NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

1. BACKGROUND INFORMATION ON THE GROUP

Sopharma Group (the Group) is comprised of the parent company and its forty-eight (31 December 2016: thirty-nine) subsidiaries. In addition, the Group has investments in three joint ventures (31 December 2016: in seven joint ventures). At the reporting date of the consolidated annual financial statements, the Group has investments in one associate (31 December 2016: in two associates).

Parent company

Sopharma AD (the parent company) is a business entity registered in Bulgaria with a seat and registered management address: Sofia, 16, Iliensko Shousse St.

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

Subsidiaries

The Group subsidiaries as at 31 December 2017 are as follows:

- Sopharma Trading AD – a business entity registered in Bulgaria by Decision No. 3594/16.10.1998 of Varna District Court, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Pharmalogistica AD – a business entity registered in Bulgaria by Decision of Sofia City Court dated 12 August 2002, with a seat and management address: Sofia, 16, Rozhen Blvd.;
- Electroncommerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 24456 of 1991, with a seat and management address: Sofia, 1, Samokovsko Shousse St.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and management address: Sliven, 75, Trakiya Blvd.;
- Momina Krepost AD – a business entity registered in Bulgaria by Decision No. 3426/1991 of Veliko Tarnovo District Court, with a seat and management address: Veliko Tarnovo, 23, Magistralna St.;
- Sopharma Buildings REIT – a business entity registered in Bulgaria by Decision No. 1/14.08.2007 of Sofia City Court, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 20;
- Unipharm AD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 3685 of 1994, with a seat and management address: Sofia, 3, Traiko Stanoev St.;
- Phyto Palauzovo AD – a business entity registered in Bulgaria by Decision No. 20120924105551/24.09.2012 of the Registry Agency, with a seat and management address: Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;

- Sopharmacy EOOD – a business entity registered in Bulgaria by Decision No. 201501191300026/19.01.2015 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 2 EOOD – a business entity registered in Bulgaria by Decision No. 20150617110324/17.06.2015 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 3 EOOD – a business entity registered in Bulgaria by Decision No. 20151202165822/02.12.2015 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 4 EOOD – a business entity registered in Bulgaria by Decision No. 20160229093338/29.02.2016 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 5 EOOD – a business entity registered in Bulgaria by Decision No. 20160301155620/01.03.2016 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 6 EOOD – a business entity registered in Bulgaria by Decision No. 20140127170842/27.01.2014 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12 (Until 10 July 2016, the name of the company was Pharma Online EOOD);
- Sopharmacy 7 EOOD – a business entity registered in Bulgaria by Decision No 20170315161212/15.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 8 EOOD – a business entity registered in Bulgaria by Decision No 20170627142803/27.06.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12';
- Sopharmacy 9 EOOD – a business entity registered in Bulgaria by Decision No 20170911100706/11.09.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 10 EOOD – a business entity registered in Bulgaria by Decision No 20170911101412/11.09.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12.
- Veta Pharma AD – a business entity registered in Bulgaria under Company File No. 581/05.04.1999 of Veliko Tarnovo District Court, with a seat and management address: Veliko Tarnovo, 32, Dulga Luka St.;
- Aromania OOD – a business entity registered in Bulgaria by Decision No 4276/27.06.2005 of the Varna District Court, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 8;
- Pharmastore 1 EOOD – a business entity registered in Bulgaria by Decision No 20170302125338/ 02.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;

- Pharmastore 2 EOOD – a business entity registered in Bulgaria by Decision No 20170306085236/ 06.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Pharmastore 3 EOOD – a business entity registered in Bulgaria by Decision No 20170306080850/06.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Pharmastore 4 EOOD – a business entity registered in Bulgaria by Decision No 20170306081205/ 06.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Pharmastore 5 EOOD – a business entity registered in Bulgaria by Decision No 20170302134305/ 02.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharma Poland Z.O.O., Poland, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554/04.11.2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and management address: Poland, Warsaw, 58, Shashkova St.;
- Sopharma Warsaw SP. Z.O.O., Poland – a business entity registered in Poland by Decision No. DSR 0000372245 of 17 December 2010 by XII Economic Division of the State Court Register of Warsaw, with a seat and management address: Poland, Warsaw, 8, Halubinskiego St.;
- OOO Sopharma Ukraine, Ukraine – a business entity registered in Ukraine by Decision No. 10691020000029051/07.08.2012 in the Unified State Register of Legal Entities and Physical Entities-Entrepreneurs, with a seat and management address: Ukraine, Kiev, Oblonski Region, prospect Moskovskii No. 9, unit 4, floor 2, office 4-203;
- PAO Vitamini, Ukraine – a business entity registered in Ukraine by Decision No. 133/15.04.1994 of Uman City Court, with a seat and management address: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri St.;
- Sopharma Trading d.o.o. Belgrade, Serbia – a business entity registered in Serbia by BD 49136/2015 on 5 June 2015 of the Business Registers Agency in Belgrade with a seat and management address: Republic of Serbia, Belgrade, 13, Palmoticheva St.;
- Lekovit d.o.o., Serbia – a business entity registered in Serbia by Decision No 07829531/ 05.02.1992 of the Business Registers Agency – Serbia, Shabats Municipality, Shabats, 66, Yanka Vesselinovina St.;
- UAB TBS Pharma, Lithuania – a business entity registered in the Lithuanian Register of Legal Entities on 01.03.2013/ 303011389, with seat and management address – Lithuania, Vilnus, 8, Vitauto St./7, Liubarto St., postcode: 08118;
- TOO Sopharma Kazakhstan, Kazakhstan – a business entity registered in Kazakhstan by Decision No 5286-1910-04-TOO/06.11.2014 of the Ministry of Justice, Auezov District, with seat and management address: Kazakshatn, Almaty, Auezov District, Mamir-4, home 190;
- Rap Pharma International OOD, Moldova – a business entity registered in Moldova with decision No 1004601000376/ 11.02.2004 of the Moldova State Chamber of Registration, with seat at: Moldova, Kishinev, 58 Mitropolit Varlaam St., and management address: Moldova, Kishinev, 9/1 Uzinelor St.;

- SIA Briz, Latvia – a business entity registered in Latvia by Decision No. 000302737 / 18.09.1991 of the Commercial Registry of the Republic of Latvia, with a seat and management address: Latvia, Riga, Rasas No. 5, LV – 1057;
- SOOO Brititrade, Belarus – a business entity registered in Belarus by Decision No. 1983 / 24.09.2004 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 118, M. Bogdanovicha St., office 303 – B;
- OOO Tabina, Belarus – a business entity registered in Belarus by Decision No. 1432 / 29.12.1999 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 57, Kuybisheva St., ap.1;
- SOOO Brizpharm, Belarus – a business entity registered in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 800007989 / 07.07.2009, with a seat and management address: Belarus, Minsk, Esenina St., d. 16, ap. 1H;
- OOO Farmacevt Plus, Belarus – a business entity registered by the Minsk City Executive Committee on 24.11.2000 / No 1348 in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 190174236, with a seat and management address: Belarus, Minsk, 1 Tverdiy Pereulok, d. 7;
- OOO Galenapharm, Belarus – a business entity registered in Belarus by Decision dated 12.06.2013 of Brest Regional Executive Committee, with a seat and management address: Belarus, Brest Region, Pinsk, ul. Bretskaya 118-97;
- ODO Medjel, Belarus – a business entity registered in Belarus by Decision No. 1044 / 14.09.2000 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 60, Soltisa St.;
- ODO Alenpharm-plus, Belarus – a business entity registered in Belarus by Decision dated 25.09.2008 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 29, Logotskiy Tract;
- ODO Farmatea, Belarus – a business entity registered in Belarus by Decision dated 17.10.2012 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 20, Bakinskaya St.;
- ODO SalusLine, Belarus – a business entity registered in Belarus by Decision No. 287 / 05.05.2006 of Grodno City Executive Committee, with a seat and management address: Belarus, Grodno, 6, Vilenskaya St.
- ZAO Interpharm, Belarus – a business entity registered in the Unified State Register of Legal Entities and Individual Entrepreneurs under No 300000556, with seat and management address: Belarus, Vitebsk, Stroiteley Square, block 3, ap. 2;
- OOO Zdorovey, Belarus – a business entity registered in Belarus by Decision dated 04.06.2014 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 20, Bakinskaya St.;

- OOO Ivem & K, Belarus – a business entity registered in Belarus by Decision dated 27.07.2001 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 20, Bakinskaya St.;
- OOO Ariens, Belarus – a business entity registered in Belarus by Decision 605 dated 30.12.1996 of the Vitebsk City Executive Committee, with a seat and management address: Belarus, Polotsk, Shkolnaya Street.

On 22 February 2017 the business entity Medica-Zdrave EOOD was deregistered from the Commercial Register at the Registry Agency.

On 15 March 2017 Sopharmacy 7 EOOD was entered in the Commercial Register – a subsidiary of the Group through the subsidiary Sopharmacy EOOD.

On 14 April 2017 the Group acquired a controlling interest in Rap Pharma International OOD, Moldova.

On 26 April 2017, through the subsidiary SOOO Brititrade, Belarus, the Group acquired 50% of the capital of ZAO Interpharm, Belarus; as a result, the parent company acquired control and the entity was classified as a subsidiary.

On 17 May 2017 the Group disposed of its interest in the joint venture OOO Vivaton Plus, Belarus. The entity has been a joint venture of the Group since 20 December 2012 through SIA Briz, Latvia, with 50% interest.

On 27 June 2017, Sopharmacy 8 EOOD was entered in the Commercial Register – a subsidiary of the Group through the subsidiary Sopharmacy EOOD.

On 11 September 2017, Sopharmacy 9 EOOD and Sopharmacy 10 EOOD were entered in the Commercial Register – subsidiaries of the Group through the subsidiary Sopharmacy EOOD.

On 7 December 2017 the Group aquired control in Pharmastore 1 EOOD, Pharmastore 2 EOOD, Pharmastore 3 EOOD, Pharmastore 4 EOOD and Pharmastore 5 EOOD through it's subsidiary Sopharma Trading AD.

On 4 July 2017, the merger of ODO Mobil Line, Belarus, into ODO Medjel, Belarus, through combining the assets and liabilities of the two entities, was registered. The operations of the merged entity ODO Mobil Line, Belarus were discontinued, and all its rights and obligations as at that date were taken over by ODO Medjel, Belarus.

On 31 July the Group acquired controlling interest in Aromania OOD, Bulgaria.

On 1 August 2017, the merger of ODO BelAgroMed, Belarus and ODO Vestpharm, Belarus, into ODO SalusLine, Belarus, through combining the assets and liabilities of the three entities, was registered. The operations of the merged entities ODO BelAgroMed and ODO Vestpharm, Belarus, were discontinued, and all their rights and obligations as at that date were taken over by ODO SalusLine, Belarus.

On 8 August 2017, the merger of Medica AD into Sopharma AD was entered in the Commercial Register at the Registry Agency. As a result of the transaction, the entire property of Medica AD was transferred to Sopharma AD, and Medica AD was terminated without liquidation. The assets and liabilities of the two entities were combined as at the merger's accounting date – 1 January 2017.

On 9 August 2017 the Group acquired a controlling interest in Lekovit d.o.o., Serbia, through its subsidiary Sopharma Trading AD.

On 31 August 2017, the merger of ODO Alean, Belarus, into ODO Medjel, Belarus, through combining the assets and liabilities of the two entities, was registered. The operations of the merged entity ODO Alean, Belarus were discontinued, and all its rights and obligations as at that date were taken over by ODO Medjel, Belarus.

On 1 December 2017, the merger of OOO Danapharm, Belarus into OOO Galenapharm, Belarus, through combining the assets and liabilities of the two entities, was registered. The operations of the merged entity OOO Danapharm, Belarus were discontinued, and all its rights and obligations as at that date were taken over by OOO Galenapharm, Belarus.

On 16 February 2016, the Group, through its subsidiary SOOO Brititrade – Belarus, acquired 50% of the capital of OOO Mobil Line – Belarus and as a result the parent acquired control and the company was classified as a subsidiary.

On 24 March 2016, Medica Balkans S.R.L. – Romania, a subsidiary through Medica AD, was terminated by liquidation and deleted from the Commercial Register;

On 9 May 2016, the Group disposed of its interest in the subsidiary Ivančić and Sinovi d.o.o. – Serbia.

On 18 November 2016, a registration was made on the merger of UP Alphamed – Belarus into ODO Alenpharm-plus – Belarus through combining of the assets and liabilities of both companies. The operations of the merged-in company UP Alphamed – Belarus were terminated and all of its rights and obligations at the time of merger were assumed by ODO Alenpharm-plus – Belarus.

As a result of the merger, the Group acquired the majority stake of the capital of ODO SalusLine – Belarus and the classification of the latter was changed from an associate into a subsidiary.

On 5 December 2016, the Group disposed of its interest in the subsidiary OOO NPK Biotest – Belarus.

Joint ventures

The joint ventures of the Group as at 31 December 2017 are as follows:

- OOO Med-dent, Belarus – a business entity registered in Belarus by Decision No. 0018240 / 11.03.2013 of the Department of Economy at the Bobruysk City Executive Committee, with a seat and management address: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx St., office 4;
- BOOO SpetzApharmacia BOOO, Belarus – a business entity registered in Belarus by Decision No. 22-8 / 30.10.2000 of Mogilevsk District Executive Committee, with a seat and management address: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx St., office 2;
- OOO Bellerophon, Belarus – a business entity registered in Belarus by Decision No. 1193 / 17.07.2003 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 5-45 Storojevskaya St.;

Associates

The associates of the Group as at 31 December 2017 are as follows:

- Doverie Obedinen Holding AD – a business entity registered in Bulgaria by Sofia City Court under Company File No. 13056 of 1996, with a seat and management address: 1594 Sofia, 82, Knyaz Dondukov Blvd.

1.1. Ownership and management of the parent company

Sopharma AD is a public company under the Bulgarian Public Offering of Securities Act. Starting from November 2011, the shares of the company are being traded in the Warsaw Stock Exchange.

The shareholding structure of the parent company as at 31 December 2017 is as follows:

	%
Donev Investments Holding AD	25.20
Telecomplect Invest AD	20.41
Rompharm Company OOD	7.52
Mandatory Universal Pension Fund (MUPF) Allianz Bulgaria	5.17
Sopharma AD (treasury shares)	6.70
Other legal persons	27.76
Natural persons	7.24
	100.00

Sopharma AD has a one-tier management system with a five-member Board of Directors. Company's management in the form of Board of Directors is composed as at 31 December 2017 as follows:

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

The parent company is represented and managed by its Executive Director Ognian Donev, PhD. The Audit Committee supports the work of the Board of Directors and plays the role of those charged with governance that exercise monitoring and control over the internal control system, risk management and Company's system of financial reporting.

