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**1. BACKGROUND CORPORATE INFORMATION**

Sopharma AD is a business company registered in Bulgaria with a seat and registered address at 16, Iliensko Shousse Str., Sofia.

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.

The structure of Company's joint-stock capital as at 31 March 2016 was as follows:

	%
Donev Investment Holding AD	24.73
Telecomplect Invest AD	20.07
Rompharm Company OOD	18.04
Sopharma AD (treasury shares)	3.87
Other legal persons	29.74
Physical persons	3.55

Sopharma AD has a one-tier management system with a five-member Board of Directors as follows:

Ognian Donev, PhD	Chairman
Vessela Stoeva	Member
Ognian Palaveev	Member
Alexandar Tchaouchev	Member
Andrey Breshkov	Member

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

The list number of Company's personnel was 1.881 workers and employees as at 31 March 2016 (2015: 1.889).

***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 activities in the field of medicinal products.

**2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY*****2.1. Basis for preparation of the individual preliminary financial statements***

The individual 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.

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 Interpretations Committee of IFRIC that were relevant to its activities.

Since the adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2016, there have been no changes in the accounting policies, respectively the assets, liabilities, operations and performance of the Company because it does not have/operate with such entities and/or realize such transactions.

At the date of issuing of these financial statements, 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 judged 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:

- *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 – not endorsed by EC).* This is a new standard for financial instruments. It is ultimately intended to replace IAS 39 in its entirety. The replacement project has passed through three phases: Phase 1: Classification and measurement of financial assets and financial liabilities; Phase 2: Hedge accounting; and Phase 3: Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 and finally in July 2014. Phase 1: Classification and measurement of financial assets and financial liabilities – by the first issues it replaces those parts of IAS 39 that refer to the classification and measurement of financial instruments. It sets out

new principles, rules and criteria for classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. IFRS 9 introduces a requirement that financial assets are to be classified based on entity's business model for their management and on the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for financial assets: amortized 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 entity'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 'expected loss' impairment model where under all expected credit losses shall be recognized over the lifetime of an amortizable financial instrument and not only if a trigger event has occurred as per the current model under IAS 39. With the latest amendments to IFRS 9 the date of its coming into force has been set to 1 January 2018;

- *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 procedure for the adoption by the EC has been deferred 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 recognized 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 recognized in full;*
- *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 – on exceptions*

to the consolidation of investment companies (effective for annual periods beginning on or after 1 January 2016, the – not endorsed by EC). This change is related to the clarifications concerning the possibility of exemption from consolidation – mainly about: 1) whether an investment company must report a subsidiary at fair value when the subsidiary provides investment services to third parties; 2) the interaction between the changes for investment companies and exemption from the need to prepare consolidated financial statements according to IFRS 10; 3) whether a non-investment company must unfold the reporting at fair value of its joint or associated companies that are investment companies.

- *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 15 "Revenue from Contracts with Customers"* (in force for annual periods beginning on or after 1 January 2018 – not 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 selling 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 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 16 Leases* (effective for annual periods beginning on 1 January 2019 - not endorsed by EC). This standard has a completely changed concept. It introduces new principles for recognition, measurement and presentation of the leases in order to ensure a reliable and adequate representation

of these transactions for both the lessee and the lessor. The standard will replace the current hitherto standard relating to leases - IAS 17. The guiding principle of the new standard is the introduction of a uniform model of the accounting treatment of leases with lessees - for all leases lasting more than 12 months will be recognized a “right of use” asset, which will be amortized over the contract period, and respectively, will be reported the liability under those contracts. This is a significant change in the reporting practice. There would be no significant changes regarding the reporting by lessors and they would continue to report leases in the likeness of the old standard - as operational and financial. As far as the new standard provides a more comprehensive concept, a more detailed analysis of the conditions of their contracts should be made on their part and it is possible that grounds for reclassification of the leasing transactions occur on their side as well.

- *IAS 7 (amended) Statement of cash flows - on the initiative of disclosures (effective for annual periods beginning on 1 January 2017 – not endorsed by EC)*. This change is an important clarification on the standard with respect to the information provided to users of financial statements that may improve understanding of liquidity and financial operations of the company. The change requires additional disclosures to be made about changes in the liabilities of the Company in connection with: (i) changes from financing activities, (ii) changes from obtaining or losing control of subsidiaries, (iii) effects of exchange rate differences, (iv) changes in fair values and (v) other changes. The requirements for disclosures of changes in liabilities arising from financial activities will need to be presented separately from changes in all other assets and liabilities;
- *IAS 12 (amended) Income taxes (effective for annual periods beginning on or after 1 January 2017 – not endorsed by EC) - the recognition of deferred tax assets for unrealized losses*. This change clarifies the following: 1) unrealized losses on debt instruments measured at fair value for tax purposes – at cost, give rise to deductible temporary differences; 2) assumptions about future taxable profits should not include the effects of reductions resulting from the deductible temporary differences; 3) if according to tax law there are restrictions on the utilization of tax losses, review and evaluation of deferred tax assets must be done in combination with other deferred tax assets of the same type.

The individual 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 individual preliminary 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). Items that require a higher degree of subjective judgment or complexity, or where assumptions and accounting estimates are significant to the financial statements are disclosed in Note 2.29, 13, 15, and 17.

### ***2.2. Consolidated financial statements of the Company***

The Company has started the process of preparation of its consolidated financial statements for the first quarter of 2016 in accordance with IFRS that are in force 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 issued by the Board of Directors of the Company not later than 30 May 2016 and after this date the financial statements will be publicly made available to third parties.

### ***2.3. Comparatives***

Commonly, the Company presents comparative information in its financial statements for one prior year. Where necessary, comparative data is reclassified (and restated) in order to achieve comparability in view of the current year presentation changes.

### ***2.4. 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 recognized 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.

### **2.5. Revenue**

Revenue is recognized 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 recognized when all significant risks and rewards of ownership have passed to the buyer.

Upon rendering of services, revenue is recognized 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 recognized 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 recognized 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, foreign exchange net gains from revaluation of loans to foreign currency, gains from investment transactions in securities and shares, including dividends,.

### **2.6. Expenses**

Expenses are recognized 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 recognized 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 dividends and impairment of granted commercial loans.



### ***2.7. 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 capitalized 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 property, plant and equipment, 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 recognized 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 capitalized in the carrying amount of the respective asset whereas the residual useful life is reviewed at the capitalization date. At the same time, the non-depreciated part of the replaced components is derecognized from the carrying amount of the assets and is recognized 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;
- installations – 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 recognized 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 derecognized 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' are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' in 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.

### ***2.8. 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 recognized in the statement of comprehensive income (within profit or loss for the year) in the period in which it arises and is presented in 'other operating income/(losses), net'. When the fair value of a biological asset cannot be reliably measured, it is measured at cost less accumulated depreciation or impairment losses. Subsequently, when the fair value of this biological asset becomes reliably measurable, the Company changes its approach and switches to measuring the asset at fair value less the estimated costs to sell.

### ***2.9. Intangible assets***

#### *Goodwill*

Goodwill represents the difference between the acquisition cost (price paid) and 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 acquisition (business combination). This goodwill has been recognized in the separate statement of financial position of the parent company upon the merger of subsidiary in the parent company. The goodwill has been presented within the group of "intangible assets".

The goodwill is measured at acquisition cost (cost price) determined at the date of the actual business combination net of the accumulated impairment losses. It is not subject to amortization. It is subject to an annual review for any indicators of impairment. Impairment losses on goodwill are presented in the separate statement of comprehensive income (profit or loss) under the item "Impairment of non-current assets".

#### *Other intangible assets*

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

The Company applies the straight-line amortization 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 recognized as an expense in the statement of comprehensive income (within profit or loss for the year).

Intangible assets are derecognized 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).

### ***2.10. Investment properties***

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 2.28*). Gains or losses arising from a change in the fair value of investment property are recognized 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 derecognized 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 investment property are determined as the difference between the disposal proceeds and the carrying amount of the asset at the date of sale. 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 recognized 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.

### ***2.11. 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 an annual review for impairment. Where conditions for impairment are identified, the impairment is recognized 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 derecognized 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. The gains or losses on the sale are presented respectively as 'finance income' or 'finance costs' in the statement of comprehensive income (within profit or loss for the year).

### ***2.12. Available-for-sale investments***

The 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 with long-term prospects.

#### ***Initial measurement***

Available-for-sale investments (financial assets) are initially recognized at cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition (*Note 2.23*).

#### ***Subsequent measurement***

The available-for-sale investments (financial assets), held by the Company, are subsequently measured at fair value (*Note 2.28*) 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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).

### **2.13. 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 realizable value;
- finished products, semi-finished products and work in progress – at the lower of production cost and net realizable 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 labor 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 purchase 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 2.29).

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

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

***2.14. Trade and other receivables***

Trade receivables are recognized 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 amortized cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method (*Note 2.23*).

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).

***2.15. Interest-bearing loans and other financial resources granted***

All loans and other financial resources granted are initially recognized 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 amortized cost by applying the effective interest method. Amortized cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognized in the statement of comprehensive income (within profit or loss for the year) as finance income (interest) or costs throughout the amortization period, or when the receivables are settled, derecognized 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 2.23*).

***2.16. 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 2.23*).

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.

***2.17. 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 amortized cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method (*Note 2.23*).

***2.18. Interest-bearing loans and other borrowings***

All loans and other borrowings are initially recognized 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 amortized cost by applying the effective interest method. Amortized 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 recognized in the statement of comprehensive income (within profit or loss for the year) as finance costs (interest) or income throughout the amortization period, or when the liabilities are derecognized or reduced (*Note 2.23*).

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.

***2.19. Capitalization of borrowing costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized 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 capitalization to the value of a qualifying asset is determined by applying a capitalization rate. The capitalization 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 capitalization 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.

## ***2.20. 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized on a straight-line basis over the lease term.

***2.21. Pensions and other payables to personnel under the social security and labor legislation***

The employment and social security relations with the workers and employees of the Company are based on the provisions of the Labor 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 recognized 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 capitalization 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 Labor 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 recognized 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 capitalized 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 Labor 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 recognized 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 recognized 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 recognizes 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.

### ***2.22. 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 and carried directly to Company's equity in the 'retained earnings' component.

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

- gain from the difference between the carrying amount of property, plant and equipment and their fair value 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 derecognized 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.

## ***2.23. Financial instruments***

### ***2.23.1. 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 recognizes 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 derecognized 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 recognize the transferred asset in its statement of financial position but also recognizes 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 amortized 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 2.14, 2.15 and 2.16*). Interest income on loans and receivables is recognized 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 2.29*).

*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 2.12*).

Available-for-sale financial assets are initially recognized 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 2.12*).

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 recognized 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 unrealized gains accumulated in the reserve are recognized 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 recognized 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 recognized 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.

### ***2.23.2. 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 recognized in the statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method (*Note 2.17, Note 2.18 and Note 2.20*).

### ***2.24. 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 was 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 recognized 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 recognized 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 utilized,

with the exception of the differences arising from the initial recognition of an asset or liability, which has affected neither the accounting nor taxable profit or loss as at the date of the transaction.

The carrying amount of all deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, to allow the deferred tax asset to 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 realized 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 March 2016 were assessed at a rate, valid for 2016, at the amount of 10% (31 December 2015: 10%).

### ***2.25. Government grants***

Gratuitous aids from public institutions (municipal, government and international, including under the procedure of using the European funds and program) are initially recognized 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 recognized in current profit or loss on a systematic basis in the same period in which the expenses are recognized.

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

### ***2.26. Earnings per share***

Basic earnings 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 capitalization, 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.

Diluted earnings per share are not calculated because no dilutive potential ordinary shares have been issued.

