SOPHARMA AD

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 31December 2016, the structure of Company's joint-stock capital was as follows:

	%
Donev Investments Holding AD	24.781
Telecomplect Invest AD	20.146
Rompharm Company OOD	18.037
ZPAD Allianz Bulgaria	5.171
Sopharma AD (treasury shares)	4.201
Other legal persons	23.749
Natural persons	3.914

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 31 December 2016 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 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
Vasil Piralkov	Member

The average number of Company's personnel for 2016 is 1,873 workers and employees (2015: 2,010).

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 2015, issued by the Bulgarian Drug Agency (BDA).

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Company's activities throughout the period 2013 – 2016, are presented in the table below:

Indicator	**2013**	**2014**	**2015**	**2016**
GDP in million levs	82,166	83,634	88,571	91,873*
Actual growth of GDP	0.9%	1.3%	3.6%	3.4%*
Year-end inflation (HICP)	-0.9%	-2.0%	-0.9%	-0.5%
Average exchange rate of USD for the year	1.47	1.47	1.76	1.77
Exchange rate of the USD at year-end	1.43	1.59	1.80	1.86
Basic interest rate at year-end	0.02	0.02	0.01	0.00
Unemployment rate at year-end	11.8%	10.7%	10.0%	8.0%

** BNB forecast for 2016; Source: BNB*

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 2016 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 2016, 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.

The new and/or amended standards and interpretations include:

- *IAS 1 (amended) "Presentation of Financial Statements" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment is an important clarification of the standard itself with a focus on preparers of financial statements when they need to exercise judgment for the materiality of particular information and its presentation in the preparation of financial statements, i.e. the including or not of specific information, presentation approach for the statement of financial position and the statement of comprehensive income – aggregation or separate presentation, approach in the arrangement of notes as well as the presentation of some particular items in the financial statements;
- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 41 (amended) "Agriculture" – regarding bearer plants (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment introduces a measurement and accounting approach for fruit-bearing plants (bearer plants) that applies the principle for property, plant and equipment (PPE) used in IAS 16 rather than the approach prescribed by IAS 41 (i.e. applying the cost model with an option to choose the revaluation model after reaching maturity) because their involvement in agricultural produce is similar to that of PPE in the industrial production process;
- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 38 (amended) "Intangible Assets" – regarding the acceptable methods of depreciation and amortisation (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This clarification specifies that the method for calculating the depreciation or amortisation of an asset, based on a ratio to expected revenue, in the generation of which it is involved, is not regarded an appropriate method for measuring the economic benefits consumed as a result of the use of this asset (allowed only in very rare cases as an exception);
- *IAS 19 (as revised in 2011) "Employee Benefits" (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC for annual periods as of 1 February 2015).* This amendment relates to clarification regarding the treatment of contributions from employees or third parties to defined benefit plans in accordance with the formal terms of the respective plan. The amendment clarifies that these contributions should be treated as a reduction in the service cost by being allocated to the period of service, when they are linked to the number of employee's years of service, and should be deducted from the service cost in the period in which the related services are rendered, when the contributions are independent of the number of years of service;
- *IAS 27 (amended) "Separate Financial Statements" – regarding the equity method in separate financial statements (in force for annual periods beginning on or after 1 January 2016 – endorsed*

by EC). This amendment restores the option of IAS 27 that allows entities to use the equity method to account for and measure the investments in subsidiaries, associates and joint ventures in their separate financial statements;

- *IFRS 10 (amended) "Consolidated Financial Statements", IFRS 12 (amended) "Disclosure of Interests in Other Entities" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding exemptions from consolidation for investment entities (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment addresses issues that have arisen in the context of applying the consolidation exception for companies with status of parents, namely: (1) whether and how an investment entity should account for a subsidiary at fair value if the subsidiary provides investment services to third parties or supporting services to the investment entity itself; (2) the interaction between amendments for investment entities and the exemption from consolidation under IFRS 10; (3) whether a non-investment entity should apply the fair value accounting of its joint ventures or associates that are investment entities;

- *IFRS 11 (amended) "Joint Arrangements" – regarding acquisitions of interests in joint operations (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment clarifies mainly that when an investor acquires interest in a joint operation, which in substance constitutes a business, this requires the application of the requirements and rules of IFRS 3 for business combinations.

- *IFRS 14 "Regulatory Deferral Accounts" (in force for annual periods beginning on or after 1 January 2016 – EC has postponed the endorsement process for this interim standard until the issue of the final standard).* This is a new standard with status of an interim standard, applicable only for entities, which will adopt IFRS for the first time as a reporting framework, and it is effective until the completion of the project for a new comprehensive standard intended to address such type of rate-regulated activities. It is not applied by entities that already apply IFRS;

- *Annual Improvements to IFRSs 2010-2012 Cycle (December 2013) – improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38 (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC for annual periods as of 1 February 2015).* 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 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) change in the definition of 'vesting period' and 'market conditions' and add of separate definitions for 'performance condition' and 'service condition' (IFRS 2); (b) clarification on the accounting for a contingent consideration in a business combination that meets the definition for 'financial instrument' (as a financial liability or equity instrument) and its measurement at fair value at the end of each reporting period, including the effects of that in the statement of comprehensive income (IFRS 3, IFRS 9, IAS 39 and IAS 37); (c) requirement for disclosure on the judgments and criteria applied in the aggregation of operating segments for segment reporting purposes (IFRS 8); (d) additional clarification on the adjustment technique regarding the gross carrying amount and accumulated depreciation in cases of revalued assets whereas setting a requirement for consistency with the revaluation approach of the carrying amount of the respective asset (IAS 16, IAS 38); (e) clarification that an entity providing key management personnel services to another entity it is also a related party thereto (IAS 24);

- *Annual Improvements to IFRSs 2012-2014 Cycle (September 2014) – improvements to IFRS 5, IFRS 7, IAS 19, IAS 34 (in force for annual periods beginning on or after 1 January 2016 – 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 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: (1) additional clarifications that an entity may reclassify an asset from 'held for sale' to 'held for distribution to owners' (and vice versa) and this is not treated as a change in the original plan of disposal as well as in the date of classification as per IFRS 5; (2) additional guidance to clarify whether a servicing contract for a fully derecognised transferred financial asset constitutes in substance a continuing involvement in a transfer for the purposes of determining the scope of the disclosures required, as well as clarification on the applicability of the disclosure requirements regarding the offsetting of financial assets and financial liabilities in condensed interim financial statements (IFRS 7); (3) clarification regarding the requirement of the standard that high quality corporate bonds, used to estimate the discount rate for post-employment benefits, should be issued in the same currency as the benefits to be paid to the respective employees, i.e. the depth of the market should be assessed at currency level (IAS 19); and (4) clarification on the disclosure requirement 'elsewhere in the interim report', i.e. that this means the presentation of information in any place in the interim financial statements but also presentation elsewhere in the greater interim report, including interim report of the management, provided that a cross-reference exists between the interim financial statement and wherever the disclosures are included (IAS 34);

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 2016, 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) "Statement of Cash Flows" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC).* This amendment is an important clarification of the standard itself with a focus on the information provided to the users of financial statements in order to improve their understanding of the liquidity and the financing activities of the entity. The amendment requires that additional disclosures and clarifications be prepared in regards to the changes of liabilities of the entity from: (a) changes arising from financing activities as a result of transactions leading to changes in cash flows; or (b) changes resulting from non-cash transactions such as acquisitions and disposals, interest accrual, foreign currency exchange gains and losses, changes in fair values and other similar. Changes in the financial assets should be included in this disclosure if the resulting cash flows are presented under financing activities (e.g. in certain hedge transactions). It is allowable to include also changes in other items as part of the disclosure if they are presented separately;

- *IAS 12 (amended) "Income Taxes" (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC) – recognition of deferred tax assets for unrealised losses.* This amendment clarifies deferred tax assets in cases where an asset is measured at fair value and that fair value is below the tax base. The amendment clarifies that: (a) temporary differences arise regardless of whether the carrying amount of the asset is less than its tax base; (b) the respective entity should assess, when estimating its future taxable profits, whether it could deduct an amount higher than the carrying amount of the asset or not; (c) if, according to the tax legislation, there are restrictions for the use of taxable profits against which particular deferred tax assets can be recovered, the review and assessment of deferred tax assets recoverability should be made in combination with the remaining deferred tax assets of the same type; and (d) the deductions for tax purposes resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate 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: <u>Phase 1</u>: Classification and measurement of financial assets and financial liabilities; <u>Phase 2</u>: Hedge accounting; and <u>Phase 3</u>: Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 and finally in July 2014. <u>Phase 1</u>: 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 2016 – 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 2016, 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 2.30*, *Note 15*, *Note 17* and *Note 20.*

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated annual financial statements for year 2016 in accordance with IFRS for year 2016 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 approved for issue by the Board of Directors of the Company not later than 30 April 2017 and after this date the financial statements will be publicly made available to third parties.

2.3. Merger of Bulgarian Rose Sevtopolis into Sopharma AD (takeover)

(a) legal form of the merger

The merger of Bulgarian Rose Sevtopolis AD (transforming company) into Sopharma AD (receiving company) was made through the legal form of transformation, regulated by the Commercial Act. The merger was entered in the Commercial Register at the Registry Agency on 26 February 2015. As a result of the transaction, the total assets of Bulgarian Rose Sevtopolis AD were transferred to Sopharma AD while Bulgarian Rose Sevtopolis AD was wound-up without liquidation.

By virtue of a decision taken by an extraordinary General Meeting of the Shareholders, held on 9 January 2015, after the completion of the procedures, set out in the Commercial Act, the share capital of Sopharma AD was increased from BGN 132,000 thousand to BGN 134,798 thousand (Commercial Act, Art. 262y). New 2,797,899 shares were issued with nominal value of BGN 1 each and issue value of BGN 4.14 equal to the fair price of 1 share of Sopharma AD. Exchange ratio was calculated based on the net assets fair value of both companies. The exchange ratio was subject to examination by an assigned independent examiner who issued a report, dated 12 June 2014 (Commercial Act, Art. 262м). The Transformation Agreement and Examiner's Report were approved by the General Meeting of the receiving company on 9 January 2015.

The purpose of the transaction for transformation of both companies was as follows:

- restructuring of the companies in Sopharma Group in order to eliminate overlapping activities;
- focus of the efforts on production and trade activities, and respectively, optimisation of administrative expenses;
- enhancing efficiency and achieving synergy in both management and production and trade activities as well as costs optimisation.

(b) method of accounting for the merger

For the purposes of accounting, the date 1 January 2015 was accepted as a merger date. Up to that date, Bulgarian Rose Sevtopolis AD has been a subsidiary of Sopharma AD. The performed transaction is treated as restructuring of the activities of both companies. The merger was accounted for by applying the 'uniting of interests' method. In cine with the requirements and rules of this method. the operations and the assets of the companies are presented in these financial statements as if they have always been united regardless of the legal events and procedures and their effect on the legal status and life of the receiving and the transforming company. The effects of all business operations between the receiving and the transforming company, including the outstanding balances, are eliminated regardless of whether arisen prior to or after the restructuring. All differences arising on the merger operation are stated in equity – within 'retained earnings' component *(Note 28).*

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.

2.10. 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 subsidiary (Bulgarian Rose Sevtopolis AD) at the date of its acquisition (the business combination).This goodwill on the merger of the subsidiary 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.

2.15. 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 2.15, 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 2016 is 10 % (2015: 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 31 December 2016 were assessed at a rate, valid for 2017, at the amount of 10% (31 December 2015: 10%).

2.26. Government grants

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)* on a recurring (annual) basis – *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 reviews and analyses, made in 2016, impairment of inventories was stated at the amount of BGN 2,876 thousand (2015: BGN 2,822 thousand) *(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 2,649 thousand (31 December 2015: BGN 2,426 thousand) have been stated as a result of these calculations *(Note 32)*.

Revaluation of property, plant and equipment

As at 31 December 2016, 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 15*), and current impairment loss was stated at the amount of BGN 342 thousand *(Note 10)*.

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 calculations, made in 2016, the Company found necessity to recognise impairment of particular investments in subsidiaries at the amount of BGN 5,224 thousand was necessary (2015: BGN 8,567 thousand) *(Note 10)*.