The composition of the Audit Committee is as follows:

Vasil Naidenov	Chairman
Tsvetanka Zlateva	Member
Kristina Atanasova	Member

1.2. Structure of the Group and principal activities

The structure of the Group includes Sopharma AD as a parent company and the subsidiaries stated below:

Subsidiaries ***Companies in Bulgaria***	**31.12.2017** ***Interest %***	**31.12.2016** ***Interest %***	***Date of acquisition of control***	***Date of disposal of control***
Sopharma Trading AD*	72.85	72.58	08.06.2006	
Pharmalogistica AD	89.39	84.93	15.08.2002	
Electroncommerce EOOD	100.00	100.00	09.08.2005	
Biopharm Engineering AD	97.15	97.15	10.03.2006	
Sopharma Buildings REIT	40.38	40.39	04.08.2008	
Momina Krepost AD	93.55	93.54	01.01.2008	
Unipharm AD *	98.77	77.89	27.10.2010	
Phyto Palauzovo AD	95.00	95.00	21.09.2012	
Sopharmacy EOOD**	72.85	72.58	19.01.2015	
Sopharmacy 2 EOOD**	72.85	72.58	05.06.2015	
Sopharmacy 3 EOOD**	72.85	72.58	02.12.2015	
Sopharmacy 4 EOOD**	72.85	72.58	29.02.2016	
Sopharmacy 5 EOOD**	72.85	72.58	01.03.2016	
Sopharmacy 6 EOOD**	72.85	72.58	03.12.2015	
Sopharmacy 7 EOOD**	72.85	-	15.03.2017	
Sopharmacy 8 EOOD**	72.85	-	27.06.2017	
Sopharmacy 9 EOOD**	72.85	-	11.09.2017	
Sopharmacy 10 EOOD**	72.85	-	11.09.2017	
Medica AD	-	97.96	26.10.2015	08.08.2017
Medica-Zdrave EOOD **	-	97.96	26.10.2015	22.02.2017
Veta Pharma AD	99.98	68.05	11.11.2016	
Aromania OOD	76.00	-	31.07.2017	
Pharmastore 1 EOOD**	72.85	-	07.12.2017	
Pharmastore 2 EOOD**	72.85	-	07.12.2017	
Pharmastore 3 EOOD**	72.85	-	07.12.2017	
Pharmastore 4 EOOD**	72.85	-	07.12.2017	
Pharmastore 5 EOOD**	72.85	-	07.12.2017	

** effective percentage of interest*
*** indirect interest*

Subsidiaries ***Companies abroad***	**31.12.2017** ***Interest %***	**31.12.2016** ***Interest %***	***Date of acquisition of control***	***Date of disposal of control***
SIA Briz	66.13	66.13	10.11.2009	
SOOO Brititrade **	52.90	52.90	10.11.2009	
PAO Vitamini	99.56	99.56	18.01.2008	
Sopharma Warsaw SP. Z.O.O.	100.00	100.00	23.11.2010	
Sopharma Trading d.o.o. Belgrade**	72.85	72.58	05.06.2015	
Sopharma Poland Z.O.O. – in liquidation	60.00	60.00	16.10.2003	
OOO Tabina **	54.37	62.82	08.04.2011	
SOOO Brizpharm **	31.45	46.26	20.12.2012	
ODO Alean **	-	62.96	07.02.2013	31.08.2017
OOO Sopharma Ukraine	100.00	100.00	07.08.2012	
OOO Farmacevt Plus **	35.60	42.98	31.05.2013	
UAB TBS Pharma**	33.73	33.73	01.03.2013	
ODO Vestpharm **	-	62.96	04.07.2013	01.08.2017
ODO BelAgroMed**	-	62.96	30.07.2013	01.08.2017
TOO Sopharma Kazakhstan	100.00	100.00	06.11.2014	
OOO Danapharm**	-	48.94	28.02.2015	01.12.2017

OOO Galenapharm**	54.62	48.94	28.02.2015	
ODO Medjel**	55.55	48.94	28.02.2015	
ODO Alenpharm-plus**	52.24	48.94	30.06.2015	
OOO Farmatea**	38.18	22.39	30.11.2015	
OOO Mobil Line**	-	48.94	16.02.2016	04.07.2017
ODO SalusLine**	52.24	48.74	18.11.2016	
Rap Pharma International OOD	51.00	-	14.04.2017	
ZAO Interpahrm **	59.52	-	26.04.2017	
Lekovit d.o.o.	50.96	-	09.08.2017	
OOO Zdorovei**	35.00	-	16.08.2017	
OOO Ivem&K**	39.62	-	16.08.2017	
OOO Ariens**	35.30	-	16.08.2017	

** effective percentage of interest*
*** indirect interest*

- Sopharma Trading AD is a subsidiary of Sopharma AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Sopharma Trading AD with 72.67% and the indirect participation of the parent company with 0.03% through the subsidiary Unipharm AD holding 0.18% of the capital of Sopharma Trading AD;
- Sopharma Buildings REIT is a subsidiary by virtue of a written agreement for control concluded between Sopharma AD and other shareholders;
- Sopharmacy EOOD is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy EOOD;
- Sopharmacy 2 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 2 EOOD;
- Sopharmacy 3 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 3 EOOD;
- Sopharmacy 4 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 4 EOOD;
- Sopharmacy 5 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 5 EOOD;
- Sopharmacy 6 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharmacy 7 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharmacy 8 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharmacy 9 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharmacy 10 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;

- Pharmastore 1 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Pharmastore 1 EOOD;
- Pharmastore 2 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Pharmastore 2 EOOD;
- Pharmastore 3 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Pharmastore 3 EOOD;
- Pharmastore 4 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Pharmastore 4 EOOD;
- Pharmastore 5 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Pharmastore 5 EOOD;
- Sopharma Trading d.o.o. Belgrade is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharma Trading d.o.o. Belgrade;
- Lekovit d.o.o. is a subsidiary of Sopharma Trading AD whereas the latter holds 70% of the capital of Lekovit d.o.o.;
- SOOO Brititrade, Belarus, is a subsidiary of SIA Briz, Latvia, whereas the latter holds 80% of the capital of SOOO Brititrade;
- OOO Tabina, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 11.1% of the capital, and SOOO Brititrade – 88.9% of the capital of OOO Tabina;
- SOOO Brizpharm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Pharcacevt Plus, Belarus, whereas SIA Briz holds 1.27% of the capital, and SOOO Pharcacevt Plus – 85.98% of the capital of SOOO Brizpharm;
- OOO Farmacevt Plus, Belarus, is a subsidiary through SIA Briz, Latvia, whereas the latter holds 53.84% of the capital of OOO Farmacevt Plus;
- UAB TBS Pharma, Lithuania, is a subsidiary through SIA Briz, Latvia, whereas the latter holds 51% of the capital of UAB TBS Pharma;
- OOO Galenapharm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 53% and SOOO Brititrade holds 37% of the capital of OOO Galenapharm;
- ODO Medjel, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 60% and SOOO Brititrade holds 30% of the capital of ODO Medjel;
- ODO Alenpharm-plus, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 35% and SOOO Brititrade holds 55% of the capital of ODO Alenpharm-plus;
- OOO Farmatea, Belarus, is a subsidiary through SIA Briz, Latvia, its subsidiary OOO Farmacevt Plus, Belarus, and the subsidiary OOO Ivem&K, Belarus, whereas SIA Briz holds 2%, OOO Farmacevt Plus holds 49%, and OOO Ivem&K holds 49% of the capital of OOO Farmatea;

- ODO SalusLine, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 35%, and SOOO Brititrade holds 55% of the capital of ODO SalusLine;
- ZAO Interpharm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 50%, and SOOO Brititrade – 50% of the capital of ZAO Interpharm;
- OOO Zdorovei, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary OOO Pharmacevt Plus, Belarus, whereas SIA Briz holds 19%, and OOO Pharmacevt Plus holds 63% of the capital of OOO Zdorovei;
- OOO Ivem&K, Belarus, is a subsidiary through SOOO Brititrade, Belarus, OOO Pharmacevt Plus, Belarus, and OOO Zdorovei, Belarus, whereas SOOO Brititrade and OOO Pharmacevt Plus hold 25% each, and OOO Zdorovei holds 50% of the capital of OOO Ivem&K.
- OOO Ariens, Belarus, is a subsidiary through OOO Pharmacevt Plus, Belarus, and OOO Zdorovei, Belarus, whereas OOO Pharmacevt Plus and OOO Zdorovei hold 50% each of the capital of OOO Ariens.

The principal business activities of the Group companies are focused on the pharmaceutical sector except for separate companies having principal business activities also in the field of investments in real estate and securities.

The parent company holds a permit for production/import of pharmaceuticals No P-I-10-14/B-I-21-002 / 28.10.2015, issued by the Bulgarian Drug Agency (BDA).

The principal business activities of the companies within the Group are as follows:

- Sopharma AD – production and trade in medicinal substances (active ingredients) and finished drug forms; research and development activities in the field of medicinal products;
- Sopharma Trading AD – trade in pharmaceutical products;
- Biopharm Engineering AD – production and trade in infusion solutions;
- Pharmalogistica AD – secondary packaging of pharmaceutical products and real estate leases;
- Electroncommerce EOOD – trade, transportation and packaging of radioactive materials and nuclear equipment for medicinal use, household electronics and electrical equipment;
- Sopharma Buildings REIT – investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale;
- Momina Krepost AD – development, implementation and production of medical goods for human and veterinary medicine;
- Unipharm AD – production and trade in pharmaceuticals;
- Phyto Palauzovo AD – production, collection, purchase, growing and trade in herbs and medicinal plants;
- Veta Pharma AD – production of medicinal, non-medicinal and other products;

- Sopharmacy EOOD – franchising, know-how, renting of property, trade and other;
- Sopharmacy 2 EOOD – retail trade in medicinal products;
- Sopharmacy 3 EOOD – retail trade in medicinal products;
- Sopharmacy 4 EOOD – retail trade in medicinal products;
- Sopharmacy 5 EOOD – retail trade in medicinal products;
- Sopharmacy 6 EOOD – online and off-line retail trade in medicinal products;
- Sopharmacy 7 EOOD – retail trade in medicinal products;
- Sopharmacy 8 EOOD – retail trade in medicinal products;
- Sopharmacy 9 EOOD – retail trade in medicinal products;
- Sopharmacy 10 EOOD – retail trade in medicinal products;
- Aromania OOD – development and marketing of food supplements;
- Pharmastore 1 EOOD – retail trade in medicinal products;
- Pharmastore 2 EOOD – retail trade in medicinal products;
- Pharmastore 3 EOOD – retail trade in medicinal products;
- Pharmastore 4 EOOD – retail trade in medicinal products;
- Pharmastore 5 EOOD – retail trade in medicinal products;
- PAO Vitamini, Ukraine – production and trade in pharmaceuticals;
- OOO Sopharma Ukraine, Ukraine – trade in pharmaceuticals and market and public opinion research;
- Sopharma Trading d.o.o. Belgrade, Serbia – consulting activities;
- Lekovit d.o.o. – wholesale trade in medicinal products;
- Sopharma Poland Z.O.O., Poland, in liquidation – market and public opinion research;
- Sopharma Warsaw SP. Z.O.O., Poland – wholesale trade in pharmaceutical and medicinal products and market and public opinion research;
- SIA Briz, Latvia – trade in pharmaceuticals;
- UAB TBS Pharma, Lithuania – trade in pharmaceuticals, production of finished drug forms and pharmaceutical products, research and development activities in the field of biotechnology;
- TOO Sopharma Kazakhstan, Kazakhstan – trade in pharmaceuticals;
- Rap Pharma International OOD, Moldova – trade in pharmaceuticals;
- SOOO Brititrade, Belarus – trade in pharmaceuticals;
- OOO Tabina, Belarus – trade in pharmaceuticals;
- SOOO Brizpharm, Belarus – trade in pharmaceuticals;
- OOO Farmacevt Plus, Belarus – trade in pharmaceuticals;
- OOO Galenapharm, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;

- ODO Medjel, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO Alenpharm-plus, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Farmatea, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO SalusLine, Belarus – retail trade in pharmaceuticals and medical equipment.
- ZAO Interpharm, Belarus – trade in pharmaceuticals and food supplements;
- OOO Zdorovei, Belarus – trade in pharmaceuticals;
- OOO Ivem&K, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Ariens, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals.

The parent company and the subsidiaries Sopharma Trading AD, Pharmalogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Sopharma Buildings REIT, Momina Krepost AD, Unipharm AD, Phyto Palauzovo AD, Sopharmacy EOOD, Sopharmacy 2 EOOD, Sopharmacy 3 EOOD, Sopharmacy 4 EOOD, Sopharmacy 5 EOOD, Sopharmacy 6 EOOD, Sopharmacy 7 EOOD, Sopharmacy 8 EOOD, Sopharmacy 9 EOOD, Sopharmacy 10 EOOD, Veta Pharma AD, Aromania OOD, Pharmastore 1 EOOD, Pharmastore 2 EOOD, Pharmastore 3 EOOD, Pharmastore 4 EOOD and Pharmastore 5EOOD perform their activities in Bulgaria; Sopharma Poland Z.O.O. (in liquidation) and Sopharma Warsaw SP. Z.O.O. operate in Poland; PAO Vitamini, OOO Sopharma Ukraine – in Ukraine; Sopharma Trading d.o.o. Belgrade and Lekovit d.o.o. – in Serbia; SIA Briz – in Latvia; SOOO Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, ODO SalusLine, ZAO Interpharm, OOO Zdorovei, OOO Ivem&K and OOO Ariens – in Belarus; UAB TBS Pharma – in Lithuania, TOO Sopharma Kazakhstan – in Kazakhstan, and Rap Pharma International OOD – in Moldova.

As at 31 December 2017, the interest of the Group in ***joint ventures*** is as follows:

- OOO Med-dent, Belarus, a joint venture through SIA Briz, Latvia – 50% interest jointly with a natural person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 17 December 2013.
- BOOO SpetzApharmacia, Belarus, a joint venture through SIA Briz – 50% interest jointly with a natural person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 20 January 2014.
- OOO Bellerophon, Belarus, a joint venture through SIA Briz – 50% interest jointly with a natural person. The principal activities of the joint venture include retail trade in pharmaceuticals, medical equipment and food supplements. The company has been a joint venture for the Group since 27 November 2014.

As at 31 December 2017, the interest of the Group in ***associates*** is as follows:

- Doverie Obedinen Holding AD – 32.57% interest of Sopharma AD. The principal activities of the company include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies – legal entities. The company has been an associate for the Group since 21 December 2016.

At the date of these consolidated annual financial statements, the average number of Group's personnel was 4,895 workers and employees (2016: 4,543 workers and employees).

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the activities of the Group companies throughout the period 2015 – 2017 are presented in the table below:

Indicator	**2015**	**2016**	**2017**
USD/BGN average for the year/period	1.76441	1.76833	1.71916
USD/BGN at end of the year/period	1.79007	1.85545	1.63081
PLN/BGN average for the year/period	0.46754	0.44846	0.45956
PLN/BGN at end of the year/period	0.46128	0.44347	0.46824
RSD/BGN average for the year/period	0.01620	0.01589	0.01612
RSD/BGN at end of the year/period	0.01608	0.01584	0.01651
UAH/BGN average for the year/period	0.08186	0.06916	0.06528
UAH/BGN at end of the year/period	0.07458	0.06881	0.05839
EUR/BGN average for the year/period	1.95583	1.95583	1.95583
EUR/BGN at end of the year/period	1.95583	1.95583	1.95583
1000 BYR/BGN average for the year/period	0.11167	-	-
1000 BYR/BGN at end of the year/period	0.09629	-	-
1 BYN/BGN average for the year/period	-	0.89057	0.89931
1 BYN/BGN at end of the year/period	-	0.95429	0.83112
KZT/BGN average for the year/period	0.00829	0.00518	0.00533
KZT/BGN at end of the year/period	0.00527	0.00555	0.00491
MDL/BGN average for the year/period	-	-	0.09393
MDL/BGN at the end of the year/period	-	-	0.09583

Source: BNB, National Banks of Ukraine, Poland, Serbia, Belarus, Kazakhstan and Moldova.

On 1 July 2016 the official currency of the Republic of Belarus – Belarusian Ruble was denominated and the currency code was changed from BYR to BYN. The nominal value of money was decreased at a ratio 10,000 to 1.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for the preparation of the consolidated financial statements

The consolidated financial statements of Sopharma Group 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 have been effective since 1 January 2017 and have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

For the current financial year the Group has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which are relevant to its activities. The adoption of these standards and/or interpretations, *practically effective in the European Union for annual financial periods beginning on 1 January 2017, and respectively – for entities in the Republic of Bulgaria*, has not caused changes in the accounting policies, except for some new disclosures and the expansion of those already adopted, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

The new and/or amended standards and interpretations include:

- *IAS 12 (amended) "Income Taxes" (in force for annual periods beginning on or after 1 January 2017 – endorsed by EC) – recognition of deferred tax assets for unrealised losses.* This amendment clarifies deferred tax assets in cases where an asset is measured at fair value and that fair value is below the tax base. The amendment clarifies that: (a) temporary differences arise regardless of whether the carrying amount of the asset is less than its tax base; (b) the respective entity should assess, when estimating its future taxable profits, whether it could deduct an amount higher than the carrying amount of the asset or not; (c) if, according to the tax legislation, there are restrictions for the use of taxable profits against which particular deferred tax assets can be recovered, the review and assessment of deferred tax assets recoverability should be made in combination with the remaining deferred tax assets of the same type; and (d) the deductions for tax purposes resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets. The management has done research and has determined that at this stage, it is not necessary to prepare expanded disclosures and/or restatements of deferred tax assets related to the above described cases.
- *IAS 7 (amended) "Statement of Cash Flows" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2017 – endorsed by EC).* This amendment is an important clarification of the standard itself with a focus on the information provided

to the users of financial statements in order to improve their understanding of the liquidity and the financing activities of the Group. The amendment requires that additional disclosures and clarifications be prepared in regards to the changes of liabilities of the Group from: (a) changes arising from financing activities as a result of transactions leading to changes in cash flows; or (b) changes resulting from non-cash transactions such as acquisitions and disposals, interest accrual, foreign currency exchange gains and losses, changes in fair values and other similar. Changes in the financial assets should be included in this disclosure if the resulting cash flows are presented under financing activities (e.g. in certain hedge transactions). It is allowable to include also changes in other items as part of the disclosure if they are presented separately. The management has done research and has made the necessary additional disclosure (*Note 29*).