### ***2.27. Segment reporting***

The Company identifies its reporting segments and discloses segment information in accordance with the organizational 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 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 amortization 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, realized and unrealized 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.

### ***2.28. 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 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 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 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 it 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 capitalized rental income.

All assets and liabilities that are measured and/or disclosed in the financial statements at fair value, are categorized 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 recognized 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, organized 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.

***2.29. 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 actually realized volume in separate productions is below the volume of normal production capacity, determined by the Company, the Company makes appropriate adjustments in fixed costs included in cost of production and work in progress inventories.

***Allowance for impairment***

The Company reviews the state, useful life and usability of the existing inventories. In case of identified inventories bearing a potential of not being realized at their current carrying amount in the following reporting periods, the Company impairs these inventories to net realizable value.

As a result of the reviews and analyses made in 2016 no impairment of inventories has been recorded (2015: none).

***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 (*Note 28*).

***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 assesses whether there are indicators of impairment of the investments in subsidiaries. The calculations were made by the management with the assistance of independent certified appraisers.

***Impairment of 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 recognized 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 realization of the collateral or guarantee payment). Where the management has judged that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are fully written off.

As at 31 March 2016 there are no recognized impairments (not of recovered), related to commercial receivables of receivables (31 March 2015: BGN (2,139) thousand) (*Note 9*).

#### ***Impairment of commercial loans***

At the date of issuing of each financial statement the Company reviews its commercial loans on an individual basis in order to establish the presence of and calculate the losses from impairment. In determining whether to recognize an impairment loss in the statement of comprehensive income (profit or loss), the Company's management assesses whether there is any observable indicators and data as objective evidence to indicate that there is a measurable decrease in the expected cash flows from the counterparty – the borrower. Such indicators and data are those that indicate the existence of adverse change in the repayment ability of the borrower or the presence of national, economic or other conditions that are associated with a particular risk for a loan. In analyzing the risks of impairment losses are taken into account the following basic criteria related to the borrowers: financial condition and financial results, incl. ability to generate own cash flows, problems in servicing the loans and the quality of the provided collateral with regard to its type and opportunity for its realization.

As at 31 March 2016 there are no recognized impairments (net of recovered), related to the commercial loans (31 March 2015: BGN 1 thousand) (*Note 11*).

#### ***Deferred tax assets***

The Company has not recognized deferred taxes at the amount of BGN 2,541 thousand (31 December 2014: 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 recognized, amounts to BGN 25,409 thousand (31 December 2015: BGN 25,409 thousand).

***Litigation provisions***

With regard to the pending litigations against the Company, the management together with Company's lawyers has judged 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 March 2016 (*Note 36*).

**3. REVENUE**

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

	<b>2016</b>	<b>2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Export	23,901	24,261
Domestic market	17,596	16,237
<b>Total</b>	<b>41,497</b>	<b>40,498</b>

***Sales by product - export***

	<b>2016</b>	<b>2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Tablet dosage forms	18,156	17,989
Ampoule dosage forms	2,678	3,438
Syrup dosage forms	1,746	978
Ointments	1,022	1,295
Lyophilic products	250	377
Drops	32	73
Suppositories	17	111
<b>Total</b>	<b>23,901</b>	<b>24,261</b>

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS  
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<i>Sales by product– domestic market</i>	<i>2015</i> <i>BGN '000</i>	<i>2014</i> <i>BGN '000</i>
Tablet dosage forms	10,649	7,500
Ampoule dosage forms	3,600	4,870
Lyophilic products	1,259	1,471
Ointments	630	353
Inhalators	588	1,118
Syrup dosage forms	532	596
Drops	218	174
Suppositories	120	146
Other	-	9
<b>Total</b>	<b>17,596</b>	<b>16,237</b>

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

	<i>2016</i> <i>BGN '000</i>	<i>Relative</i> <i>share</i>	<i>2015</i> <i>BGN '000</i>	<i>Relative</i> <i>share</i>
Europe	20,591	50%	20,329	50%
Bulgaria	17,596	42%	16,237	40%
Other countries	3,310	8%	3,932	10%
<b>Total</b>	<b>41,497</b>	<b>100%</b>	<b>40,498</b>	<b>100%</b>

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

	<i>2016</i> <i>BGN '000</i>	<i>% of</i> <i>revenue</i>	<i>2015</i> <i>BGN '000</i>	<i>% of</i> <i>revenue</i>
Client 1	13,068	31%	14,728	36%
Client 2	17,596	42%	16,228	40%

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS  
FOR THE PERIOD 1 JANUARY 2016 – 31 MARCH 2016**
**4. OTHER OPERATING INCOME AND LOSSES**

The company's *other operating income and losses* include:

	<b>2016</b>	<b>2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Services rendered	736	774
Grants under European projects	124	85
<i>Sales of goods</i>	427	462
<i>Cost of goods sold</i>	(350)	(365)
Gain on sales of goods	77	97
<i>Sales of non-current assets</i>	32	25
<i>Carrying amount of non-current assets sold</i>	(2)	(3)
Gain from sale of long-term assets	30	22
<i>Sales of materials</i>	978	1,909
<i>Carrying amount of materials sold</i>	(965)	(1,889)
Gain on sales of materials	13	20
Net loss from exchange differences under trade receivables and payables and current accounts	(100)	(794)
Fines and penalties income	-	204
Other income	43	17
<b>Total</b>	<b>923</b>	<b>425</b>

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

*Services rendered* include:

	<b>2016</b>	<b>2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Rentals	432	423
Social activities	114	92
Manufacturing services	50	123
Laboratory analyses	41	52
Regulatory services	34	34
Gamma irradiation	27	26
Transport organization	12	7
Other	26	17
<b>Total</b>	<b>736</b>	<b>774</b>



**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS  
FOR THE PERIOD 1 JANUARY 2016 – 31 MARCH 2016**

*Sales of goods* include:

	<i>2016</i>	<i>2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Foodstuffs	197	193
Cosmetics	172	124
Food supplements	49	125
Goods with technical designation	5	20
Sanitary and bandaging products	4	-
<b>Total</b>	<b>427</b>	<b>462</b>

The *cost of goods sold* is as follows:

	<i>2016</i>	<i>2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Foodstuffs	170	167
Cosmetics	148	105
Food supplements	25	74
Goods with technical designation	4	19
Sanitary and bandaging products	3	-
<b>Total</b>	<b>350</b>	<b>365</b>

**5. RAW MATERIALS AND CONSUMABLES USED**

The *raw materials and consumables used* include:

	<i>2016</i>	<i>2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Basic materials	12,775	11,189
Electric energy	1,072	950
Heat power	1,009	1,163
Laboratory materials	554	453
Auxiliary materials	335	466
Spare parts	181	283
Water	153	129
Fuels and lubricating materials	148	463
Technical materials	140	265
Working clothes and personal safety equipment	85	117
<b>Total</b>	<b>16,452</b>	<b>15,478</b>

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS  
FOR THE PERIOD 1 JANUARY 2016 – 31 MARCH 2016**

*Expenses on basic materials include:*

	<i>2016</i>	<i>2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Substances	6,532	4,675
Packaging materials	2,396	2,470
Liquid and solid chemicals	1,952	2,290
Ampoules	545	934
Herbs	498	11
Tubes	495	364
Aluminum and PVC foil	268	195
Vials	89	250
<b>Total</b>	<b>12,775</b>	<b>11,189</b>

**6. HIRED SERVICES EXPENSE**

*Hired services expense includes:*

	<i>2016</i>	<i>2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Manufacturing of medicinal products	1,625	2,659
Logistic services – domestic market	893	538
Transport	608	553
Rentals	494	632
Buildings and equipment maintenance	357	352
Clinical trials	351	541
Consulting services	341	1,086
Local taxes and charges	304	315
Security	261	235
State and regulatory charges	195	186
Medical service	187	184
Subscription fees	180	173
Services under civil contracts	154	168
Insurance	149	164
Advertising	128	2,237
Announcements and communications	101	96
License fees and charges	92	63
Taxes on expenses	79	95
Vehicles repair and maintenance	77	83
Commission fees	74	59
Logistic services – export	64	195

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS  
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Services on medicinal products registration	50	94
Documentation translation	48	54
Destruction of pharmaceuticals	38	50
Fees for servicing of current bank accounts	35	43
Courier services	20	26
Other	131	235
<b>Total</b>	<b>7,036</b>	<b>11,116</b>

**7. EMPLOYEE BENEFITS EXPENSE**

*Employee benefits expense includes:*

	<b>2016</b>	<b>2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Current wages and salaries	6,533	6,992
Social security/health insurance contributions	1,174	1,296
Social benefits and payments	417	499
Social security/health insurance contributions on leaves	534	579
Accruals for insurance contributions on paid leaves	97	103
Accruals for long-term retirement benefit obligations (Note 28)	65	70
<b>Total</b>	<b>8,820</b>	<b>9,539</b>

**8. OTHER OPERATING EXPENSES**

*Other expenses include:*

	<b>2016</b>	<b>2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Entertainment allowances	239	352
Donations	109	117
Scrapping of finish and unfinished products	108	101
Business trip costs	94	120
Training	60	89
Unrecognized input tax under VATA	20	10
Other taxes and payments to the state budget	4	9
Accrued (recovered) impairment of receivables, net (Note 9)	-	(2,139)
Unrecognized excise duties	-	12
Other	9	52
<b>Total</b>	<b>643</b>	<b>(1,277)</b>

**9. IMPAIRMENT OF CURRENT ASSETS***Impairment losses on current assets include:*

	<i>2016</i> <i>BGN '000</i>	<i>2015</i> <i>BGN '000</i>
<i>Impairment of receivables</i>	-	18
<i>Reversed impairment of receivables</i>	-	(2,157)
Net change in the impairment of receivables ( <i>Note 4</i> )	-	(2,139)
<b>Total</b>	<b>-</b>	<b>(2,139)</b>

**10. FINANCE INCOME***Finance income includes:*

	<i>2016</i> <i>BGN'000</i>	<i>2015</i> <i>BGN'000</i>
Interest income on loans granted	586	793
Net gain on transactions with securities	5	68
<b>Total</b>	<b>591</b>	<b>861</b>

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS  
FOR THE PERIOD 1 JANUARY 2016 – 31 MARCH 2016**
**11. FINANCE COSTS**

Finance costs include:

	<b>2016</b>	<b>2015</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Interest expense on loans received	513	765
Net loss on exchange-rate differences from financial operations	144	-
Bank fees and charges on loans and guarantees	44	59
Interest expense on finance lease	1	4
Impairment of receivables from granted commercial loans	-	1
<b>Total</b>	<b>702</b>	<b>829</b>

**12. OTHER COMPREHENSIVE INCOME**

Other comprehensive income includes:

	<b>2016</b>	<b>2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net change in fair value of available-for-sale financial assets:		
Profit, which occurred during the year	37	37
Reduced by: <i>Reclassification corrections of (profits)/losses, included in profit or loss for the current year</i>	(6)	
Remeasurements of defined benefit pension plans		(14)
<b>Total comprehensive income for the year</b>	<b>31</b>	<b>23</b>

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

	<b>2016</b>			<b>2015</b>		
	<b>BGN'000</b>			<b>BGN'000</b>		
	<b>Pre-tax amount</b>	<b>Tax effects recognised in equity</b>	<b>Amount net of tax</b>	<b>Pre-tax amount</b>	<b>Tax effects recognised in equity</b>	<b>Amount net of tax</b>
<b>Items that will not be reclassified to profit or loss</b>						
Remeasurements of defined benefit pension plans	-	-	-	(14)	-	(14)
<b>Items that may be reclassified to profit or loss</b>						
Net change in the fair value of available-for-sale financial assets	31	-	31	37	-	37
<b>Total other comprehensive</b>	<b>31</b>		<b>31</b>	<b>23</b>		<b>23</b>