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.

For 2016, the change in the recognised impairment of trade receivables totals to BGN 130 thousand – (accrued)/reversed impairment, net (2015: BGN 234 thousand (accrued)/reversed impairment, net) (*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 2016, related to trade loans granted, amount totally to BGN 688 thousand (2015: (BGN 1,955 thousand) *(Note 12)*.

Deferred tax assets

There are unrecognised deferred tax assets at the amount of BGN 3,063 thousand (31 December 2015: BGN 2,541 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 2015: BGN 25,409 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 31 December 2016 (*Note 40*).

3. REVENUE

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

	2016	*2015*
	BGN '000	*BGN '000*
Export	101,655	109,997
Domestic market	62,172	63,806
Total	**163,827**	**173,803**

Sales by product – export

	2016	*2015*
	BGN '000	*BGN '000*
Tablet dosage forms	79,380	83,404
Ampoule dosage forms	10,778	12,969
Syrup dosage forms	6,325	5,640
Ointments	3,952	5,910
Lyophilic products	593	1,125
Suppositories	434	689
Drops	189	260
Other	4	-
Total	**101,655**	**109,997**

Sales by product – domestic market

	2016	*2015*
	BGN '000	*BGN '000*
Tablet dosage forms	33,288	31,629
Ampoule dosage forms	16,682	19,610
Lyophilic products	4,993	4,721
Inhalation products	2,572	3,433
Ointments	1,842	1,763
Syrup dosage forms	1,736	1,642
Drops	605	545
Suppositories	429	454
Other	25	9
Total	**62,172**	**63,806**

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

	2016 BGN '000	*Relative share*	*2015 BGN '000*	*Relative share*
Europe	82,790	51%	91,608	53%
Bulgaria	62,172	38%	63,806	37%
Other countries	18,865	11%	18,389	10%
Total	**163,827**	**100%**	**173,803**	**100%**

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

	2016 BGN '000	*% of revenue*	*2015 BGN '000*	*% of revenue*
Client 1	62,147	38%	63,806	37%
Client 2	56,829	35%	32,550	19%
Client 3	-	-	31,762	18%

4. OTHER OPERATING INCOME AND LOSSES

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

	2016 BGN '000	*2015 BGN '000*
Services rendered	3,494	3,364
Income from government grants under under European projects	497	397
Sales of goods	*1,693*	*1,783*
Cost of goods sold	*(1,519)*	*(1,520)*
Gain on sales of goods	174	263
Sales of non-current assets	*677*	*686*
Carrying amount of non-current assets sold	*(555)*	*(824)*
Gain/(loss) on sale of non-current assets	122	(138)
Sales of materials	*4,530*	*6,007*
Cost of materials sold	*(4,421)*	*(5,890)*
Gain on sale of materials	109	117
Fines and penalties income	35	204
Gains on revaluation of biological assets to fair value *(Note 15)*	3	14
Losses on revaluation on investment property to fair value *(Note 17)*	(233)	(79)
Net loss on exchange differences under trade receivables and payables and current accounts	(258)	(800)
Other income	250	309
Total	**4,193**	**3,651**

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

Services rendered include:

	2016	*2015*
	BGN '000	*BGN '000*
Rentals	1,751	1,803
Social activities	688	638
Manufacturing services	505	333
Regulatory services	160	121
Laboratory analyses	108	198
Gamma irradiation	79	90
Transport organisation	59	47
Other	144	134
Total	**3,494**	**3,364**

Sales of goods include:

	2016	*2015*
	BGN '000	*BGN '000*
Foodstuffs	954	938
Cosmetics	425	440
Medicinal and sanitary products and dressing materials	166	149
Food supplements	143	231
Goods with technical designation	5	25
Total	**1,693**	**1,783**

The *cost of goods sold* is as follows:

`	*2016*	*2015*
	BGN '000	*BGN '000*
Foodstuffs	883	869
Cosmetics	377	378
Medicinal and sanitary products and dressing materials	140	135
Food supplements	70	116
Goods with technical designation	49	22
Total	**1,519**	**1,520**

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	2016	*2015*
	BGN '000	*BGN '000*
Basic materials	40,557	47,075
Electric energy	4,185	3,934
Heat power	2,511	3,227
Laboratory materials	2,145	1,498
Auxiliary materials	1,237	1,253
Impairment of materials *(Note 9)*	1,044	401
Spare parts	872	1,211
Technical materials	723	1,028
Working clothes and personal protective equipment for labour	636	654
Fuels and lubricating materials	520	672
Water	515	494
Scrapped materials	227	172
Total	**55,172**	**61,619**

Expenses on basic materials include:

	2016	*2015*
	BGN '000	*BGN '000*
Substances	20,940	22,230
Packaging materials	7,091	9,490
Liquid and solid chemicals	6,287	7,734
Ampoules	1,881	1,951
Herbs	1,799	2,467
Tubes	1,351	1,568
Aluminium and PVC foil	842	592
Vials	366	1,043
Total	**40,557**	**47,075**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2016	*2015*
	BGN '000	*BGN '000*
Manufacturing of medicinal products	7,495	8,967
Advertising and marketing	4,633	7,902
Transportation	2,915	2,623
Buildings and equipment maintenance	2,356	3,030
Consulting services	1,889	2,963
Rentals	1,830	2,233
Logistic services – domestic market	1,520	2,032
Local taxes and charges	1,247	1,142
State and regulatory charges	1,116	646
Security	1,056	976
Subscription fees	799	756
Medical services	747	789
Services under civil contracts	673	699
Insurance	668	732
Vehicles repair and maintenance	435	345
Taxes on expenses	416	467
Announcements and communications	383	424
Licence fees and charges	370	337
Services on medicinal products registration	355	743
Clinical trials	354	1,339
Destruction of pharmaceuticals	349	215
Logistic services (export)	347	493
Commission fees	265	302
Documentation translation	242	219
Fees and charges on current bank accounts	146	151
Courier services	93	121
Other	598	629
Total	**33,297**	**41,275**

The expenses, accounted for the year, on statutory audit of the separate annual financial statements amount to BGN 85 thousand (2015: BGN 85 thousand), on tax consultataions – BGN 4 thousand (2015: BGN 16 thousand) and on other services unrelated to audit – BGN 3 thousand (2015: BGN 31 thousand).

7. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2016	*2015*
	BGN '000	*BGN '000*
Current wages and salaries	25,547	26,557
Social security/health insurance contributions	4,782	4,960
Social benefits and payments	2,258	2,123
Tantieme	768	792
Accruals for unused paid leaves	594	474
Social security/health insurance contributions on leaves	100	80
Accruals for long-term retirement benefit obligations *(Note 32)*	365	345
Total	**34,414**	**35,331**

8. OTHER OPERATING EXPENSES

Other expenses include:

	2016	*2015*
	BGN '000	*BGN '000*
Entertainment allowances	1,980	2,073
Impairment of finished products and work in progress *(Note 9)*	1,805	2,421
Business trip costs	581	697
Donations	330	373
Training courses	197	205
Unrecognised input tax under VATA	160	43
Scrapped finished products and work in progress	101	2
Scrapping of non-current assets	77	270
Scrapped goods	37	-
Impairment of goods *(Note 9)*	27	-
Other taxes and payments to the state budget	20	243
Awarded amounts under litigations	7	7
Charged/(reversed) impairment of receivables, net *(Note 9)*	(130)	(234)
Other	52	110
Total	**5,244**	**6,210**

9. IMPAIRMENT OF CURRENT ASSETS

Impairment losses on current assets include:

	2016	*2015*
	BGN '000	*BGN '000*
Impairment of finished products *(Note 8)*	1,805	2,240
Impairment of materials *(Note 5)*	1,044	401
Impairment of goods *(Note 8)*	27	-
Impairment of work in progress *(Note 8)*	-	181
Impairment of receivables	*448*	*242*
Reversed impairment of receivables	*(578)*	*(476)*
Net change in the impairment of receivables *(Note 8)*	(130)	(234)
Total	**2,746**	**2,588**

10. IMPAIRMENT OF NON-CURRENT ASSETS

Impairment losses on non-current assets include:

	2016	*2015*
	BGN '000	*BGN '000*
Impairment of investments in subsidiaries *(Note 18)*	5,224	8,567
Impairment of property, plant and equipment *(Note 15)*	342	-
Impairment of non-current intangible assets *(Note 16)*	61	-
	5,627	**8,567**

11. FINANCE INCOME

Finance income includes:

	2016	*2015*
	BGN '000	*BGN '000*
Net gain on transactions with investments in securities and shares	12,740	6,908
including gain on sale of subsidiaries	*12,721*	*6,851*
Income from equity investments	9,161	7,881
Interest income on loans granted	2,126	3,120
Net foreign exchange gain under a receivable from a sale of subsidiary	131	-
Net foreign exchange gain on loans	-	13
Total	**24,158**	**17,922**

12. FINANCE COSTS

Finance costs include:

	2016	***2015***
	BGN '000	***BGN '000***
Interest expense on loans received	2,062	3,510
Impairment of receivables under trade loans granted	688	1,955
Bank fees and charges on loans and guarantees	302	270
Effects of derivatives	109	-
Impairment of cash *(Note 27)*	8	165
Impairment of available-for-sale investments	4	398
Interest expense on finance lease	3	14
Total	**3,176**	**6,312**

13. INCOME TAX EXPENSE

Statement of comprehensive income (profit or loss for the year)	***2016***	***2015***
	BGN '000	***BGN '000***
Taxable profit for the year under tax return	31,764	23,042
Revaluation reserve included as an increase in the annual tax return	(242)	(349)
Taxable profit for the year	31,522	22,693
Current income tax expense for the year - 10% (2015: 10 %)	3,152	2,269
Prior periods tax expense	-	(76)
Deferred income taxes related to:		
Origination and reversal of temporary differences	767	633
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**3,919**	**2,826**

Reconciliation of income tax expense applicable to the accounting profit or loss		
Accounting profit for the year	*41,689*	*28,180*
Income tax – 10% (2015: 10%)	4,169	2,818
From unrecognised amounts as per tax returns related to:		
increases – BGN 6,592 thousand (2015: BGN 11,113 thousand)	659	1,111
decreases – BGN 9,440 thousand (2015: BGN 10,281 thousand)	(944)	(1,028)
Recognised deferred taxes originated in prior years	35	1
Prior periods tax expense	-	(76)
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**3,919**	**2,826**

The tax effects related to other components of comprehensive income are as follows:

	2016 BGN '000			2015 BGN '000		
	Pre-tax amount	**Tax effects recognised in equity**	**Amount net of tax**	**Pre-tax amount**	**Tax effects recognised in equity**	**Amount net of tax**
Items that will not be reclassified to profit or loss						
Gains/(losses) on revaluation of property, plant and equipment	2,629	(263)	2,366	-	-	-
Remeasurements of defined benefit pension plans	(120)	-	(120)	(51)	-	(51)
Items that may be reclassified to profit or loss						
Net change in fair value of available-for-sale financial assets	1,515	-	1,515	193	-	193
Total other comprehensive income for the year	**4,024**	**(263)**	**3,761**	**142**	**-**	**142**

14. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2016 BGN '000	*2015 BGN '000*
Gain on revaluation of property, plant and equipment	2,629	-
Net change in fair value of available-for-sale financial assets: *Gains arising during the year*	1,522	485
Less: Reclassification adjustments for (gains)/losses included in profit or loss for the current year	(7)	(292)
Remeasurements of defined benefit pension plans	(120)	(51)
	4,024	**142**
Income tax relating to items of other comprehensive income	(263)	-
Total comprehensive income for the year	**3,761**	**142**

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	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	**132,512**	**131,399**	**157,003**	**150,344**	**22,762**	**23,795**	**13,402**	**7,188**	**325,679**	**312,726**
Additions	15	158	880	560	76	140	8,496	15,211	9,467	16,069
Transfer to property, plant and equipment	9,880	956	8,307	8,003	1,474	38	(19,661)	(8,997)	-	-
Transfer from investment property	-	127	-	2	-	-	-	-	-	129
Effect from remeasurement	280	-	763	-	(111)	14	-	-	932	14
Disposals	(70)	(128)	(1,594)	(1,906)	(2,017)	(1,225)	-	-	(3,681)	(3,259)
Balance at 31 December	**142,617**	**132,512**	**165,359**	**157,003**	**22,184**	**22,762**	**2,237**	**13,402**	**332,397**	**325,679**
Accumulated depreciation										
Balance at 1 January	**18,647**	**14,806**	**78,195**	**70,972**	**16,894**	**15,892**	**-**	**-**	**113,736**	**101,670**
Depreciation charge for the year	3,851	3,841	8,433	8,495	1,503	2,086	-	-	13,787	14,422
Depreciation written-off	-	-	(1,483)	(1,272)	(1,611)	(1,084)	-	-	(3,094)	(2,356)
Effect from remeasurement	83	-	(1,127)	-	(314)	-	-	-	(1,358)	-
Balance at 31 December	**22,581**	**18,647**	**84,018**	**78,195**	**16,472**	**16,894**	**-**	**-**	**123,071**	**113,736**
Carrying amount at 31 December	**120,036**	**113,865**	**81,341**	**78,808**	**5,712**	**5,868**	**2,237**	**13,402**	**209,326**	**211,943**
Carrying amount at 1 January	**113,865**	**116,593**	**78,808**	**79,372**	**5,868**	**7,903**	**13,402**	**7,188**	**211,943**	**211,056**

As at 31 December 2016, Company's tangible fixed assets include: land amounting to BGN 34,621 thousand (31 December 2015: BGN 33,251 thousand) and buildings of carrying amount BGN 85,415 thousand (31 December 2015: BGN 80,614 thousand).

