergin company). Loans are intended for providing working capital.

Part of the loans drawn at 30 September are in the form of bank guarantees in favour of the National health Insurance Fund (NHIF) for covering obligations as follows:

- of Sopharma AD at the amount of BGN 506 thousand. (31 December 2016: BGN 20 thousand);
- of a subsidiary none (31 December 2016: BGN 1 thousand).

The following collateral has been established in favour of the creditor banks:

- Mortgages of real estate with a carrying amount of BGN 32,556 thousand as at 30 September 2017 (31 December 2016: BGN 35,842 thousand) *(Note 13 and Note 15*);
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 17,473 thousand as at 30 September 2017 (31 December 2016: BGN 18,029 thousand) *(Note 13 and Note 15);*
  - inventories with a carrying amount of BGN 31,446 thousand as at 30 September 2017 (31 December 2016: BGN 24,425 thousand) *(Note 21)*;

- receivables from related parties with a carrying amount of BGN 58,345 thousand as at 30 September 2017 BGN (31 December 2016: BGN 18,229 thousand) *(Note 22*);
- trade receivables with a carrying amount of BGN 11,735 thousand as at 30 September 2017 (31 December 2016: BGN 11,735 thousand) *(Note 23*);
- trade receivables from third parties of a subsidiary with a carrying amount of BGN 7,823 thousand as at 30 September 2017 (31 December 2016: BGN 7,823 thousand).

The short-term bank loan contracts include clauses with covenants for maintaining certain financial ratios. Company's management currently controls the observance of these financial ratios in communication with the respective creditor bank.

32. TRADE PAYABLES

Trade payables include:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
Payables to suppliers	5,521	5,383
Advances received	285	384
Total	**5,806**	**5,767**

Payables to suppliers are as follows:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
Payables tolocal suppliers	2,899	1,987
Payables to foreign suppliers	2,622	3,396
Total	**5,521**	**5,383**

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in BGN amount to BGN 2,899 thousand (31 December 2016: BGN 1,876 thousand), in EUR – BGN 1,691 thousand (31 December 2016: BGN 2,198 thousand), in USD – BGN 931 thousand (31 December 2016: BGN 1,305 thousand), in other currency none (31 December 2016: BGN 4 thousand).

The common credit period, for which no interest is charged on trade payables, is 180 days. The Company has no past due trade payables.

The Company has placed deposits and bank guarantees as security for payables to suppliers under commercial transactions at the amount of BGN 644 thousand (31 December 2016: BGN 229 thousand) *(Note 24b and 31*).

33. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	30.09.2017	***31.12.2016***

	BGN '000	***BGN '000***
Payables to subsidiaries	820	137
Payables to companies related through a main shareholder	598	9
Payables to companies related through key managing personnel	206	215
Payables to main shareholding companies	43	14
Payables to other related parties	11	-
Total	**1,678**	**375**

The *payables to related parties by type* are as follows:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
Supply of services	1,078	338
Supply of inventories	588	13
Obligations for increasing the capital of a subsidiary	12	24
Total	**1,678**	**375**

The trade payables to related parties are regular and interest-free. The payables in Bulgarian Levs amount to BGN 1,609 thousand (31 December 2016: BGN 345 thousand), in PLN – BGN 59 thousand (31 December 2016: BGN 10 thousand) and in EUR none (31.12.2016: none).
The common credit period, for which no interest is charged on trade payables to related parties, is 90 days. The Company has no overdue trade payables to related parties.
The Company has placed deposits as security for payables to related parties under commercial transactions at the amount of BGN 253 thousand (31 December 2016: BGN 267 thousand) *(Note 19*).

34. TAX PAYABLES

Tax payables include:

	30.09.2017 ***BGN '000***	***31.12.2016*** ***BGN '000***
Corporate tax	664	-
Individual income taxes	446	217
Taxes on expenses	286	446
Local taxes and fees	102	-
VAT	-	170
Total	**1,498**	**833**

The following inspections and audits were performed by the date of issue of these financial statements:

Sopharma AD (as a receiving company):

- under VAT Act – until 31 December 2011;
- full-scope tax audit – until 31 December 2011;
- National Social Security Institute – until 30 September 2013.

Bulgarian Rose Sevtopolis (as a transforming company)

- under VAT Act – until 31 December 2014;
- full-scope tax audit – until 31 December 2013;
- National Social Security Institute – until 31 December 2013.

Medica AD (as a transforming company)

- under VAT Act – until 31 January 2013;
- full-scope tax audit – until 31 December 2002;
- National Social Security Institute – until 31 January 2016.

Tax audit is performed within a 5-year period after the end of the year when the tax return for the respective liability has been submitted. The tax audit confirms finally the tax liability of the respective company-tax liable person except in the cases explicitly stated by law.

35. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	30.09.2017 ***BGN '000***	***31.12.2016*** ***BGN '000***
Payables to personnel, including:	6,090	4,866
tantieme	*3,328*	*2,898*
current liabilities	*1,344*	*1,175*
accruals on unused compensated leaves	*1,418*	*793*

Payables for social security/health insurance, including:	1,060	905
current liabilities	*814*	*777*
accruals on unused compensated leaves	*246*	*128*
Total	**7,150**	**5,771**

36. OTHER CURRENT LIABILITIES

Other current liabilities include:

	30.09.2017	*31.12.2016*
	BGN '000	*BGN '000*
Government grants *(Note 29)*	508	508
Awarded amounts under litigations	308	343
Dividend liabilities	267	324
Deductions from work salaries	205	184
Finance lease liabilities	-	189
Fines and penalties	-	3
Other	12	1
Total	**1,300**	**1,552**

37. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

In relation to the amount of EUR 1,034 thousand (BGN 2,022 thousand) awarded by the Court of Arbitration in Paris, Sopharma AD initiated cases in Poland against former members of the Management Board of the convicted company for caused damages and non-performance of the obligations regarding the bankruptcy of the said company. As at 30/06/2017, the cases are pending in the District Court and the Regional Court of Warsaw.