**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS  
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income for the year

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**13. PROPERTY, PLANT AND EQUIPMENT**

	<i>Land and buildings</i>		<i>Machinery and equipment</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<b>Book value</b>										
<b>Balance at 1 January</b>	<b>132,512</b>	<b>131,399</b>	<b>157,003</b>	<b>150,344</b>	<b>22,762</b>	<b>23,795</b>	<b>13,402</b>	<b>7,188</b>	<b>325,679</b>	<b>312,726</b>
Additions	12	158	193	560	43	140	2,261	15,211	2,509	16,069
Transfer to property, plant and equipment	284	956	3,460	8,003		38	(3,744)	(8,997)	-	-
Transfer from investment properties		127		2	-	-	-	-	-	129
Effect from remeasurement to fair value	-	-	-	-		14	-	-	-	14
Allowance for impairment	-	-	-	-	-	-	-	-	-	-
Disposals	(11)	(128)	(50)	(1,906)	(41)	(1,225)	-	-	(102)	(3,259)
<b>Balance at 31 March / 31 December</b>	<b>132,797</b>	<b>132,512</b>	<b>160,606</b>	<b>157,003</b>	<b>22,764</b>	<b>22,762</b>	<b>11,919</b>	<b>13,402</b>	<b>328,086</b>	<b>325,679</b>
<b>Accumulated depreciation</b>										
<b>Balance at 1 January</b>	<b>18,647</b>	<b>14,806</b>	<b>78,195</b>	<b>70,972</b>	<b>16,894</b>	<b>15,892</b>	-	-	<b>113,736</b>	<b>101,670</b>
Depreciation charge for the year	957	3,841	2,102	8,495	412	2,086	-	-	3,471	14,422
Depreciation written-off		-	(50)	(1,272)	(40)	(1,084)	-	-	(90)	(2,356)
Allowance for impairment	-	-	-	-	-	-	-	-	-	-
<b>Balance at 31 March / 31 December</b>	<b>19,604</b>	<b>18,647</b>	<b>80,247</b>	<b>78,195</b>	<b>17,266</b>	<b>16,894</b>	-	-	<b>117,117</b>	<b>113,736</b>
<b>Carrying amount at 31 March / 31 December</b>	<b>113,193</b>	<b>113,865</b>	<b>80,359</b>	<b>78,808</b>	<b>5,498</b>	<b>5,868</b>	<b>11,919</b>	<b>13,402</b>	<b>210,969</b>	<b>211,943</b>
<b>Carrying amount at 1 January</b>	<b>113,865</b>	<b>116,593</b>	<b>78,808</b>	<b>79,372</b>	<b>5,868</b>	<b>7,903</b>	<b>13,402</b>	<b>7,188</b>	<b>211,943</b>	<b>211,056</b>

As at 31 March 2016, Company's tangible fixed assets included: land amounting to BGN 33,535 thousand (31 December 2015: BGN 33,251 thousand) and buildings of carrying amount BGN 79,658 thousand (31 December 2015: BGN 80,614 thousand).

Tangible fixed assets in progress as at 31 March include:

- advances granted for purchase of machinery and equipment – BGN 437 thousand (31 December 2015: BGN 3,188 thousand);
- expenses on construction of a new warehouse unit – BGN 11,221 thousand (31 December 2015: BGN 10,132 thousand);
- buildings reconstruction – BGN 180 thousand (31 December 2015: BGN 100 thousand);
- other – BGN 81 thousand (31 December 2015: BGN 82 thousand).

As at 31 March, the carrying amount of property, plant and equipment includes machinery and equipment,

which have been purchased using grants under Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 (Note 27) as follows:

- for a new tablet production facility at the amount of BGN 7,899 thousand (31 December 2015: BGN 8,056 thousand)
- for ampule production at the amount of BGN 5,760 thousand (31 December 2015: BGN 5,861 thousand);

The amount of other assets as at 31 March 2016 includes also biological assets – Golden Chain (*Laburnum anagyroides*) plantation at the amount of BGN 131 thousand (31 December 2015: BGN 131 thousand).

#### ***Operating lease***

The Company has leased tangible fixed assets with carrying amount of BGN 6,136 thousand as at 31 March 2016 to related parties (31 December 2015: BGN 6,263 thousand). In addition, tangible fixed assets at carrying amount of BGN 664 thousand were leased to third parties as at 31 March 2016 (31 December 2015: BGN 686 thousand).

#### ***Finance lease***

As at 31 March 2016, assets at the carrying amount of BGN 97 thousand were 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 according to their groups, is as follows:

- Buildings – BGN 123 thousand (31 December 2015: BGN 123 thousand);
- Machinery and equipment – BGN 36,123 thousand (31 December 2015: BGN 34,576 thousand);
- Motor vehicles – BGN 3,520 thousand (31 December 2015: BGN 3,266 thousand);
- Furniture and fixtures – BGN 6,899 thousand (31 December 2015: BGN 6,878 thousand);
- Other – BGN 63 thousand (31 December 2015: BGN 63 thousand).

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

- Land and buildings with carrying amount of BGN 22,009 thousand and BGN 60,493 thousand, respectively (31 December 2015: BGN 22,009 thousand and BGN 61,271 thousand, respectively) (*Notes 26, 30 and 36*);
- Pledges on equipment – BGN 37,613 thousand (31 December 2015: BGN 38,316 thousand) (*Notes 26, 30 and 36*).

#### ***Revaluation of property, plant and equipment to fair value***

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As at 31 December 2011, the Company performed an overall review and assessment for price changes of property, plant and equipment with the assistance of certified appraisers: As a result of this review it made the latest revaluation of property, plant and equipment the results of which were accounted for.

The following two basic approaches and valuation methods were used in these revaluations to measure the fair value of the different types of tangible fixed assets:

- 'Market-based approach' through the 'Market comparables (analogues) method' – with regard to land and buildings for which actual market existed, analogous properties and transactions with them were observed and basis for comparison was available – their market price determined under the comparative method was accepted as fair value;
- 'Assets (cost)-based approach' through the 'Method of amortized recoverable amount' – for special-purpose buildings for which neither actual market nor comparable sales of analogous assets existed – their amortized recoverable amount at current purchase prices was accepted as their fair value and under the hypothesis of their common use in technologically-related production business process (including the term) and taking into account: physical wear, functional and economic impairment.

Revaluation reserve at the amount of BGN 2,706 thousand was then recognized as a result of the revaluation net of impairment.

**14. INTANGIBLE ASSETS**

	<i>Goodwill</i>		<i>Intellectual property rights</i>		<i>Software</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2016</i> <i>BGN</i> <i>'000</i>	<i>2015</i> <i>BGN</i> <i>'000</i>	<i>2016</i> <i>BGN</i> <i>'000</i>	<i>2015</i> <i>BGN</i> <i>'000</i>	<i>2016</i> <i>BGN</i> <i>'000</i>	<i>2015</i> <i>BGN</i> <i>'000</i>	<i>2016</i> <i>BGN</i> <i>'000</i>	<i>2015</i> <i>BGN</i> <i>'000</i>	<i>2016</i> <i>BGN</i> <i>'000</i>	<i>2015</i> <i>BGN</i> <i>'000</i>
<b><i>Book value</i></b>										
<b>Balance at 1 January</b>	<b>768</b>	<b>768</b>	<b>1,474</b>	<b>1,869</b>	<b>3,734</b>	<b>4,180</b>	<b>57</b>	<b>131</b>	<b>6,033</b>	<b>6,948</b>
Additions	-	-	8	49		4		21	8	74
Transfer	-	-	-	-	-	-	-	-	-	-
Disposals	-	-		(444)		(450)		(95)	-	(989)
<b>Balance at 31 March / 31 December</b>	<b>768</b>	<b>768</b>	<b>1,482</b>	<b>1,474</b>	<b>3,734</b>	<b>3,734</b>	<b>57</b>	<b>57</b>	<b>6,041</b>	<b>6,033</b>
<b><i>Accumulated amortization</i></b>										
<b>Balance at 1 January</b>	-	-	1,185	1,216	2,341	2,522	-	-	3,526	3,738
Amortization charge for the year	-	-	37	191	58	269	-	-	95	460
Amortization written-off	-	-		(222)		(450)		-	-	(672)
<b>Balance at 31 March / 31 December</b>	<b>-</b>	<b>-</b>	<b>1,222</b>	<b>1,185</b>	<b>2,399</b>	<b>2,341</b>	<b>-</b>	<b>-</b>	<b>3,621</b>	<b>3,526</b>
<b>Carrying amount at 31 March / 31 December</b>	<b>768</b>	<b>768</b>	<b>260</b>	<b>289</b>	<b>1,335</b>	<b>1,393</b>	<b>57</b>	<b>57</b>	<b>2,420</b>	<b>2,507</b>
<b>Carrying amount at 1 January</b>	<b>768</b>	<b>768</b>	<b>289</b>	<b>653</b>	<b>1,393</b>	<b>1,658</b>	<b>57</b>	<b>131</b>	<b>2,507</b>	<b>3,210</b>

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



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Intangible assets in progress as at 31 March include:

- expenses on permits for use of medicinal products – BGN 36 thousand (31 December 2015: BGN 36 thousand);
- expenses for the acquisition of software products – BGN 21 thousand (31 December 2015: BGN 21 thousand).

The cost of the fully amortized intangible long-term assets that are used in the company's operations by groups of assets is as follows:

- Intellectual property rights (R&D products) – BGN 764 thousand (31.12.2015: BGN 764 thousand);
- Software products – BGN 1,414 thousand (31.12.2015: BGN 1,412 thousand);
- Other – BGN 7 thousand (31 December 2015: BGN 7 thousand)

**15. INVESTMENT PROPERTY**

	<i>31.03.2016</i>	<i>31.12.2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<b>Balance at 1 January</b>	<b>22,160</b>	<b>22,368</b>
Transfer to investment properties	-	(129)
Net loss on fair value adjustment, included in profit or loss	-	(79)
<b>Balance at 31 March / 31 December</b>	<b>22,160</b>	<b>22,160</b>

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:

<i>Asset group</i>	<i>31.03.2016</i>	<i>31.12.2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Warehouse premises	18,380	18,380
Offices	2,331	2,331
Production buildings	1,056	1,056
Social objects	393	393
<b>Total</b>	<b>22,160</b>	<b>22,160</b>

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

- mortgages of warehouse premises – BGN 9,308 thousand (31 December 2015: BGN 9,308 thousand) (*Note 30 and 36*);

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- pledges on attached equipment – BGN 5,912 thousand (31 December 2015: BGN 5,912 thousand) (Note 30).