Tangible fixed assets in progress as at 31 December include:

- buildings reconstruction - BGN 1,316 thousand (31 December 2015: none);
- advances for the purchase of machinery and equipment – BGN 568 thousand (31 December 2015: BGN 3,188 thousand);
- expenses on new buildings construction – BGN 271 thousand (31 December 2015: BGN 10,132 thousand);
- other – BGN 82 thousand (31 December 2015: BGN 82 thousand).

As at 31 December, 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 31)* as follows:

- for a new tablet production facility at the amount of BGN 7,429 thousand (31 December 2015: BGN 8,056 thousand);
- for ampoule production at the amount of BGN 5,457 thousand (31 December 2015: BGN 5,861 thousand).

The amount of other assets as at 31 December 2016 includes also biological assets – Golden Chain

(Laburnum anagyroides) plantation at the amount of BGN 134 thousand (31 December 2015: BGN 131 thousand).

Operating lease

The Company has leased tangible fixed assets with carrying amount of BGN 5,669 thousand as at 31 December 2016 to related parties (31 December 2015: BGN 6,263 thousand). In addition, tangible fixed assets at carrying amount of BGN 246 thousand are leased to third parties as at 31 December 2016 (31 December 2015: BGN 228 thousand).

Finance lease

As at 31 December 2016, there are assets at the carrying amount of BGN 29 thousand acquired under finance lease contracts (31 December 2015: BGN 111 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 278 thousand (31 December 2015: BGN 123 thousand);
- Plant and equipment – BGN 34,198 thousand (31 December 2015: BGN 34,576 thousand);
- Other – BGN 10,547 thousand. (31 December 2015: BGN 10,207 thousand).

The following encumbrances were constituted on Company's tangible fixed assets as at 31 December 2016 in relation to received loans:

- Land and buildings with a carrying amount of BGN 22,415 thousand and BGN 58,159 thousand, respectively (31 December 2015: respectively, BGN 22,009 thousand and BGN 61,271 thousand) *(Note 29, Note 34 and Note 40);*
- Pledges on equipment – BGN 42,028 thousand (31 December 2015: BGN 38,316 thousand) *(Note 29, Note 34 and Note 40).*

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 remeasurement are stated as follows:

	Land and buildings	***Plant and equipment***	***Other***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Fair value remeasurement as at 31 December, carried to the statement of comprehensive income (within profit or loss for the year) *(Note 4 and Note 10)*	(13)	(283)	(43)	(339)
Fair value remeasurement, carried to the statement of comprehensive income (within other comprehensive income) *(Note 14)*	210	2,173	246	2,629
Total	**197**	**1,890**	**203**	**2,290**

(a) Fair value hierarchy

The established fair values of zoned land plots with terms to entrance into the deal within 12 months, located in Sofia and in the district cities of the country, have been assessed as inputs, used in the valuation technique, as being such of Level 2.

The fair values of the remaining property, plant and equipment have been categorised hierarchically as Level 3 fair values.

The revaluation of property, plant and equipment is on a non-recurring basis (periodically – every five years) and is due to the application of the revaluation model under IAS 16.

The table below presents information on the fair value of property, plant and equipment as at 31 December 2016 and the respective levels in the fair value hierarchy.

Group of assets	***Level 2***	***Level 3***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Agricultural land plots	-	*10,965*	*10,965*
Zoned land plots	*20,024*	*3,632*	*23,656*
Buildings	-	*85,415*	*85,415*
Total land and buildings	**20,024**	**100,012**	**120,036**
Plant and equipment	**-**	**81,341**	**81,341**
Biological assets	-	*134*	*134*
Other assets	-	*5,578*	*5,578*
Total other assets	**-**	**5,712**	**5,712**
Total	**20,024**	**187,065**	**207,089**

(b) Valuation methods and techniques and significant unobservable inputs

The table below shows a description of the valuation methods and techniques, used in measuring the fair value of the separate groups of assets within the property, plant and equipment for 2016 as well as the significant unobservable inputs separately for Level 2 and Level 3:

Groups of assets Level 2	**Valuation approaches and techniques**	**Significant unobservable inputs**
Zoned land plots	*Market approach* Valuation technique: Market comparables method – market prices of identical and similar properties in location and designation	* Discount factor * Transaction costs *Adjusted market prices to reflect the specifics of the values property location, area, term to entrance into deal, rate of return.*

Groups of assets Level 3	**Valuation approaches and techniques**	**Significant unobservable inputs and quantitative parameters**
Agricultural land plots	*a. Market approach* Valuation technique: Method of market comparisons of agricultural land deals in the regions of the land valued *b. Income approach* Capitalised rental income	* Average data for offer prices and rentals of agricultural land from specialised Internet by regions – areas, municipalities, districts (zemi.bg, nivi.bg, etc.); * Average prices of agricultural land and rentals by region as per NSI data; * Price index of agricultural land: – 1.35% as per NSI data; * Price index of rentals for agricultural land: 2.89% as per NSI data; * Term to entrance into deals (rent and/or sale) with agricultural land – from 6 to 12 months (accepted 9 months as average); * Weight ratio between the methods used – 40% for the method of market comparisons and 60% for the capitalised rental income, due to assessed higher reliability of the comparative data on rent. *Adjusted market prices to reflect the specifics of the valued property location, area, term to entrance into deal, rate of return.*
Zoned land plots	*Market approach* Valuation technique: Market comparables method – market prices of identical and similar properties in location and designation	* Term to entrance into the deal – from 12 to 18 months * Prices index of immovable properties with production, storage and servicing purpose: – 1.20% *Adjusted market prices to reflect the specifics of the valued property location, area, term to entrance into deal, rate of return.*
Buildings	*Cost approach* Valuation technique: Method based on the costs for asset creation or replacement - depreciated replacement cost method on the basis of combined application of the following techniques: 1) Determine depreciated replacement cost on the basis of indexed historical cost of the asset; 2) Determine depreciated replacement cost on the basis of current expenses on creation or replacement.	* Inflation price index depending on the period between the time of placing the asset in service and the current time of valuation * Price index in the construction sector: 1.44% as per NSI data * Market price index of production, storage and servicing facilities: –1.20% * Weight ratio of the techniques used individually for each asset in line with the assessment of the reliability of the used inputs and the specific features of the asset *Adjusted prices for construction of identical projects and purchase prices of comparable items*
Plant, equipment and other assets	*Cost approach* Valuation technique: Method based on the costs for asset creation or replacement - depreciated replacement cost method Valuation technique: Determine depreciated replacement cost on the basis of indexed historical cost of the asset or adjusted comparable amount based on market comparables.	* Inflation price index as per Eurostat data depending on the period between the time of placing the asset in service and the current time of valuation; *Adjusted prices for construction of identical projects and purchase prices of analogues of the respective type of machinery and equipment.*

16. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Assets in progress*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	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	**768**	**768**	**1,474**	**1,869**	**3,734**	**4,180**	**57**	**131**	**6,033**	**6,948**
Additions	-	-	78	49	63	4	1	21	142	74
Transfer	-	-	-	-	22	-	(22)	-	-	-
Allowance for impairment	-	-	(61)	-	-	-	-	-	(61)	-
Disposals	-	-	(208)	(444)		(450)	(11)	(95)	(219)	(989)
Balance at 31 December	**768**	**768**	**1,283**	**1,474**	**3,819**	**3,734**	**25**	**57**	**5,895**	**6,033**
Accumulated amortisation										
Balance at 1 January	-	-	**1,185**	**1,216**	**2,341**	**2,522**	-	-	**3,526**	**3,738**
Amortisation charge for the year	-	-	133	191	208	269	-	-	341	460
Amortisation written-off	-	-	(149)	(222)		(450)	-	-	(149)	(672)
Balance at 31 December	**-**	**-**	**1,169**	**1,185**	**2,549**	**2,341**	**-**	**-**	**3,718**	**3,526**
Carrying amount at 31 December	**768**	**768**	**114**	**289**	**1,270**	**1,393**	**25**	**57**	**2,177**	**2,507**
Carrying amount at 1 January	**768**	**768**	**289**	**653**	**1,393**	**1,658**	**57**	**131**	**2,507**	**3,210**

The rights on intellectual property include mainly products of development activities.

Intangible assets in progress as at 31 December include:

- expenses on permits for use of medicinal products – BGN 25 thousand (31 December 2015: BGN 36 thousand);
- expenses on acquisition of software – none (31 December 2015: BGN 21 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 909 thousand (31 December 2015: BGN 764 thousand);
- software – BGN 1,737 thousand. (31 December 2015: BGN 1,412 thousand).
- other – BGN 7 thousand (31 December 2015: BGN 7 thousand).

17. INVESTMENT PROPERTY

	31.12.2016 *BGN '000*	*31.12.2015* *BGN '000*
Balance at 1 January	**22,160**	**22,368**
Additions	913	-
Net loss on fair value adjustment, included in profit or loss	(233)	(79)
Transfer to property, plant and equipment	-	(129)
Balance at 31 December	**22,840**	**22,160**

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	*31.12.2016* *BGN '000*	*31.12.2015* *BGN '000*
Warehouse premises	18,671	18,380
Offices	2,342	2,331
Production buildings	1,032	1,056
Social objects	407	393
Investment property in progress	388	-
Total	**22,840**	**22,160**

There are established encumbrances as at 31 December 2016 on investment property as follows:

- mortgage of warehouse premises – BGN 8,226 thousand (31 December 2015: BGN 9,308 thousand) *(Note 34 and Note 40);*
- pledges on attached equipment – BGN 5,730 thousand (31 December 2015: BGN 5,912 thousand) *(Note 34)*.

Fair value measurement

Fair value hierarchy

The fair values of the groups of investment properties are categorised as Level 2 fair values based on the inputs to the valuation technique used.

The investment property remeasurement to fair value is recurring (annual) and is due to the application of the fair value model under IAS 40. It is performed regularly at the end of each reporting period. Fair value is determined with the assistance of independent certified appraisers.