Significant irrevocable agreements and commitments

The Company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 *(Note 29 and Note 36*), related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section *(Note 13*). The Company undertook a commitment that for a period of 5 years after the completion of the respective projects they shall not be subject to significant modifications affecting the essence and the terms and conditions for their execution or giving rise to unjustified benefits to the company, neither modifications resulting from a change in the nature of ownership over the assets acquired in relation to the grants. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Issued and granted guarantees

The Company is a co-debtor under received bank loans, issued bank guarantees and concluded lease agreements as well as a guarantor before banks and suppliers of the following companies:

Company	Maturity	Currency	Contracted amount		Guarantee amount as at
			Original currency	BGN '000	30.09.2017 BGN '000
Sopharma Trading AD	2017 г - 2024 г.	EUR	64,316	143,056	125,225
Sopharma Properties REIT	2024 г.	EUR	22,619	44,240	24,335
Sopharma Trading AD	2017 г	BGN	14,732	14,732	13,759
OAO Vitamini	2017 г	EUR	7,000	13,691	3,757
Biopharm Engineering AD	2023 г	BGN	4,250	4,250	1,151
Mineralcommerce AD	2017 г - 2021 г.	BGN	726	726	639
Veta Pharma AD	2018 г	BGN	1,000	1,000	514
Total					**169,380**

The Company has provided the following collateral in favour of banks under loans received by subsidiaries:

(a) under loans of subsidiaries:

- Mortgages of real estate with a carrying amount of BGN 10,285 thousand as at 30 September 2017 (31 December 2016: BGN 10,368 thousand) *(Note 13)*;
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 10,529 thousand as at 30 September 2017 (31 December 2016: BGN 11,005 thousand) *(Note 13)*;
  - inventories with a carrying amount of BGN 17,000 thousand as at 30 September 2017 (31 December 2016: BGN 17,000 thousand) *(Note 21)*;
  - trade receivables with a carrying amount of BGN 11,735 thousand as at 30 September 2017 (31 December 2016: BGN 11,735 thousand) *(Note 23)*.

Other

The Company has met its obligations under the Waste Management Act (WMA) and therefore, has not included a product charge liability in the statement of financial position regardless of the fact that the official document evidencing that Ecobulpack (the organization in which it is a member) has fulfilled its commitments under WMA, has not been issued yet at the date of preparation of these financial statements.

38. RECALCULATIONS AS A RESULT OF A MERGER

In its financial report for 2017, Sopharma AD presents comparative information for the year 2016 on the basis of the merger of the individual financial statements of the merger (Medica AD) and the acquiring companies (Sopharma AD) (Appendix No. 2.3), as follows:

38.1. Interpretation of the financial position at the date of the merger - 01.01.2017

The opening statement of the financial position of Sopharma AD as a result of the merger on 01.01.2017 was prepared on the basis of the carrying amounts of the assets and liabilities of the two companies in their individual financial statements as at 31.12.2016

To the extent that the date of accounting for the merger is 01.01.2017 the data in the statement of financial position at that date correspond to the data for the comparative comparative period as at 31.12.2016. The assets and liabilities of the two companies, combined with the accounting date of the merger as at 01.01.2017, as structure and size are as follows:

FINANCIAL POSITION REPORT	Sopharma AD	Medica AD	Correction at time of merger	United financial position report
	1 January 2017 BGN'000	1 January 2017 BGN'000	1 January 2017 BGN'000	1 January 2017 BGN'000
ASSETS				
Non-current assets				
Property, plant and equipment	209,326	16,168	(24)	225,470
Intangible assets	2,177	328	675	3,180
Invetment propertioes	22,840	-	-	22,840
Investments in subsidiaries	147,583	5	(32,146)	115,442
Investments in associates	5,219	-	-	5,219
Available and for sale investments	5,229	888	(888)	5,229
Lon-term receivables form related parties	11,011	-	36	11,047
Other long-term receivables	3,714	-	-	3,714
	407,099	**17,389**	**(32,347)**	**392,141**
Current assets				
Inventories	56,807	4,904	-	61,711
Receivables from related perties	71,076	2,686	(166)	73,596
Commercial receivables	22,479	2,722	210	25,411
Loans granted to thir parties	2,445	-		2,445
Other receivables and prepaid expenses	4,859	371	106	5,336
Financial assets to fair value through profit	-	316	(316)	-

Cash and cash equivalents	4,343	4,932		9,275
	162,009	**15,931**	**(166)**	**177,774**
TOTAL ASSETS	**569,108**	**33,320**	**(32,513)**	**569,915**
OWNERS' EQUITY AND LIABILITIES				
OWNERS' EQUITY				
Share capital	134,798	10,069	(10,069)	134,798
Treasury shares	(18,809)	-	-	(18,809)
Reserves	304,403	12,473	(12,473)	304,403
Retained earnings	42,483	7,553	(9,802)	40,234
	462,875	**30,095**	**(32,344)**	**460,626**
LIABILITIES				
Non-current liabilites				
Long-term bank loans	23,844	220	-	24,064
Deferred taxes	5,703	594	(38)	6,259
Government grants	5,866	120	-	5,986
Long-term liabilities to personnel	2,649	243	38	2,930
	38,062	**1,177**	**-**	**39,239**
Current liabilities				
Short-term bank loans	48,291	-	-	48,291
Short-term portion of long-term bank loans	7,185	276	-	7,461
Commercial payables	4,712	1,041	14	5,767
Payables to related parties	497	14	(136)	375
Tax payables	609	225	(1)	833
Short-term part of paybles to personnel and for retirement	-	30	(30)	-
Social security payables to personnel	5,363	416	(8)	5,771
Other current liabilities	1,514	46	(8)	1,552
	68,171	**2,048**	**(169)**	**70,050**
TOTAL LIABILITIES	**106,233**	**3,225**	**(169)**	**109,289**
TOTAL OWNERS' EQUITY AND LIABILITIES	**569,108**	**33,320**	**(32,513)**	**569,915**