*Fair value measurement**Fair value hierarchy*

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

The investment property remeasurement to fair value is recurring 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. The 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:

	<i>Warehouse premises</i>	<i>Offices</i>	<i>Production buildings</i>	<i>Social objects</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
<b>Balance at 1 January 2015</b>	<b>18,498</b>	<b>2,310</b>	<b>1,140</b>	<b>420</b>	<b>22,368</b>
Transfer to property, plant and equipment			(129)		(129)
Revaluation to fair value through profit or loss - unrealized	(118)	21	45	(27)	(79)
<b>Balance at 31 December 2015</b>	<b>18,380</b>	<b>2,331</b>	<b>1,056</b>	<b>393</b>	<b>22,160</b>
<b>Balance at 31 March 2015</b>	<b>18,380</b>	<b>2,331</b>	<b>1,056</b>	<b>393</b>	<b>22,160</b>

*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:

<b>Groups of assets (Level 2)</b>	<b>Valuation approaches and techniques</b>	<b>Significant unobservable inputs</b>
	<i>a. Income approach</i>	a. Weighted rate of return b. Term for entrance into rental deals
	Valuation technique: Method of capitalized rental income as application of discounted cash flows (main valuation technique)	
Warehouse premises	<i>b. Cost approach</i>	Adjusted prices for construction of

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	Valuation technique: Method of replacement costs – depreciated recoverable amount (supportive valuation technique)	identical properties and purchase prices of machinery and equipment, similar to those attached
Offices, production buildings and social objects	<i>Income approach</i> Valuation technique: Method of capitalized rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term for entrance into rental deals

**16. INVESTMENTS IN SUBSIDIARIES**

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

		<b>31.03.2016</b>	<b>Interest</b>	<b>31.12.2015</b>	<b>Interest</b>
		<b>BGN '000</b>	<b>%</b>	<b>BGN '000</b>	<b>%</b>
Sopharma Trading AD	Bulgaria	28,591	71.87	28,557	71.85
Briz OOD	Latvia	22,270	66.13	22,270	66.13
Medika AD	Bulgaria	32,807	97.77	21,832	66.72
Unipharm AD	Bulgaria	19,448	49.99	19,448	49.99
Sopharma Ukraine	Ukraine	16,991	100.00	16,991	100.00
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Ivanchich and sons	Serbia	5,739	51.00	5,739	51.00
Momina Krepost AD	Bulgaria	4,860	92.78	4,833	92.78
Vitamina AD	Ukraine	1,980	99.56	1,980	99.56
Pharmalogistica AD	Bulgaria	1,124	80.80	1,058	78.37
Sopharma Buildings REIT	Bulgaria	573	40.75	573	40.75
Sopharma Kazakhstan EOOD	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	25	95.00	25	95.00
<b>Total</b>		<b>144,001</b>		<b>132,899</b>	

As at 31 March 2016 the composition of investments in subsidiaries also includes the investment in the subsidiary Sopharma Poland OOD – in liquidation, Poland, which is fully impaired (31 December 2015: the investments in Sopharma Poland OOD – in liquidation, Poland was fully impaired).

Sopharma AD has direct or indirect 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 AD**

### **NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS**

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- 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.
- 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.
- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Phyto Palauzovo AD – Scope of activities: production, gathering, extraction and marketing of herbs and medicinal plants. Date of acquisition – (since the merging of Bulgarian Rose – Sevtopolis AD) – 1 January 2014.
- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 18 January 2008.
- Ivanchich and sons OOD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 10 April 2008.
- Sopharma Buildings REIT – Scope of activities: investment of funds, accumulated by issuance of securities, in real estate (securitization 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.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 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.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of acquisition – 30 September 2014.
- Medika AD – Scope of activities: production of bandages and sanitary and hygiene products and finish medicinal products. Date of acquisition – 26 October 2015.

The movement of investments in subsidiaries is presented below:

	<i>Investments in subsidiaries</i>	
	<i>31.03.2016</i>	<i>31.12.2015</i>
<i>Acquisition cost (cost)</i>	<i>BGN '000</i>	<i>BGN '000</i>
<b>Balance at 1 January</b>	<b>158,998</b>	<b>110,630</b>
Additional interest acquired	11,102	2,235
Acquired through capital increase	-	24,326
Transfer to association companies	-	21,832
Interest sold without loss of control		(25)
<b>Balance at 31 March / 31 December</b>	<b>170,100</b>	<b>158,998</b>
 <i>Accrued impairment</i>		
<b>Balance at 1 January</b>	<b>26,099</b>	<b>16,196</b>
Accrued impairment	-	9,903
<b>Balance at 31 December</b>	<b>26,099</b>	<b>26,099</b>
<b>Carrying amount at 31 March / 31 December</b>	<b>144,001</b>	<b>132,899</b>
<b>Carrying amount at 1 January</b>	<b>132,899</b>	<b>94,434</b>

In 2015 and as at 31 March 2016 there are no newly established subsidiaries.

On 30 September 2015 was signed a contract for transformation through merger between Sopharma AD (the acquiring company) and Momina Krepost AD (acquiree), as a result of which the entire property of Momina Krepost AD will be transferred to Sopharma AD and the latter will be its successor. On 21 January 2016 Sopharma AD submitted to the Financial Supervision Commission an agreement for the termination by mutual agreement of the aforementioned contract for transformation through merger. The decision for termination procedure was taken in the interest of both companies in order to safeguard their good market positions.

On 21 January 2016 Sopharma AD submitted to the Financial Supervision Commission an agreement for termination by mutual agreement of the contract for transformation through merger between Sopharma AD and Momina Krepost AD. The decision to end the procedure was taken in the interest of both companies in order to safeguard their good market positions.

#### ***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 following are accepted as main indicators for impairment: significant volume reduction (over 25%) or termination of activities of the subsidiary where investments have been made; reporting of losses for a longer period of time (over three years) as well as reporting of negative net assets or assets below the registered share capital.

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The key assumptions, used in the calculations have been determined individually for each company, treated as a separate unit generating cash flows and according to its specific business operation, 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.

**17. AVAILABLE-FOR-SALE INVESTMENTS**

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

	<b>31.03.2016</b>	<b>Interest</b>	<b>31.12.2015</b>	<b>Interest</b>
	<b>BGN '000</b>	<b>%</b>	<b>BGN '000</b>	<b>%</b>
Doverie United Holding AD	2,102	14.90	2,102	14.90
Olainfarm AD - Latvia	1,590	0.77	1,553	0.77
Lavena AD	1,464	10.28	1,296	9.12
Extab Pharma Inc. - USA	290	5.00	290	5.00
Hydroizomat AD	132	10.65	132	10.65
Todorov AD	21	4.59	22	4.74
Ecobulpack AD	7	1.48	7	1.48
UniCredit Bulbank AD	3	0.001	3	0.001
Elana Agrocredit AD	-	-	67	1.26
Sopharma Properties AD	-	-	37	0.05
Chimimport AD	-	-	1	0.00003
<b>Total</b>	<b><u>5,609</u></b>		<b><u>5,510</u></b>	

All above companies except for Olainfarm AD, Latvia and Extab Pharma Inc., USA have their seat and operations in Bulgaria.

The fair value per share as at 31 March is as follows:

<i>Available-for-sale investments</i>	<b>31.03.2016</b>			<b>31.12.2015</b>		
	<i>Number of shares</i>	<i>Fair value per share</i>	<i>Fair value as per the statement of financial position</i>	<i>Number of shares</i>	<i>Fair value per share</i>	<i>Fair value as per the statement of financial position</i>
		<b>BGN</b>	<b>BGN</b>		<b>BGN</b>	<b>BGN</b>
Doverie United Holding AD	2,791,352	0.75	2,102	2,791,352	0.75	2,102
Olainfarm AD - Latvia	108,500	14.65	1,590	108,500	14.31	1,553
Lavena AD	27,413	53.41	1,464	24,309	53.31	1,296
Hydroizomat AD	318,301	0.41	132	318,301	0.41	132

**SOPHARMA AD****NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS  
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Todorov AD	155,964	0.13	21	161,014	0.14	22
Elana Agrocredit AD	-	-	-	64,350	1.03	67
Sopharma Properties AD	-	--		8,695	4.28	37
Chimimport AD	-	--		1,000	1.38	1
<b>Total</b>			<b>5,309</b>			<b>5,210</b>

The investments in Ecobulpack AD, UniCredit Bulbank AD, and Extab Pharma 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:

<i>Available-for-sale financial investments (shares)</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	<i>31.03.2016</i>			
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Doverie United Holding AD	2,102	-	-	2,102
Olainfarm AD - Latvia	1,590	1,590	-	-
Lavena AD	1,464	-	1,464	-
Hydroizomat AD	132	-	132	-
Todorov AD	21	21	-	-
Elana Agrocredit AD	-	-	-	-
Sopharma Properties AD	-	-	-	-
Chimimport AD	-	-	-	-
<b>Total</b>	<b>5,309</b>	<b>1,611</b>	<b>1,596</b>	<b>2,102</b>

<i>Available-for-sale financial investments (shares)</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	<i>31.12.2015</i>			
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Doverie United 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 AD	37	37	-	-
Todorov AD	22	22	-	-
Chimimport AD	1	1	-	-
<b>Total</b>	<b>5,210</b>	<b>1,680</b>	<b>1,428</b>	<b>2,102</b>

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

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<i>Available-for-sale financial investments (shares)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<b>Balance at 1 January 2015</b>	<b>1,384</b>	<b>1,209</b>	<b>1,836</b>	<b>4,429</b>
Purchases	106	94	894	1,094
Share issuing	68	-	-	68
Sales	(180)	(3)	-	(183)
Realized gain/(loss) included in the current profit and loss for the year in the item				
Finance income – <i>Net gain on transactions with securities</i>	7	-	-	7
Unrealized loss included in the current profit and loss for the year (Note 11)	(4)	(70)	(324)	(398)
Unrealized gain/(loss), net, included in other comprehensive income (Note 12)	299	198	(304)	193
<b>Balance at 31 December 2015</b>	<b>1,680</b>	<b>1,428</b>	<b>2,102</b>	<b>5,210</b>
Purchases	-	168	-	168
Sales	(106)	-	-	(106)
Unrealized gain/(loss), net, included in other comprehensive income (Note 12)	37	-	-	37
<b>Balance at 31 March 2016</b>	<b>1,611</b>	<b>1,596</b>	<b>2,102</b>	<b>5,309</b>

*Valuation techniques and significant unobservable inputs*

The table below shows the valuation techniques applied for fair value measurement at Level 2 and Level 3 as well as the used significant unobservable inputs:

<i>Available-for-sale financial investments (shares)</i>	<i>Valuation approaches and techniques</i>	<i>Significant unobservable inputs, considerably adjusted observable data and average values</i>
<b>Level 2</b>	<i>Market comparables approach:</i> Valuation technique: Market multiples method	-
<b>Level 3</b>	<i>a. Income approach</i> Valuation technique: Discounted cash flows method	* projected annual rate of revenue growth * revenue growth rate after the projected period * projected annual rate of cost growth * discount rate (based on WACC)
	<i>b. Market approach</i> Valuation technique: Market multiples method (supportive valuation technique)	-



**18. LONG-TERM RECEIVABLES FROM RELATED PARTIES**

The *long-term receivables from related parties* at 31 December include:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Long-term loans granted	11,709	20,213
Long-term rental deposit granted	292	292
<b>Total</b>	<b>12,001</b>	<b>20,505</b>

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

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>Interest %</i>	<i>31.03.2016</i>		<i>31.12.2015</i>		
				<i>BGN'000</i>	<i>BGN'000 including interest</i>	<i>BGN'000</i>	<i>BGN'000 including interest</i>	
<i>to companies related through key management personnel</i>								
<i>EUR</i>	16,177	01.12.2018	5.00%	10,727	44	13,074	18	
<i>EUR</i>	3,272	01.12.2018	5.00%	-	-	7,139	739	
<i>to subsidiaries</i>								
<i>EUR</i>	500	01.03.2019	6.60%	982	4	-	-	
				<b>11,709</b>	<b>48</b>	<b>20,213</b>	<b>757</b>	

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 key management personnel under a concluded rental contract for administrative offices with validity term on 1 August 2022.

**19. OTHER NON-CURRENT RECEIVABLES**

*Other long-term receivables* represent receivables from the sale of an investment in subsidiary with differed payment until the completion of regulatory steps related to the registration of marketing authorizations for medicinal products, amounting to BGN 3,114 thousand (31 December 2015: 3,257 thousand) and with an expected maturity 31 December 2018.