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 2015	**18,498**	**2,310**	**1,140**	**420**	**-**	**22,368**
Transfer to property, plant and equipment	-	-	(129)	-	-	(129)
Net change in fair value through profit or loss – unrealised	(118)	21	45	(27)	-	(79)
Balance at 31 December 2015	**18,380**	**2,331**	**1,056**	**393**	**-**	**22,160**
Additions	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**

Valuation techniques and significant unobservable inputs

The table below shows a description of the valuation techniques, used in measuring the fair value of all groups of Level 2 investment properties as well as the used significant unobservable inputs:

Groups of assets Level 2	**Valuation approaches and techniques**	**Significant unobservable inputs**
Warehouse premises	*a. Income approach* Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term to entrance into rental deals
	b. Cost approach Valuation technique: Method based on the costs of construction or replacement – depreciated replacement cost (supportive valuation technique)	* Adjusted prices for construction of identical properties and purchase prices of analogues of the respective type of machinery and equipment
Offices, production buildings and social objects	*Income approach* Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term to entrance into rental deals

Key assumptions used in the calculation of the fair value of investment properties as at 31/12/2016:

- rate of return – from 4.06 % to 7.91 %;
- term to entrance into rental deals – from 3 to 12 months;

As a result of the calculations made in 2016, necessity was established for recognition of losses, net of the gains on remeasurement to fair value at the amount of BGN 233 thousand (2015: BGN 79 thousand) *(Note 4).*

18. INVESTMENTS IN SUBSIDIARIES

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

		31.12.2016 BGN '000	*Interest %*	*31.12.2015 BGN '000*	*Interest %*
Medica AD	Bulgaria	32,874	97.96	21,832	66.72
Sopharma Trading AD	Bulgaria	29,096	72.14	28,557	71.85
Unipharm AD	Bulgaria	26,749	77.88	19,448	49.99
Briz SIA	Latvia	22,270	66.13	22,270	66.13
Sopharma Ukraine EOOD	Ukraine	11,783	100.00	16,991	100.00
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Veta Pharma AD	Bulgaria	6,549	68.05	-	-
Momina Krepost AD	Bulgaria	4,874	93.54	4,833	92.78
Vitamina AD	Ukraine	1,980	99.56	1,980	99.56
Pharmalogistica AD	Bulgaria	1,190	84.93	1,058	78.37
Sopharma Buildings REIT	Bulgaria	568	40.39	573	40.75
TOO Sopharma Kazakhstan, 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
Phyto Palauzovo AD	Bulgaria	57	95.00	25	95.00
Ivančić and Sinovi d.o.o.	Serbia	-	-	5,739	51.00
Total		**147,583**		**132,899**	

As at 31 December 2016, the composition of investments in the subsidiaries includes the investment in Sopharma Poland OOD – in liquidation, Poland, which is fully impaired (31 December 2015: 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.
- Ivančić and Sinovi d.o.o. – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 10 April 2008. On 9 May 2016, the Company sold its total investment in Ivančić and Sinovi d.o.o.
- 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.
- Medica AD – Scope of activities: production of dressing materials, sanitary and hygiene articles and finished medicinal products. Date of acquisition – 26 October 2015.
- Veta Pharma AD – Scope of activities: production of medicinal, non-medicinal and other products. Date of acquisition – 11 November 2016.

The shares of Sopharma Trading AD are traded on the stock exchange, the average monthly price of realised transactions for December 2016 being BGN 6.14 per share (December 2015: BGN 5.29 thousand).
The net earnings per share based on net assets for 2016 are BGN 10.00 (2015: BGN 2.00).
The shares of Momina Krepost AD are traded on the stock exchange, the average monthly price of realised transactions for December 2016 being BGN 3.41 per share (December 2015: BGN 2.12).
The net earnings per share based on accounting net assets for 2016 are BGN 2.97 (2015: BGN 2.82).

The shares of Sopharma Buildings REIT are traded on the stock exchange at a limited volumes with no deals realised in December 2016 (December 2015: no deals). The net earnings per share based on accounting net assets for 2016 are BGN 2.08 (2015: BGN 2.16).

The shares of Unipharm AD are traded on the stock exchange, the average monthly price of realised transactions for December 2016 being BGN 4.35 per share (December 2015: BGN 3.83). The net earnings per share based on accounting net assets for 2016 are BGN 2.85 (2015: BGN 2.95).

The shares of Medica AD are traded on the stock exchange, the average monthly price of realised transactions for December 2016 being BGN 3.40 per share (December 2015: no deals). The net earnings per share based on accounting net assets for 2016 are BGN 2.99 (2015: BGN 2.90).

The movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
	31.12.2016	***31.12.2015***
Acquisition cost	***BGN '000***	***BGN '000***
Balance at 1 January	**158,998**	**110,630**
Additional interest acquired	19,057	2,235
New interest acquired	6,549	-
Acquired through capital increase	48	24,326
Interest sold with loss of control	(5,739)	-
Interest sold without loss of control	(7)	(25)
Transfer from associates	-	21,832
Balance at 31 December	**178,906**	**158,998**
Impairment charged		
Balance at 1 January	**26,099**	**16,196**
Impairment charged	5,224	9,903
Balance at 31 December	**31,323**	**26,099**
Carrying amount at 31 December	**147,583**	**132,899**
Carrying amount at 1 January	**132,899**	**94,434**

Impairment of investments in subsidiaries

At each reporting date, the management makes an analysis and assessment about whether indicators for impairment exist in respect of its investments in subsidiaries. The following are accepted as main indicators for impairment: significant volume reduction (over 25%) and/or termination of activities of the investee; loss of markets, clients or technological problems, reporting of losses for a longer period of time (over three years), reporting of negative net assets or assets below the registered share capital, trends of deterioration of main financial ratios as well as a decrease in market capitalisation. The calculations were made by the management with the assistance of independent certified appraisers. As a base for projected pre-tax cash flows, the Company uses financial budgets developed by the respective companies that cover a 3- to 5-year period, as well as other average-term and long-term plans and intents for their development, including projections for basic economic ratios at national level and at the level of EU/the Balkans. The key assumptions used in the calculations of recoverable amount as at 31 December 2016 are as follows:

- growth rate – from 0 % to 21.6 %;
- growth after the projected period upon calculation of terminal value – 1.8 to 5%;
- interest rate (cost of debt) – from 2.3 % to 16.5 %;
- discount rate (based on WACC) – from 5.6 % to 22.5 %.

The key assumptions used in the calculations have been determined specifically for each company, treated as a separate cash-generating unit, and in line with the characteristic features of its operations, the business environment and risks.

The tests and assumptions of the management for impairment of investments are made through the prism of its projections and intents on the future economic benefits, which are expected from the subsidiaries, including trade and industrial experience, ensuring position in the Bulgarian and in foreign markets, expectations for future sales, etc. The calculations are performed with the assistance of an independent certified appraiser.

As a result of the calculations, made in 2016, the Company found necessity to recognise impairment of particular investments in subsidiaries at the amount of BGN 5,224 thousand was necessary (2015: BGN 8,567 thousand) *(Note 10).*

19. INVESTMENTS IN ASSOCIATES

As at 31 December 2016, the carrying amount of the investments in associates is BGN 5,219 thousand and includes interest at the rate of 30.22% of the capital of Doverie Obedinen Holding AD.

The principal activities of Doverie Obedinen Holding AD include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies – legal entities.

On 21 December 2016, Sopharma AD acquired 2,871,011 shares of Doverie Obedinen Holding AD and as a result the latter was transformed from an available-for-sale investment into an investment in associate.

The movement of investments in associates is presented below:

	31.12.2016 BGN '000	***31.12.2015 BGN '000***
Balance at 1 January	**-**	**7,015**
Acquisition of shares	3,117	14,818
Transfer from available-for-sale investments *(Level 3)*	2,102	-
Sale of shares	-	(1)
Transfer to subsidiaries	-	(21,832)
Carrying amount at 31 December	**5,219**	**-**

Impairment of investments in associates

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in associates.

The assessments of the management for impairment of investments are made through the prism of its projections and intents on the future economic benefits, which are expected from the associates, including trade and industrial experience, ensuring position in the Bulgarian and in foreign markets, expectations for future sales, etc.

In 2016, there was no need to recognise impairment of the investments in associates.

20. AVAILABLE-FOR-SALE INVESTMENTS

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

	31.12.2016 BGN '000	*Interest %*	*31.12.2015 BGN '000*	*Interest %*
Lavena AD	2,883	11.29	1,296	9.12
Olainfarm AD - Latvia	1,796	0.77	1,553	0.77
Achieve Life Science Inc. – USA	290	4.70	290	4.70
Hydroizomat AD	131	10.67	132	10.65
BTF Expat Bulgaria	82	0.32	-	-
Todorov AD	37	4.98	22	4.74
Ecobulpack AD	7	1.48	7	1.48
UniCredit Bulbank AD	3	0.001	3	0.001
Doverie Obedinen Holding AD	-	-	2,102	14.90
Elana Agrocredit AD	-	-	67	1.26
Sopharma Properties REIT	-	-	37	0.05
Chimimport AD	-	-	1	0.00003
Total	**5,229**		**5,510**	

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 at 31 December is as follows:

Available-for-sale investments		***31.12.2016***			***31.12.2015***	
	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	30,100	95.78	2,883	24,309	53.31	1,296
Olainfarm AD - Latvia	108,500	16.55	1,796	108,500	14.31	1,553
Hydroizomat AD	318,889	0.41	131	318,301	0.41	132
BTF Expat Bulgaria	74,550	1.10	82	-	-	-
Todorov AD	169,468	0.22	37	161,014	0.14	22
Doverie Obedinen Holding AD	-	-	-	2,791,352	0.75	2,102
Elana Agrocredit AD	-	-	-	64,350	1.03	67
Sopharma Properties REIT	-	-	-	8,695	4.28	37
Chimimport AD	-	-	-	1,000	1.38	1
Total			**4,929**			**5,210**

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 31.12.2016***	***Level 1***	***Level 2***	***Level 3***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Lavena AD	2,883	-	2,883	-
Olainfarm AD - Latvia	1,796	1,796	-	-
Hydroizomat AD	131	131	-	-
Expat Bulgaria	82	82	-	-
Todorov AD	37	37	-	-
Total	**4,929**	**2,046**	**2,883**	**-**

Available-for-sale financial investments (shares)	***Fair value 31.12.2015***	***Level 1***	***Level 2***	***Level 3***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Doverie Obedinen Holding AD	2,102	-	-	2,102
Olainfarm AD - Latvia	1,553	1,553	-	-
Lavena AD	1,296	-	1,296	-
Hydroizomat AD	132	-	132	-
Elana Agrocredit AD	67	67	-	-
Sopharma Properties REIT	37	37	-	-
Todorov AD	22	22	-	-
Chimimport AD	1	1	-	-
Total	**5,210**	**1,680**	**1,428**	**2,102**

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 2015	**1,384**	**1,209**	**1,836**	**4,429**
Purchases	106	94	894	1,094
Issue of shares	68	-	-	68
Sales	(180)	(3)	-	(183)
Realised gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securities*	7	-	-	7
Unrealised loss included in the current profit and loss for the year *(Note 12)*	(4)	(70)	(324)	(398)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 14)*	299	198	(304)	193
Balance at 31 December 2015	**1,680**	**1,428**	**2,102**	**5,210**
Purchases	461	328	-	789
Issue of shares	230	-	-	230
Sales	(731)	(3)	-	(734)
Transfer to investments in associates *(Note 19)*	-	-	(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*	23	2	-	25
Unrealised loss included in the current profit and loss for the year *(Note 12)*	(2)	(2)	-	(4)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 14)*	253	1,262	-	1,515
Balance at 31 December 2013	**2,046**	**2,883**	**-**	**4,929**

Valuation techniques and approaches

The market comparables approach was applied in the Level 2 fair value measurements.The valuation technique was based on the trading multiples method.

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Long-term loans granted	10,780	20,213
Long-term rental deposit granted	231	292
Total	**11,011**	**20,505**

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Associate company (31 December 2015: a company related through key managing personnel)	9,797	13,074
Subsidiary company	983	-
Company related through key managing personnel	-	7,139
Total	**10,780**	**20,213**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***31.12.2016***		***31.12.2015***	
	'000			***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
					including interest		***including interest***
EUR	16,177	01.12.2018	3.50%	*9,797*	*48*	*13,074*	*18*
EUR	500	01.03.2019	6.60%	*983*	*5*	*-*	*-*
EUR	3,272	01.12.2018	5.00%	*-*	*-*	*7,139*	*739*
				10,780	***53***	***20,213***	***757***

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.

22. OTHER LONG-TERM RECEIVABLES

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

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Receivables under transactions in securities	3,389	3,257
Receivables on sales of non-current assets	325	-
Total	**3,714**	**3,257**

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 3,389 thousand and expected maturity on 31 December 2018 (31 December 2015: BGN 3,257 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 2015: none).