At the issue date 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 2017, which have not been adopted for early application.

The management of the Group has concluded that out of them the following are likely to have a potential impact in the future for changes in the accounting policies and the classification and values of reporting items in the financial statements of the Group for subsequent periods, namely:

- *Annual Improvements to IFRSs 2014-2016 Cycle (December 2016) – improvements to IFRS 12 (in force for annual periods beginning on or after 1 January 2017 – endorsed by EC), IFRS 1 and IAS 28 (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application of the rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions:(a) the scope and requirements to the disclosures under IFRS 12 shall apply also to entities that are classified under IFRS as held for sale, as held for distribution or as discontinued operations, with the exception of aggregate financial information; (b) removal of certain exemptions in the application of IFRS 1 with regards to IFRS 7, IAS 19 and IFRS 10; and (c) the choice of venture capital funds or other similar entities to measure their investments in associates or joint ventures at fair value through profit or loss should be made for each individual investment in associates or joint ventures upon initial recognition (IAS 28).
- *IFRS 9 "Financial Instruments" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC). This is a new standard for financial instruments. It is ultimately intended to replace IAS 39 in its entirety.* The replacement project has passed through three phases: Phase 1: Classification and measurement of financial assets and financial liabilities; Phase 2: Hedge accounting; and Phase 3: Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 and finally in July 2014. Phase 1: Classification and measurement of financial assets and financial liabilities – by the first issues it replaces those parts of IAS 39 that refer to the classification and measurement of financial instruments. It sets out new principles, rules and criteria for

classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. IFRS 9 introduces a requirement that financial assets are to be classified based on entity's business model for their management and on the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for financial assets: amortised cost and fair value. The new rules will lead to changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated at fair value through current profit or loss (for credit risk). A specific feature of the classification and the 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. Phase 3: Impairment methodology – the amendment introduces the application of the 'expected loss' model. Under this model all expected credit losses of an amortisable financial instrument (asset) shall be recognised in three stages, depending on its credit quality change, and not only if a trigger event has occurred as per the current model under IAS 39. The three stages are: upon the initial recognition of the financial asset – impairment for the 12-month period or for the full lifetime of the asset; and respectively, upon the incurrence of the actual impairment. They also set out how to measure impairment losses and respectively the application of the effective interest rate. The impairment of debt instruments measured at fair value through the other comprehensive income is determined and measured by applying the same methodology which is used for financial assets at amortised cost. The management made an examination and determined, that the changes under the new standart have an impact on the Group's accounting policy, but are not expected to have a significant effect on the values and classification of Group's assets, liabilities, transactions, and performance, regarding their financial assets and liabilities. The effects of the analyzes are disclosed in Note 48.

- *IFRS 9 (amended) "Financial Instruments" – regarding prepayment features with negative compensation (in force for annual periods beginning on or after 1 January 2019 –endorsed by EC).* This change covers two aspects: (a) it amends the existing requirements in IFRS 9 by enabling entities to measure at amortised cost some financial assets and their passing of the "contractual cash flow characteristics" test, despite the availability of "prepayment features with negative compensation". Negative compensation exists when the terms of the contract allow the debtor to make an early repayment of the instrument prior to its maturity, and the amount repaid may differ from the outstanding principal and interest, but this negative compensation should be reasonable and relevant to the early termination of the contract. Prepayment itself is not a sufficient assessment indicator, i.e. depending on the interest rate prevailing at the time of termination a payment may also be made in favour of the contracting party effecting the early repayment. The calculation approach of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. Moreover, the respective asset should belong to the category of assets "held to collect contractual cash flows" according to the entity's business model; b) it confirms that when a financial liability measured at amortised cost is modified but not derecognised, the effect of the modification should be recognised in the profit or loss. The effect is measured as the difference between the original negotiated cash flows and the ones, following the modification, discounted at the original effective interest rate. The management is in the process of examining and determining the impact of the new guidance which may have an impact on the value and classification of Group's assets, liabilities, transactions, and performance. The management does not expect the guidance of the new IFRS 9 to have a significant impact on the classification or measurement of its financial instruments, or on the disclosures related thereto (*Note48*).

- *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 – 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 as at the date of the standard application by the Company and whether it chooses the option to restate prior periods. The management has chosen modified retrospective application of IFRS 9 on its adoption and will not restate comparative information. (*Note 48).*

- *IFRS 15 "Revenue from Contracts with Customers" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).* This is an entirely new standard. It introduces a single complex of principles, rules and approaches for recognition, accounting for and disclosure of information about the nature, amount, timing and uncertainties related to revenue and cash flows arising from contracts with customers. It will supersede all current standards related to revenue recognition, mainly IAS 18 and IAS 11 and the interpretations thereto. The main principle of the new standard is to provide a stepwise model whereby revenue amount and timing reflect the obligation characteristics and performance of each of the parties to the transaction. The key components include: (a) contracts with customers that are commercial in their substance and assessment of the probability for collecting contractual amounts by the entity in line with the terms and conditions of the particular contract; (b) identification of the separate performance obligations under the contract for providing of a good or service, that is distinct from the other assumed contractual commitments/promises, from which the customer would obtain benefits; (c) transaction price determination – the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer – special attention is paid to the variable component of price, the financing component, as well as the non-cash consideration; (d) allocation of the transaction price to separate performance obligations under the contract – usually on a stand-alone sale price of each component; and (e) the point of time or the period of revenue recognition – when an entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur at a point in time or over time. Clarifications are provided regarding: (a) identification of the performance obligations based on specific promises for the delivery of goods or services; (b) determining whether an entity acts as principal or agent in the provision of goods or services, and (c) license transfers. The expectation is that the introduction of this standard may lead to the more material changes: (a) in complex contracts with bundled sales of goods and services a clear distinction will be required between the goods and services of each component and provision of the contract; (b) probability for a change in the time of sale recognition; (c) expanding of disclosures; and (d) introduction of additional rules for recognising the revenue from a particular type of contracts – licences; consignment; one-time collection of preliminary fees; guarantees and other similar. The standard allows a full retrospective approach or a modified retrospective approach from the beginning of the current reporting period with particular disclosures for prior periods. The management has done research and has concluded that the changes made through the new standard will not have a significant impact on the Group's accounting policy and on the values, recognition and classification of assets, liabilities, transactions and performance of the Group with respect to its operating revenue and/or receivables, in as far as no change is expected in the business model or the time horizon for the transfer of control to the client with respect to the Group's services or the accounting for sales of finished products and goods. The effects of the analyzes are disclosed in *Note 48*

- *IFRS 16 "Leases" (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).* This standard has an entirely new concept. It establishes new principles for the recognition, measurement and presentation of a lease by introducing a new model with the objective to ensure a more faithful and adequate representation of such transactions both for lessee and lessor. The standard will supersede the effective so far standard related to leases – IAS 17. (a) The main principle of the new standard is the introduction of a single lessee accounting model in the statement of financial position – an asset will be recognised for all contracts with duration of more than 12 months in the form of a 'right-of-use', which will be subsequently depreciated over the duration of the contract, and respectively, a financial liability will be stated for the lease liability under the contracts. This is the significant change in the current accounting practice. The standard allows an exception and retaining the current practice for leases of low-value assets and short-term leases. (b) There would not be any significant changes for lessors and they would continue to account for leases as per the old standard IAS 17 – as operating and finance lease. As far as the new standard introduces a more thorough concept, a more detailed analysis of contractual terms should be carried out on their part as well and it is possible that grounds for reclassification of particular lease transactions may occur for them (lessors), too. The new standard requires more extensive disclosures. The management has selected modified retrospective first-time application of IFRS 16 and will not restate comparative data. The effects of the initial analyses made thereby are disclosed in *Note 48*.

- *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 associates or joint ventures (postponed effective date).* These amendments address the accounting treatment of the sale or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the assets sold or contributed constitute in substance a business as defined in IFRS 3. If these assets as an aggregate do not meet the definition of a business, then the investor shall recognise gain or loss only to the extent of other unrelated investor's interests in the associate or joint venture. In cases of sale or contribution of assets, which as an aggregate constitute a business, the investor shall recognise the full gain or loss on the transaction. The amendments will be applied on a prospective basis. IABS postponed the initial date of application of these amendments for an indefinite period.

- *IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding long term interests in associates and joint ventures (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC).* The amendment clarifies that an entity applies IFRS 9 including its impairment requirements regarding long term interests in associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. A change in the intents and plans of the management are not regarded as evidence for a change in use.

- *IAS 40 (amended) "Investment Property" – regarding transfers of investment property (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).* The amendment refers to an additional clarification regarding the terms and criteria that allow transfers of property, incl. property under construction and/or undergoing reconstruction and alteration to, or from, the category 'investment property'. Such transfers are only eligible when the property meets, or respectively, ceases to meet, the criteria and definition of investment property – when evidence exists for a change in its use. A change in the intents and plans of the management are not regarded as evidence for a change in use. The amendment may be applied prospectively or retrospectively, subject to compliance with the rules set thereby. The Group's management is still considering the potential impact of this standard on the Group's financial statements.

- *IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).* This Interpretation applies to the accounting for a foreign currency transaction or part of it on the receipt of advance consideration before the entity recognises the related asset, expense or income. In these cases the entities shall recognise first a non-monetary asset for the advance consideration (advance consideration paid on supply of assets or services) or a non-monetary liability for deferred income (advance consideration received from clients on sales). Upon receipt of such advance consideration in a foreign currency, the transaction date shall be used to determine the exchange rate while in case of multiple payments the entity shall determine a date of the transaction for each individual payment. Following this, the interpretation clarified that upon the initial recognition of the respective asset, expense or income, as a result of the payment or receipt of advance consideration or a series of payments or receipts in a foreign currency, the transaction date is the date of initial recognition of the non-monetary asset or liability (in case of one-off payment/receipt) or the date of each separate payment/receipt. This Interpretation may be applied on a fully retrospective basis or prospectively, either: (a) from the beginning of the reporting period in which it is first applied; or (b) from the beginning of the period preceding the period in which the entity first applies the interpretation. The management is still considering the potential impact of this interpretation on the Group's financial statements.

- *IFRIC 23 (amended) "Uncertainty over Income Tax Treatments" (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC).* This Interpretation provides guidance on the accounting for income tax when tax treatments involve uncertainty that affects the application of IAS 12. It does not apply to taxes or other state levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation addresses the following: (a) whether an entity considers uncertain tax treatments separately; (b) the assumptions an entity makes about the examination and assessment of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; (d) how an entity considers and treats changes in facts and circumstances; and (e) an entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The management is still considering the potential impact of this interpretation on the Group's financial statements.

- *Annual improvements to IFRSs 2015-2017 Cycle (December 2017) – improvements to IAS 23, IAS 12 and IFRS 3 in relation to IFRS 11 (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application of the rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items and transactions: (a) they clarify that when an entity acquires control over a business which constitutes a joint venture, it should restate its previous holding in the business under IFRS 3. It is further clarified that when an entity acquires a joint control over a business which constitutes a joint venture, it should not restate its previous holding in the business under IFRS 11; (b) they clarify that all tax consequences on dividend income (i.e. upon profit distribution) should be stated within profit or loss irrespective of how they occurred – upon the application of IFRS 12; and (c) they clarify if under special-purpose loans concluded to finance a specific asset remain outstanding after the asset is ready for its intended use or disposal, these loans become part of general-purpose financing, and capitalisation rate is calculated under IAS 23. The management is still considering the potential impact of these amendments on the Group's financial statements.

- *IAS 19 (amended) – "Plan Amendment, Curtailment or Settlement" (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC).* This plan clarifies that in case of a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

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

- *IFRS 17 "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2021 – not endorsed by EC).* This is an entirely new accounting standard on all types of insurance contracts, including some guarantees and financial instruments, and includes rules on recognition and measurement, presentation and disclosure. The standard will supersede the effective so far standard related to insurance contracts – IFRS 4. It establishes an entirely new overall model for insurance contracts' accounting, covering all relevant accounting aspects. It is not applicable to the Group's operations.
- *IFRS 2 (amended) "Share-based Payment" – Classification and measurement of share-based payment transactions (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* These amendments clarify three major issues: (a) the treatment of the conditions and effects related to obtaining vested rights in the measurement and accounting for cash-settled share-based payment transactions; (b) approach for the classification of share-based payment transactions with net settlement features for the purposes of withholding personal tax for entity's employees (in the form of equity instruments) – by introducing an exception from the common rule in order to achieve a facilitation in the practice, these transactions shall be classified in a way as if in the absence of the net share settlement feature; and (c) a new rule of accounting whereby a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.
- *IFRS 4 (amended) "Insurance Contracts" in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).* This amendment is related to the need to synchronise the reporting of entities that issue insurance contracts and which fall within the scope of IFRS 9, but prior to the adoption of the future IFRS 17. It defines two approaches – the overlay approach and the temporary deferral approach (subject to certain conditions) under IFRS 9. Both approaches are valid until the entry into force of the new IFRS 17. It is not applicable to the Group's operations.
- *Changes in the Conceptual Framework for Financial reporting - (in force for annual periods from 01.01.2020 - not endorsed by EC).* These changes include revised definitions of "asset"

and "liability", as well as new guidelines for their measurement, derecognition, presentation and disclosure.

The consolidated financial statements have been prepared on a historical cost basis except for: a/ property, plant and equipment, which are measured at revalued amount; and b/ investment property and available-for-sale financial instruments, which are measured at their fair value at the date of the consolidated statement of financial position.

The Bulgarian subsidiaries of the Group and the associate Doverie Obedinen Holding AD maintain their accounting books in Bulgarian Lev (BGN), which is accepted as being their functional and presentation currency. The subsidiaries, associates and joint ventures abroad organise their accounting and reporting in accordance with the requirements of the respective local legislation: OOO Sopharma Ukraine and PAO Vitamini – the Ukrainian legislation; Sopharma Trading d.o.o. Belgrade and Lekovit d.o.o. – the Serbian legislation; SIA Briz – the Latvian legislation; UAB TBS Pharma – the Lithuanian legislation; SOOO Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, ODO SalusLine, ZAO Interpharm, OOO Ivem K, OOO Ariens and OOO Zdorovei – the Belarusian legislation; OOO Med-dent, BOOO SpetzApharmacia and OOO Bellerophon – the Belarusian legislation, Sopharma Poland Z.O.O. (in liquidation), Sopharma Warsaw SP. Z.O.O. – the Polish legislation; TOO Sopharma Kazakhstan – the legislation of Kazakhstan, and Rap Pharma International OOD – the Moldovan legislation. The companies keep their accounting ledgers in the respective local currency – Belarusian Ruble (BYN), Ukraine Hryvnia (UAH), Serbian Dinar (RSD), Euro (EUR), Polish Zloty (PLN), Kazakhstan Tenge (KZT), and Moldovan Leu (MDL).

The data in the consolidated financial statements and the notes thereto are presented in thousand Bulgarian Levs (BGN'000), unless explicitly stated otherwise, and the Bulgarian Lev is accepted as the reporting and presentation currency of the Group. According to the policies of the Group, the financial statements of the Group companies abroad are restated from the local currency to Bulgarian Levs for the purposes of the consolidated financial statements *(Note 2.5).*

The presentation of the consolidated financial statements in accordance with IFRS requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities and the disclosure of contingent receivables and payables as at the date of the financial statements, and respectively, on the reported amounts of income and expenses for the reporting year.

These estimates, accruals and assumptions are based on the information, which is available at the date of the consolidated financial statements, and therefore, the future actual results might be different from them (whereas in a situation of financial crisis the uncertainties are much more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed in *Note 2.31, and Notes 14, 16, 17, 18, 19, 23, 24 and № 41*

2.2. Definitions

Parent company

This is a company that has control over one or more other companies, in which it has invested. Having control means that the investor is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

The parent company is Sopharma AD, Bulgaria *(Note 1)*.

Subsidiary company

A subsidiary is a company, or another entity, that is controlled directly or indirectly by the parent company.