The adjustments made to the financial statements of the two companies for consolidation are mainly the result of: a) unification of the accounting policy; and b) elimination of the investment in a subsidiary and of intragroup calculations between the two companies, incl. the related deferred tax effects. The net effect on accumulated profits as at 01.01.2017 is a loss of BGN 2,249 thousand.

38.2.Comparative information

In the financial report for 2017 of Sopharma AD (the receiving company), the comparative data for 2016 and the earliest comparative period - 01.01.2016 were also recalculated for the sole purpose of comparability. These adjustments are made to aggregate the data in: (a) the statement of financial position as at 31.12.2016; (b) the statement of comprehensive income for the year ended 31 December 2016; (c) the cash flow statement for the year ended 31 December 2016; and (d) the statement of financial position as at 01.01.2016 of the two companies as if the merging and receiving companies were always united.

The effects of the merger in the relevant reports are presented as follows:

a) statement of financial position at 31.12.2016:

The data from the opening financial statement on 01.01.2017 are presented as comparative data as at 31.12.2016 in this report (Appendix № 38.1).

(b) the statement of comprehensive income for the year ended 31 December 2016:

COMPREHENSIVE INCOME REPORT	**Sopharma AD**	**Medica AD**	**Correction at time of merger**	**United financial position report**
	2016 BGN'000	**2016 BGN'000**	**2016 BGN'000**	**2016 BGN'000**
Revenues	163,827	18,382	187	182,396
Other operating revenue/(loss)	4,193	25	(153)	4,065
Change of available stock of finished goods and work in progress	360	(555)	(88)	(283)
Materials	(55,172)	(6,740)	(6)	(61,918)
External services	(33,297)	(1,818)	(1,371)	(36,486)
Emoloyees	(34,414)	(3,849)	-	(38,263)
Amortization	(13,919)	(1,228)	17	(15,130)
Carrying amount of goods sold	-	(1,423)	1,423	-
Other operating expenses	(5,244)	(543)	125	(5,662)
Operating profit	**26,334**	**2,251**	**134**	**28,719**
				-
Impairment of non-current assets	(5,627)	-	(6)	(5,633)
Financial income	24,158	265	(1,502)	22,921
Financial expenses	(3,176)	(165)	135	(3,206)
Financial income/(expenses), net	**20,982**	**100**	**(1,367)**	**19,715**
				-
Profit before tax	**41,689**	**2,351**	**(1,239)**	**42,801**
Profit tax	(3,919)	(224)	11	(4,132)
Net profit	**37,770**	**2,127**	**(1,228)**	**38,669**

Other components of the total income:

Items that will not be reclassified to profit or loss:				-
Property, plant and equipment	2,629	-	-	2,629
Subsequent valuation of defined-benefit pension plans	(120)	(14)	-	(134)
Income tax, related to the components of other comprehensive income, which will not be reclassified	(263)	-	-	(263)
	2,246	**(14)**	**-**	**2,232**
Items that may be reclassified to profit or loss:				
Net change in the fairvalue of available-for-sale financial assets	1,515	173	(173)	1,515
	1,515	**173**	**(173)**	**1,515**
Other comprehensive income for the period net of tax	**3,761**	**159**	**(173)**	**3,747**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**41,531**	**2,286**	**(1,401)**	**42,416**

The effect of the total comprehensive income for 2016 as a result of the merger of the subsidiary is BGN 885 thousand. and is formed as follows:

a) the total comprehensive income for the year of Medica AD is a profit of BGN 2,286 thousand;
b) The effects of the elimination of intragroup transactions between the two companies and the related deferred taxes are a loss of BGN 1,401 thousand.
(c) cash flow statement for the year ended 31 December 2016:

INDIVIDUAL STATEMENT OF CASH FLOWS	**Sopharma AD**	**Medica AD**	**Correction at time of merger**	**United financial position report**
	2016 BGN'000	**2016 BGN'000**	**2016 BGN'000**	**2016 BGN'000**
Cash flows from operating activities				
Sales proceeds	175,838	21,523	(306)	197,055
Payments to suppliers	(106,733)	(11,635)	306	(118,062)
Payments for wages and social insurance	(32,713)	(3,560)	-	(36,273)
Taxes paid (profit tax excluded)	(5,958)	(1,273)	(15)	(7,246)
Taxes refunded (profit tax excluded)	2,031	-	15	2,046
Profit tax paid	(3,230)	(233)	-	(3,463)