23. INVENTORIES

Company's *inventories* include:

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Materials	24,879	27,868
Finished products	15,925	22,841
Semi-finished products	10,339	5,262
Work in progress	5,401	5,255
Goods	263	475
Total	**56,807**	**61,701**

Materials by type are as follows:

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Basic materials	23,822	24,864
Technical materials	459	469
Materials in transit	223	2,151
Spare parts	215	218
Auxiliary materials	113	120
Other	47	46
Total	**24,879**	**27,868**

Basic materials by type are as follows:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Substances	12,497	13,924
Chemicals	3,419	4,154
Packaging materials	2,383	1,675
Herbs	2,276	999
Ampoules	1,471	2,063
PVC and aluminium foil	999	1,254
Tubes	585	606
Vials	192	189
Total	**23,822**	**24,864**

Finished products existing at 31 December include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Tablet dosage forms	10,556	15,482
Ampoule dosage forms	2,323	2,916
Ointments	1,499	951
Syrups	929	2,535
Lyophilic products	239	122
Suppositories	199	114
Drops	101	387
Inhalation products	79	334
Total	**15,925**	**22,841**

Pledges were established on Company's inventories with carrying amount of BGN 24,425 thousand as at 31 December 2016 as collateral to bank loans received (31 December 2015: BGN 31,341 thousand) *(Note 34 and Note 40).*

24. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Receivables from subsidiaries	*62,886*	*59,515*
Impairment of uncollectable receivables	*(3,243)*	*(3,025)*
	59,643	56,490
Receivables from companies related through key managing personnel	11,593	21,545
Impairment of uncollectable receivables	(269)	-
	11,324	21,545
Receivables from other related parties	96	-
Receivables from companies related through a main shareholder	13	-
Total	**71,076**	**78,035**

The receivables from related parties by type are as follows:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Receivables on sales of finished products and materials	53,162	50,847
Impairment of uncollectable receivables	*(1,134)*	*(1,062)*
	52,028	49,785
Trade loans granted	21,426	30,213
Impairment of uncollectable receivables	*(2,378)*	*(1,963)*
	19,048	28,250
Total	**71,076**	**78,035**

The receivables on sales are interest-free and BGN 37,813 thousand of them are denominated in BGN (31 December 2015: BGN 28,364 thousand) and in EUR – BGN 14,215 thousand (31 December 2015: BGN 21,421 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 37,788 thousand as at 31 December 2016 or 72.63 % of all receivables on sales of finished products and materials to related parties (31 December 2015: BGN 27,103 thousand – 54,44 %).

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:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
up to 30 days	5,859	9,368
from 31 to 90 days	23,297	22,850
from 91 to 180 days	18,889	7,269
from 181 to 240 days	862	838
from 241 to 365 days	1,639	1,372
Total	**50,546**	**41,697**

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

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
up to 90 days	25	7
from 91 to 180 days	-	1,636
from 181 to 365 days	-	809
over 365 days	-	4,419
Total	**25**	**6,871**

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:

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
From 91 to 180 days	429	76
from 180 to 365 days	528	1,382
over 365 days	1,634	821
Allowance for impairment	(1,134)	(1,062)
Total	**1,457**	**1,217**

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:

	2016	*2015*
	BGN '000	*BGN '000*
Balance at 1 January	**1,062**	**2,278**
Impairment charge	288	120
Reversed impairment	(216)	-
Transfer to impairment of investments in subsidiaries	-	(1,336)
Balance at 31 December	**1,134**	**1,062**

Special pledges have been established as at 31 December 2016 on receivables from related parties at the amount of BGN 18,229 thousand as collateral under bank loans received (31 December 2015: BGN 18,229 thousand) *(Note 34)*.

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

	31.12.2016 BGN '000	***31.12.2015 BGN '000***
Receivables from companies related through key managing personnel	11,593	21,545
Impairment of commercial loans	*(269)*	-
	11,324	21,545
Subsidiaries	*9,737*	*8,668*
Impairment of commercial loans	*(2,109)*	*(1,963)*
	7,628	6,705
Other related parties	96	-
Total	**19,048**	**28,250**

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

	2016 BGN '000	***2015 BGN '000***
Balance at 1 January	**1,963**	**8**
Impairment charge	415	1,955
Balance at 31 December	**2,378**	**1,963**

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

Currency	***Contracted amount '000***	***Maturity***	***Interest %***	***31.12.2016***		***31.12.2015***	
				BGN '000	***BGN '000 including interest***	***BGN '000***	***BGN '000 including interest***
to companies related through key managing personnel							
EUR	8,133	31.12.2017	4.10%	*6,292*	*5*	*7,982*	*146*
BGN	6,000	31.12.2017	3.50%	*4,472*	*72*	*4,636*	*1*
EUR	12,731	31.12.2017	3.05%	*560*	*1*	*8,310*	*26*
BGN	190	31.12.2017	3.50%	-	-	*114*	-
BGN	1,300	31.12.2017	5.50%	-	-	*503*	*42*
to subsidiaries							
EUR	2,770	31.12.2017	4.70%	*4,957*	-	*5,087*	-
BGN	7,667	31.12.2017	4.10%	*2,670*	*66*	*1,568*	*42*
BGN	600	31.12.2017	3.50%	*1*	-	*50*	-
to other related parties							
BGN	190	31.12.2017	3.50%	*96*	-	-	-
				19,048	***144***	**28,250**	***257***

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).

25. TRADE RECEIVABLES

Trade receivables include:

	31.12.2016	*31.12.2015*
	BGN '000	***BGN '000***
Receivables from clients	21,485	21,185
Impairment of uncollectable receivables	(173)	(631)
	21,312	20,554
Advances granted	1,167	912
Total	**22,479**	**21,466**

The *receivables from clients* are interest-free and BGN 377 thousand of them are denominated in BGN (31 December 2015: BGN 498 thousand), in EUR – BGN 19,468 thousand (31 December 2015: BGN 18,551 thousand), in USD – BGN 1,467 thousand (31 December 2015: BGN 1,505 thousand), and in PLN – none (31 December 2015: none)

One main counterpart of the Company is accountable for about 78.60 % of the receivables from clients (2015: one main counterpart accountable for 81.67%).

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 21,312 thousand were established at 31 December 2016 as collateral to bank loans received (31 December 2015: BGN 20,554 thousand).

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

	31.12.2016	*31.12.2015*
	BGN '000	***BGN '000***
up to 30 days	11,518	10,963
from 31 to 90 days	7,973	8,371
from 91 to 180 days	149	168
Total	**19,640**	**19,502**

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
up to 90 days	807	467
from 91 to 180 days	125	215
from 181 to 365 days	580	370
Total	**1,512**	**1,052**

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
up to 90 days	51	13
from 91 to 180 days	1	9
from 181 to 365 days	73	61
over 365 days	208	548
Allowance for impairment	(173)	(631)
Total	**160**	**-**

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

	2016	***2015***
	BGN '000	***BGN '000***
Balance at 1 January	**631**	**1,003**
Impairment charge	148	105
Amounts written-off as uncollectable	(244)	(3)
Reversed impairment	(362)	(474)
Balance at 31 December	**173**	**631**

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Services	602	304
Inventories	565	608
Total	**1,167**	**912**

The *advances granted* are regular. They include: in BGN – BGN 1,097 thousand (31 December 2015: BGN 550 thousand), in EUR – BGN 70 thousand (31 December 2015: BGN 100 thousand) and in other currency – none (31 December 2015: BGN 262 thousand).

26(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*	*Interestи %*	*31.12.2016*		*31.12.2015*	
	'000			*BGN'000*	*BGN'000 including interest*	*BGN'000*	*BGN'000 including interest*
BGN	1,873	31.12.2017	4.30%	*1,769*	*-*	*1,570*	*94*
BGN	949	31.12.2017	4.70%	*546*	*3*	*911*	*6*
BGN	412	31.12.2017	4.50%	*130*	*-*	*-*	*-*
				2,445	**3**	**2,481**	**100**

26(B). OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Taxes refundable	3,629	3,104
Prepayments	879	849
Receivables on deposits placed as guarantees	189	236
Amounts granted to an investment intermediary	81	199
Court and awarded receivables	*2,163*	*2,151*
Impairment of court receivables	*(2,163)*	*(2,151)*
	-	-
Other	81	12
Total	**4,859**	**4,440**

Taxes refundable include:

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Excise duties	2,712	2,616
Corporate tax	475	430
Value added tax	442	58
Total	**3,629**	**3,104**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***31.12.2016***		***31.12.2015***	
	'000			***BGN '000***	***BGN '000 including interest***	***BGN '000***	***BGN '000 including interest***
BGN	1,873	31.12.2017	4.30%	*1,769*	-	*1,570*	*94*
BGN	949	31.12.2017	4.70%	*546*	*3*	*911*	*6*
BGN	412	31.12.2017	4.50%	*130*	-	-	-
				2,445	**3**	**2,481**	**100**

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

Prepayments include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Insurance	369	396
Subscriptions	362	353
Licence and patent fees	38	35
Rentals	37	12
Vouchers	11	4
Other	62	49
Total	**879**	**849**

Deposits placed as guarantees include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Guarantees under contracts for fuel supply	86	86
Guarantees under construction contracts	66	88
Guarantees under contracts for supply of non-current assets	19	-
Guarantees under rental contracts	12	12
Guarantees under communication service contracts	-	34
Other	6	16
Total	**189**	**236**

27. CASH AND CASH EQUIVALENTS

Cash includes:

	31.12.2016 *BGN '000*	*31.12.2015* *BGN '000*
Cash at current bank accounts	*4,423*	*3,845*
Impairment of cash at current bank accounts	*(172)*	*(165)*
Cash at current bank accounts	4,251	3,680
Cash in hand	85	56
Blocked cash under issued bank guarantees	7	9
Total	**4,343**	**3,745**

Cash structure at current bank accounts is as follows: in BGN: BGN 3,927 thousand (31 December 2015: BGN 2,124 thousand), in EUR – BGN 275 thousand (31 December 2015: BGN 597 thousand), in USD – BGN 38 thousand (31 December 2015: BGN 799 thousand) and in other currency – BGN 11 thousand (31 December 2015: BGN 160 thousand).

The achieved average interest rate is from 0.01 % to 0.02 % (31 December 2015: from 0.01 % to 0.07%).

Cash in hand includes: in BGN: BGN 73 thousand (31 December 2015: BGN 47 thousand) and in other currency – BGN 12 thousand (31 December 2015: BGN 9 thousand).

28. EQUITY

Share capital

As at 31 December 2016, the registered share capital of Sopharma AD amounted to BGN 134,798 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 2015	**126,885,870**	**114,797**
Effects of a subsidiary merger	2,797,899	2,798
Treasury shares	(105,166)	(392)
Expense on treasury shares	-	(2)
Balance at 31 December 2015	**129,578,603**	**117,201**
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**

On 1 January 2015, by virtue of a concluded contract, a restructuring was made through a merger of a subsidiary into Sopharma AD. As a result of the merger, the share capital of Sopharma AD was increased by 2,797,899 new shares with nominal value of BGN 1 each and issue value of BGN 4.14 equal to the fair price of 1 share of Sopharma AD.

The table below presents the paid joint-stock capital of the Company at 31 December:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Share capital (registered), nominal	134,798	134,798
Share premium	8,785	8,785
Total paid capital	**143,583**	**143,583**

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 5,662,416 at the amount of BGN 18,809 thousand as at 31 December 2016 (31 December 2015: 5,219,296 shares at the amount of BGN 17,597 thousand). The number of shares purchased in the current year was 443,418 (2015: 105,166 shares) and the number of shares sold was 300 (2015: none).

As at 31 December 2016, Company's shares ***held by its subsidiaries*** were as follows:

- by Unipharm AD – 151,166 shares (31 December 2015: 191,166 shares);
- by Sopharma Trading AD – none (31 December 2015: 43,110 shares);
- by Medica AD – none (31 December 2015: 27,573 shares).