**20. INVENTORIES**

Company's *inventories* include:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Finished products	28,014	22,841
Materials	25,785	27,868
Semi-finished products	9,031	5,262
Work in progress	3,693	5,255
Goods	371	475

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<b>Total</b>	<b>66,894</b>	<b>61,701</b>
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*Finished products* existing as at 31 March / 31 December include:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Tablet dosage forms	18,438	15,482
Ampoule dosage forms	4,157	2,916
Syrups	1,958	2,535
Ointments	1,711	951
Inhalers	886	334
Drops	172	387
Lyophilic products	401	122
Suppositories	291	114
<b>Total</b>	<b>28,014</b>	<b>22,841</b>

*Materials* by type are as follows:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Basic materials	24,941	24,864
Technical materials	466	469
Spare parts	217	218
Auxiliary materials	139	120
Other	22	46
Materials in transit	-	2,151
<b>Total</b>	<b>25,785</b>	<b>27,868</b>

*Basic materials* by type are as follows:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Substances	15,310	13,924
Chemicals	3,648	4,154
Ampoules	2,053	2,063
Packaging materials	1,401	1,675
PVC and aluminum foil	1,197	1,254
Herbs	705	999
Tubes	452	606
Vials	175	189
<b>Total</b>	<b>24,941</b>	<b>24,864</b>

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Pledges were established on Company's inventories with a carrying amount of BGN 36,514 thousand as at 31 March 2016 as collateral to bank loans received (31 December 2015: BGN 31,341 thousand) (*Note 30 and 36*).

**21. RECEIVABLES FROM RELATED PARTIES**

*Receivables from related parties include:*

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Receivables from subsidiaries	57,833	59,515
<i>Impairment of uncollectable receivables</i>	<u>(3,025)</u>	<u>(3,025)</u>
	54,808	56,490
Receivables from companies related through key managing personnel	<u>21,233</u>	<u>21,545</u>
<b>Total</b>	<b><u>76,041</u></b>	<b><u>78,035</u></b>

The receivables from related parties by type are as follows:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Receivables on sales of finished products and materials	49,062	50,847
<i>Impairment of uncollectable receivables</i>	<u>(1,062)</u>	<u>(1,062)</u>
	48,000	49,785
Trade loans granted	30,004	30,213
<i>Impairment of uncollectable receivables</i>	<u>(1,963)</u>	<u>(1,963)</u>
	28,041	28,250
<b>Total</b>	<b><u>76,041</u></b>	<b><u>78,035</u></b>

The receivables on sales are interest-free and BGN 32,193 thousand of them are denominated in BGN (31 December 2015: BGN 28,364 thousand) and in EUR – BGN 15,807 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 31,370 thousand as at 31 March 2016 or 65,35% 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

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impairment. The management assesses collectability on an individual basis by analyzing 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:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
up to 30 days	9,130	9,368
from 31 to 90 days	17,581	22,850
from 91 to 180 days	13,485	7,269
from 181 to 240 days	1,033	838
over 241 days	2,032	1,372
<b>Total</b>	<b>43,261</b>	<b>41,697</b>

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

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
from 31 to 90 days	434	7
from 91 to 180 days	421	1,712
from 181 to 365 days	3,884	6,369
<b>Total</b>	<b>4,739</b>	<b>8,088</b>

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 in 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:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
over 1 year	1,062	1,062
Allowance for impairment	(1,062)	(1,062)
<b>Total</b>	<b>-</b>	<b>-</b>

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

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

	<i>2016</i> <i>BGN '000</i>	<i>2015</i> <i>BGN '000</i>
<b>Balance at 1 January</b>	<u>1,062</u>	<u>2,278</u>
Stated impairment	-	120
Reversed impairment	-	-
Transfer to impairment of investments in subsidiaries	-	(1,336)
<b>Balance at 31 March / 31 December</b>	<u><u>1,062</u></u>	<u><u>1,062</u></u>

Special pledges have been established as at 31 March 2016 on receivables from related parties at the amount of BGN 18,229 thousand (31 December 2015: BGN 18,229 thousand) (Note 30) as collateral under bank loans received.

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

	<i>31.03.2016</i> <i>BGN '000</i>	<i>31.12.2015</i> <i>BGN '000</i>
Receivables from companies related through key managing personnel	21,233	21,545
<i>Subsidiaries</i>	8,771	8,668
<i>Impairment of trade loans</i>	<u>(1,963)</u>	<u>(1,963)</u>
	6,808	6,705
<b>Total</b>	<u><u>28,041</u></u>	<u><u>28,250</u></u>

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

	<i>2016</i> <i>BGN '000</i>	<i>2015</i> <i>BGN '000</i>
<b>Balance at 1 January</b>	<u>1,963</u>	<u>8</u>
Stated impairment	-	1,955
<b>Balance at 31 March / 31 December</b>	<u><u>1,963</u></u>	<u><u>1,963</u></u>

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

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Currency	Contracted amount '000	Maturity	Interest %	31.03.2016		31.12.2015	
				BGN'000	BGN'000 including interest	BGN'000	BGN'000 including interest
<i>to companies related through key managing personnel</i>							
EUR	12,577	31.12.2016	4.50%	7,847	84	8,310	26
EUR	7,845	31.12.2016	4.50%	8,571	234	7,982	146
BGN	6,000	31.12.2016	5.50%	4,700	65	4,636	1
BGN	1,300	31.12.2016	5.50%	-	-	503	42
BGN	190	31.12.2016	5.50%	115	2	114	-
<i>to subsidiaries</i>							
EUR	2,770	31.12.2016	6.10%	5,169	82	5,087	-
BGN	3,552	31.12.2016	5.50%	1,589	63	1,568	42
BGN	600	31.12.2016	5.50%	50	-	50	-
				<b>28,041</b>	<b>530</b>	<b>28,250</b>	<b>257</b>

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).

## 22. TRADE RECEIVABLES

Trade payables include:

	31.03.2016 BGN '000	31.12.2015 BGN '000
Receivables from clients	15,740	21,185
Impairment of uncollectable receivables	(631)	(631)
	<u>15,109</u>	<u>20,554</u>
Advances granted	949	912
<b>Total</b>	<b><u>16,058</u></b>	<b><u>21,466</u></b>

The *receivables from clients* are interest-free and BGN 342 thousand of them are denominated in BGN (31 December 2015: BGN 498 thousand), in EUR – BGN 14,382 thousand (31 December 2015: BGN 18,551 thousand), and in USD – BGN 385 thousand (31 December 2015: BGN 1,505 thousand).

Of the receivables from clients 86,49% are attributable to one main counterpart of the Company (for 2015: one main counterpart compounds 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

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collectability by analyzing 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 15,109 thousand were established at 31 March 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:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
up to 30 days	5,579	10,963
from 31 to 90 days	6,573	8,371
from 91 to 180 days	308	168
<b>Total</b>	<b>12,460</b>	<b>19,502</b>

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

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
from 31 to 90 days	2,184	480
from 91 to 180 days	308	224
from 181 to 365 days	113	348
over 1 year	44	-
<b>Total</b>	<b>2,649</b>	<b>1,052</b>

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

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
from 91 to 180 days	54	54
over 1 year	577	577
Allowance for impairment	(631)	(631)
	<b>-</b>	<b>-</b>

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

	<b>2016</b>	<b>2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
<b>Balance at 1 January</b>	<b>631</b>	<b>1,003</b>
Stated impairment	-	105
Amounts written-off as uncollectable	-	(3)
Reversed impairment	-	(474)

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<b>Balance at 31 March / 31 December</b>	<b>631</b>	<b>631</b>
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The *advances granted to suppliers* as at 31 December are for the purchase of:

	<i>31.03.2016</i> <i>BGN '000</i>	<i>31.12.2015</i> <i>BGN '000</i>
Inventories	626	608
Services	323	304
<b>Total</b>	<b>949</b>	<b>912</b>

The *advances granted* are regular. They include: in BGN – BGN 627 thousand (31 December 2015: BGN 550 thousand), in EUR – BGN 117 thousand (31 December 2015: BGN 100 thousand), and in USD – BGN 205 thousand (31 December 2015: BGN 262 thousand).

### 23. OTHER RECEIVABLES AND PREPAYMENTS

*Other receivables and prepayments* include:

	<i>31.03.2016</i> <i>BGN '000</i>	<i>31.12.2015</i> <i>BGN '000</i>
Taxes refundable	3,900	3,104
<i>Loans granted to third parties</i>	2,519	2,481
Prepayments	689	849
Receivables on deposits placed as guarantees	227	236
Amounts granted to an investment intermediary	122	199
<i>Court and awarded receivables</i>	2,140	2,151
<i>Impairment of court receivables</i>	(2,140)	(2,151)
	-	-
Other	32	12
<b>Total</b>	<b>7,489</b>	<b>6,881</b>

*Refundable taxes* include:

	<i>31.03.2016</i> <i>BGN '000</i>	<i>31.12.2015</i> <i>BGN '000</i>
Excise duties	3,019	2,616
Value added tax	774	58
Corporate tax	107	430
<b>Total</b>	<b>3,900</b>	<b>3,104</b>

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



**SOPHARMA AD**

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<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>Interest %</i>	<i>31.03.2016</i>			
				<i>'000</i>	<i>BGN'000</i>	<i>BGN'000 including interest</i>	<i>BGN'000</i>
<i>BGN</i>	1,476	31.12.2016	7.00%	1,596	120	1,570	94
<i>BGN</i>	949	23.06.2016	5.50%	923	18	911	6
				<b>2,519</b>	<b>138</b>	<b>2,481</b>	<b>100</b>

The short-term loans granted to third parties are used for financing the activities of these enterprises related to common strategic purposes. They are secured by pledges on securities (shares) and receivables.

The short-terms loans granted to third parties are not secured. They are extended as a temporary support to finance the working capital of the respective entity – loan recipient.

*Prepayments* include:

	<i>31.03.2016</i>	<i>31.12.2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Subscriptions	312	353
Insurance	290	396
License and patent fees	31	35
Rentals	11	12
Vouchers	-	4
Other	45	49
<b>Total</b>	<b>689</b>	<b>849</b>

*Deposits placed as guarantees* include:

	<i>31.03.2016</i>	<i>31.12.2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Guarantees under construction contracts	88	88
Guarantees under contracts for fuel supply	86	86
Guarantees under communication service contracts	34	34
Other	19	28
<b>Total</b>	<b>227</b>	<b>236</b>

## 24. CASH AND CASH EQUIVALENTS

Cash includes:

	<i>31.03.2016</i>	<i>31.12.2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Cash in current bank accounts	10,029	3,845
Impairment of cash in current bank accounts	(165)	(165)
Net change in cash in current bank accounts	9,864	3,680
Cash in hand	79	56
Blocked cash under issued bank guarantees	11	9
<b>Total</b>	<b>9,954</b>	<b>3,745</b>

Cash at current bank accounts are as follows: in BGN: BGN 5,821 thousand (31 December 2015: BGN 2,124 thousand), in EUR – BGN 2,239 thousand (31 December 2015: BGN 597 thousand), in USD – BGN 1,637 thousand (31 December 2015: BGN 799 thousand) and in other currency – BGN 167 thousand (31 December 2015: BGN 160 thousand).

Cash in hand is denominated in BGN – BGN 70 thousand (31 December 2015: BGN 47 thousand) and in other currencies – BGN 9 thousand (31 December 2015: BGN 9 thousand).

## 25. EQUITY

*Share capital*

As at 31 March 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.