Paid interest and bank fees on working capital loans	(1,525)	-	-	(1,525)
Exchange rate differences, net	(211)	-	-	(211)
Other proceeds/(payments), net	(863)	(17)	-	(880)
Net cash flows from/(used in) operating activities	**26,636**	**4,805**	**-**	**31,441**
Cash flows from investing activities				
Purchase of property, plant and equipment	(5,640)	(421)	-	(6,061)
Proceeds from sale of property, plant and equipment	441	-	-	441
Purchase of intangible assets	(95)	(35)	-	(130)
Proceed from sales of intangible assets	15	-	-	15
Purchase of shares in associated companies	(2,058)	-	-	(2,058)
Purchase of available-for-sale investments	(2,080)	(31)	31	(2,080)
Proceeds from sale of available-for-sale investments	741	145	(142)	744
Purchase of shares in subsidiaries	(25,631)	-	(31)	(25,662)
Proceeds from sale of shares in subsidiaries	18,466	-	59	18,525
Purchase of shares in subsidiaries	(25,631)	-	(31)	(25,662)
Loans granted to related parties	(5,958)	-	-	(5,958)
Repaid loans, granted to related parties	23,362	-	-	23,362
Loans granted to third parties	(784)	-	-	(784)
Repaid loans, granted to third parties	281	-	-	281
Income from dividends from subsidiaries	9,110	-	(1,238)	7,872
Proceeds from dividends from available-for-sale investments	51	145	(145)	51
Received interest on granted loans and deposits	2,777	-	-	2,777
Other proceeds/(payments), net	(107)	-	-	(107)
Net cash flows used in investing activities	**12,891**	**(197)**	**(1,466)**	**11,228**
Cash flows from finance activities				
Settlement of long-term bank loans	(7,186)	(276)	-	(7,462)
Proceeds from short-term bank loans (overdraft), net	13,884	-	-	13,884
Settlement of short-term bank loans (overdraft), net	(34,495)	(180)	-	(34,675)
Paid interest and bank fees on investment purpose loans	(873)	(29)	-	(902)
Treasury shares	(1,212)	-	-	(1,212)
Proceeds from sales of treasury shares	-	-	83	83
Dividends paid	(9,026)	(1,400)	1,383	(9,043)
Finance lease payments	(21)	-	-	(21)
Net financial cash flows	**(38,929)**	**(1,885)**	**1,466**	**(39,348)**

Net (decrease)/increase in cash and cash equivalents	**598**	**2,723**	**-**	**3,321**
Cash and cash equivalents at 1 January	**3,745**	**2,209**	**-**	**5,954**
Cash and cash equivalents at 31 December	**4,343**	**4,932**	**-**	**9,275**

The adjustments made to the cash flow statement are mainly the result of cash flow eliminations related to intragroup transactions between the two companies.

d) statement of financial position as at 01.01.2016:

The assets and liabilities of the two companies unified as at 01.01.2016 as structure and size are as follows:

INDIVIDUAL STATEMENT OF FINANCIAL POSITION	**Sopharma AD**	**Medica AD**	**Correction at time of merger**	**United financial position report**
	1 January 2016 BGN'000	**1 January 2016 BGN'000**	**1 January 2016 BGN'000**	**1 January 2016 BGN'000**
ASSETS				
Non-current assets				
Property, plant and equipment	211,943	16,897	(35)	228,805
Intangible assets	2,507	392	669	3,568
Investment properties	22,160	-	-	22,160
Investments in subsidiaries	132,899	5	(21,068)	111,836
Available-for-sale investments	5,510	859	(857)	5,512
Long-term receivables from related parties	20,505	-	36	20,541
Other long-term receivables	3,257	-	-	3,257
	398,781	**18,153**	**(21,255)**	**395,679**
Current assets				
Inventory	61,701	6,244	(43)	67,902
Receivables from related persons	78,035	3,042	(97)	80,980
Commercial receivables	21,466	2,656	(53)	24,069
Loans granted to third parties	2,481	-	-	2,481
Other receivables and prepayments	4,400	406	314	5,120
Financial assets to fair value through profit	-	314	(314)	-
Cash and cash equivalents	3,745	2,209	-	5,954
	171,828	**14,871**	**(193)**	**186,506**

TOTAL ASSETS	**570,609**	**33,024**	**(21,448)**	**582,185**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	134,798	10,069	(10,069)	134,798
Treasury shares	(17,597)	-	-	(17,597)
Reserves	284,227	12,300	(12,300)	284,227
Retained earnings	30,198	6,849	1,009	38,056
	431,626	**29,218**	**(21,360)**	**439,484**
LIABILITIES				
Non-current liabilities				
Long-term bank loans	30,819	496	-	31,315
Deferred taxes	4,697	588	(27)	5,258
Government grants	6,371	129	-	6,500
Payables to employees on retirement	2,426	216	27	2,669
Financial leasing liabilities	3	-	-	3
	44,316	**1,429**	**-**	**45,745**
Current liabilities				
Short-term bank loans	68,961	180	-	69,141
Short-term part of long-term bank loans	7,380	276	-	7,656
Commercial payables	8,014	1,259	-	9,273
Payables to related parties	3,070	90	(61)	3,099
Tax payables	965	172	-	1,137
Short-term payables to personnel	-	23	(23)	-
Payables to employees and social insurance	4,769	333	(4)	5,098
Other current liabilities	1,508	44	-	1,552
	94,667	**2,377**	**(88)**	**96,956**
TOTAL LIABILITIES	**138,983**	**3,806**	**(88)**	**142,701**
TOTAL EQUITY AND LIABILITIES	**570,609**	**33,024**	**(21,448)**	**582,185**

The adjustments made to the financial statements of the two companies for consolidation are mainly the result of: a) unification of the accounting policy; and b) elimination of the investment in a subsidiary and of intragroup calculations between the two companies, incl. the related deferred tax effects. The net effect on the accumulated profits as at 01.01.2016 is a profit of BGN 7,858 thousand.

39. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows. The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Company. The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the Company's finished products and services and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations.

Risk management is currently performed by Company's management following the policy adopted by the Board of Directors. The latter has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the different types of specific risk such as currency, price, interest, credit and liquidity risk and the risk in using non-derivative instruments.