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Statutory reserves	47,841	45,256
Property, plant and equipment revaluation reserve	24,171	22,286
Available-for-sale financial assets reserve	2,805	1,290
Additional reserves	229,586	215,395
Total	**304,403**	**284,227**

Statutory reserves at the amount of BGN 47,841 thousand (31 December 2015: BGN 45,256 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 39,056 thousand (31 December 2015: BGN 36,471 thousand), and (b) share premium representing the excess of the issue value over the nominal value of the issued shares on the merger of a subsidiary into Sopharma AD – BGN 8,785 thousand (31 December 2015: BGN 8,785 thousand)

The movements of statutory reserves were as follows:

	2016	*2015*
	BGN '000	*BGN '000*
Balance at 1 January	**45,256**	**33,555**
Distribution of profit	2,585	2,916
Share premium on a subsidiary merger	-	8,785
Balance at 31 December	**47,841**	**45,256**

The ***property, plant and equipment revaluation reserve***, amounting to BGN 24,171 thousand (31 December 2015: BGN 22,286 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:

	2016	*2015*
	BGN '000	*BGN '000*
Balance at 1 January	**22,286**	**22,434**
Revaluation of property, plant and equipment	2,629	-
Deferred tax relating to revaluations	(263)	-
Transfer to retained earnings	(481)	(492)
Effects of a subsidiary merger	-	344
Balance at 31 December	**24,171**	**22,286**

The ***available-for-sale financial assets reserve***, amounting to BGN 2,805 thousand (31 December 2015: BGN 1,290 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:

	2016	*2015*
	BGN '000	*BGN '000*
Balance at 1 January	**1,290**	**1,097**
Net gain arising on revaluation of available-for-sale financial assets	1,522	485
Cumulative (gains)/losses reclassified to current profit or loss upon sale/realisation of available-for-sale financial assets	(7)	(292)
Balance at 31 December	**2,805**	**1,290**

Additional reserves at the amount of BGN 229,586 thousand (31 December 2015: BGN 215,395 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:

	2016	***2015***
	BGN '000	***BGN '000***
Balance at 1 January	**215,395**	**189,157**
Distributed profit in the year	14,191	26,238
Balance at 31 December	**229,586**	**215,395**

Retained earnings amount to BGN 42,483 thousand as at 31 December 2016 (31 December 2015: BGN 30,198 thousand

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

	2016	***2015***
	BGN '000	***BGN '000***
Balance at 1 January	**30,198**	**45,484**
Net profit for the year	37,770	25,354
Transfer from property, plant and equipment revaluation reserve	481	492
Distribution of profit to reserves	(16,776)	(29,154)
Distribution of profit for dividends	(9,070)	-
Actuarial losses from remeasurements	(120)	(51)
Effects of a subsidiary merger	-	(11,927)
Balance at 31 December	**42,483**	**30,198**

Net earnings per share

	2016	***2015***
Weighted average number of shares	129,393,992	129,379,961
Net profit for the year (BGN '000)	37,770	25,354
Net earnings per share (BGN)	**0,29**	**0,20**

29. LONG-TERM BANK LOANS

Currency	Contracted loan amount	Maturity	31.12.2016 Non-current portion	31.12.2016 Current portion	31.12.2016 Total	31.12.2015 Non-current portion	31.12.2015 Current portion	31.12.2015 Total
	'000		BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Investment-purpose loans								
EUR	32,000	15.04.2021	23,844	7,185	**31,029**	30,819	7,380	**38,199**
			23,844	**7,185**	**31,029**	**30,819**	**7,380**	**38,199**

The investment-purpose loan received in Euro was agreed at interest rate based on three-month EURIBOR plus a mark-up of up to 2.2 points but not less than 2.2 points (2015: three-month EURIBOR plus a mark-up of up to 2.8 points but not less than 2.8 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 42,590 thousand as at 31 December 2016 (31 December 2015: BGN 44,285 thousand) (*Note 15*);
- Special pledges on machinery and equipment with a carrying amount of BGN 18,724 thousand as at 31 December 2016 (31 December 2015: BGN 20,027 thousand) *(Note 15).*

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.

30. DEFERRED TAX LIABILITIES

Deferred income taxes as at 31 December are related to the following items of the statement of financial position:

Deferred tax (liabilities)/ assets	*temporary difference*	*tax*	*temporary difference*	*tax*
	31.12.2016 BGN '000	***31.12.2016 BGN '000***	***31.12.2015 BGN '000***	***31.12.2015 BGN '000***
Property, plant and equipment	69,664	6,966	59,808	5,981
including revaluation reserve	*23,021*	*2,302*	*20,926*	*2,093*
Investment property	5,146	515	4,585	459
including revaluation reserve	*187*	*19*	*187*	*19*
Biological assets	14	1	10	1
Total deferred tax liabilities	**74,824**	**7,482**	**64,403**	**6,441**
Receivables	(6,638)	(664)	(6,254)	(625)
Payables to personnel	(5,590)	(559)	(5,000)	(500)
Inventories	(3,948)	(395)	(3,796)	(380)
Intangible assets	(1,184)	(118)	(1,794)	(179)
Accrued liabilities	(263)	(26)	(424)	(42)
Cash	(172)	(17)	(165)	(17)
Total deferred tax assets	**(17,795)**	**(1,779)**	**(17,433)**	**(1,744)**
Deferred income tax liabilities, net	**57,029**	**5,703**	**46,970**	**4,697**

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 2016 is as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2016*	*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 31 December 2016*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(5,981)	(746)	(263)	24	(6,966)
Investment property	(459)	(56)	-	-	(515)
Biological assets	(1)	-	-	-	(1)
Receivables	625	39	-	-	664
Payables to personnel	500	59	-	-	559
Inventories	380	15	-	-	395
Intangible assets	179	(61)	-	-	118
Accrued liabilities	42	(16)	-	-	26
Cash	17	-	-	-	17
Total	**(4,697)**	**(767)**	**(263)**	**24**	**(5,703)**

The change in the balance of deferred taxes for 2015 was as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2015*	*Recognised in the statement of comprehensive income*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 31 December 2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(5,454)	(588)	61	(5,981)
Investment property	(379)	(80)	-	(459)
Biological assets	-	(1)	-	(1)
Receivables	555	70	-	625
Payables to personnel	449	51	-	500
Inventories	355	24	-	380
Intangible assets	275	(96)	-	179
Accrued liabilities	73	(31)	-	42
Cash	-	17	-	17
Total	**(4,125)**	**(633)**	**61**	**(4,697)**

31. 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:

	31.12.2016			*31.12.2015*		
	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	2,996	179	**3,175**	3,181	177	**3,358**
Implementation of innovative products in the production of ampoule dosage forms	2,500	200	**2,620**	2,700	200	**2,900**
Acquisition of machinery and equipment for technological renovation and modernisation of tablet production	370	120	**570**	490	120	**610**
	5,866	**499**	**6,365**	**6,371**	**497**	**6,868**

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).*

32. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Long-term retirement benefit obligations	2,458	2,277
Long-term benefit obligations for tantieme	191	149
Total	**2,649**	**2,426**

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 31 December 2016 by using the services of a certified actuary.

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

	2016	***2015***
	BGN '000	***BGN '000***
Present value of the obligation at 1 January	**2,277**	**2,195**
Current service cost	295	256
Interest cost	68	87
Net actuarial loss recognised for the period	2	2
Payments made in the year	(304)	(314)
Remeasurement gains or losses on the retirement benefit obligations, including:	120	51
Actuarial (gains)/losses arising from changes in demographic assumptions	(4)	152
Actuarial losses arising from changes in financial assumptions	55	143
Actuarial losses/(gains) arising from past experience adjustments	69	(244)
Present value of the obligation at 31 December	**2,458**	**2,277**

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

	2016	***2015***
	BGN '000	***BGN '000***
Current service cost	295	256
Interest cost	68	87
Net actuarial loss recognised for the period	2	2
Components of defined benefit plan costs recognised in profit or loss *(Note 7)*	**365**	**345**
Remeasurement gains or losses on the retirement benefit obligations, including:		
Actuarial (gains)/losses arising from changes in demographic assumptions	(4)	152
Actuarial losses arising from changes in financial assumptions	55	143
Actuarial losses/(gains) arising from past experience adjustments	69	(244)
Components of defined benefit plans cost recognised in other comprehensive income *(Note 14)*	**120**	**51**
Total	**485**	**396**

The following actuarial assumptions were used in calculating the present value of the liabilities as at 31 December 2016:

- The discount factor is calculated by using as basis 2.5% annual interest rate (2015: 2.8%). The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of the salaries is based on the information provided by the Company's management and amounts to 5% annual growth compared to the prior reporting period (2015: 5 %);
- Mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2013-2015 (2015: 2012 - 2014);
- Staff turnover rate – from 0 % to 16 % for the five age groups formed (2015: between 0% and 16%).

This defined benefit plan exposes the Company to the following risks: investment risk, interest risk, longevity risk and salary growth related risk: The Company's management defines them as follows:

- investment risk – as far as this is unfunded plan, the Company should monitor and balance currently the forthcoming payments under it with the ensuring of sufficient cash resources. The historical experience and the liability structure show that the annual resource required is not material compared to the commonly maintained liquid funds;
- interest risk – any increase in the yield of government securities with similar term will increase the plan liability;
- longevity risk – the present value of the retirement benefit liability is calculated by reference to the best estimate and updated information about the mortality of plan participants. An increase in life expectancy would result in a possible increase in the liability. A relative stability of this indicator has been observed in the recent years; and
- salary growth related risk – the present value of the retirement benefit liability is calculated by reference to the best estimate of the future increase in plan participants' salaries. Such an increase would increase the plan liability.

The sensitivity analysis of the main actuarial assumptions is based on the reasonably possible changes of these assumptions at the end of the reporting period, assuming that all other assumptions are held constant.

The effects of the change (increase or decrease) by 1% of:

a. salary growth
b. discount rate
c. staff turnover rate

on the present value of the obligation for payment of defined retirement benefits, are assessed as follows:

	2016		***2015***	
	Increase	***Decrease***	***Increase***	***Decrease***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in salary growth	197	(172)	179	(157)
Change in discount rate	(173)	203	(158)	185
Change in staff turnover rate	(186)	216	(170)	197

The weighted average duration of the defined benefit obligation to personnel is 7.7 years (31 December 2015: 7.5 years).

The expected indemnity payments upon retirement under the defined benefit plan for the following five years are as follows:

Forecasted payments	***Old age and length of service retirement***	***Poor health retirement***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Payments in 2017	437	9	446
Payments in 2018	217	9	226
Payments in 2019	294	9	303
Payments in 2020	325	9	334
Payments in 2021	293	9	302
	1,566	**45**	**1,611**

Long-term benefit obligations for tantieme

As at 31 December 2016, the long-term benefit obligations to personnel include also the amount of BGN 191 thousand (31 December 2015: BGN 149 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months (from 2018 to 2019).

33. FINANCE LEASE LIABILITIES

The finance lease liabilities, included in the statement of financial position, are under agreements for acquisition of motor vehicles. They are presented net of the future interest due and are as follows:

Term	***31.12.2016***	***31.12.2015***
	BGN '000	***BGN '000***
Up to one year	3	19
Over one year	-	3
Total	**3**	**22**

The minimum lease payments under finance lease are due as follows:

Term	***31.12.2016***	***31.12.2015***
	BGN '000	***BGN '000***
Up to one year	3	22
Over one year	-	3
	3	25
Future finance costs under finance leases	-	(3)
Present value of finance lease liabilities	**3**	**22**

The lease payments due within the next 12 months are presented in the statement of financial position as 'other current liabilities' (*Note 39*).

34. SHORT-TERM BANK LOANS

Currency	***Contracted amount***	***Maturity***	***31.12.2016***	***31.12.2015***
	'000		***BGN '000***	***BGN '000***
Bank loans (overdrafts)				
EUR	10,000	31.10.2017	11,603	30,491
BGN	10,000	31.01.2017	10,001	10,001
BGN	20,000	21.04.2017	9,242	-
EUR	10,000	20.03.2017	6,827	2,193
EUR	5,000	15.08.2017	-	9,787
EUR	5,000	15.08.2016	-	4
			37,673	**52,476**
Extended credit lines				
BGN	10,000	30.10.2017	8,005	10,006
EUR	5,000	31.08.2017	2,613	6,479
			10,618	**16,485**
Total			**48,291**	**68,961**

The bank loans received in Euro have been agreed at interest rate based on a 3-month EURIBOR plus a mark-up of up to 1.5 points, but not less than 1.5 points, monthly EURIBOR plus a mark-up of up to 1.75 points, but not less than 1.75 points, and monthly EURIBOR plus a mark-up of up to 1.7 points, while the loans received in BGN are based on a 3-month SOFIBOR plus 1.7 points, but not less than 1.85 points, monthly SOFIBOR plus 1.75 points, monthly SOFIBOR plus 1.7 points, and monthly SOFIBOR plus 1.5 points, but not less than 1.5 points (2015: the loans received in Euro – 3-month EURIBOR plus a mark-up of up to 2.45 points and monthly EURIBOR plus a mark-up of up to 2.1 points, but not less than 2.1 points, while the loans received in BGN – monthly SOFIBOR plus 2 points, 1-week SOFIBOR plus 2.2 points and 2-week SOFIBOR plus 2.85 points). Loans are intended for providing working capital.