<i>Ordinary shares issued and fully paid</i>	<i>Shares</i>	<i>Share capital net</i>
	<i>number</i>	<i>of treasury shares</i>
		<i>BGN '000</i>
<b>Balance at 1 January 2015</b>	<b>126,885,870</b>	<b>114,797</b>
Effect from the merger of a subsidiary	2,797,899	2,798
Treasury shares purchased	(105,166)	(392)
Expenses on treasury shares	-	(2)
<b>Balance at 31 December 2015</b>	<b>129,578,603</b>	<b>117,201</b>
<b>Balance at 1 January 2016</b>	<b>129,578,603</b>	<b>117,201</b>
Treasury shares purchased	(2,000)	(6)
Expenses on treasury shares	-	-
<b>Balance at 31 March 2016</b>	<b>129,576,603</b>	<b>117,195</b>

**SOPHARMA AD****NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS  
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On 1 January 2015 under a contract for acquisition through merger of Bulgarian Rose – Sevtopolis into Sopharma AD the share capital of the Company has been increased by 2,797,899 newly issued shares with a nominal value of BGN 1 per share and an issue price of BGN 4.14 per share, equal to the fair value of 1 share of Sopharma AD.

The table below presents the paid capital of the Company as at 31 March / 31 December:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Share capital /registered/, nominal	134,798	134,798
Premium reserve	8,785	8,785
<b>Total paid-in capital</b>	<b>143,583</b>	<b>143,583</b>

The shares of the Company are ordinary, with dividend rights and rights to a liquidation share and are registered for trading on the Bulgarian Stock Exchange – Sofia AD and the Warsaw Stock Exchange.

The *treasury shares* were 5,221,296 at the amount of BGN 17,603 thousand as at 31 March 2016 (31 December 2015: 5,219,296 at the amount of BGN 17,597 thousand). During the current year were purchased 2,000 shares (2015: 105,166 shares).

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

- by Unipharm AD – 191,166 shares (31 December 2015: 191,166 shares).
- by Medica AD – 27,573 shares (31 December 2015: 27,573 shares).
- by Sopharma Trading AD – 95,900 shares (31 December 2015: 43,110 shares).

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

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Statutory reserves	45,256	45,256
Property, plant and equipment revaluation reserve	22,070	22,286
Available-for-sale financial assets reserve	1,321	1,290
Additional reserves	215,395	215,395
<b>Total</b>	<b>284,042</b>	<b>284,227</b>

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The *statutory reserves* at the amount of BGN 45,256 thousand (31 December 2015: BGN 45,256 thousand) represent the “Reserves” fund, which is formed according to the requirements of the Commercial Act and the Articles of Association of the Company and includes two components: a) profit distribution to the “Reserves” fund at the amount of BGN 36,471 thousand (31 December 2015: BGN 36,471 thousand) and b) premium reserve, formed by the positive difference between the issue and the nominal value of the issued shares upon the merger of the subsidiary Bulgarian Rose – Sevtopolis AD into Sopharma AD at the amount of BGN 8,785 thousand (31 December 2015: BGN 8,785 thousand).

The movements of statutory reserves were as follows:

	<i>2016</i> <i>BGN '000</i>	<i>2015</i> <i>BGN '000</i>
<b>Balance at 1 January</b>	<u>45,256</u>	<u>33,555</u>
Distribution of profit	-	2,916
Effect from the merger of a subsidiary	-	8,785
<b>Balance at 31 December</b>	<u><u>45,256</u></u>	<u><u>45,256</u></u>

The *property, plant and equipment revaluation reserve* amounting to BGN 22,070 thousand (31 December 2015: BGN 22,286 thousand), was set aside from the positive difference 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:

	<i>2016</i> <i>BGN '000</i>	<i>2015</i> <i>BGN '000</i>
<b>Balance at 1 January</b>	<u>22,286</u>	<u>22,434</u>
Effect from the merger of a subsidiary		344
Transfer to retained earnings	(216)	(492)
<b>Balance at 31 March / 31 December</b>	<u><u>22,070</u></u>	<u><u>22,286</u></u>

The *available-for-sale financial assets reserve*, amounting to BGN 1,321 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:

	<i>2016</i> <i>BGN '000</i>	<i>2015</i> <i>BGN '000</i>
<b>Balance at 1 January</b>	<u>          </u>	<u>          </u>
Net gain arising on revaluation of available-for-sale financial assets	1,290	1,097
Cumulative (gains)/losses reclassified to current profit or loss	37	485

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upon sale/realization of available-for-sale financial assets

<b>Balance at 31 March / 31 December</b>	<u>(6)</u>	<u>(292)</u>
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*Additional reserves* at the amount of BGN 215,395 thousand (31 December 2015: BGN 215,395 thousand) were set aside from distribution of profits under a decision of shareholders and could be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additional reserves were as follows:

	<i>2016</i> <i>BGN '000</i>	<i>2015</i> <i>BGN '000</i>
<b>Balance at 1 January</b>	<u>215,395</u>	<u>189,157</u>
Distributed profit in the year	-	26,238
<b>Balance at 31 March / 31 December</b>	<u>215,395</u>	<u>215,395</u>

*Retained earnings*, amounting to BGN 42,125 thousand as at 31 March 2016 (31 December 2015: BGN 30,198 thousand).

The movements of *retained earnings* were as follows:

	<i>2016</i> <i>BGN '000</i>	<i>2015</i> <i>BGN '000</i>
<b>Balance at 1 January</b>	<u>30,198</u>	<u>45,484</u>
Net profit for the year	11,711	25,354
Transfer from property, plant and equipment revaluation reserve	216	492
Actuarial losses from subsequent remeasurements	-	(51)
Distribution of profit for reserves	-	(29,154)
Effect from merging of a subsidiary	-	(11,927)
<b>Balance at 31 March / 31 December</b>	<u>42,125</u>	<u>30,198</u>

***Basic earnings per share***

	<i>31.03.2016</i>	<i>31.03.2015</i>
Weighted average number of shares	129,576,603	129,653,956
Net profit for the year (BGN'000)	<u>11,711</u>	<u>7,216</u>
Basic earnings per share (BGN)	<u>0.09</u>	<u>0.06</u>

**26. LONG-TERM BANK LOANS**

Currency	Contracted loan amount	Maturity	31.03.2016			31.03.2015		
			Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
	'000		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>Investment-purpose loans</b>								
EUR	32,000	15.04.2021	29,200	7,153	36,353	30,819	7,380	38,199
			<u>29,200</u>	<u>7,153</u>	<u>36,353</u>	<u>30,819</u>	<u>7,380</u>	<u>38,199</u>

The investment-purpose loan received in Euro was agreed at interest rate based on three-month EURIBOR plus a mark-up of 2.8 points, but not less than 2.8 points (2015: 3-month EURIBOR plus a mark-up of 2.8 points, but not less than 2.8 points).

The following collateral was established in favor of the creditor banks:

- Mortgages of real estate – BGN 43,861 thousand (31 December 2015: BGN 44,285 thousand) (*Note 13*);
- Special pledges on machinery and equipment – BGN 19,695 thousand (31 December 2015: BGN 20,027 thousand) (*Note 13*).

The agreement for long-term bank loan 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.

**27. GOVERNMENT GRANTS**

The long-term government grants are on concluded contracts with the Bulgarian Small and Medium Enterprises Promotion Agency for gratuitous financial aid under Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007-2013 in relation with:

- the acquisition of machinery and equipment for a new tablet production facility at the amount of BGN 3,136 thousand (31 December 2015: BGN 3,181 thousand) is under a concluded contract.
- implementation of innovative products in the ampule production at the amount of BGN 2,650 thousand (31 December 2015: BGN 2,700 thousand)
- the acquisition of machinery and equipment for the technological renovation and modernization of a tablet production facility at the amount of BGN 460 thousand (31 December 2015: BGN 490 thousand).

The current portion of the grant, amounting to BGN 497 thousand (31 December 2015: BGN 497 thousand) will be recognized as current income over the following 12 months from the date of the separate statement of financial position and is presented as "other current liabilities" (*Note 35*).

**28. RETIREMENT BENEFIT OBLIGATIONS**

*Long-term payables to personnel* include:

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	<i>31.03.2016</i>	<i>31.12.2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Long-term retirement benefit obligations	2,342	2,277
Long-term benefit obligations for tantieme	149	149
<b>Total</b>	<b>2,491</b>	<b>2,426</b>

*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 Labor Code in Bulgaria each employee is entitled to indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for more than 10 years of its service for the same employer – six gross monthly salaries at the time of retirement. This is a defined benefits plan. (Note 2.21)

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

	<i>2016</i>	<i>2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<b>Present value of the obligation at 1 January</b>	<b>2,277</b>	<b>2,195</b>
Current service cost	65	256
Interest cost	-	87
Net actuarial loss recognized for the period	-	2
Payments for the year	-	(314)
Effects of subsequent valuations of liabilities to personnel upon retirement including from:	-	51
<i>Actuarial losses from changes in the demographic assumptions</i>	-	152
<i>Actuarial losses from changes in the financial assumptions</i>	-	143
<i>Actuarial losses from corrections due to past experience</i>	-	(244)
<b>Present value of the liability at 31 March / 31 December</b>	<b>2,342</b>	<b>2,277</b>

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

	<i>2016</i>	<i>2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Current service cost	65	65
<b>Components of defined benefit plans cost recognized in profit or loss at 31 March (Note 7)</b>	<b>65</b>	<b>65</b>

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*Long-term benefit obligations for tantieme*

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

**29. 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:

<i>Term</i>	<b>31.03.2016</b> <b>BGN '000</b>	<b>31.12.2015</b> <b>BGN '000</b>
Up to one year	14	19
Over one year	-	3
<b>Total</b>	<b>14</b>	<b>22</b>

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

<i>Term</i>	<b>31.03.2016</b> <b>BGN '000</b>	<b>31.12.2015</b> <b>BGN '000</b>
Up to one year	16	22
Over one year	-	3
	16	25
Future finance costs under finance leases	(2)	(3)
<b>Present value of finance lease liabilities</b>	<b>14</b>	<b>22</b>

The lease payments due within the next 12 months are presented in the statement of financial position as “other current liabilities” (*Note 35*).

**30. SHORT-TERM BANK LOANS**

<i>Currency</i>	<i>Contracted amount</i> <i>'000</i>	<i>Maturity</i>	<b>31.03.2016</b> <b>BGN'000</b>	<b>31.12.2015</b> <b>BGN'000</b>
<b>Bank loans (overdrafts)</b>				
EUR	20,000	31.08.2016	31,712	30,491
BGN	10,000	30.09.2016	9,984	10,001
EUR	5,000	15.08.2016	9,779	9,787
EUR	5,000	15.08.2016	3,969	4
EUR	10,000	20.05.2016	3,091	2,193
			<b>58,535</b>	<b>52,476</b>
<b>Extended credit lines</b>				
BGN	18,000	30.10.2016	9,963	10,006



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EUR	5,000	31.08.2016	549	6,479
			<u>10,512</u>	<u>16,485</u>
<b>Total</b>			<u><b>69,047</b></u>	<u><b>68,961</b></u>

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

Part of the utilized loans as at 31 March represent bank guarantees, issued in favor of NHIF for the covering of liabilities, as follows:

- of Sopharma AD at the amount of BGN 523 thousand (31 December 2015: BGN 523 thousand);
- of a subsidiary at the amount of BGN 16 thousand (31 December 2015: BGN 16 thousand);

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

- Mortgages of real estate – BGN 36,309 thousand (31 December 2015: BGN 36,612 thousand) (Note 13 and 15);
- Special pledges on:
  - machinery and equipment – BGN 12,349 thousand (31 December 2015: BGN 12,561 thousand) (Note 13 and 15);
  - inventories – BGN 36,514 thousand (31 December 2015: BGN 35,525 thousand) (Note 20);
  - receivables from related parties – BGN 18,229 thousand (31 December 2015: BGN 18,229 thousand) (Note 21);
  - trade receivables – BGN 15,109 thousand (31 December 2015: BGN 14,935 thousand) (Note 22);
  - trade receivables from third parties – BGN 12,623 thousand (31 December 2015: BGN 12,623 thousand).