Categories of financial instruments:

Financial assets	***30.09.2017***	***31.12.2016***
	BGN '000	***BGN '000***
Available-for-sale financial assets	***7,122***	***5,229***
Available-for-sale investments (in shares)	*7,122*	*5,229*
Loans and receivables	***130,866***	***115,341***
Long-term receivables from related parties	*13,221*	*11,047*
Other long-term receivables	*3,316*	*3,714*
Short-term receivables from related parties	*87,299*	*73,596*
Trade receivables	*23,390*	*24,034*
Other receivables	*3,640*	*2,950*
Cash and cash equivalents	8,069	9,275
Total financial assets	***146,057***	***129,845***

Financial liabilities	***30.09.2017***	***31.12.2016***
	BGN '000	***BGN '000***
Bank loans	***71,242***	***79,816***
Long-term bank loans	18,501	24,064
Short-term bank loans	*45,312*	*48,291*
Current portion of long-term bank loans	*7,429*	*7,461*
Other liabilities	***7,774***	***6,617***
Trade payables to related parties	*1,678*	*375*
Trade payables	*5,521*	*5,383*
Finance lease liabilities	-	*3*
Other liabilities	*575*	*856*
Total financial liabilities at amortised cost	***79,016***	***86,433***

Foreign currency risk

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Company supplies part of its basic raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies.

The remaining part of Company's operations is usually denominated in BGN and/or EUR. The Company sells part of its finished products in Russia in Euro and thus eliminates the currency risk related to the devaluation of the Russian Rouble. The accounts and balances with the subsidiaries in Ukraine are also denominated in Euro. Nevertheless, in relation with the instability in the country and the devaluation of the Ukrainian Hryvnia, for the purpose of mitigating the currency risk the Company, through its subsidiaries, exercises currency policy that includes the immediate translation in EUR of proceeds in a local currency as well as using higher trade margins to compensate eventual future devaluation of the Hryvnia.

To control foreign currency risk, the Company has introduced a system for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

The assets and liabilities denominated in BGN and foreign currency are presented as follows:

30 September 2017	**in USD**	**in EUR**	**in BGN**	**in other currency**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	1,663	2,171	3,288	-	7,122
Receivables and loans granted	4,511	63,635	62,719	1	130,866
Cash and cash equivalents	162	698	7,156	53	8,069
Total financial assets	**6,336**	**66,504**	**73,163**	**54**	**146,057**
Bank loans	-	47,470	23,772	-	71,242
Other liabilities	1,226	1,701	4,788	59	7,774
Total financial liabilities	**1,226**	**49,171**	**28,560**	**59**	**79,016**

31 December 2016	**in USD**	**in EUR**	**in BGN**	**in other currency**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	290	1,796	3,143	-	5,229
Receivables and loans granted	4,856	58,235	52,238	12	115,341
Cash and cash equivalents	186	1,740	7,323	26	9,275
Total financial assets	**5,332**	**61,771**	**62,704**	**38**	**129,845**
Bank loans	-	52,568	27,248	-	79,816
Other liabilities	1,640	2,198	2,742	37	6,617
Total financial liabilities	**1,640**	**54,766**	**29,990**	**37**	**86,433**

Foreign currency sensitivity analysis

The effect of Company’s sensitivity to 10 % increase/decrease in current exchange rates of BGN to USD and to other currency exposures, based on the structure of foreign currency assets and liabilities at 31 December and on the assumption that the influence of all other variables is ignored, has been measured and presented as impact on the post-tax financial result and on the equity.

		USD	
		30.09.2017	**31.12.2016**
		BGN '000	**BGN '000**
Financial result	+	460	336
Accumulated profits	+	460	336
Financial result	-	(460)	(336)
Accumulated profits	-	(460)	(336)

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2017 would be an increase by BGN 460 thousand (1.18%) (2016: increase at the amount of BGN 336 thousand) (0.87%). The same effect in terms of value would be seen on equity – 'retained earnings' component.

On 10 % decrease in the exchange rate of USD to BGN, the ultimate impact on the (post-tax) profit of the Company would be equal and reciprocal of the stated above.

The impact of the remaining currencies (other than USD) on 10 % increase in their exchange rates to BGN on Company’s (post-tax) profit is insignificant. The ultimate effect thereon for 2017 is a decrease by BGN 8 thousand (0.02 %) (2016: decrease at the amount of BGN 1 thousand (0.003%). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

The management is of the opinion that the presented above currency sensitivity analysis, based on the balance sheet structure of foreign currency denominated assets and liabilities, is representative for the currency sensitivity of the Company for the year.

Price risk

On the one hand, the Company is exposed to price risk due to two main factors:

(a) contingent increase of supplier prices of raw and starting materials, since more than 80% of the raw and starting materials are imported and they represent 50% on the average of all production costs; and

(b) growing competition on the Bulgarian pharmaceutical market is also reflected in drug prices.

For the purpose of mitigating this influence, the Company applies a strategy aimed at optimization of production costs, validation of alternative suppliers that offer beneficial commercial conditions, expanding product range by means of new generic products development and last but not least, adoption of a flexible marketing and price policy. Price policy is a function of three main factors – structure of expenses, prices of competitors and purchasing capacity of customers.

On the other hand, the Company is exposed to a price risk related to the held thereby shares, classified as available-for-sale investments. For this purpose, the management monitors and analyses all changes in security markets and also uses consulting services of one of the most authoritative in the country investments intermediaries. In addition, at this stage, because of the economic and financial crisis, the management has taken a decision for a significant reduction in its operations on stock markets, retaining of the purchased shares for longer periods with current monitoring of the reported by the respective issuer financial and business indicators as well as the development of the operations in the environment of crisis.

Credit risk

Credit risk is the risk that any of the Company's clients will fail to discharge in full and within the normally envisaged terms the amounts due under trade receivables. The latter are presented in the statement of financial position at net value after deducting the impairment related to doubtful and bad debts. Such impairment is made where and when events have existed identifying loss due to uncollectability as per previous experience.