Part of the loans drawn at 31 December 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 20 thousand. (31 December 2015: BGN 523 thousand);
- of a subsidiary at the amount of BGN 1 thousand. (31 December 2015: BGN 16 thousand).

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

- Mortgages of real estate with a carrying amount of BGN 35,842 thousand as at 31 December 2016 (31 December 2015: BGN 36,612 thousand) *(Note 15 and Note 17*);
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 18,029 thousand as at 31 December 2016 (31 December 2015: BGN 12,561 thousand) *(Note 15 and Note 17);*
  - inventories with a carrying amount of BGN 24,425 thousand as at 31 December 2016 (31 December 2015: BGN 35,525 thousand) *(Note 23)*;
  - receivables from related parties with a carrying amount of BGN 18,229 thousand as at 31 December 2016 BGN (31 December 2015: BGN 18,229 thousand) *(Note 24*);
  - trade receivables with a carrying amount of BGN 11,735 thousand as at 31 December 2016 (31 December 2015: BGN 14,935 thousand) *(Note 25*);
  - trade receivables from third parties of a subsidiary with a carrying amount of BGN 7,823 thousand as at 31 December 2016 (31 December 2015: BGN 12,623 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.

35. TRADE PAYABLES

Trade payables include:

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Payables to suppliers	4,351	7,723
Advances received	361	291
Total	**4,712**	**8,014**

Payables to suppliers are as follows:

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Payables to foreign suppliers	2,817	5,507
Payables to local suppliers	1,534	2,216
Total	**4,351**	**7,723**

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in BGN amount to BGN 1,423 thousand (31 December 2015: BGN 2,216 thousand), in EUR – BGN 2,016 thousand (31 December 2015: BGN 2,592 thousand), in USD – BGN 908 thousand (31 December 2015: BGN 2,876 thousand), in other currency – BGN -4 thousand (31 December 2015: BGN 35 thousand), and in PLN – none (31 December 2015: 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 as security for payables to suppliers under commercial transactions at the amount of BGN 189 thousand (31 December 2015: BGN 236 thousand) (*Note 26*).

36. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Payables to subsidiaries	260	868
Payables to companies related through key managing personnel	215	1,702
Payables to main shareholding companies	14	89
Payables to companies related through a main shareholder	8	411
Total	**497**	**3,070**

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Supply of services	336	1,121
Supply of inventories	137	557
Obligations for increasing the capital of a subsidiary	24	-
Supply of non-current assets	-	1,392
Total	**497**	**3,070**

The trade payables to related parties are regular and interest-free. The payables in Bulgarian Levs amount to BGN 467 thousand (31 December 2015: BGN 3,051 thousand), in PLN – BGN 30 thousand (31 December 2015: BGN 9 thousand), and in EUR – none (31 December 2015: BGN 10 thousand).
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 231 thousand (31 December 2015: BGN 292 thousand) (*Note 21*).

37. TAX PAYABLES

Tax payables include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Taxes on expenses	416	467
Individual income taxes	193	169
Value added tax	-	329
Total	**609**	**965**

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

<u>*Sopharma AD (as a receiving company):*</u>

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

<u>*Bulgarian Rose Sevtopolis (as a transforming company)*</u>

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

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.

38. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Payables to personnel, including:	4,541	4,021
tantieme	*2,895*	*2,486*
current liabilities	*931*	*877*
accruals on unused compensated leaves	*715*	*658*
Payables for social security/health insurance, including:	822	748
current liabilities	*706*	*642*
accruals on unused compensated leaves	*116*	*106*
Total	**5,363**	**4,769**

39. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Government grants *(Note 31)*	499	497
Dividend liabilities	307	294
Awarded amounts under litigations	343	332
Fines and penalties	189	188
Deductions from work salaries	172	171
Finance lease liabilities *(Note 33)*	3	19
Other	1	7
Total	**1,514**	**1,508**

40. 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 31/12/2016, 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 31 and Note 39*), related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section *(Note 15*). 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**	**31.12.2016 BGN '000**
Sopharma Trading AD	2017 - 2021	EUR	54,202	106,010	88,854
Sopharma Properties REIT	2024	EUR	22,619	44,240	28,818
Sopharma Trading AD	2017	BGN	14,732	14,732	13,380
Sopharma Ukraine EOOD	2017	EUR	7,000	13,691	4,060
OAO Vitamini	2017	EUR	7,000	13,691	5,299
Biopharm Engineering AD	2023	BGN	4,250	4,250	1,307
Veta Pharma AD	2018	BGN	1,000	1,000	680
Mineralcommerce AD	2017 - 2021	BGN	701	701	585
Total					**142,983**

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

(a) under loans of subsidiaries:

- Mortgages of real estate with a carrying amount of BGN 10,368 thousand as at 31 December 2016 (31 December 2015: BGN 10,572 thousand) *(Note 15)*;
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 11,005 thousand as at 31 December 2016 (31 December 2015: BGN 11,640 thousand) *(Note 15)*;
  - inventories with a carrying amount of BGN 17,000 thousand as at 31 December 2016 (31 December 2015: BGN 17,000 thousand) *(Note 23)*;
  - trade receivables with a carrying amount of BGN 11,735 thousand as at 31 December 2016 (31 December 2015: BGN 11,735 thousand) *(Note 25)*.

(b) under loans of companies related through key managing personnel:

- Mortgages of real estate – none (31 December 2015: BGN 1,119 thousand) *(Note 17)*.

(c) under loans of third parties:

- Special pledge on inventories – none (31 December 2015: BGN 2,623 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.

41. 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	*31.12.2016*	*31.12.2015*
	BGN '000	*BGN '000*
Available-for-sale financial assets	***5,229***	***5,510***
Available-for-sale investments (in shares)	*5,229*	*5,510*
Loans and receivables	***109,747***	***125,068***
Long-term receivables from related parties	*11,011*	*20,505*
Other long-term receivables	*3,714*	*3,257*
Short-term receivables from related parties	*71,076*	*78,035*
Trade receivables	*21,312*	*20,554*
Other receivables	*2,634*	*2,717*
Cash and cash equivalents	4,343	3,745
Total financial assets	***119,319***	***134,323***

Financial liabilities	*31.12.2016*	*31.12.2015*
	BGN '000	*BGN '000*
Bank loans	***79,320***	***107,160***
Long-term bank loans	23,844	30,819
Short-term bank loans	*48,291*	*68,961*
Current portion of long-term bank loans	*7,185*	*7,380*
Other liabilities	***5,690***	***11,629***
Trade payables to related parties	*497*	*3,070*
Trade payables	*4,351*	*7,723*
Finance lease liabilities	*3*	*22*
Other liabilities	*839*	*814*
Total financial liabilities at amortised cost	***85,010***	***118,789***

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:

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	-	1,796	3,433	-	5,229
Receivables and loans granted	4,856	56,503	48,376	12	109,747
Cash and cash equivalents	38	282	4,000	23	4,343
Total financial assets	**4,894**	**58,581**	**55,809**	**35**	**119,319**
Bank loans	-	52,072	27,248	-	79,320
Other liabilities	1,238	2,016	2,399	37	5,690
Total financial liabilities	**1,238**	**54,088**	**29,647**	**37**	**85,010**

31 December 2015	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	-	1,553	3,957	-	5,510
Receivables and loans granted	4,762	81,856	38,438	12	125,068
Cash and cash equivalents	799	606	2,171	169	3,745
Total financial assets	**5,561**	**84,015**	**44,566**	**181**	**134,323**
Bank loans	-	87,153	20,007	-	107,160
Other liabilities	3,208	2,602	5,749	70	11,629
Total financial liabilities	**3,208**	**89,755**	**25,756**	**70**	**118,789**

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	
		31.12.2016	31.12.2015
		BGN '000	BGN '000
Financial result	+	329	212
Accumulated profits	+	329	212
Financial result	-	(329)	(212)
Accumulated profits	-	(329)	(212)

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2016 would be an increase by BGN 329 thousand (0.87%) (2015: increase at the amount of BGN 212 thousand) (0.84 %). 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 2016 is a decrease by BGN 1 thousand (0.002 %) (2015: increase at the amount of BGN 12 thousand (0.05%). 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:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Client 1	46%	28%
Client 2	12%	21%
Client 3	12%	15%

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 78.60% of all trade receivables (31 December 2015: 81.67 %).

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.

31 December 2016	**up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**over 5 years**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Bank loans	10,823	8,248	11,294	26,189	7,641	17,214	-	**81,409**
Other loans and liabilities	3,192	1,585	60	853	-	-	-	**5,690**
Total liabilities	**14,015**	**9,833**	**11,354**	**27,042**	**7,641**	**17,214**	**-**	**87,099**

31 December 2015	**up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**over 5 years**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Bank loans	1,045	3,810	2,402	71,040	7,966	22,691	2,409	**111,363**
Other loans and liabilities	7,456	3,345	5	822	4	-	-	**11,632**
Total liabilities	**8,501**	**7,155**	**2,407**	**71,862**	**7,970**	**22,691**	**2,409**	**122,995**

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.

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	77,674	-	32,073	109,747
Cash and cash equivalents	85	4,258	-	4,343
Total financial assets	**82,988**	**4,258**	**32,073**	**119,319**
Bank loans	-	79,320	-	79,320
Other loans and liabilities	5,687	3	-	5,690
Total financial liabilities	**5,687**	**79,323**	**-**	**85,010**

31 December 2015	interest-free	with floating interest %	with fixed interest %	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	5,510	-	-	5,510
Loans and receivables	75,238	-	49,830	125,068
Cash and cash equivalents	56	3,689	-	3,745
Total financial assets	**80,804**	**3,689**	**49,830**	**134,323**
Bank loans	8	107,152	-	107,160
Other loans and liabilities	11,607	22	-	11,629
Total financial liabilities	**11,615**	**107,174**	**-**	**118,789**

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 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.

2016

	Increase/ decrease in interest rate	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	Increase	(234)	(234)
BGN	Increase	(123)	(123)
EUR	Decrease	234	234
BGN	Decrease	123	123

2015

	Increase/ decrease in interest rate	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	Increase	(392)	(392)
BGN	Increase	(90)	(90)
EUR	Decrease	392	392
BGN	Decrease	90	90

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 2016, the strategy of the Company management was to maintain the ratio within 10% – 18% (2015: 15 % – 20 %).

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

	2016	***2015***
	BGN '000	***BGN '000***
Total borrowings, including:	**79,323**	**107,182**
bank loans	*79,320*	*107,160*
finance lease liabilities	*3*	*22*
Less: Cash and cash equivalents	**(4,343)**	**(3,745)**
Net debt	**74,980**	**103,437**
Total equity	**462,875**	**431,626**
Total capital	**537,855**	**535,063**
Gearing ratio	**0.14**	**0.19**

The liabilities shown in the table are disclosed in *Notes 27, 29, 33, 34 and 39.*

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.

42. SEGMENT REPORTING

Company’s segment reporting is organised on the basis of the production of main groups of finished products:

- Tablet dosage forms
- Ampoule dosage forms
- Other dosage forms.

The other dosage forms include mainly: lyophilic products, ointments, syrups, drops, suppositories, etc.