The agreements for short-term bank loans 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.

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**31. TRADE PAYABLES**

*Trade payables* include:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Payables to suppliers	4,810	7,723
Advances received	774	291
<b>Total</b>	<b>5,584</b>	<b>8,014</b>

*Trade payables* are as follows:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Payables to foreign suppliers	2,744	5,507
Payables to local suppliers	2,066	2,216
<b>Total</b>	<b>4,810</b>	<b>7,723</b>

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. They are denominated as follows: BGN 2,003 thousand (31 December 2015: BGN 2,216 thousand), in EUR – BGN 2,295 thousand (31 December 2015: BGN 2,592 thousand), in USD – BGN 445 thousand (31 December 2015: BGN 2,876 thousand), in PLN – BGN 67 thousand (31 December 2015: BGN 4 thousand) and in other currencies – none (31 December 2015: BGN 35 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 (*Note 18 and Note 23*) for payables to suppliers under commercial transactions at the amount of BGN 519 thousand (31 December 2015: BGN 528 thousand).

**32. PAYABLES TO RELATED PARTIES**

The *payables to related parties* refer to:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Payables to subsidiaries	1,561	868
Payables to companies related through key managing personnel	187	1,702
Payables to main shareholding companies	46	89
Payables to companies related through main shareholder	40	411
<b>Total</b>	<b>1,834</b>	<b>3,070</b>

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

<b>31.03.2016</b>	<b>31.12.2015</b>
<b>BGN '000</b>	<b>BGN '000</b>

**SOPHARMA AD****NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS  
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Supply of services	1,761	1,121
Supply of inventories	73	557
Supply of non-current assets	-	1,392
<b>Total</b>	<b>1,834</b>	<b>3,070</b>

The trade payables to related parties are regular and are not additionally secured by the Company. The payables in Bulgarian Levs amount to BGN 1,801 thousand (31 December 2015: BGN 3,051 thousand), in EUR – BGN 10 thousand (31 December 2015: BGN 10 thousand), in PLN – BGN 23 thousand (31 December 2015: BGN 9 thousand).

The common average credit period, for which no interest is charged on trade payables to related parties, is 90 days. The Company has no past due trade payables to related parties.

**33. TAX PAYABLES**

*Tax payables* include:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Individual income taxes	184	169
Withholding taxes	171	467
Value added tax	-	329
<b>Total</b>	<b>355</b>	<b>965</b>

As at the date of the current statement the following inspections and audits were carried out:

**of Sopharma AD (acquiring company):**

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

**of Bulgarian Rose – Sevtopolis AD (acquiree):**

- under VAT Act – until 31 December 2014;
- full-scope tax audit – until 31 December 2013;
- National Social Security Institute – until 30 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.

**34. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY**

*Payables to personnel and for social security* are as follows:

<b>31.03.2016</b>	<b>31.12.2015</b>
<b>BGN '000</b>	<b>BGN '000</b>

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Payables to personnel, including:	4,506	4,021
<i>tantieme</i>	2,486	2,486
<i>current liabilities</i>	944	877
<i>accruals on unused compensated leaves</i>	1,076	658
Payables for social security/health insurance, including:	804	748
<i>current liabilities</i>	621	642
<i>accruals on unused compensated leaves</i>	183	106
<b>Total</b>	<b>5,310</b>	<b>4,769</b>

**35. OTHER CURRENT LIABILITIES**

*Other current liabilities* include:

	<b>31.12.2015</b>	<b>31.12.2014</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Government grants ( <i>Note 27</i> )	497	497
Awarded amounts under litigations	319	332
Dividend liabilities	293	294
Fines and penalties	189	188
Deductions from work salaries	170	171
Finance lease liabilities ( <i>Note 29</i> )	14	19
Other	7	7
<b>Total</b>	<b>1,489</b>	<b>1,508</b>

**36. CONTINGENT LIABILITIES AND COMMITMENTS*****Litigations***

In connection to an amount of EUR 1,034 thousand (BGN 2,022 thousand) awarded by the Arbitration Court in Paris Sopharma AD initiated proceedings in Poland against former board members of the convicted company for damages and infringement related to the declaring of bankruptcy of the company. As of 31 March 2016 the cases are pending in the District Court and the Regional Court in Warsaw.

***Significant irrevocable agreements and commitments***

The Company received three government grants under Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007–2013 (*Note 27 and Note 35*), intended for technological renovation and modernization of tablet production facilities and implementation of innovative products in the ampule production facilities (*Note 13*). The Company undertook a commitment that for a period of 5 years after their completion the projects shall not be subject to significant modifications affecting their essence and the terms and conditions for their execution or causing unjustified benefits to the Company, neither modifications resulting from change in the nature of ownership over the assets acquired in relation with the grant. On non-compliance with these requirements, the financing shall be returned. As at the date of the report all contract requirements are met.

***Issued and granted guarantees***

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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 period	Currency	Contracted amount		Amount of the guarantee as at
			original currency	BGN'000	31.03.2016 BGN'000
Sopharma Trading AD	2016-2020	EUR	53,739	105,104	88,118
Sopharma Properties REIT	2024	EUR	22,619	44,240	32,927
Sopharma Trading AD	2016	BGN	14,732	14,732	13,694
Sopharma Ukraine AD	2016	EUR	7,000	13,691	7,674
Vitamini OAO	2016	EUR	7,000	13,691	5,422
Biopharm Engineering AD	2023	BGN	4,250	4,250	1,464
Veta Pharma AD	2016	BGN	1,000	1,000	557
Mineralcommerce AD	2017	EUR	150	294	246
Mineralcommerce AD	2016	BGN	250	250	220
Pharmaplant AD	2019	BGN	1,083	1,083	236
Momina Krepost AD	2016	BGN	500	500	116
<b>Total</b>					<b>150,674</b>

The Company has provided the following collateral under loads, received from related parties, in favor of banks:

*a) under loans received by subsidiaries:*

- mortgages of real estate – BGN 10,521 thousand (31 December 2015: BGN 10,572 thousand) (*Note 13*);
- special pledges on:
  - machinery and equipment – BGN 11,481 thousand (31 December 2015: BGN 11,640 thousand) (*Note 13*);
  - inventories – BGN 17,000 thousand (31 December 2015: BGN 17,000 thousand) (*Note 20*);
  - trade receivables – BGN 11,735 thousand (31 December 2015: BGN 11,735 thousand) (*Note 22*).

*b) under loans received by companies related through key managing personnel:*

- mortgages of real estate – BGN 1,119 thousand (31 December 2015: BGN 1,119 thousand) (*Note 15*);

*c) under loans received by third parties:*

- special pledge on inventories – BGN 2,623 thousand (31 December 2015: BGN 2,623 thousand) (*Note 20*);

**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.

**37. 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:**

<i>Financial assets</i>	<b>31.03.2016</b> <b>BGN '000</b>	<b>31.12.2015</b> <b>BGN '000</b>
<i>Available-for-sale financial assets</i>	<b>5,609</b>	<b>5,510</b>
<i>Available-for-sale investments (in shares)</i>	5,609	5,510
<b><i>Loans and receivables</i></b>	<b>109,011</b>	<b>125,068</b>
<i>Long-term receivables from related parties</i>	12,001	20,505
<i>Other long-term receivables</i>	3,114	3,257
<i>Short-term receivables from related parties</i>	76,041	78,035
<i>Trade receivables</i>	15,109	20,554
<i>Other receivables</i>	2,746	2,717
Cash and cash equivalents	9,954	3,745
<b>Total financial assets</b>	<b>124,574</b>	<b>134,323</b>

<i>Financial liabilities</i>	<b>31.03.2016</b> <b>BGN '000</b>	<b>31.12.2015</b> <b>BGN '000</b>
<b><i>Bank loans</i></b>	<b>105,400</b>	<b>107,160</b>
<i>Long-term bank loans</i>	29,200	30,819
<i>Short-term bank loans</i>	69,047	68,961
<i>Current portion of long-term bank loans</i>	7,153	7,380
<b><i>Other liabilities</i></b>	<b>7,459</b>	<b>11,629</b>

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<i>Trade payables to related parties</i>	1,834	3,070
<i>Trade payables</i>	4,810	7,723
<i>Finance lease liabilities</i>	14	22
<i>Other liabilities</i>	801	814
<b>Total financial liabilities at amortized cost</b>	<b><u>112,859</u></b>	<b><u>118,789</u></b>

**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 recognized 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 EUR and thus eliminated the currency risk, related with the devaluation of the Russian Ruble. The accounts and balances with the subsidiaries in Ukraine are also denominated in EUR. 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 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:

<i>31 March 2016</i>	<b>in USD</b>	<b>in EUR</b>	<b>in BGN</b>	<b>in other currency</b>	<b>Total</b>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	-	1,590	4,019	-	5,609
Receivables and loans granted	3,499	63,777	41,723	12	109,011
Cash and cash equivalents	<u>1,637</u>	<u>2,250</u>	<u>5,891</u>	<u>176</u>	<u>9,954</u>
<b>Total financial assets</b>	<b><u>5,136</u></b>	<b><u>67,617</u></b>	<b><u>51,633</u></b>	<b><u>188</u></b>	<b><u>124,574</u></b>
Bank loans	-	85,453	19,947	-	105,400
Other liabilities	<u>764</u>	<u>2,305</u>	<u>4,286</u>	<u>104</u>	<u>7,459</u>
<b>Total financial liabilities</b>	<b><u>764</u></b>	<b><u>87,758</u></b>	<b><u>24,233</u></b>	<b><u>104</u></b>	<b><u>112,859</u></b>

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<i>31 December 2015</i>	<b>in USD</b>	<b>in EUR</b>	<b>in BGN</b>	<b>in other currency</b>	<b>Total</b>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
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
<b>Total financial assets</b>	<b>5,561</b>	<b>84,015</b>	<b>44,566</b>	<b>181</b>	<b>134,323</b>
Bank loans	-	87,153	20,007	-	107,160
Other liabilities	3,208	2,602	5,749	70	11,629
<b>Total financial liabilities</b>	<b>3,208</b>	<b>89,755</b>	<b>25,756</b>	<b>70</b>	<b>118,789</b>

***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.

	<b>USD</b>	
	<b>31.03.2016</b>	<b>31.03.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Financial result +	393	93
Accumulated profits +	393	93
Financial result -	(393)	(93)
Accumulated profits -	(393)	(93)

In case of 10 % increase in the rate of USD to BGN, the final effect on post-tax profit of the Company for 2016 would be an increase by BGN 393 thousand (3,35%) (2015: increase at the amount of BGN 93 thousand) (1,29%). The effect in terms of value on Company's equity – through the component 'retained earnings' – would be the same.

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 an increase by BGN 9 thousand (0.08%) (2015: increase at the amount of BGN 7 thousand (0.10%)). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

In management's opinion, 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 the distributors that work 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:

	<b>31.03.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Client 1	36%	28%
Client 2	14%	15%
Client 3	12%	21%

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

The Company has concentration of trade receivable from one client, other than related parties, which is accountable for 86,49% 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, avails, 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.