In the years of its trade experience, the Company has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts. The Company works on its main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the National Health Insurance Fund and with distributors working with the state hospitals also require the implementation of deferred payments policy. In this sense, regardless of credit risk concentration, it is controlled through the choice of trade counterparts, current monitoring of their liquidity and financial stability as well as direct communication with them and search of prompt measures on first indications for existing problems.

The Company has concentration of receivables from related parties (trade receivables and loans) as follows:

	30.09.2017	***31.12.2016***
	BGN '000	***BGN '000***
Client 1	42%	46%
Client 2	12%	12%
Client 3	11%	12%

The Company currently manages the concentration of receivables from related parties by applying credit limits and additional collateral such as pledge on securities and other assets and use of promissory notes.

The Company has concentration of trade receivable from a single client, other than related parties, which is accountable for 75.80% of all trade receivables (31 December 2016: 69.70 %).

Deferred payments (credit sales) are offered only to clients having long account of business relations with the Company, good financial position and no history of credit terms violations.

Collectability of receivables is controlled directly by the Executive Director, Finance Director and Commercial Director. Their responsibility is to control the receivables on a regular basis depending on the objective situation on the market, the position and the potential of the respective counterpart and respectively, the market objectives and needs of the Company

The Company has developed policy and procedures to assess the creditworthiness of its counterparts, including related parties, and to assign credit rating and credit limits by groups of clients. Where necessary, additional collateral is required, such as pledges and mortgages, avals, and other.

The financial resources of the Company as well as the settlement operations are concentrated in different first-class banks. To distribute cash flows among them, Company management takes into consideration a great number of factors, as the amount of capital, reliability, liquidity, the credit potential of the bank etc.

Liquidity risk

Liquidity risk is the adverse situation when the Company encounters difficulty in meeting unconditionally all of its obligations within their maturity.

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the Company implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Maturity analysis

The table below presents the financial non-derivative liabilities of the Company, grouped by remaining term to maturity, determined against the contractual maturity at the reporting date. The table is prepared on the basis of undiscounted cash flows and the earliest date on which a payable becomes due for payment. The amounts include principal and interest.

30 September 2017	**Up to 1 months**	**from 1 to 3 months**	**from 3 to 6 months**	**from 6 to 12 months**	**from 1 -to 2 years**	**from 2 - to 5 years**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Bank loans	16,376	11,249	1,973	23,450	7,735	11,540	**72,323**
Other loans and payables	5,027	2,043	-	574	-	-	**7,644**
Total liabilities	**21,403**	**13,292**	**1,973**	**24,024**	**7,735**	**11,540**	**79,967**

31 December 2016.	**Up to 1 months**	**from 1 to 3 months**	**from 3 to 6 months**	**from 6 to 12 months**	**from 1 -to 2 years**	**from 2 - to 5 years**	**Total**
	BGN'000	***BGN'000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Bank loans	10,848	8,297	11,367	26,333	7,865	17,214	**81,924**
Other loans and payables	3,070	2,617	60	870	-	-	**6,617**
Total liabilities	**13,918**	**10,914**	**11,427**	**27,203**	**7,865**	**17,214**	**88,541**

Risk of interest-bearing cash flows

Interest-bearing assets are presented in the structure of Company's assets by cash, bank deposits and loans granted, which are with fixed interest rate. On the other hand, Company's borrowings in the form of long-term and short-term loans are usually with a floating interest rate. This circumstance makes the cash flows of the Company partially dependent on interest risk. This risk is covered in two ways:

(a) optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and

(b) combined structure of interest rates on loans comprising two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and maintained in a proportion favourable for the Company. The fixed component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

The Company's management currently monitors and analyses its exposure to changes in interest rates. Simulations are carried out for various scenarios of refinancing, renewal of existing positions, and alternative financing. The impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated based on these scenarios. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

30 September 2017	**interest-free**	**with floating interest %**	**with fixed interest %**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	7,122	-	-	7,122
Loans and receivables	89,144	-	41,722	130,866
Cash and cash equivalents	83	7,986	-	8,069
Total financial assets	**96,349**	**7,986**	**41,722**	**146,057**
Bank loans	-	71,242	-	71,242
Other loans and liabilities	7,774	-	-	7,774
Total financial liabilities	**7,774**	**71,242**	**-**	**79,016**

31 December 2016	interest-free	with floating interest %	with fixed interest %	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	5,229	-	-	5,229
Loans and receivables	83,268	-	32,073	115,341
Cash and cash equivalents	99	9,176	-	9,275
Total financial assets	**88,596**	**9,176**	**32,073**	**129,845**
Bank loans	-	79,816	-	79,816
Other loans and liabilities	6,614	3	-	6,617
Total financial liabilities	**6,614**	**79,819**	**-**	**86,433**

The table below demonstrates the Company's sensitivity to possible changes in interest rates by 0.50 points based on the structure of assets and liabilities as at 30 September/31 December and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and on equity.

2017

	Increase/ decrease in interest rate	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	Increase	(214)	(214)
BGN	Increase	(107)	(107)
EUR	Decrease	214	214
BGN	Decrease	107	107

2016

	Increase/ decrease in interest rate	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	Increase	(236)	(236)
BGN	Increase	(123)	(123)
EUR	Decrease	236	236
BGN	Decrease	123	123

Capital risk management

The capital management objectives of the Company are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital.

The Company currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total amount of employed capital. Net debt is calculated as the difference between total borrowings, as presented in the statement of financial position, and cash and cash equivalents. Total employed capital is calculated as the sum of equity and net debt.

In 2017, the strategy of the Company management was to maintain the ratio within 10% – 15% (2016: 10 % – 18 %).