Segment revenue, expenses and results include:

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Segment revenue	112,668	115,033	27,460	32,579	23,699	26,191	163,827	173,803
Segment cost	(52,031)	(54,866)	(15,265)	(15,406)	(16,235)	(21,334)	(83,531)	(91,606)
Segment result	**60,637**	**60,167**	**12,195**	**17,173**	**7,464**	**4,857**	**80,296**	**82,197**
Non-allocated operating income							4,193	3,651
Non-allocated operating expenses							(58,155)	(60,711)
Profit from operations							**26,334**	**25,137**
Impairment of non-current assets							(5,627)	(8,567)
Finance income/(costs), net							20,982	11,610
Profit before income tax							**41,689**	**28,180**
Income tax expense							(3,919)	(2,826)
Net profit for the year							**37,770**	**25,354**

Segment assets and liabilities include:

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	77,759	82,689	24,327	24,928	16,261	16,580	118,347	124,197
Inventories	33,732	36,641	9,809	9,985	11,946	11,596	55,487	58,222
Segment assets	**111,491**	**119,330**	**34,136**	**34,913**	**28,207**	**28,176**	**173,834**	**182,419**
Non-allocated assets							**395,274**	**388,190**
Total assets							**569,108**	**570,609**

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Payables to personnel	163	164	123	133	217	192	503	489
Social security payables	109	95	83	69	145	116	337	280
Segment liabilities	**272**	**259**	**206**	**202**	**362**	**308**	**840**	**769**
Non-allocated liabilities							**105,393**	**138,214**
Total liabilities							**106,233**	**138,983**

The capital expenditures, depreciation/amortisation and non-monetary expenses other than depreciation/amortisation by business segment include:

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Total*	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Capital expenditures	222	157	530	6,525	613	52	1,365	6,734
Depreciation and amortisation	4,743	4,874	2,140	1,820	1,505	1,542	8,388	8,236
Non-monetary expenses, other than depreciation and amortisation	955	876	885	703	1,092	1,200	2,932	2,779

43. 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	2015 and 2016
Donev Investments Holding AD	Main shareholding company	2015 and 2016
Sopharma Trading AD	Subsidiary company	2015 and 2016
Pharmalogistica AD	Subsidiary company	2015 and 2016
Sopharma Poland OOD – in liquidation	Subsidiary company	2015 and 2016
Sopharma USA	Subsidiary company	2015
Electroncommerce EOOD	Subsidiary company	2015 and 2016
Biopharm Engineering AD	Subsidiary company	2015 and 2016
Vitamina AD	Subsidiary company	2015 and 2016
Ivančić and Sinovi d.o.o.	Subsidiary company	2015 and until 09/05/2016
Sopharma Buildings REIT	Subsidiary company	2015 and 2016
Momina Krepost AD	Subsidiary company	2015 and 2016
Extab Corporation	Subsidiary company	until 14/05/2015
Extab Pharma Limited	Subsidiary company through Extab Corporation	until 14/05/2015
Briz SIA	Subsidiary company	2015 and 2016
Unipharm AD	Subsidiary company	2015 and 2016
Sopharma Warsaw EOOD	Subsidiary company	2015 and 2016
Sopharma Ukraine EOOD	Subsidiary company	2015 and 2016
TOO Sopharma Kazakhstan, Kazakhstan	Subsidiary company	2015 and 2016
Phyto Palauzovo AD	Subsidiary company	2015 and 2016
Veta Pharma AD	Subsidiary company	as from 11/11/2016
Sopharmacy EOOD	Subsidiary company through Sopharma Trading AD	as from 19/01/2015 and 2016
Sopharmacy 2 EOOD	Subsidiary company through Sopharma Trading AD	as from 17/06/2015 and 2016
Sopharmacy 3 EOOD	Subsidiary company through Sopharma Trading AD	as from 02/12/2015 and 2016
Sopharmacy 4 EOOD	Subsidiary company through Sopharma Trading AD	as from 29/02/2016
Sopharmacy 5 EOOD	Subsidiary company through Sopharma Trading AD	as from 01/03/2016
Sopharmacy 6 EOOD	Subsidiary company through Sopharma Trading AD	as from 03/12/2015 and 2016
Sopharma Trading OOD - Belgrade	Subsidiary company through Sopharma Trading AD	as from 05/06/2015 and 2016
Medica AD	Associate	from 01/01/2015 to 25/10/2015
Medica AD	Subsidiary company	as from 26/10/2015 and 2016
Medica Zdrave EOOD	Subsidiary company through Medica AD	as from 26/10/2015 and 2016
Medica Balkans EOOD – in liquidation	Subsidiary company through Medica AD	from 26/10/2015 to 24/03/2016
SOOO Brititrade	Subsidiary company through Briz OOD	2015 and 2016
OOO Tabina	Subsidiary company through Briz OOD	2015 and 2016
ZAO Interpharm	Joint venture through Briz OOD	2015 and 2016

SOOO Brizpharm	Subsidiary company through Briz OOD	2015 and 2016
OOO Vivaton Plus	Joint venture through Briz OOD	2015 and 2016
OOO Farmacevt Plus	Subsidiary company through Briz OOD	2015 and 2016
ZAO UAB TBS Pharma	Subsidiary company through Briz OOD	2015 and 2016
ODO Vestpharm	Subsidiary company through Briz OOD	2015 and 2016
ODO Alean	Subsidiary company through Briz OOD	2015 and 2016
OOO NPK Biotest	Subsidiary company through Briz OOD	2015 and until 26/08/2016
OOO NPK Biotest	Associate company through Briz OOD	as from 27/08/2016
ODO BelAgroMed	Subsidiary company through Briz OOD	2015 and 2016
BOOO SpetzApharmacia	Joint venture through Briz OOD	2015 and 2016
OOO Med-dent	Joint venture through Briz OOD	2015 and 2016
OOO Bellerophon	Joint venture through Briz OOD	2015 and 2016
ODO Alenpharm Plus	Subsidiary company through Briz OOD	as from 09/07/2015 and 2016
ODO Alenpharm Plus	Associate company through Briz OOD	from 18/02/2015 to 08/07/2015
ODO Salyus Line	Associate company through Briz OOD	from 19/02/2015 to 22/11/2016
ODO Salyus Line	Subsidiary company through Briz OOD	as from 23/11/2016
OOO Mobil Line	Subsidiary company through Briz OOD	as from 16/02/2016
OOO Mobil Line	Associate company through Briz OOD	from 20/02/2015 to 15/02/2016
ODO Medjel	Subsidiary company through Briz OOD	as from 18/02/2015 and 2016
OOO GalenaPharm	Subsidiary company through Briz OOD	as from 20/02/2015 and 2016
OOO Danapharm	Subsidiary company through Briz OOD	as from 20/02/2015 and 2016
OOO NPFK Ariens	Joint venture through Briz OOD	as from 01/12/2015 and 2016
OOO Ivem & K	Joint venture through Briz OOD	as from 01/12/2015 and 2016
OOO Zdorovei	Associate company through Briz OOD	as from 09/12/2015 and 2016
OOO Farmatea	Subsidiary company through Sopharma Trading AD	as from 30/11/2015 and 2016
Sopharma Properties REIT	Company related through a main shareholder	2015 and 2016
Sofprint Group AD	Company related through a main shareholder	2015 and 2016
Elpharma AD	Company related through key managing personnel	2015 and 2016
Telso AD	Company related through key managing personnel	2015 and 2016
Telecomplect AD	Company related through key managing personnel	2015 and 2016
DOH Group	Company related through key managing personnel	2015 and until 20/12/2016
Doverie Obedinen Holding AD	Associate	as from 21/12/2016
Bulgarsko Vino OOD	Other related party	as from 21/12/2016

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

Sales to related parties	***2016***	***2015***
	BGN '000	***BGN '000***
Sales of finished products to:		
Subsidiaries	87,991	91,381
	87,991	**91,381**
Sales of goods and materials to:		
Subsidiaries	4,476	5,916
Companies related through a main shareholder	584	783
Companies related through key managing personnel	-	41
Associates	-	1
	5,060	**6,741**
Sales of services to:		
Subsidiaries	1,670	1,577
Companies related through key managing personnel	57	82
Companies related through a main shareholder	41	42
Associates	-	21
	1,768	**1,722**
Sales of property, plant and equipment to:		
Subsidiaries	186	-
	186	**-**
Dividend income from:		
Subsidiaries	9,110	7,874
Companies related through a main shareholder	12	-
	9,122	**7,874**
Interest on loans granted to:		
Companies related through key managing personnel	1,475	2,603
Subsidiaries	496	413
Associates	10	-
	1,981	**3,016**
Total	**106,108**	**110,734**

Supplies from related parties	*2016*	*2015*
	BGN '000	*BGN '000*
Supply of inventories from:		
Companies related through a main shareholder	6,859	8,573
Subsidiaries	310	261
Companies related through key managing personnel	93	87
Other related parties	2	-
Associates	-	554
	7,264	**9,475**
Supply of services from:		
Subsidiaries	8,716	12,147
Companies related through key managing personnel	3,337	3,023
Companies related through a main shareholder	1,653	1,782
Main shareholding companies	225	215
	13,931	**17,167**
Supply of non-current assets:		
Companies related through key managing personnel	74	20
Subsidiaries	6	344
	80	**364**
Supplies for acquisition of non-current assets:		
Companies related through key managing personnel	4,869	7,000
	4,869	**7,000**
Investments acquired from:		
Companies related through key managing personnel	4,933	-
Companies with increased capital	48	-
	4,981	**-**
Accrued dividends to:		
Main shareholding companies	4,227	-
Companies related through key managing personnel	475	-
Subsidiaries	26	-
Key management personnel	15	
	4,743	**-**
Total	**35,868**	**34,006**

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 21, 24 and 36.*

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 1,138 thousand (2015: BGN 1,154 thousand), including:

- current wages and salaries – BGN 884 thousand (2015: BGN 889 thousand);
- tantieme – BGN 254 thousand (2015: BGN 265 thousand).

44. EVENTS AFTER THE REPORTING PERIOD

On 5 January 2017, a merger agreement was announced in the USA between Achieve Life Science, Inc., a company in which Sopharma AD holds 4.7% of the capital *(Note 20),* and OncoGenex Pharmaceuticals, Inc. The agreement has been submitted for consideration to the Securities and Exchange Commission (SEC). After the approval thereby, the name of the combined company will be renamed to Achieve Life Sciences Inc. and will be a public company and registered for trade in NASDAQ. Thus, it will have an easier access to capital, if additional capital is needed, for the purposes of obtaining an approval from the Food and Drug Administration for selling Tabex in the USA. As a result of the above described actions, Sopharma AD will hold 423,000 shares (3.525%) of the capital of Achieve Life Sciences Inc.

On 31 January 2017, an agreement for transformation through a merger was concluded between Sopharma AD (receiving company) and Medica AD (transforming company) laying down the way in which the transformation would be made. The fair value of the shares of the parties, involved in the transformation, has been determined on the basis of the generally accepted valuation methods resulting in an exchange ratio of 0.9486. On 24 March 2017, an Annex signed between Sopharma AD (receiving company) and Medica AD (transforming company) and updated justification of the fair prices of both companies, in line with the instructions of the Financial Supervision Commission (FSC), were submitted to the FSC for consideration. Pursuant to Art. 261b (1) of the Commercial Act, each shareholder shall receive 0.8831 shares of the capital of Sopharma AD for one share of Medica AD. All other conditions concerning the merger procedure are laid down in the Transformation Agreement. At the date of issue of these financial statements, the FSC has not issued an approval of the transformation agreement under Art. 124 of the Public Offering of Securities Act (POSA).

On 9 March 2017, the Company's Board of Directors at its session decided to summon an Extraordinary General Meeting of Sopharma AD on 24 April 2017. Decisions are expected to be taken at that meeting for Company to become a co-debtor under: (a) investment loan contracts concluded between financial institutions and a subsidiary at the amount of EUR 12,000 thousand and BGN 16,000 thousand; and (b) turnover capital loan contract concluded between a financial institution and a subsidiary at the amount of BGN 14,000 thousand, and to provide its own assets as collateral in the form of mortgages of real estate (land and buildings) and special pledge on machinery and equipment.

On 17 March 2017, Sopharma AD submitted a draft tender proposal, pursuant to Art. 149 paragraph 6 of the POSA, on the purchase of all shares of Unipharm AD from the other shareholders, to be considered by the FSC. At the date of issue of these financial statements, the Financial Supervision Commission has not taken up a position on the presented draft.