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<i>31 March 2016</i>	up to 1 month <i>BGN'000</i>	1 to 3 months <i>BGN'000</i>	3 to 6 months <i>BGN'000</i>	6 to 12 months <i>BGN '000</i>	1 to 2 years <i>BGN '000</i>	2 to 5 years <i>BGN '000</i>	over 5 years <i>BGN '000</i>	Total <i>BGN '000</i>
Bank loans	796	4,679	58,279	13,952	7,882	22,439	592	<b>108,619</b>
Other loans and liabilities	5,647	1,002	4	808	-	-	-	<b>7,461</b>
<b>Total liabilities</b>	<b>6,443</b>	<b>5,681</b>	<b>58,283</b>	<b>14,760</b>	<b>7,882</b>	<b>22,439</b>	<b>592</b>	<b>116,080</b>
<i>31 December 2015</i>	up to 1 month <i>BGN'000</i>	1 to 3 months <i>BGN'000</i>	3 to 6 months <i>BGN'000</i>	6 to 12 months <i>BGN '000</i>	1 to 2 years <i>BGN '000</i>	2 to 5 years <i>BGN '000</i>	over 5 years <i>BGN '000</i>	Total <i>BGN '000</i>
Bank loans	1,045	3,810	2,402	71,040	7,966	22,691	2,409	<b>111,363</b>
Other loans and liabilities	7,456	3,345	5	822	4	-	-	<b>11,632</b>
<b>Total liabilities</b>	<b>8,501</b>	<b>7,155</b>	<b>2,407</b>	<b>71,862</b>	<b>7,970</b>	<b>22,691</b>	<b>2,409</b>	<b>122,995</b>

***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:

- optimization of the sources of credit resources for achieving relatively lower price of attracted funds; and
- 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 favorable for the Company. The permanent 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 unfavorable change of cash flows is reduced to a minimum.

The Company's management currently monitors and analyses its exposure to changes in interest rates. Various scenarios are simulated taking into consideration 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.

<i>31 March 2016</i>	interest-free <i>BGN '000</i>	with floating interest % <i>BGN '000</i>	with fixed interest % <i>BGN '000</i>	Total <i>BGN '000</i>
Available-for-sale financial assets	5,609	-	-	5,609
Loans and receivables	67,458	-	41,553	109,011
Cash and cash equivalents	79	9,875	-	9,954
<b>Total financial assets</b>	<b>73,146</b>	<b>9,875</b>	<b>41,553</b>	<b>124,574</b>
Bank loans	-	105,400	-	105,400
Other loans and liabilities	7,445	14	-	7,459

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<b>Total financial liabilities</b>	<b>7,445</b>	<b>105,414</b>	<b>-</b>	<b>112,859</b>
<i>31 December 2015</i>	<b>interest-free</b>	<b>with floating interest %</b>	<b>with fixed interest %</b>	<b>Total</b>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
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
<b>Total financial assets</b>	<b>80,804</b>	<b>3,689</b>	<b>49,830</b>	<b>134,323</b>
Bank loans	8	107,152	-	107,160
Other loans and liabilities	11,607	22	-	11,629
<b>Total financial liabilities</b>	<b>11,615</b>	<b>107,174</b>	<b>-</b>	<b>118,789</b>

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.

<i>2016</i>	<i>Increase/decrease in interest rate</i>	<i>Impact on post-tax financial result profit/(loss)</i>	<i>Impact on equity increase/(decrease)</i>
EUR	increase	(385)	(385)
BGN	increase	(90)	(90)
EUR	decrease	385	385
BGN	decrease	90	90
<i>2015</i>	<i>Increase/decrease in interest rate</i>	<i>Impact on post-tax financial result profit/(loss)</i>	<i>Impact on equity increase/(decrease)</i>
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 total

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borrowings as presented in the statement of financial position and cash and cash equivalents. Total employed capital amount is calculated as the sum of equity and net debt.

In 2016, the strategy of the Company management was to maintain the ratio within 15% – 20% (2014: 15% – 20%).

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

	<b>2016</b>	<b>2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
<b>Total borrowings, including:</b>	<b>105,414</b>	<b>107,182</b>
<i>bank loans</i>	<i>105,400</i>	<i>107,160</i>
<i>finance lease liabilities</i>	<i>14</i>	<i>22</i>
<b>Less: Cash and cash equivalents</b>	<b>(9,954)</b>	<b>(3,745)</b>
<b>Net debt</b>	<b>95,460</b>	<b>103,437</b>
<b>Total equity</b>	<b>443,362</b>	<b>431,626</b>
<b>Total capital</b>	<b>538,822</b>	<b>535,063</b>
<b>Gearing ratio</b>	<b>0.18</b>	<b>0.19</b>

The liabilities shown in the table are disclosed in *Notes № 24, № 26, № 29, № 30 and № 35*.

#### ***Fair value measurement***

The fair value concept presumes realization 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 realize these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at amortized 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).

As far as the Bulgarian market for the different 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.

The 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.

**38. RELATED PARTY TRANSACTIONS**

<i>Related parties</i>	<i>Relation type</i>	<i>Relation period</i>
Telecomplect Invest AD	Main shareholding company	2015 and 2016
Donev Investments Holding AD	Main shareholding company	2015 and 2016
Sopharma Trading AD	Subsidiary	2015 and 2016
Pharmalogistica AD	Subsidiary	2015 and 2016
Sopharma Poland OOD – in liquidation	Subsidiary	2015 and 2016
Sopharma USA	Subsidiary	2015 and 2016
Electroncommerce EOOD	Subsidiary	2015 and 2016
Biopharm Engineering AD	Subsidiary	2015 and 2016
Vitamina AD	Subsidiary	2015 and 2016
Ivanchich and Sons OOD	Subsidiary	2015 and 2016
Sopharma Buildings REIT	Subsidiary	2015 and 2016
Momina Krepost AD	Subsidiary	2015 and 2016
Extab Corporation	Subsidiary	until 14.05.2015
Extab Pharma Limited	Subsidiary through Extab Corporation	until 14.05.2015
Briz OOD	Subsidiary	2015 and 2016
Unipharm AD	Subsidiary	2015 and 2016
Sopharma Warsaw EOOD	Subsidiary	2015 and 2016
Sopharma Ukraine EOOD	Subsidiary	2015 and 2016
Sopharma Kazakhstan EOOD	Subsidiary	2015 and 2016
Phyto Palauzovo AD	Subsidiary through Bulgarian Rose – Sevtopolis AD	2015 and 2016
Sopharmasi EOOD	Subsidiary through Sopharma Trading AD	from 19.01.2015 and 2016
Sopharmasi 2 EOOD	Subsidiary through Sopharma Trading AD	from 17.06.2015 and 2016
Sopharmasi 3 EOOD	Subsidiary through Sopharma Trading AD	from 02.12.2015 and 2016
Sopharmasi 4 EOOD	Subsidiary through Sopharma Trading AD	from 29.02.2016
Sopharmasi 5 EOOD	Subsidiary through Sopharma Trading AD	from 01.03.2016
Pharma Online EOOD	Subsidiary through Sopharma Trading AD	from 03.12.2015 and 2016
Sopharma Trading OOD – Belgrade	Subsidiary through Sopharma Trading AD	from 04.06.2015 and 2016
Medika AD	Associated company	from 01.01.2015 until 25.10.2015
Medika AD	Subsidiary	from 26.10.2015 and 2016
Medika Zdrave EOOD	Subsidiary through Medika AD	from 26.10.2015 and 2016
Medika Balkans EOOD – in liquidation	Subsidiary through Medika AD	from 26.10.2015 and 2016
Brititrade SOOO	Subsidiary through Briz OOD	2015 and 2016
Tabina OOO	Subsidiary through Briz OOD	2015 and 2016
Interpharm ZAO	Joint venture through Briz OOD	2015 and 2016
Brizpharm SOOO	Subsidiary through Briz OOD	2015 and 2016
Vivaton Plus OOO	Joint venture through Briz OOD	2015 and 2016
OOO Farmacevt Plus	Subsidiary through Briz OOD	2015 and 2016
UAB TBS Pharma ZAO	Subsidiary through Briz OOD	2015 and 2016
Vestpharm ODO	Subsidiary through Briz OOD	2015 and 2016
Alean ODO	Subsidiary through Briz OOD	2015 and 2016
OOO NPK Biotest	Subsidiary through Briz OOD	2015 and 2016
BelAgroMed	Subsidiary through Briz OOD	2015 and 2016
SpetzApharmacia BOOO	Joint venture through Briz OOD	2015 and 2016
Med-dent OOO	Joint venture through Briz OOD	2015 and 2016

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Bellerofon OOO	Joint venture through Briz OOD	2015 and 2016
Alenpharm Plus ODO	Subsidiary through Briz OOD	from 09.07.2015 and 2016
Alenpharm Plus ODO	Associate company through Briz OOD	from 18.02.2015 until 08.07.2015
Salus Line ODO	Associate company through Briz OOD	from 19.02.2015 and 2016
Mobil Line ODO	Subsidiary through Briz OOD	from 16.02.2016
Mobil Line ODO	Associate company through Briz OOD	from 20.02.2015 until 15.02.2016
Medjel ODO	Subsidiary through Briz OOD	from 18.02.2015 and 2016
GelenaPharm OOO	Subsidiary through Briz OOD	from 20.02.2015 and 2016
Danapharm OOO	Subsidiary through Briz OOD	from 20.02.2015 and 2016
Pharma Online EOOD	Subsidiary through Briz OOD	from 03.12.2015 and 2016
NPFK Ariens OOO	Joint venture through Briz OOD	from 01.12.2015 and 2016
Ivem and K OOO	Joint venture through Briz OOD	from 01.12.2015 and 2016
Zdorovei OOO	Associated company through Briz OOD	from 09.12.2015 and 2016
Pharmateia OOO	Subsidiary through Briz OOD	from 30.11.2015 and 2016
Sopharma Properties REIT	Company related through main shareholder	2015 and 2016
Sofprint Group AD	Company related through 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
Telecomplex AD	Company related through key managing personnel	2015 and 2016
DOH Group	Company related through key managing personnel	2015 and 2016

Conducted transactions between Sopharma AD and its related companies at 31 March are as follows:

<i>Sales to related parties</i>	<b>2016</b>	<b>2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
<i>Sales of finished products to:</i>		
Subsidiaries	24,536	21,225
	<b>24,536</b>	<b>21,225</b>
<i>Sales of goods and materials to:</i>		
Subsidiaries	985	1,901
Companies related through main shareholder	199	227
Companies related through key managing personnel	-	20
Associated companies	-	1
	<b>1,184</b>	<b>2,149</b>
<i>Sales of services to:</i>		
Subsidiaries	410	368
Companies related through key managing personnel	16	29
Companies related through main shareholder	-	7
	<b>426</b>	<b>404</b>
<i>Interest on loans granted to:</i>		
Companies related through key managing personnel	440	661
Subsidiaries	108	115
	<b>548</b>	<b>776</b>
<b>Total</b>	<b>26,694</b>	<b>24,554</b>

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<i>Supplies from related parties:</i>	<b>2016</b>	<b>2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
<b>Supply of inventories from:</b>		
Companies related through main shareholder	2,251	2,239
Subsidiaries	46	15
Companies related through key managing personnel	3	40
Associated companies	-	137
	<b>2,300</b>	<b>2,431</b>
<b>Supply of services from:</b>		
Subsidiaries	2,447	3,552
Companies related through key managing personnel	663	681
Companies related through main shareholder	413	63
Main shareholding companies	47	53
	<b>3,570</b>	<b>4,349</b>
<b>Supplies for acquisition of non-current assets:</b>		
Companies related through key managing personnel	1,181	1,277
	<b>1,181</b>	<b>1,277</b>
<b>Total</b>	<b>7,051</b>	<b>8,057</b>

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 18, 21, and 32*.

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

Salaries and other short-term benefits of key managing personnel are current and amount to BGN 211 thousand (31 March 2016: BGN 216 thousand).

### 39. EVENTS AFTER THE REPORTING PERIOD

No events have occurred after the date of preparation of this report.