The table below shows the gearing ratios based on capital structure:

	2017	***2016***
	BGN '000	***BGN '000***
Total borrowings, including:	**71,242**	**79,819**
bank loans	*71,242*	*79,816*
finance lease liabilities	-	*3*
Less: Cash and cash equivalents	**(8,069)**	**(9,275)**
Net debt	**63,173**	**70,544**
Total equity	**490,266**	**460,626**
Total capital	**553,439**	**531,170**
Gearing ratio	**0.11**	**0.13**

The liabilities shown in the table are disclosed in *Notes 25, 27, 31 and 36.*

Fair value measurement

The fair value concept presumes realisation of financial assets through a sale based on the position, assumptions and judgments of independent market participants in a principal or most advantageous market for a particular asset or liability. The Company acknowledges as a principal market for its financial assets and liabilities the financial market in Bulgaria – the Bulgarian Stock Exchange, the large commercial banks – dealers, and for some specific instruments – direct transactions between the parties. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits, the Company expects to realise these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at amortised cost.

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the statement of financial position at market value determined by applying a particular valuation method (investments in securities, loans with floating interest rate) and therefore, their fair value is almost equal to their carrying amount. Part of the investments in other companies as minority interests represent an exception to this rule, since neither market nor objective conditions exist so that their fair value could be reliably determined. Therefore, they are presented at acquisition cost (cost). With regard to loans, extended with fixed interest rate, the method used for setting this rate uses as a staring point for the calculations the current observations of the Company with regard to the market interest levels.

As far as the Bulgarian market of various financial instruments is still not sufficiently active – with stability, satisfactory volumes and liquidity for purchases and sales of certain financial assets and liabilities – there are no sufficient and reliable market price quotations for them, and for this reason, the Company uses other alternative valuation methods and techniques.

Company's management is of the opinion that the estimates of the financial assets and liabilities presented in the statement of financial position are as reliable, adequate and trustworthy as possible for financial reporting purposes under the existing circumstances.

40. RELATED PARTY TRANSACTIONS

The companies related to Sopharma AD and the type of their relationship are as follows:

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2016 and 2017
Donev Investments Holding AD	Main shareholding company	2016 and 2017
Sopharma Trading AD	Subsidiary company	2016 and 2017
Pharmalogistica AD	Subsidiary company	2016 and 2017
Sopharma Poland OOD – in liquidation	Subsidiary company	2016 and 2017
Sopharma USA	Subsidiary company	2016
Electroncommerce EOOD	Subsidiary company	2016 and 2017
Biopharm Engineering AD	Subsidiary company	2016 and 2017
Vitamina AD	Subsidiary company	2016 and 2017
Ivančić and Sinovi d.o.o.	Subsidiary company	2016 and until 09/05/2017
Sopharma Buildings REIT	Subsidiary company	2016 and 2017
Momina Krepost AD	Subsidiary company	2016 and 2017
Extab Corporation	Subsidiary company	until 14/05/2016
Extab Pharma Limited	Subsidiary company through Extab Corporation	until 14/05/2016
Briz SIA	Subsidiary company	2016 and 2017
Unipharm AD	Subsidiary company	2016 and 2017
Sopharma Warsaw EOOD	Subsidiary company	2016 and 2017
Sopharma Ukraine EOOD	Subsidiary company	2016 and 2017
TOO Sopharma Kazakhstan, Kazakhstan	Subsidiary company	2016 and 2017
Phyto Palauzovo AD	Subsidiary company	2016 and 2017
Veta Pharma AD	Subsidiary company	as from 11/11/2017
RAP Pharma International OOD	Subsidiary company	from 14.04.2017
Aromania OOD	Subsidiary company	from 31.07.2017

Sopharmacy EOOD	Subsidiary company through Sopharma Trading AD	2016 and 2017
Sopharmacy 2 EOOD	Subsidiary company through Sopharma Trading AD	2016 and 2017
Sopharmacy 3 EOOD	Subsidiary company through Sopharma Trading AD	2016 and 2017
Sopharmacy 4 EOOD	Subsidiary company through Sopharma Trading AD	as from 29/02/2016 and 2017
Sopharmacy 5 EOOD	Subsidiary company through Sopharma Trading AD	as from 01/03/2016 and 2017
Sopharmacy 6 EOOD	Subsidiary company through Sopharma Trading AD	2016 and 2017
Sopharma Trading OOD - Belgrade	Subsidiary company through Sopharma Trading AD	2016 and 2017
Medica Zdrave EOOD – in liquidation	Subsidiary company through Medica AD	2016 and until 22.02.2017
Medica Balkans EOOD – in liquidation	Subsidiary company through Medica AD	from 26/10/2016 to 24/03/2017
SOOO Brititrade	Subsidiary company through Briz OOD	2016 and 2017
OOO Tabina	Subsidiary company through Briz OOD	2016 and 2017
ZAO Interpharm	Joint venture through Briz OOD	2016 and 2017
SOOO Brizpharm	Subsidiary company through Briz OOD	2016 and 2017
OOO Vivaton Plus	Joint venture through Briz OOD	2016 and 2017
OOO Farmacevt Plus	Subsidiary company through Briz OOD	2016 and 2017
ZAO UAB TBS Pharma	Subsidiary company through Briz OOD	2016 and 2017
ODO Vestpharm	Subsidiary company through Briz OOD	2016 and 2017
ODO Alean	Subsidiary company through Briz OOD	2016 and 2017
OOO NPK Biotest	Subsidiary company through Briz OOD	until 26/08/2017
OOO NPK Biotest	Associate company through Briz OOD	as from 27/08/2016 and 2017
ODO BelAgroMed	Subsidiary company through Briz OOD	2016 and 2017
BOOO SpetzApharmacia	Joint venture through Briz OOD	2016 and 2017
OOO Med-dent	Joint venture through Briz OOD	2016 and 2017
OOO Bellerophon	Joint venture through Briz OOD	2016 and 2017
ODO Alenpharm Plus	Subsidiary company through Briz OOD	2016 and 2017
ODO Salyus Line	Associate company through Briz OOD	to 22/11/2016 and 2017
ODO Salyus Line	Subsidiary company through Briz OOD	from 23/11/2016and 2017
OOO Mobil Line	Subsidiary company through Briz OOD	to 15/02/2016 and 2017
OOO Mobil Line	Associate company through Briz OOD	from 16.02.2016 and 2017
ODO Medjel	Subsidiary company through Briz OOD	2016 and 2017
OOO GalenaPharm	Subsidiary company through Briz OOD	2016 and 2017
OOO Danapharm	Subsidiary company through Briz OOD	2016 and 2017
OOO NPFK Ariens	Joint venture through Briz OOD	2016 and 2017
OOO Ivem & K	Joint venture through Briz OOD	2016 and 2017
OOO Zdorovei	Associate company through Briz OOD	2016 and 2017
OOO Farmatea	Subsidiary company through Sopharma Trading AD	2016 and 2017
Sopharma Properties REIT	Company related through a main shareholder	2016 and 2017
Sofprint Group AD	Company related through a main shareholder	2016 and 2017
Elpharma AD	Company related through key managing personnel	2016 and 2017
Telso AD	Company related through key managing personnel	2016 and 2017