The subsidiary companies are consolidated as from the date on which the effective control over them has been acquired by the Group and are de-consolidated as from the date when the control over them ceases and is transferred outside the Group. The full consolidation method is applied for their consolidation.

The subsidiary companies are presented in *Note 1.2.*

Joint venture

A joint venture is a company or another entity established by virtue of a contractual arrangement between the parent company as an investor and one or more other parties (companies) that start a common business undertaking, and on which the joint venturers (including the parent, which also has such a status) have a joint control. Joint control exists when it is contractually agreed that the strategic financial and operating decisions, relating to the joint venture, shall require mandatory unanimous consent of the joint venturers. The latter have rights to the net assets of the joint venture.

The joint venture is included in the consolidated financial statements of the Group by applying the equity method – as from the date on which the joint control has been acquired by the venturer (the parent company) and its consolidation under this method is ceased when the joint venture is transformed into a subsidiary or when the joint control is transferred from the venturer to third parties.

The joint ventures are: OOO Med-dent, OOO Bellerophon and BOOO SpetzApharmacia – Belarus *(Note 1.2)*.

Associate

An associate is a company in which the investor (the parent company) exercises significant influence but is neither a subsidiary nor a joint venture with the investor.

Significant influence is the right of participation in decision-taking with regard to financial and operating policies of the investee but is not control or joint control over these policies. Usually it exists in case of: (a) possession by the investor, directly or indirectly, of 20% to 50% of the shares in the capital of the investee company (including by virtue of an agreement between shareholders), and (b) in addition, the investor is represented in the managing body of the investee and/or participates in the decision-taking process with regard to the policy and strategy of the investee, and/or significant transactions exist between the investor and the investee.

The associate is included in the consolidated financial statements of the Group by applying the equity method – from the date on which the investor (the parent company) acquires significant influence and its consolidation under this method is ceased when associate is transformed into a subsidiary or when it is accepted that the significant influence is transferred from the investor to third parties.

The associate company is and Doverie Obedinen Holding AD *(Note 1.2)*.

2.3. Consolidation principles

The consolidated financial statements include the financial statements of the parent company and the subsidiaries, the joint ventures and the associates, prepared as at 31 December, which is the end date of the Group's financial year. The 'economic entity' assumption has been applied in the consolidation whereas for the measurement of non-controlling interest in business combinations and other forms of acquisition of subsidiaries for which the 'proportionate share of net assets' method has been chosen.

For the purposes of consolidation, the financial statements of the subsidiaries, the joint ventures and the associates have been prepared for the same reporting period as the parent company using uniform accounting policies.

2.3.1. Consolidation of subsidiaries

In the consolidated financial statements, the financial statements of the included subsidiaries are consolidated under the 'full consolidation' method, line-by-line, by applying accounting policies that are uniform with regard to the significant reporting items. The investments of the parent company are eliminated against its share in the equity of the subsidiaries at the date of acquisition. Intra-group transactions and balances, including unrealised intra-group gains and losses, are eliminated in full. The effect of deferred taxes has been taken into account in these eliminating consolidation entries.

The shares of shareholders – third parties in the subsidiaries other than these of the shareholders of the parent company are presented separately in the consolidated statement of financial position, the consolidated statement of comprehensive income and the statement of changes in equity as 'non-controlling interest'. The non-controlling interest includes: (a) the combined share of the shareholders – third parties at the date of initial consolidation in the fair value (deemed cost) of all identifiable assets acquired, liabilities and contingent (crystallised) liabilities of the respective subsidiaries assumed, determined (based on the share) through the proportionate method, and (b) the change in the share of these third parties in the equity of each respective subsidiary from their initial consolidation to the end of the reporting period.

2.3.2. Acquisition of subsidiaries

The acquisition (purchase) method of accounting is used on the acquisition of a subsidiary (entity) by the Group in business combinations. The consideration transferred includes the fair value at the date of exchange of the assets transferred, the incurred or assumed liabilities and the equity instruments issued by the acquirer in exchange of the control over the acquiree. It includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related direct costs are recognised as current expenses when incurred except for the issue costs of debt or equity instruments, which are recognised as equity components.

All identifiable assets acquired, liabilities and contingent (crystallised) liabilities assumed in the business combination are measured initially at their fair values at the date of exchange. Any excess of the aggregate consideration transferred (measured at fair value), the amount of non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquiree's previously held equity, over the acquired identifiable assets and assumed liabilities of the acquirer, is treated and recognised as goodwill. If acquirer's share in the fair value of acquired net identifiable assets exceeds the cost of acquisition of the business combination, this excess is recognised immediately in the consolidated statement of comprehensive income of the Group in the item 'gains/(losses) on acquisition/(disposal) of subsidiaries'. Any non-controlling interest in a business combination is measured based on the method of the 'proportionate share of the net assets' of the acquiree.

When a business combination for the acquisition of a subsidiary is achieved in stages, all previous investments held by the acquirer at the acquisition date are revalued to fair value and the effects of this revaluation are recognised in the current profit or loss of the Group, respectively in 'finance income' and 'finance costs' or 'gains/(losses) from associates and joint ventures', and all previously recorded effects in other comprehensive income are recycled.

2.3.3. Disposal of subsidiaries

On sale or other form of loss (transfer) of control over a subsidiary:

- The carrying amounts of the assets and liabilities (including any attributable goodwill) of the subsidiary are derecognised at the date when control is lost;
- The non-controlling interest in the subsidiary is derecognised at carrying amount in the consolidated statement of financial position at the loss of control date, including all components of other comprehensive income related thereto;
- The fair value of the consideration received from the transaction, event or operation that resulted in the loss of control is recognised;
- All components of equity, representing unrealised gains or losses in accordance with the respective IFRS under the provisions of which these components fall, are reclassified to 'profit or loss for the year' or are transferred directly to retained earnings;
- Any resulting difference as a 'gain or loss from a disposal (sale) of a subsidiary' attributable to the parent is recognised in the consolidated statement of comprehensive income.
- The remaining shares held that form investments in associates, joint ventures or available-for-sale investments are initially measured at fair value at the date of sale and subsequently – following the accounting policy adopted by the Group *(Note 2.13 and Note 2.14).*

The acquisition (purchase-and-sale) method is applied also in transactions of uniting and/or restructuring of entities under a common control with companies of the Group, provided that they represent direct acquisitions from the perspective of the parent company.

2.3.4. Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with holders of the common equity of the Group. The effects from sales of parent company's shares, without loss of control, to holders of non-controlling interests are not treated as components of the current profit or loss of the Group but as movements directly in its equity components, usually to the 'retained earnings' reserve. And vice versa, when the parent company purchases additional shares from holders of non-controlling interest, without acquisition of control, the difference between the consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is also directly recognised in the consolidated statement of changes in equity, usually to the 'retained earnings' reserve.

When the Group ceases to have control, joint control and significant influence, any retained minority investment as interest in the capital of the respective entity, is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. Respectively, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of all components related to the initial investment (in a subsidiary, joint venture or associate).

2.3.5. Consolidation of associates and joint ventures

Associates and joint ventures are included in the consolidated financial statements by applying the equity method whereby the investment of the parent company is initially stated at cost and is subsequently recalculated to reflect the changes in investor's (the parent company) share in the post-acquisition net assets of the associate or joint venture. Group's investment in an associate or joint venture includes also the goodwill identified on their acquisition net of any recognised impairment.

The post-acquisition gains or losses for the Group (through the parent company) from associates and joint ventures for the respective reporting period represent its share in the net (post-tax) financial results of their business activities for the period, which share is recognised and presented on a separate line in the consolidated statement of comprehensive income. Analogously, the Group's share in post-acquisition changes in other components of comprehensive income of associates and joint ventures is also recognised and presented as movement in the other components of comprehensive income in the consolidated statement of comprehensive income, and respectively the consolidated reserves of the Group - in the statement of changes in equity. The Group recognises its share in the losses of associates and joint ventures up to the amount of its investment, including the granted internal loans, unless it has assumed certain obligations or payments on behalf of the associate or joint venture.

The internal accounts and balances between the Group and associates and joint ventures are not eliminated. The unrealised gains or losses from transactions between them are eliminated to the percentage of Group's interest in the associates and joint ventures by also making tests for impairment in case of loss. The effect of deferred taxes on these consolidation procedures has also been taken into account.

2.4. Comparatives

In these consolidated financial statements, the Group presents comparative information 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.

2.5. Functional currency and recognition of exchange differences

The functional currency of the Group companies in Bulgaria being also presentation currency for the Group is the Bulgarian Lev. The Bulgarian Lev is fixed to the Euro, under the BNB Act, at the ratio 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, 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 consolidated statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate.

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

The functional currency of the companies in Poland (Sopharma Poland Z.O.O. (in liquidation) and Sopharma Warsaw SP. Z.O.O.) is the Polish Zloty, of the subsidiary TOO Sopharma Kazakhstan – the Kazakhstan Tenge, of the subsidiaries in Ukraine (PAO Vitamini, OOO Sopharma Ukraine) – the Ukrainian Hryvnia, of the subsidiary in Serbia (Sopharma Trading d.o.o. Belgrade, Lekovit d.o.o.) – the Serbian Dinar, of the subsidiary in Latvia (SIA Briz) and the company in Lithuania (UAB TBS Pharma) – the Euro, of the subsidiaries in Belarus (SOOO Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Mobil Line, OOO Farmatea, ODO SalusLine, ZAO Interpharm, OOO Zdorovei, OOO Ivem&K and OOO Ariens) – the Belarusian Ruble, and of the subsidiary in Moldova (Rap Pharma International OOD) – the Moldovan Leu.

For the purposes of the consolidated financial statements, the financial statements of the subsidiaries abroad are restated from the functional currency of the respective subsidiary to the presentation currency (BGN) accepted for the consolidated financial statements, whereas:

(a) all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency thereto at 31 December or at the date of disposal of the company;

(b) all income and expenses are restated to the currency of the Group at average rate of the local currency thereto for the reporting period *(Note 2.6 and Note 2.7);*

(c) all exchange differences resulting from the restatements are recognised and presented as a separate component of equity in the consolidated statement of financial position – 'translation of foreign operations reserve', and

(d) the exchange differences resulting from the restatement of the net investment in the companies abroad together with the loans and other currency instruments, accepted as hedge of these investments, are presented directly in equity.

On disposal (sale) of a foreign operation (company), the cumulative amount of exchange differences that have been directly stated as a separate component of equity, are recognised as part of the profit or loss in the consolidated statement of comprehensive income on the line 'gains/(losses) on acquisition and disposal of subsidiaries, net', obtained on disposal (sale).

Goodwill and adjustments to fair value arising on acquisition of a company abroad are treated analogously to the assets and liabilities of this company and are restated to the presentation currency at closing exchange rate.

2.6. Revenue

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

The types of Group's revenue are presented in *Notes 3, 4 and 11*.

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

Upon rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period, if this stage as well as the costs incurred for the transaction and the costs to complete the transaction, 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.

Revenue on sale of goods under a loyalty programme are allocated between the programme and the other components of the transaction (sale of goods).

The amount received under the loyalty programme is deferred as a liability and is recognised as income when the company fulfils its obligations to provide the promoted products in line with the programme terms or when its becomes unlikely that the points under the programme will be used.

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

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

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

Finance income is included in the consolidated statement of comprehensive income (within profit or loss for the year) when earned and comprises: interest income on granted loans and term deposits, interest income on receivables under special contracts, interest income on past due receivables, income/gains from deals with investments in available-for-sale securities including dividends, net gains on exchange differences under loans in foreign currency, income from debt settlement transactions, gain on fair value measurement of available-for-sale investments in the acquisition of a subsidiary performed in stages They are presented separately from of finance costs on the face of the consolidated statement of comprehensive income (within profit or loss for the year).

2.7. Expenses

Expenses are recognised in the Group when they are incurred based on the accrual and matching concepts (to the extent that this would not lead to recognition of an asset or liability not satisfying the definitions for assets and liabilities in the Framework and IFRS themselves).

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

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

Finance costs are included in the consolidated statement of comprehensive income (within profit or loss for the year) when incurred separately from finance costs and comprise: interest expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, expenses/losses from investments in available-for-sale securities, expenses on debt settlement transactions, loss on fair value measurement of available-for-sale investments in the acquisition of a subsidiary performed in stages.

2.8. Mandatory dividend for distribution

The subsidiary company Sopharma Buildings REIT has the status of a joint-stock special-purpose investment company within the meaning of the Bulgarian Special Purpose Investment Companies Act (SPICA). For this reason, the company has specific policy for distribution of dividends to shareholders in line with the requirements of the law, namely:

- the company is obliged by law to distribute as dividend not less than 90% of the generated profit for the respective financial year adjusted in accordance with SPICA; and
- the distribution of the remaining 10% is determined by a decision of the General Meeting of Shareholders as per the common procedure of the Bulgarian Commercial Act, including for dividend payment.

The statutory dividend at an amount of not less than 90% of the generated profit is recognised as a liability in the current year and in decrease (mandatory distribution) of the current profit for the year.

In 2016 and 2017, the subsidiary did not distribute mandatory dividend as it reported a negative financial result (loss).

2.9. Property, plant and equipment

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

Initial acquisition

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

Property, plant and equipment of acquired subsidiaries are measured at fair value at the transaction (business combination) date which is accepted as acquisition price for consolidation purposes.

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 Group credit resources with analogous maturity and purpose.

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

The Group 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 – 7-25 years;
- computers and mobile devices – 2-5 years;
- motor vehicles – 5-17 years;
- servers and systems – 4-12 years;
- furniture and fixtures – 6-12 years.

The useful life set for any tangible fixed asset is reviewed by the management of each company within the Group and respectively, by the parent company, at the end of each reporting period and in case of any material deviation from the future expectations of their period of use, the latter is adjusted prospectively.

Impairment of assets

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

Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' group are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' on the face of the consolidated 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 consolidated statement of changes in equity.

2.10. 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 or other alternative sources of current prices. Gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and changes in fair value less estimated costs to sell is recognised in the consolidated 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 Group changes its approach and switches to measuring the asset at fair value less the estimated costs to sell.

2.11. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition (the consideration given) over the fair value of Group's share in the net identifiable assets of the acquired company at the date of acquisition (the business combination). Goodwill is initially measured in the consolidated financial statements at acquisition cost (cost) and subsequently – at cost less accumulated impairment losses. Goodwill is not amortised.

Goodwill arising on the acquisition of a subsidiary is presented in the consolidated statement of financial position in the group of 'intangible assets' while goodwill arising on the acquisition of a joint venture or an associate (entities) is incorporated in the total amount of the investment and is stated in the group of 'investments in joint ventures' or respectively 'investments in associates'.

The goodwill on the acquisition of joint ventures and associates (entities) is tested as part of the total balance (amount) of the investment. The individually recognised goodwill on the acquisition of subsidiaries (entities) is mandatory tested for impairment at least once in a year. Impairment losses on goodwill are not subsequently reversed. Gains or losses on the sale (disposal) of a particular subsidiary (entity) of the Group include the carrying amount of the goodwill relating to the entity sold (disposed of).

On the realisation of a particular business combination, each recognised goodwill is allocated to a particular cash generating unit and this unit is used for impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairment losses on goodwill are presented in the consolidated statement of comprehensive income (within profit or loss for the year) in the item 'impairment of non-current assets'.

Other intangible assets

Intangible assets are stated in the consolidated financial statements at acquisition cost less accumulated amortisation and any impairment losses in value. The intangible assets include mainly intellectual property rights, software and complex intangible assets (licences and pharmacy chain locations).

The Group applies the straight-line amortisation method for the intangible assets with determined useful life from 3 to 18 years.

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

Intangible assets are derecognised from the consolidated 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 net under 'other operating income/(losses), net' on the face of the consolidated statement of comprehensive income (within profit or loss for the year).

2.12. Investment property

Investment property is property lastingly held by the Group to earn rentals and/or for capital appreciation. They are presented in the consolidated statement of financial position at fair value. Gains or losses arising from a change in the fair value of investment property are recognised in the consolidated 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 of the consolidated statement of comprehensive income.

Investment properties are derecognised from the consolidated statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal. Gains or losses arising from the disposal of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset at the disposal date.

They are presented under 'other operating income/(losses), net' in the consolidated 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 functional designation and the use of a particular property. In case of a transfer from 'investment property' to 'owner-occupied property', the asset is recognised in the new group at deemed cost, which is its fair value at the date of transfer. To the opposite, in case of a transfer from 'owner-occupied property' to 'investment property' the asset is measured at fair value at the date of transfer while the difference to its carrying amount is presented as a component of the consolidated statement of comprehensive income (within other comprehensive income) and within 'revaluation reserve – property, plant and equipment' in the statement of changes in equity.

2.13. Investments in associates and joint ventures

Long-term investments, representing shares in associates and joint ventures, are presented in the consolidated financial statements under the equity method – value that includes the acquisition cost being the fair value of the consideration paid, including the direct costs on investment acquisition adjusted by investor's share of profits or losses and respectively the other reserves of the joint ventures and associates after the dates of their acquisition.

The share of profits and losses after the date of acquisition of an associate and a joint venture is presented on a separate line in the consolidated statement of comprehensive income (within profit or loss for the year) while the share of other components of comprehensive income – on the respective line of the consolidated statement of comprehensive income (within other comprehensive income) and as a separate movement of the individual components of reserves in the consolidated statement of changes in equity.

The investments in associates and joint ventures held by the Group together with the included goodwill are subject to review for impairment at the date of the financial statements. Where conditions for impairment are identified and its amount is determined, the impairment is included in the consolidated statement of comprehensive income (within profit or loss for the year) in the item 'gain/(loss) from associates and joint ventures'.

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

Investments in associates and joint ventures are derecognised when the rights related thereto are transferred to third parties as a result of occurrence of legal rights for that and thus the significant influence over or joint control of the economic benefits from the investments is being lost. The income from their sale is presented in 'gain/(loss) from associates and joint ventures' of the consolidated statement of comprehensive income (within profit or loss for the year).

2.14. Available-for-sale investments and financial assets at fair value through profit

2.14.1. Available-for-sale investments

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

Initial measurement

Available-for-sale investments (financial assets) are initially recognised at cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition *(Note 2.25.1)*.

Subsequent measurement

The available-for-sale investments (financial assets), held by the Group, are subsequently measured at fair value *(Note 2.30)* 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 consolidated statement of comprehensive income (within other comprehensive income) and recognised in the consolidated 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 (non-controlling interests) is recognised as current income and presented in the consolidated statement of comprehensive income (within profit or loss for the year) within the item 'finance income'.

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

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

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

Where conditions for impairment are identified, the latter is determined as the difference between the carrying amount and the recoverable value of the investment and is recognised in the consolidated 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 consolidated statement of comprehensive income (within other comprehensive income).

2.14.2. Financial assets at fair value through profit

The financial assets at fair value through profit are non-derivative assets acquired for the purpose of gaining current income through shares in funds for investing of cash collected in a portfolio of various companies. These instruments represent held shares in investments funds. The shares in investment funds are initially measured at acquisition cost. The direct transaction costs of the purchase are stated as expense. Subsequently, at the end of each reporting period, they are measured at fair value determined on the basis of the terms and conditions for participation. The fair value is calculated and analysed by the investment funds themselves. The effects of revaluation to fair value are recognised immediately in the consolidated statement of comprehensive income as 'finance income' or 'finance costs'.

2.15. Inventories

Inventories are valued in the consolidated financial statements as follows:

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

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

- raw materials, materials and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage (sale);
- finished products, semi-finished products and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour

and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs.

The inclusion of fixed production overheads in the production cost of finished products, semi-finished products and work in progress is based on normal production capacity.

They are allocated to finished products on the following bases chosen by the Group:

- for production of medicinal products – the standard rate of man-hours of directly engaged staff in the production of the particular unit;
- for production of infusion solutions – quantity of manufactured finished products;
- for production of plastic medical disposable products – planned cost of manufactured finished products.

The parent company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard purchase cost' for basic raw materials and other production materials. At the end of each reporting period the management performs analysis of factors leading to variances on: (a) the supply of raw materials and other production materials – by comparing the actual and standard acquisition costs, and (b) the production of finished products, semi-finished products and work in progress – by comparing the actual and standard production costs. Where necessary, the value of inventories, included in the financial statements, is adjusted.

On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the consolidated financial statements.

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

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

2.16. Trade and other receivables

Trade receivables are recognised in the consolidated financial statements and carried at fair value based on the original invoice amount (cost) less any allowance for uncollectable debts. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the receivables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method *(Note 2.25).*

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 consolidated statement of comprehensive income (within profit or loss for the year).

2.17. Interest-bearing loans and other financial resources granted

All loans and other financial resources granted are initially recognised at cost (nominal amount), which is accepted to be the fair value of the consideration received on 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 and presented in the consolidated financial statements at amortised cost by applying the effective interest rate method. Amortised cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as 'finance income' (interest) or 'finance costs' throughout the amortisation period, or when the receivables are settled, derecognised or reduced.

Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) the Group has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period *(Note 2.25).*

2.18. Cash and cash equivalents

Cash includes cash in hand and cash at current accounts while cash equivalents include bank deposits, the funds of which are freely available to the companies of the Group in accordance with the terms and conditions agreed with the banks within the deposit term regardless of the original maturity of the respective deposit *(Note 2.25).*

For the purposes of the consolidated 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 investment purpose loans received is reported as payments for financial activities while the interest on loans related to current activities (working capital) is included in the operating activities;
- interest received from short-term bank deposits is included in the composition of cash flows from investing 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 Group companies and is recovered therewith in the respective period (month);
- Proceeds and payments from and to overdrafts are shown net (by single company within the Group).
- blocked funds for a period of more than 3 months are not treated as cash and cash equivalents;
- proceeds under a factoring agreement are presented in the cash flows from financing activities.

2.19. Trade and other payables

Trade and other current amounts payable are carried to the consolidated financial statements at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method *(Note 2.25)*.

2.20. Interest-bearing loans and other borrowings

All loans and other borrowings are initially recognised in the consolidated financial statements at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured and presented in the consolidated financial statements at amortised cost by applying the effective interest rate method. Amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement, associated with these loans.

Gains and losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortisation period, or when the liabilities are derecognised or reduced *(Note 2.25)*.

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

2.21. Capitalisation of borrowing costs

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

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

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

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

2.22. Leases

Finance lease

Lessee

Finance leases, which transfer to the Group a substantial part of all risks and rewards incidental to ownership of the leased property, plant and equipment, are recognised as assets in the statement of financial position of the lessee and are presented as 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 consolidated statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate *(Note 2.25)*.

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 Group, is written-off from the assets of the lessor and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the non-earned finance income.

The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) in the beginning of the lease term (when the asset is delivered) as sales income.

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

Operating lease

Lessee

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

Operating lease payments are recognised as expenses in the consolidated 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 the composition of property, plant and equipment while its depreciation for the period is included in the current expenses of the lessor.

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

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

The employment and social security relations with workers and employees of the Group are based on the Labour Code and the provisions of the effective social security legislation for the companies operating in *Bulgaria*, the Polish Code – for the companies in *Poland*, the employment legislation and the Collective Labour Agreement – for the companies in *Ukraine*, the employment legislation, the General Collective Labour Agreement and the effective Employment Rules and Regulations – for the companies in *Serbia*, the Labour Act – for the company in *Latvia*, the employment legislation – for the companies in *Belarus*, the Social Security Law of the Republic of Kazakhstan – for the company in *Kazakhstan,* the Labour Code – for the company in *Lithuania*, and the Labour Code – for the company in *Moldova*.

Short-term benefits

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

At each date of consolidated balance sheet, the companies of the Group measure 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.

Tantiemmes

With explicitly included terms and conditions in the statutes of the group’s companies and upon a decision taken by the general meetings of the companies, the executive director and / or other directors are entitled to one-off payment (tantieme) usually as a percent of the net profit of the company. This type of costs are recognized in the statement of comprehensive income (in profit or loss) in the item "personnel costs". 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'.

Bonus schemes

The amounts due to the personnel, including members of the key management, are accrued for the year, which the results are reported. The accruals are based on a various bonus schemes, applied by the companies. This type of costs are recognized in the statement of comprehensive income (in profit or loss) in the item "personnel costs" and in the statement of financial position as "payables to personnel" and are usually short-term.

Long-term retirement benefits

Defined contribution plans

For Bulgaria

The main duty of the companies - employers in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, 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.

For companies abroad

The rates of the social security contributions in Poland are approved by the Law on the National Social Security System, in Ukraine – Law on Pension Provision, in Serbia – the Law on Labour in the Republic of Serbia, in Latvia – the Law on Social Security, in Lithuania – Law on National Social Security, in Belarus – the Law on the Mandatory Contributions to the Fund for Social Security of the Population of the Ministry of Labour and Social Security, in Kazakhstan – Law of the Republic of Kazakhstan on Social Security Obligations, and in Moldova – Law on State Social Insurance Budget. The social security contributions are being apportioned between an employer and employees at ratios regulated by the relevant local laws.

There is no established and functioning private voluntary social security scheme at the Group.

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

Defined benefit plans

In accordance with the requirements of the Labour Code, the employer of the companies in *Bulgaria* is obliged to pay to its personnel upon retirement an indemnity, which depending on the length of service at the entity varies between two and six gross monthly salaries as at the termination date of the employment. In accordance with the Labour Law in *Serbia*, the employer of the Serbian company is obliged to pay to its personnel on coming of age for retirement an indemnity at the amount of at least three average salaries calculated at the time of payment. In accordance with the employment legislation in *Ukraine* and the Collective labour Agreement of the Ukrainian company, the employer is obliged to pay to its personnel on coming of age for retirement an indemnity, which depending on the length of service with the entity may vary between UAH 100 and UAH 200 (between BGN 7 and BGN 13). Also, the company in Ukraine accrues social indemnities, which are paid prior to retirement of employees due to specific labour conditions. According to the employment legislation in Poland, the employer is obliged to pay upon retirement one gross monthly salary. According to the employment legislation, there are no obligations to the personnel on retirement in Lithuania, Latvia, Belarus and Moldova.

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 are presented in the consolidated statement of financial position, and respectively, the change in their value – in the consolidated statement of comprehensive income as follows: (a) current and past service costs, interest costs and the gains/losses on a curtailment and settlements are recognised immediately when incurred and are presented in current profit or loss under 'employee benefits expense'; and (b) effects from remeasurement of obligations that in substance represent actuarial gains and losses are recognised immediately when occurred and are presented to other comprehensive income in the item 'remeasurements of defined benefit pension plans'. Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments.

At the date of issue of the consolidated financial statements, the companies of the Group assign certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. 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 the respective country where the company itself operates.

Termination benefits

In accordance with the local provisions of the employment and social security regulations of the Group companies, the employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities.

The Group recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on an 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 consolidated statement of financial position at their present value.

2.24. Share capital and reserves

Sopharma AD (the parent company) is a joint-stock company and is obliged to register with the Commercial Register a specified ***share capital***, which should serve as a security for the creditors 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 parent 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 parent company is obliged to set aside a ***Reserve Fund (statutory reserve)*** by using the following sources:

- 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.

The ***treasury shares*** are presented in the consolidated statement of financial position at acquisition cost (cost) and Group's equity is decreased by their gross purchase price. Gains or losses on sales of treasury shares are at the expense of retained earnings and are carried directly to Group's equity in the 'retained earnings' component.

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

- the revaluation surplus between the carrying amount of property, plant and equipment and their fair values at the date of each revaluation;
- the revaluation surplus between the carrying amount of property stated as owner-occupied property and their fair values at the date when they are transferred to investment property.

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

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

The revaluation reserve covers the impairment of the assets to which it relates. It may be used in the implementation of Group'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 consolidated statement of comprehensive income (within profit or loss for the year) when the financial assets are disposed of (sold) by the Group and/or on identified permanent impairment of particular financial assets.

The ***Translation of foreign operations reserve*** includes the effects of restating the financial statements of the companies abroad from local currency to the presentation currency of the Group. This reserve is recognised as a separate component of equity in the consolidated statement of financial position and as part of the profit or loss in the consolidated statement of comprehensive income on the line 'gains/(losses) on acquisition and disposal of subsidiaries, net' on disposal (sale) of a foreign operation (company).

2.25. Financial instruments

2.25.1. Financial assets

The Group classifies its financial assets in the following categories: 'loans (credits) and receivables', 'available-for-sale assets' and 'assets at fair value through profit'. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition.

The management of the parent company together with the management of the respective subsidiary determine the classification of the financial assets for the purposes of the Group at the date of their initial recognition in the statement of financial position.

The Group companies usually recognise their financial assets in the statement of financial position on the trade date, being the date on which they commit to purchase the respective financial assets. All financial assets are initially measured at their fair value plus the directly attributable transaction costs.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured in the consolidated statement of financial position at their amortised cost using the effective interest method less any allowance for impairment. These assets are included in the group of current assets when having maturity within 12 months or within a common operating cycle of the respective Group 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 consolidated statement of financial position *(Notes 2.16, 2.17 and 2.18).* Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the consolidated statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

At the end of each reporting period, the Group companies assess whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired *(Note 2.31).*

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. For the Group, these are usually shares, bonds or interest in other (third) companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where a Group company intends to sell them in the following 12 months and is actively searching for a buyer *(Note 2.14.1)*.

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

The available-for-sale financial assets are subsequently measured at fair value except for the shares in closed-end companies not traded in a stock-exchange market *(Note 2.14.1)*.

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

Where subsequent permanent impairment is identified or on sale of an available-for-sale investment, the amount of impairment and all previously accumulated losses (net) to the reserve are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as 'finance costs'. Analogously, on each sale of investment of this type, the unrealised gains accumulated in the reserve are recognised in the consolidated 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 within other comprehensive income (in 'net change in fair value of available-for-sale financial assets'), net of those resulting from new revaluations for the period.

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

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

Financial assets at fair value through profit

The financial assets at fair value through profit are non-derivative assets acquired for the purpose of gaining current income through shares in funds for investing of cash collected in a portfolio of various companies. These instruments represent held shares in investments funds *(Note 2.14.2)*. The shares in investment funds are initially measured at acquisition cost. Subsequently, at the date of each consolidated financial statements, they are measured at fair value determined on the basis of the terms and conditions for participation. The fair value is calculated and analysed by the investment funds themselves. The effects of revaluation to fair value are recognised immediately in the consolidated statement of comprehensive income in the items 'finance income' or 'finance costs' depending on the financial result – profit or loss.

2.25.2. Financial liabilities and equity instruments

The Group 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

The financial liabilities of the Group include loans and payables under factoring agreements, payables to suppliers and other counterparts. They are initially recognised in the consolidated statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method *(Notes 2.20, 2.21 and 2.22).*

2.26. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle (repay) the obligation. The provisions are valued based on the best estimate of the respective company management and the Group at the date of the consolidated statement of financial position of the expenses necessary to settle the respective obligation. The estimate is discounted if the obligation is long-term. When part the resources required to settle the obligation are expected to be recovered from a third party, the respective company of the Group recognises a receivable if it is virtually certain that reimbursement will be received, its amount can be reliably measured and income (credit) is recognised in the same item of the consolidated statement of comprehensive income (within profit or loss for the year) where the provision itself is presented.

2.27. Income taxes

Current income taxes of the Bulgarian companies of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for 2017 is 10% (2016: 10%).

The subsidiaries and joint ventures abroad are charged in accordance with the requirements of the respective local tax regulations by applying the following tax rates:

Country	***Tax rate***	
	2017	***2016***
Ukraine	18%	18%
Serbia	15%	15%
Latvia	15%	15%
Belarus	18%	18%
Lithuania	15%	15%
Poland	19%	19%

Kazakhstan	20%	20%
Moldova	12%	12%

Deferred income taxes are determined using the liability method on all temporary differences of each consolidated company existing at the consolidated financial statements date, between the carrying amounts of the assets and liabilities and their tax bases, including for those arising from consolidation adjustments.

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

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

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

Deferred taxes, related to items directly credited or charged as other components of comprehensive income or as an equity item in the consolidated 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 that are expected to apply to the period and type of operations when the asset is realised or the liability – settled (repaid) on the basis of the tax laws that have been enacted or substantively enacted, and at tax rates of the country under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

Deferred tax assets of a Group company are presented net against the deferred tax liabilities of this company when it is the tax payer in the respective jurisdiction, 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.

2.28. Government grants

Government grants represent various forms of providing gratuitous resources by a government (local and central authorities and institutions) and/or intergovernmental agreements and organisations.

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

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

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

2.29. Net earnings or losses per share

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

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.

This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

In case of a capitalisation, bonus issue or splitting, 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 net earnings or losses per share are not calculated because no dilutive potential ordinary shares have been issued within the Group.