Telecomplect AD	Company related through key managing personnel	2016 and 2017
DOH Group	Company related through key managing personnel	until 20/12/2016
Doverie Obedinen Holding AD	Associate	as from 21/12/2016 and 2017
Bulgarsko Vino OOD	Other related party	as from 21/12/2016 and 2017
ZOF Mediko 21 EAD	Other related party	as from 21/12/2016 and 2017
STM Doverie OOD	Other related party	as from 21/12/2016 and 2017

The transactions, performed between Sopharma AD and the related thereto companies at 31 March, are as follows:

Sales to related parties	*2017* *BGN '000*	*2016* *BGN '000*
Sales of finished products to:		
Subsidiaries	76,144	93,817
Companies related through main shareholder	1	-
	76,145	**93,817**
Sales of goods and materials to:		
Subsidiaries	4,083	5,181
Companies related through main shareholder	592	584
	4,675	**5,765**
Sales of services to:		
Subsidiaries	1,264	1,670
Companies related through a main shareholder	36	41
Companies related through key managing personnel	8	57
	1,308	**1,768**
Income from sale of LTA:		
Subsidiaries	-	186
	-	**186**
Interest on loans granted to:		
Companies related through key managing personnel	451	1,475
Subsidiaries	382	496
Associates	316	10
Other related parties	39	-
	1,188	**1,981**
Income from dividends:		
Subsidiaries	7,397	7,872
Companies related through main shareholder	-	12
	7,397	**7,884**
Total	**90,713**	**111,401**

Supplies from related parties	***2017***	***2016***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies related through a main shareholder	6,913	6,868
Subsidiaries	120	389
Other related parties	17	2
Companies related through key managing personnel	17	94
	7,067	**7,353**
Supply of services from:		
Subsidiaries	7,802	8,839
Companies related through key managing personnel	2,316	3,405
Companies related through a main shareholder	1,318	1,785
Other related parties	606	-
Main shareholding companies	180	252
	12,222	**14,281**
Supply of non-current assets:		
Companies related through key managing personnel	232	75
Other related parties	29	-
Companies related through a main shareholder	-	2
Subsidiaries	-	6
	261	**83**
Supplies for acquisition of non-current assets:		
Companies related through key managing personnel	918	4,869
Companies related through a main shareholder	6	-
	924	**4,869**
Acquired investments from:		
Companies related through key managing personnel	-	4,933
Subsidiaries in which there was a capital increase	-	48
	-	**4,981**
Other supplies from:		
Main shareholders	3	-
Subsidiaries	-	174
Companies related through key managing personnel	-	1
	3	**175**
Dividends to:		
Main shareholding companies	6,141	4,227
Companies related through key managing personnel	545	475
Key management personnel	42	15
Subsidiaries	15	24
	6,743	**4,741**
Total	**27,220**	**36,483**

The terms and conditions of these transactions do not deviate from the market ones for similar transactions.

The accounts and balances with related parties are presented in *Notes 19, 22 and 33.*

The members of the key personnel are disclosed in *Note 1.*

Salaries and other short-term benefits of key managing personnel are regular and amount to BGN 1,199 thousand (2016: BGN 1,063 thousand) are as follows:

- current remunerations – BGN 800 thousand (30.09.2017: BGN 787 thousand)
- tantiems – BGN 399 thousand (30.09.2017: BGN 276 thousand)

41. EVENTS AFTER THE REPORTING PERIOD

There

On 14 September, 2017 in accordance with art. 262e and the following from the Commercial Code Unipharm AD and Sopharma AD signed a contract for transformation through merger of Unipharm AD in Sopharma AD and the respective consequences following that decision. The fair price of the participants in the transformation is based on widely accepted evaluation methods. Based on the fair price the participants in the transformation reached a ratio of exchange of 0. 891512, meaning that one share of Unipharm AD will be exchanged for 0. 891512 shares of Sopharma AD.

The companies have hired the services of certified appraisers whose reports are a necessary prerequisite for the filing of the documents for transformation with the FSC. As of this moment the responsible Deputy Chairman of the FSC has not issued an approval in accordance with art. 124 from the LPOS of the transformation contract.