2.30. Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date. Fair value is an exit price and is based on the assumption that the sale transaction will take place either in the principal market for this asset or liability or in the absence of a principal market – in the most advantageous market for the asset or liability. Both the designated as a principal market and the most advantageous market are markets to which the Group companies 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 Group 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 direct and/or adjusted quoted market prices, market comparables (analogues) and discounted cash flows, including based on capitalised rental income.

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

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

The Group applies mainly Level 2 and Level 3 fair value.

For assets and liabilities that are recognised at fair value in the consolidated financial statements on a recurring basis, the Group determines at the date of the consolidated financial statement 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.

Internal rules and procedures for measuring the fair value of various types of assets and liabilities have been developed centrally in the parent company. For the purpose, a specifically designated individual, subordinated to the Finance Director of the Group, organised the performance of the overall valuation process and also coordinates and observes the work of the external appraisers.

The Group uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: available-for-sale financial assets Level 2 and Level 3, 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 the Finance Director and/or Chief Accountant, Executive Director and the Board of Directors of the respective company and the Finance Director of the Group.

In accordance with Group 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 of the Group companies 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 of the assessment of the fair value measurement procedure are presented to the audit committee and to the independent auditors of the respective companies as well as to the Finance Director and the independent auditors of the Group.

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

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

2.31.1. Recognition of tax assets

On recognition of deferred tax assets, the management of the Group has assessed the probability the individual deductible temporary differences to reverse in the future and each of the Group companies' capability to generate sufficient taxable profit for their offset. The management of the Group has assessed at the date of issue of the consolidated financial statements the subsidiaries that continue to report losses in the last years with regard to existing significant uncertainties as to whether and to what extent within the final term, determined with the respective local tax regulations for tax loss carry forward, these companies would be able to generate sufficient taxable profit.

As a result of the analysis the company made a descision not to recognise a deferred tax assets in the conslodated financial statements at the amount of BGN 5,897 thousand (2016: BGN 5,942 thousand) *(Note 30).*

2.31.2. Inventories

Normal capacity

The normal production capacity of each production company is determined on the basis of management assessments (made after relevant analyses) for optimum load of their production facilities and return on the investments made therein, with structure of the manufactured finished products accepted as being common for the company.

Allowance for impairment

At the end of each financial year, the Group companies review the state, useful life and usability of the existing inventories. Where inventories are identified that are potentially likely to not be realised at their current carrying amount in the following reporting periods, the Group companies impair the inventories to net realisable value.

As a result of the performed reviews and analyses in 2017, impairment of inventories at the amount of BGN 3,622 thousand has been recognised in the consolidated statement of comprehensive income (within profit or loss for the year) (2016: BGN 2,693 thousand) *(Note 9).*

2.31.3. Impairment of receivables

The losses from doubtful and bad debts are estimated at the date of the consolidated financial statements on individual basis for each receivable. 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 is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as impairment *(Note 9)*.

Group's policy to ensure collectability and evaluate the impairment of receivables is based on the following specific rules:

(a) With regard to clients – hospitals, accrual of interest for delay starts (in- or off-balance sheet) in case of 30 days of delay after the end of the credit period. If delinquency continues for further 30 days actions are undertaken for signing of a rescheduling agreement. In case the agreement is not complied with, the Company initiates legal actions and the relevant legal procedures whereby to ensure the collection of the receivable together with the respective interest and penalties;

(b) With regard to clients – pharmacies, on a 5-day delay after the expiry of the credit period, the sales under deferred payment terms are suspended. If delays continue, on the 45th day of delinquency all sales are terminated and actions are undertaken for concluding of an agreement for payment of the due amounts. If the agreement is not complied with, legal proceedings are initiated;

(c) With regard to clients –related parties (hospitals), deliveries are suspended in case of more than 30-day delinquency. If delinquencies continue for further 30 days, actions are undertaken for signing of a rescheduling agreement.

After 180 days of delay it is already considered that indicators for impairment may exist. In the assessment of the collectability of receivables, the management of the Group companies perform analysis of the total exposure of each counterpart in order to establish the actual possibility for their collection and not only at the level of past due individual receivables from the total amount due by the counterpart, including the potential for collecting interest for compensating delays. 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, guarantees) and thus with ensured collection (through future realisation of the collateral or guarantee payment). Where the management has concluded 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 impaired to 100% *(Notes 22, 23 and 24)*.

The amount of reversed impairment for 2017 (net of the accrued ones) is BGN 180 thousand (2016: BGN 843 thousand – accrued impairment) *(Note 9)*.

2.31.4. Revaluation of property, plant and equipment

As at 31 December 2016, an overall review was performed in regard of the price changes in the fair value of Group's tangible fixed assets as well as of their physical and technical state, mode of operation and residual useful life. Respectively, final revaluation was made because the adopted five-year period for their remeasurement, as per the policy adopted, ended at that date. The review and revaluation were performed with the professional assistance of certified appraisers.

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

The management made detailed analysis of the reports of the certified appraisers, including the sensitivity tests. As a result thereof, the Group stated revaluation and recognised a new revaluation reserve at the amount of BGN 10,298 thousand, net of taxes.

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

2.31.5. Actuarial calculations

Calculations of certified actuaries have been used every year 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.

As a result of the calculations made, a liability has been stated for long-term employee benefits at the amount of BGN 5,177 thousand (31 December 2016: BGN 4,314 thousand) *(Note 31)*.

2.32.5. Operating lease

The Group classified a building, part of which had been leased to related parties under operating lease terms, in the group of 'property, plant and equipment' of the consolidated statement of financial position. Since a significant part of the building was used by the Group as well, the management decided that the building should not be treated as investment property.

2.32.7. Litigation provisions

With regard to the pending litigations against companies of the Group, the management of respective companies have judged, jointly with their lawyers, that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, no provisions for payables under litigations have been included in the consolidated statement of financial position as at 31 December 2017 (31 December 2016: none) *(Note 41)*.

3. REVENUE

Group revenue includes:

	2017	*2016*
	BGN'000	*BGN'000*
Goods	767,575	645,372
Finished products	249,530	231,713
Total	**1,017,105**	**877,085**

	2017	*2016*
	BGN'000	*BGN'000*
Sales of goods by type		
Tablet dosage forms	371,712	305,214
Ampoule dosage forms	182,017	179,055
Syrup dosage forms	51,514	40,051
Drops	33,637	30,069
Consumables, dressing materials and apparatuses	26,743	23,833
Ointments	23,881	18,379
Cosmetics	14,372	9,900
Food supplements and herbs	13,228	7,983
Veterinary vaccines	5,250	5,476
Suppositories	4,503	3,470
Lyophilic products	4,211	3,123
Other	36,507	18,819
Total	**767,575**	**645,372**

	2017	*2016*
	BGN'000	*BGN'000*
Sales of finished products by type		
Tablet dosage forms	165,907	150,105
Ampoule dosage forms	33,723	32,291
Syrup dosage forms	10,381	9,734
Consumables, dressing materials and apparatuses	9,896	8,949
Ointments	8,792	6,220
Lyophilic products	6,807	7,316
Inhalation products	2,161	2,546
Infusion solutions	1,704	366
Drops	1,599	1,496
Other	8,560	12,690
Total	**249,530**	**231,713**

4. OTHER OPERATING INCOME AND LOSSES, NET

Other operating income and losses, net include:

	2017	*2016*
	BGN'000	*BGN'000*
Services rendered	5,246	4,823
Net (loss)/gain on exchange differences under trade receivables and payables and current accounts	(2,924)	297
Government grants	1,156	1,187
Rentals	909	792
Social activities and events	874	837
Profit on disposal of fixed assets	346	372
Gain on change in the fair value of investment property *(Note 17)*	309	102
Liabilities written-off	129	222
Gain on sale of materials	94	57
Other	545	794
Total	**6,684**	**9,483**

The services rendered include:

	2017	*2016*
	BGN'000	*BGN'000*
Advertising and marketing	1,678	1,850
Pre-distribution income	1,164	1,133
Laboratory analyses	180	193
Gamma radiation	145	72
Other	2,079	1,465
Total	**5,246**	**4,823**

5. MATERIALS AND CONSUMABLES USED

Expenses on materials include:

	2017	*2016*
	BGN'000	***BGN'000***
Basic materials	63,113	59,028
Electric energy	6,983	5,974
Spare parts, laboratory and technical materials	6,346	5,329
Heat power	3,381	2,760
Fuels and lubricating materials	2,790	2,342
Auxiliary materials	2,191	2,335
Advertising materials	1,122	607
Impairment of materials (*Note 9*)	696	898
Other	3,531	3,633
Total	**90,153**	**82,906**

Expenses on basic materials include:

	2017	*2016*
	BGN'000	***BGN'000***
Substances (active ingredients)	26,628	29,149
Packaging materials	13,491	8,857
Liquid and solid chemicals	8,712	6,936
Herbs	3,839	2,550
Ampoules	2,334	2,054
Aluminium foil	1,669	1,422
Polypropylene, polyethylene, polystyrene	1,433	1,416
Other	5,007	6,644
Total	**63,113**	**59,028**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2017	*2016*
	BGN'000	***BGN'000***
Advertising and marketing services	13,203	13,705
Rentals	9,306	7,276
Consulting services	6,949	5,405
Forwarding and transportation services	5,267	4,457
Buildings and equipment maintenance	4,655	3,864
Manufacturing of medicinal products	3,464	2,354
Subscription fees	2,824	2,335
Bank and regulatory charges	2,427	1,993
Local taxes and charges	2,117	1,934
Security	1,825	1,529
Insurance	1,265	1,409
Announcements and communications	1,205	1,556
Services under civil contracts	1,176	1,004
Motor vehicles repair	1,087	1,061
Services on medicinal products registration	964	706
Service charges	919	554
Medical services	807	822
Taxes on expenses	586	572
Licence fees and charges	456	387
Documentation translation	410	307
Disposal of pharmaceuticals	400	440
Other	2,234	2,738
Total	**63,546**	**56,408**

The expenses accrued for the year on statutory audit of the separate and consolidated financial statements amounts to BGN 288 thousand (2016: BGN 413 thousand).

7. EMPLOYEE BENEFITS EXPENSE

	2017	*2016*
	BGN'000	*BGN'000*
Current wages and salaries	78,463	68,037
Social security contributions	14,866	12,499
Social benefits and payments	4,734	4,059
Accruals for unused paid leaves	1,601	942
Tantieme	775	768
Accruals for long-term retirement benefits to personnel *(Note 31)*	741	704
Social security/health insurance contributions on leaves	244	150
Total	**101,424**	**87,159**

8. OTHER OPERATING EXPENSES

	2017	*2016*
	BGN'000	*BGN'000*
Entertainment allowances	3,034	3,032
Charged/reversed impairment of current assets, net *(Note 9)*	2,786	2,637
Business trip costs	1,725	1,463
Donations	743	434
Training	700	739
Scrap and shortages of goods	642	2,433
Receivables written-off	328	3,307
Other	1,554	268
Total	**11,512**	**14,313**

9. IMPAIRMENT OF CURRENT ASSETS

Impairment losses on receivables, work in progress, finished products and goods, net include:

	2017	*2016*
	BGN'000	*BGN'000*
Impairment of receivables	*2,025*	*3,136*
Reversed impairment of receivables	*(2,224)*	*(2,252)*
Net change in the impairment of receivables	**(199)**	**884**
Impairment of finished products	2,105	1,829
Accrued/ (reversed) impairment of goods	861	(34)
Accrued/ (reversed) impairment of court receivables	19	(7)
Reversed impairment of receivables under advances granted	-	(35)
	2,786	**2,637**
Impairment of materials	696	898
Total impairment of current assets	**3,482**	**3,535**

10. IMPAIRMENT OF NON-CURRENT TANGIBLE AND INTANGIBLE ASSETS

The expenses on impairment of non-current tangible and intangible assets include:

	2017	*2016*
	BGN'000	*BGN'000*
Impairment of goodwill	360	592
Impairment of property, plant and equipment	311	314
Impairment of intangible assets	-	61
Total	**671**	**967**

11. FINANCE INCOME

Finance income includes:	*2017*	*2016*
	BGN'000	*BGN'000*
Interest income on past due trade receivables	4,026	702
Net gain on transactions with investments in securities	2,965	322
Interest income on loans granted	1,213	1,792
Income from equity investments	155	178
Interest income on bank deposits	10	20
Total	**8,369**	**3,014**

12. FINANCE COSTS

Finance costs include:	*2017* *BGN'000*	*2016* *BGN'000*
Interest expense on loans received	7,084	8,831
Net loss on exchange differences under loans and receivables in foreign currency	2,904	1,074
Bank fees and charges on loans and guarantees	814	859
Interest expense under factoring agreement	348	953
Interest expense on finance lease	272	341
Impairment of receivables under trade loans granted	125	542
Effects from derivatives	74	109
Investment intermediation fees	6	-
Impairment of available-for-sale investments	4	4
Impairment of cash with banks under special supervision	-	8
Total	**11,631**	**12,721**

The net exchange rate losses on loans in foreign currency for 2017 are mainly result of the devaluation of the Ukrainian Hryvnia (UAH) against the Bulgarian Lev at about 13% as at 31 December 2017 as compared to 31 December 2016 (8% as at 31 December 2016 compared to 31 December 2015).

13. GAINS AND LOSSES FROM ASSOCIATES AND JOINT VENTURES

	2017 *BGN'000*	*2016* *BGN'000*
Gains/(losses) from joint ventures	415	(829)
Gains from associates	32	9,801
	447	**8,972**

Gains/(losses) from joint ventures include:	*2017* *BGN '000*	*2016* *BGN '000*
Effect of fair value measurement of previously held shares on acquisition of control over Group companies	336	(567)
Effect of the disposal of a joint venture	294	-
Share of the Group in the current profit/(loss) of joint ventures	(29)	(157)
Impairment of an investment in a joint venture	(186)	(105)
Total	**415**	**(829)**

Gains/(losses) from associates include:	*2017*	*2016*
	BGN '000	*BGN '000*
Effect of fair value measurement of previously held shares on acquisition of control over Group companies	(536)	-
Effect of valuation of previously held shares on acquisition of significant influence over Group companies	-	928
Share of the Group in the current loss of associates	568	(13)
Effect from associate acquisition	-	8,886
Total	**32**	**9,801**

14. INCOME TAX EXPENSE

Consolidated statement of comprehensive income (profit or loss for the year)	**2017**	**2016**
	BGN '000	*BGN '000*
Taxable profit of the Group companies for the year	52,507	31,324
Revaluation reserve included as an increase in the annual tax return	(427)	(254)
Taxable profit for the year	52,080	31,070
Current income tax expense for the year – 10%,12%,15%,18%,19%, 20% (2016: 10%, 15%, 18%, 19%, 20%)	7,395	5,394
Deferred income taxes		
Origination and reversal of temporary differences	(817)	1,813
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	**6,578**	**7,207**

Reconciliation of income tax expense applicable to the consolidated accounting profit or loss	**2017**	**2016**
	BGN '000	*BGN '000*
Accounting profit for the year	52,350	62,109
Income tax – 10%,12%, 15%, 18%, 19%, 20% (2016:10%, 15%, 18%, 19%, 20%)	5,278	6,785
Unrecognised amounts under the tax return		
Related to increases	4,606	3,611
Related to decreases	(5,778)	(6,209)
Tax loss for the current year on which no deferred tax assets are recognised	2,477	2,770
Recognised deferred taxes on temporary differences from prior periods	(5)	250
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	**6,578**	**7,207**

The tax effects regarding items of other comprehensive income are as follows:

	2017			2016		
		BGN '000			BGN '000	
	Pre-tax amount	**Tax benefit/ (expense)**	**Amount net of tax**	**Pre-tax amount**	**Tax benefit/ (expense)**	**Amount net of tax**
Items that will not be reclassified to profit or loss						
(Loss) /Profit on revaluation of property, plant and equipment	(42)	4	(38)	11,802	(1,504)	10,298
Remeasurements of defined benefit pension plans	(597)	-	(597)	(128)	-	(128)
	(639)	**4**	**(635)**	**11,674**	**(1,504)**	**10,170**
Items that may be reclassified to profit or loss						
Net change in the fair value of available-for-sale financial assets	1,277	-	1,277	1,466	-	1,466
Exchange differences on translating foreign operations	(899)	-	(899)	2,573	-	2,573
	378	**-**	**378**	**4,039**	**-**	**4,039**
Other comprehensive income for the year	**(261)**	**4**	**(257)**	**15,713**	**(1,504)**	**14,209**

This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year 2017.

15. OTHER COMPREHENSIVE INCOME

Other components of comprehensive income include:

	Items of other comprehensive income attributable to the Group		Items of other comprehensive income attributable to non-controlling interests		Total items of other comprehensive income	
	2017 BGN '000	*2016 BGN '000*	*2017 BGN '000*	*2016 BGN '000*	*2017 BGN '000*	*2016 BGN '000*
Items that will not be reclassified to profit or loss						
Losses/(gains) on revaluation of property, plant and equipment	(42)	10,706	-	1,096	(42)	11,802
Remeasurements of defined benefit pension plans	(575)	(128)	(22)	-	(597)	(128)
Items that may be reclassified to profit or loss						
Net change in fair value of available-for-sale financial assets:	1,301	1,478	(24)	(12)	1,277	1,466
Gains from revaluations arising during the year	*1,314*	*1,485*	*(24)*	*(12)*	*1,290*	1,473
Less: Reclassification adjustments for gains included in profit or loss for the current year	(13)	*(7)*	-	-	*(13)*	*(7)*
Exchange differences on translating foreign operations	407	1,846	(1,306)	727	(899)	2,573
Income tax relating to items of other comprehensive income	4	(1,393)	-	(111)	4	(1,504)
Other comprehensive income for the year	**1,095**	**12,509**	**(1,352)**	**1,700**	**(257)**	**14,209**

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2017 BGN'000	*2016 BGN'000*	*2017 BGN'000*	*2016 BGN'000*	*2017 BGN'000*	*2016 BGN'000*	*2017 BGN'000*	*2016 BGN'000*	*2017 BGN'000*	*2016 BGN'000*
Book value										
Balance at 1 January	**222,998**	**208,413**	**222,692**	**211,048**	**41,789**	**42,519**	**6,026**	**17,724**	**493,505**	**479,704**
Additions	967	1,417	4,335	4,822	3,292	3,980	16,139	11,930	24,733	22,149
Acquired assets in newly acquired subsidiaries	2,578	2,301	569	2,185	765	302	2	-	3,914	4,788
Effect from remeasurement	-	1,985	-	1,800	13	10	-	-	13	3,795
Effects of foreign currency restatements	(330)	(103)	(465)	(114)	(145)	2	(50)	(18)	(990)	(233)
Disposals	(7,451)	(96)	(1,564)	(2,808)	(4,226)	(3,955)	(110)	(237)	(13,351)	(7,096)
Written-off book value of assets on disposal of subsidiaries	-	(3,642)	-	(2,627)	-	(2,585)	-	(1,633)	-	(10,487)
Allowance for impairment	-	86	-	(344)	-	(56)	(311)	-	(311)	(314)
Transfer to property, plant and equipment	6,840	11,438	5,397	8,730	351	1,572	(12,588)	(21,740)	-	-
Transfer to investment property	-	1,199	-	-	-	-	-	-	-	1,199
Balance at 31 December	**225,602**	**222,998**	**230,964**	**222,692**	**41,839**	**41,789**	**9,108**	**6,026**	**507,513**	**493,505**
Accumulated depreciation and impairment										
Balance at 1 January	**40,019**	**33,942**	**105,628**	**103,685**	**26,638**	**27,066**	**5**	**6**	**172,290**	**164,699**
Depreciation charge for the year	7,299	7,658	13,246	13,263	4,390	4,429	-	-	**24,935**	25,350
Effect from remeasurement	-	(1,104)	42	(6,270)	-	(633)	-	-	42	(8,007)
Effects of foreign currency restatements	169	52	282	64	83	17	-	2	534	135
Written-off depreciation	(2,983)	(2)	(1,272)	(2,715)	(3,653)	(3,371)	-	(3)	(7,908)	(6,091)
Written-off depreciation of assets on disposal of subsidiaries	-	(527)	-	(2,399)	-	(870)	-	-	-	(3,796)
Balance at 31 December	**44,504**	**40,019**	**117,926**	**105,628**	**27,458**	**26,638**	**5**	**5**	**189,893**	**172,290**
Carrying amount at 31 December	**181,098**	**182,979**	**113,038**	**117,064**	**14,381**	**15,151**	**9,103**	**6,021**	**317,620**	**321,215**
Carrying amount at 1 January	**182,979**	**174,471**	**117,064**	**107,363**	**15,151**	**15,453**	**6,021**	**17,718**	**321,215**	**315,005**

As at 31 December 2017, the tangible fixed assets of the Group include: land amounting to BGN 51,968 thousand (31 December 2016: BGN 48,676 thousand) and buildings of carrying amount BGN 129,130 thousand (31 December 2016: BGN 134,303 thousand).

Tangible fixed assets in progress as at 31 December include:

- buildings reconstruction – BGN 4,517 thousand (31 December 2016: BGN 3,694 thousand);
- expenses on new buildings construction – BGN 1,022 thousand (31 December 2016: BGN 1,029 thousand);
- advances granted – BGN 2,493 thousand (31 December 2016: BGN 723 thousand);
- supply of equipment – BGN 554 thousand (31 December 2016: BGN 487 thousand);
- other – BGN 517 thousand (31 December 2016: BGN 88 thousand).

Finance lease

The carrying amount of the tangible fixed assets (motor vehicles) of the Group obtained under finance lease as at 31 December 2017 is BGN 3,680 thousand (31 December 2016: BGN 4,682 thousand).

Operating lease

The Group has leased fixed tangible assets with carrying amount of BGN 3,716 thousand as at 31 December 2017 to related parties (31 December 2016: BGN 3,296 thousand). In addition, tangible fixed assets at carrying amount of BGN 772 thousand have been leased to third parties as at 31 December 2017 (31 December 2016: BGN 818 thousand).

Other data

The following encumbrances have been constituted on tangible fixed assets of the Group as at 31 December 2017 in relation to received loans *(Notes 29 and 34)* as follows:

- Land and building with a carrying amount respectively of BGN 24,713 thousand and BGN 64,245 thousand (31 December 2016: respectively, BGN 25,659 thousand and BGN 72,449 thousand)
- Pledges on facilities with carrying amount of BGN 371 thousand (31 December 2016: BGN 2,771 thousand);
- Pledges on equipment, transportation vehicles and furniture and fixtures – BGN 44,872 thousand (31 December 2016: BGN 48,490 thousand);
- Pledges on assets in progress – BGN 2,226 thousand (31 December 2016: BGN 1,189 thousand).

Periodical revaluation to fair value

Final revaluation of property, plant and equipment was performed as at 31 December 2016 with the assistance of an independent appraiser for the purpose of determining the fair value of the assets in accordance with the requirements of IFRS 13 and IAS 16.

The effects thereof are stated as follows:

	Land and buildings	***Plant and equipment***	***Other***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Revaluation to fair value as at 31 December, carried to the statement of comprehensive income (within profit or loss for the year) *(Note 10)*	86	(344)	(56)	(314)
Revaluation to fair value, carried to the statement of comprehensive income (within other comprehensive income) *(Note 16)*	3,089	8,070	643	11,802
Total	**3,175**	**7,726**	**587**	**11,488**

(a) Fair value hierarchy

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

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

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

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

Group of assets	***Level 2***	***Level 3***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Agricultural land plots	-	*10,965*	*10,965*
Zoned land plots	*26,048*	*7,235*	*33,283*
Buildings	*3,688*	*110,914*	*114,602*
Total land and buildings	**29,736**	**129,114**	**158,850**
Plant and equipment	**231**	**96,632**	**96,863**
Biological assets	-	*134*	*134*
Other assets	-	*17,985*	*17,985*
Total other assets	**-**	**18,119**	**18,119**
Total	**29,967**	**243,865**	**273,832**

(b) Valuation methods and techniques and significant unobservable inputs

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

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

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

17. INTANGIBLE ASSETS

	Goodwill		*Software*		*Intellectual property rights and others*		*Assets in progress*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2016*	*2017*	*2016*	*2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Book value										
Balance at 1 January	**19,662**	**20,560**	**15,042**	**10,254**	**35,160**	**26,236**	**1,325**	**3,465**	**71,189**	**60,515**
Additions	-	106	1,124	2,003	1,004	921	1,154	1,239	**3,282**	**4,269**
Acquired assets in subsidiaries	14,051	-	9	-	33,047	10647	-	-	**47,107**	**10,647**
Effects of foreign currency restatements	(429)	(135)	(38)	(2)	(1,653)	40	(5)	1	**(2,125)**	**(96)**
Transfer	-	-	1,685	3,144	303	67	(1,988)	(3,211)	-	-
Written-off book value of assets on disposal of subsidiaries	-	(869)	-	(332)	-	(2,205)	-	(60)	-	**(3,466)**
Disposals	-	-	(11)	(25)	(76)	(546)	(124)	(109)	**(211)**	**(680)**
Balance at 31 December	**33,284**	**19,662**	**17,811**	**15,042**	**67,785**	**35,160**	**362**	**1,325**	**119,242**	**71,189**
Accumulated amortisation and impairment										
Balance at 1 January	**9,777**	**9,185**	**6,578**	**5,771**	**10,348**	**10,027**	**-**	**30**	**26,703**	**25,013**
Amortisation charge for the year	-	-	1,349	924	4,035	2,643	-	-	**5,384**	**3,567**
Allowance for impairment	360	592	-	-	-	61	-	-	**360**	**653**
Effects of foreign currency restatements	-	-	22	-	257	16	-	-	**279**	**16**
Written-off amortisation of assets on disposal of subsidiaries	-	-	-	(117)	-	(1,919)	-	(5)	-	**(2,041)**
Amortisation written-off	-	-	(11)	-	(69)	(480)	-	**(25)**	**(80)**	**(505)**
Balance at 31 December	**10,137**	**9,777**	**7,938**	**6,578**	**14,571**	**10,348**	**-**	**-**	**32,646**	**26,703**
Carrying amount at 31 December	**23,147**	**9,885**	**9,873**	**8,464**	**53,214**	**24,812**	**362**	**1325**	**86,596**	**44,486**
Carrying amount at 1 January	**9,885**	**11,375**	**8,464**	**4,483**	**24,812**	**16,209**	**1,325**	**3,435**	**44,486**	**35,502**

Intangible assets in progress as at 31 December include:

- expenses on acquisition of software – BGN 253 thousand. (31 December 2016: BGN 1,215 thousand);
- expenses on acquisition of licenses – BGN 84 thousand (31 December 2016: none);
- expenses on permits for use of medicinal products – BGN 25 thousand (31 December 2016: BGN 25 thousand);
- other – none (31 December 2016: BGN 37 thousand);
- advances granted – none (31 December 2016: BGN 48 thousand).

The rights on intellectual property include products of development activities related to medicinal substances (active ingredients) and dosage forms, acquired patents and trademarks and complex intangible assets (licences and pharmacy chain locations).
Within the total intellectual property, owned by the Group, the largest share belongs to internally created trademarks, which have not been capitalised in the consolidated statement of financial position.
These trademarks grant exceptional rights on the names of pharmaceuticals while those with biggest relative share in the sales of the Group are: Carsil, Tempalgin, Broncholitin, Tabex, Analgin, Tribestan, Vicetin, Sydnopharm, Antistenocardin, Spasmalgon, Softensif, Chlofadon, Chlofasolin, Sofafailin, Sopral, Vasopren, Buscolisin, Nivalin, Maraslavin, Dimex, Allergosan, Aminalon.
Capitalised trademarks as a result of performed business combinations are as follows: Probiotic, Laxomucil, Alfalipoin, Influrex, etc. The Group holds a patent for production of dosage forms containing Ranitidin.
The intangible assets acquired through business combinations mainly in Belarus, include the exclusive contracts with counterparts, licences and a distribution network

Goodwill impairment

The management of the Group performed the necessary procedures for the mandatory test for impairment of the goodwill, recognised in the consolidated statement of financial position, on the acquisition of a subsidiary. For the purpose, each individual company was accepted as a 'cash-generating unit'.

The calculations were made by the management of the Group with the assistance of an independent certified appraiser and a detailed review was performed on the availability of events and facts that could serve as indicators for changes in the assumptions and assessments made at 31 December 2017.

The (pre-tax) projected cash flows were based on the financial budgets, developed by the management of the respective companies and of the Group as a whole, that covered 3 to 5-year period as well as other medium-term and long-term plans and intents for the development and restructuring of the activities within the Group. The recoverable amount of each cash generating unit was determined on the basis of the 'value in use'. The key assumptions used in the calculations of recoverable amount were as follows:

- growth rate within a three (or five) year period – from 2% to 22%;
- growth after the projected period upon calculation of terminal value – 1.8% to 7.5%;
- discount rate (based on WACC) – from 6.1% to 24.28%;
- interest rate (debt price) – from 2.3% to 17%.

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

The tests and judgments of Group's management for impairment of recognised goodwill were made through the prism of its projections and intents as to the future economic benefits, expected by the Group from its subsidiaries including through the use of their internally created trademarks, commercial and industrial experience and the generated thereby and expected for the future volumes of revenue, ensuring position in the Bulgarian and international markets (development and retaining), the expectations for future sales and restructuring of the activities, etc.

As a result of the analyses performed the Group management has concluded that as at 31 December 2017 goodwill impairment was recognised at the amount of BGN 360 thousand for 2 subsidiaries in Belarus and 1 subsidiary in Bulgaria (31 December 2016: BGN 592 thousand for 4 subsidiaries in Belarus).

18. INVESTMENT PROPERTY

	31.12.2017 *BGN '000*	*31.12.2016* *BGN '000*
Balance at 1 January	**9,483**	**10,562**
Additions	19	18
Net loss on fair value adjustment, included in profit or loss *(Note 4)*	309	102
Transfer to property, plant and equipment *(Note 16)*	-	(1,199)
Balance at 31 December	**9,811**	**9,483**

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

Group of assets	*31.12.2017* *BGN '000*	*31.12.2016* *BGN '000*
Warehouse premises	4,045	3,921
Offices	2,897	2,722
Production buildings	2,466	2,440
Social objects	403	400
Total	**9,811**	**9,483**

There are no established encumbrances on investment property as at 31 December 2017 (31 December 2016: none).

Fair value measurement

Fair value hierarchy

The fair values of the groups of investment properties are categorised as Level 2 fair values based on the inputs to the valuation technique used. The investment property remeasurement to fair value is recurring and is due to the application of the fair value model under IAS 40. It is performed regularly at the end of each reporting period. Fair value is determined with the assistance of independent certified appraisers.

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

	Warehouse premises	*Offices*	*Production buildings*	*Social objects*	*Total*
Balance at 1 January 2016	**3,801**	**3,921**	**2,440**	**400**	**10,562**
Disposals	18	-	-	-	18
Net change in fair value through profit or loss – unrealised	102	-	-	-	102
Transfer to property, plant and equipment	-	(1,199)	-	-	(1,199)
Balance at 31 December 2016	**3,921**	**2,722**	**2,440**	**400**	**9,483**
Purchases and capitalised costs	11	-	8	-	19
Net change in fair value through profit or loss – unrealised	113	175	18	3	309
Balance at 31 December 2017	**4,045**	**2,897**	**2,466**	**403**	**9,811**

Valuation techniques and significant unobservable inputs

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

Groups of assets (Level 2)	Valuation approaches and techniques	Significant unobservable inputs
Warehouse premises Production buildings	*a. Income approach* Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term to entrance into rental deals
	b. Cost approach Valuation technique: Method of replacement costs – depreciated recoverable amount (ancillary supportive valuation technique)	Adjusted prices for construction of identical properties and purchase prices of machinery and equipment, similar to those attached
Offices Social objects	*a. Income approach* Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term to entrance into rental deals
	b. Market approach Valuation technique: Market multiples method (supportive valuation technique)	Comparability adjustments

19. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31.12.2017 *BGN '000*	*31.12.2016* *BGN '000*
Investments in associates	18,122	15,033
Investments in joint ventures	1,414	3,682
Total	**19,536**	**18,715**

19.1. Investments in associates

As at 31 December 2017, the Group has significant influence in:

Company	% interest	Carrying amount BGN'000	Date of shares acquisition
Doverie Obedinen Holding AD	32.57	18,122	21.12.2016

As at 31 December 2016, the Group has significant influence in:

Company	**% interest**	**Carrying amount**	**Date of shares acquisition**
Doverie Obedinen Holding AD	30.22	15,033	21.12.2016
OOO Zdorovei (through OOO Farmacevt Plus – 25%)	16.25	-	31.12.2015

The principal business activities of Doverie Obedinen Holding AD include acquisition, management, valuation and disposal of shares/interest in Bulgarian and foreign companies. Doverie Obedinen Holding Group includes 24 subsidiaries.Their business activities are mainly in the following industries and fields: trading of DIY goods, insurance, medical services and textile industry.

OOO Zdorovei's principal activity is in the pharmaceuticles trading sector.

The movement of the investments in associates is presented below:

	31.12.2017 ***BGN '000***	***31.12.2016*** ***BGN '000***
Balance at 01 January	**15,033**	**1,536**
Acquisition of shares	4,847	2,414
Disposal of shares	(1,531)	-
Share in the current profit for the year *(Note 13)*	568	-
Transfer to investments in subsidiaries *(Note 44)*	(795)	(1,536)
Transfer from available-for-sale investments	-	2,805
Effect of revaluation of previously held shares at fair value *(Note 13)*	-	928
Gain from subsidiary acquisition *(Note 13)*	-	8,886
Balance at 31 December	**18,122**	**15,033**

Group's share in the results of the associates and their aggregated assets (including goodwill) and liabilities is as follows:

31 December 2017	**Share in assets** *BGN '000*	**Share in liabilities** *BGN '000*	**Share in revenue** *BGN '000*	**Share in the result attributable to equity holders of DOH** *BGN '000*	**Interest** *%*
Doverie Obedinen Holding AD*	39,405	20,923	43,273	(476)	32.57%

**consolidated indicators*

31 December 2016	**Share in assets**	**Share in liabilities**	**Share in revenue**	**Share in profit/(loss)**	**Interest**

	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*%*
Doverie Obedinen Holding AD*	36,608	21,575	-	-	30.22
OOO Zdorovei	295	298	-	-	16.25

**consolidated indicators*

The investment in associates as at 31 December 2017 does not include recognised goodwill resulting from acquisition (31 December 2016: none).

19.2. Acquisition of interest in joint ventures

The joint ventures as at 31 December 2017 are as follows:

Company	**% interest**	**Acquisition cost BGN '000**	**Date of shares acquisition**
OOO Med-dent	50%	271	17.12.2013 г.
OOO Bellerophon	50%	84	21.11.2014 г.
BOOO SpetzApharmacia	50%	1,059	20.01.2014 г.

The joint ventures as at 31 December 2016 are as follows:

Company	**% interest**	**Acquisition cost BGN '000**	**Date of shares acquisition**
OOO Ivem & K	36.25%	678	31.12.2015
OOO Ariens	32.50%	97	31.12.2015
OOO Vivaton Plus	50%	102	20.12.2012
OOO Med-dent	50%	265	17.12.2013
OOO Bellerophon	50%	299	21.11.2014
BOOO SpetzApharmacia	50%	1,169	20.01.2014
ZAO Interpharm	50%	1,072	31.12.2014

The principal activities of the acquired joint venture are disclosed in *Note 1*.

The movement of investments in joint ventures is presented below:

	31.12.2017	*31.12.2016*
	BGN '000	*BGN '000*
Balance at 1 January	**3,682**	**3,688**
Acquisition of shares	-	68
Capital increase	71	271
Disposal	(102)	-
Transfer to investments in subsidiaries *(Note 44)*	(1,847)	-
Share in the current loss for the year	(29)	(157)
Effects of foreign currency restatements	(175)	(19)
Allowance for impairment	(186)	(105)
Effects of transactions with companies of the Group	-	(64)
Balance at 31 December	**1,414**	**3,682**

19.3. General information on associates

The table below presents summarised financial information of the associates within the Group.

Financial indicators	*Doverie Obedinen Holding AD**
Summarised information from the statement of financial position	***31.12.2017 BGN'000***
Current assets	57,447
Non-current assets	141,636
Current liabilities	(49,514)
Non-current liabilities	(48,605)
Net assets	**100,964**
including	
Non-controlling interest	(34,860)
Adjustment to fair value	(20,197)
Total	**45,907**
Summarised information from the statement of comprehensive income	***01.01-31.12.2017 BGN'000***
Revenue	132,860
Net loss for the year for the shareholders of DOH AD	*(1,463)*
Other comprehensive income for the year, net of tax for the shareholders of DOH AD	*(347)*
Adjustment to fair value	*3,555*
Total comprehensive income for the year for the shareholders of DOH AD	1,745

**Consolidated indicators*

Financial indicators	***Doverie Obedinen Holding AD****	***OOO Zdorovei***
Summarised information from the statement of financial position	***31.12.2016 BGN'000***	***31.12.2016 BGN'000***
Current assets	43,958	1,458
Non-current assets	132,851	360
Current liabilities	(43,708)	(1,741)
Non-current liabilities	(32,186)	(92)
Net assets	**100,915**	**(15)**
including		
Non-controlling interest	(27,918)	-
Adjustment to fair value	(23,255)	-
Total	**49,742**	**-**

Summarised information from the statement of comprehensive income	***01.01-31.12.2016***	***01.01-31.12.2016***
	BGN'000	***BGN'000***
Revenue	126,861	3,094
Net profit for the year	9,101	(50)
Other comprehensive income for the year, net of tax	1,229	-
Total comprehensive income for the year	10,330	(50)

**Consolidated indicators*

The table below presents the reconciliation between the summarised financial information on the material interests in joint ventures and their carrying amount at 31 December, included in these consolidated financial statements:

31.12.2017	**Doverie Obedinen Holding AD**
	BGN'000
Net assets	45,877
Group's share (%)	32.57%
Group's share in net assets	14,942
Other adjustments	3,180
Carrying amount of investment	**18,122**

31.12.2016	**Doverie Obedinen Holding AD**	**Zdorovei**
	BGN'000	***BGN'000***
Net assets	49,742	(15)
Group's share (%)	30.22%	16.25%
Group's share in net assets	15,033	(2)
Other adjustments	-	2
Carrying amount of investment	**15,033**	**-**

19.4. General information on joint ventures

The table below presents summarised financial information on each joint venture which is material for the Group, following adjustments that reflect differences in the Group's accounting policy and the accounting base, as well as the effects of fair value measurement of assets and liabilities as at the date of acquisition.

	31.12.2017			*31.12.2016*						
Financial indicators	***OOO Bellerophon***	***BOOO Spetz Apharmacia***	***OOO Med-dent***	***OOO Vivaton Plus***	***OOO Med-dent***	***BOOO Spetz Apharmacia***	***OOO Bellerophon***	***ZAO Interpharm***	***OOO Ivem & K***	***OOO Ariens***
Summarised information from the statement of financial position	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Current assets, including:	240	734	362	616	353	720	268	965	2,370	661
Cash and cash equivalents	*17*	*48*	*22*	*23*	*20*	*31*	*31*	*37*	*77*	*25*
Non-current assets	96	231	23	172	19	299	131	1,790	1,011	125
Current liabilities, including:	(91)	(582)	(229)	(917)	(280)	(526)	(113)	(603)	(2,967)	(843)
Current financial liabilities	-	*(285)*	-	*(50)*	*(15)*	*(37)*	*(10)*	*(44)*	*(147)*	*(32)*
Non-current liabilities, including:	(49)	(22)	-	(16)	-	(58)	(79)	(312)	(119)	(15)
Non-current financial liabilities	*(16)*	*(10)*	-	*(16)*	-	*(14)*	*(22)*	*(312)*	*(119)*	*(15)*
Net assets	**196**	**361**	**156**	**(145)**	**92**	**435**	**207**	**1,840**	**295**	**(72)**

Summarised information from the statement of comprehensive income	***2017***	***2017***	***2017***	***2016***	***2016***	***2016***	***2016***	***2016***	***2016***	***2016***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Revenue	1,608	3,901	1,865	3,486	1,493	3,471	1,631	5,121	8,232	2,347
Net profit/(loss) for the year	(18)	(20)	(21)	(36)	4	(17)	(12)	(170)	(207)	104
Other comprehensive income for the year, net of tax	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	(18)	(20)	(21)	(36)	4	(17)	(12)	(170)	(207)	104

The table below presents the reconciliation between the summarised financial information on the material interests in joint ventures and their carrying amount at 31 December, included in these consolidated financial statements:

31 December 2017	*OOO Meddent*	*BOOO SpetzApharmacia*	*OOO Bellerophon*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Net assets	156	361	196	713
Group's share (%)	50.00%	50.00%	50.00%	
Group's share in the net assets	78	181	98	357
Goodwill	146	488	-	634
NCI's share in the investment	49	391	(17)	423
Adjustments from transactions with companies of the Group	(2)	(1)	3	-
Carrying amount of the investment	**271**	**1,059**	**84**	**1,414**

31 December 2016	*OOO Ivem & K*	*OOO Ariens*	*OOO Vivaton Plus*	*OOO Meddent*	*BOOO SpetzApharmacia*	*OOO Bellerophon*	*ZAO Interpharm*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Net assets	295	(72)	(145)	92	435	207	1,840	2,652
Group's share (%)	36.25%	32.50%	50.00%	50.00%	50.00%	50.00%	50.00%	
Group's share in the net assets	107	(24)	(72)	45	217	104	921	1,298
Goodwill	328	105	25	94	667	237	78	1,534
NCI's share in the investment	289	30	149	127	291	(45)	73	914
Adjustments from transactions with companies of the Group	(46)	(14)	-	(1)	(6)	3	-	(64)
Carrying amount of the investment	**678**	**97**	**102**	**265**	**1,169**	**299**	**1,072**	**3,682**

19.5. Cash outflows from acquisition of joint ventures and associates

In 2017:

Cash flows on acquisition of shares:	***BGN'000***
Joint venture (OOO Med-dent)	53
Joint venture (OOO Bellerophon)	18
Joint venture (OOO Vivaton plus)	(415)
Associate (Doverie Obedinen Holding AD)	972
Joint venture (OOO Zdorovej)	796
	1,424

In 2016:

Cash flows on acquisition of shares:	***BGN '000***
Joint venture (OOO SpetzApharmacia)	86
Joint venture (OOO Bellerophon)	23
Joint venture (OOO Ivem & K)	331
Joint venture (OOO Ariens)	33
Associate (Doverie Obedinen Holding AD)	2,058
	2,531

20. AVAILABLE-FOR-SALE INVESTMENTS

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

	Country	***31.12.2017 BGN '000***	***Interest %***	***31.12.2016 BGN '000***	***Interest %***
Lavena AD	Bulgaria	3,519	11.30	2,883	11.29
Olainfarm AD	Latvia	1,826	0.77	1,796	0.77
Achieve Life Sciences Inc. – USA	USA	770	3.01	-	-
Sopharma Properties REIT	Bulgaria	664	0.50	64	0.07
Hydroizomat AD	Bulgaria	489	13.81	131	10.65
OOO Pharmico	Belarus	172	2.00	172	2.00
Todorov AD	Bulgaria	155	10.56	37	4.98
ODO DKM-Pharm	Belarus	100	2.00	100	2.00
BTF Expat Bulgaria	Bulgaria	78	0.19	82	0.32
OOO Set Aptek	Belarus	70	2.00	70	2.00
Elana Agrocredit AD	Bulgaria	13	0.05	-	-
Achieve Life Science Inc. – USA	USA	-	-	290	4.70
Other		126		96	
Total		**7,982**		**5,721**	

The other available-for-sale investments as at 31 December 2017, amounting to BGN 126 thousand (31 December 2016: BGN 96 thousand), include a number of minority interests of the Group in the capital of eight companies (31 December 2016: five companies).

The investments in Achieve Life Science Inc. USA, and all other companies in Belarus are valued and presented in the consolidated financial statements at acquisition cost.

The available-for-sale investments measured at fair value as at 31 December 2017 are as follows:

	Number of shares held	*Fair value per share*	*31.12.2017*	*Number of shares held*	*Fair value per share*	*31.12.2016*
			BGN '000			*BGN '000*
Lavena AD	36,170	97.3	3,519	30,100	53.3	2,883
Olainfarm AD	108,500	16.8	1,826	108,500	14.2	1,796
Achieve Life Sciences Inc. – USA	359,305	2.1	770	-	-	-
Sopharma Properties REIT	101,237	7	664	12,000	4.9	64
Hydroizomat AD	412,936	1.2	489	318,889	-	131
Todorov AD	359,001	0	155	169,468	-	37
BTF Expat Bulgaria	64,316	1.2	78	74,550	1.1	82
Chimimport AD	15,093	1.7	26	-	-	-
Elana Agrocredit AD	10,000	1.3	13	-	-	-
Sirma Group Holding AD	2,000	1.0	2	-	-	-
Total			**7,542**			**4,993**

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

Fair value hierarchy

Available-for-sale investments	***Fair value***	***(Level 1)***	***(Level 2)***
	31.12.2017		
	BGN'000	***BGN'000***	***BGN'000***
Lavena AD	3,519	-	3,519
Olainfarm AD	1,826	1,826	-
Achieve Life Sciences Inc. – USA	770	770	-
Sopharma Properties REIT	664	664	-
Hydroizomat AD	489	489	-
Todorov AD	155	-	155
BTF Expat Bulgaria	78	78	-
Chimimport AD	26	26	-
Elana Agrocredit AD	13	13	-
Sirma Group Holding AD	2	2	-
Total	**7,542**	**3,868**	**3,674**

Available-for-sale investments	***Fair value 31.12.2016***	***Level 1***	***Level 2***
	BGN'000	***BGN'000***	***BGN'000***
Lavena AD	2,883	-	2,883
Olainfarm AD	1,796	1,796	-
Hydroizomat AD	131	131	-
BTF Expat Bulgaria	82	82	-
Sopharma Properties REIT	64	64	-
Todorov AD	37	37	-
Total	**4,993**	**2,110**	**2,883**

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

Available-for-sale investments	***Level 1 BGN'000***	***Level 2 BGN'000***	***Level 3 BGN'000***	***Total BGN'000***
Balance at 1 January 2016	**2,191**	**1,699**	**2,805**	**6,695**
Purchases	517	328	-	845
Issue of shares	230	-	-	230
Sales	(1,246)	(228)	-	(1,474)
Transfer to investments in associates	-	-	(2,805)	(2,805)
Transfer from Level 2 to Level 3	132	(132)	-	-
Realised gain/(loss) included in the current profit and loss for the year in the item *Finance costs – Net loss on transactions with securities*	23	9	-	32
Unrealised loss included in the current profit and loss for the year *(Note 11)*	(2)	6	-	4
Unrealised gain/(loss), net, included in other comprehensive income *(Note 15)*	265	1,201	-	1,466
Balance at 31 December 2016	**2,110**	**2,883**	**-**	**4,993**
Purchases	1,116	551	-	1,667
Sales	(396)	(16)	-	(412)
Transfers from Level 1 to Level 2	(37)	37	-	-
Realised gain/(loss) included in the current profit and loss for the year in the item *Finance income – Net gain on transactions with securities*	11	10	-	21
Unrealised loss included in the current profit and loss for the year *(Note 12)*	(4)	-	-	(4)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 15)*	1,068	209	-	1,277
Balance at 31 December 2017	**3,868**	**3,674**	**-**	**7,542**

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

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

	31.12.2017 BGN '000	***31.12.2016 BGN '000***
Long-term loans granted to related parties	20,356	9,797
Receivable under a long-term rental deposit granted	243	231
Total	**20,599**	**10,028**

The long-term loans are granted to an associate and to a company controlled by an associate (31 December 2016: to an associate).

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2017*		*31.12.2016*	
	'000			*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
					including interest		*including interest*
EUR	29,384	31.12.2019	3.50%	*16,538*	*17*	*9,797*	*48*
BGN	13,900	11.06.2019	3.00%	*3,818*	*3*	-	
Total				**20,356**	**20**	**9,797**	**48**

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 receivable on a long-term deposit is made by a company, which is connected through a main shareholder under the contracts for rent of administrative offices amounting to BGN 243 thousand with a deadline of 01.08.2022 (31.12.2016: BGN 231 thousand)

22. OTHER LONG-TERM RECEIVABLES

The ***other non-current receivables*** of the Group include:

	31.12.2017	***31.12.2016***
	BGN'000	***BGN'000***
Receivables on sold investment in a subsidiary	2,940	3,389
Loans granted	1,216	380
Deposits on long-term rental agreements	368	-
Other	359	380
Total	**4,883**	**4,149**

The receivables on a sold investment in a subsidiary, amounting to BGN 2,940 thousand. The receivables are with a deferred payment and expected maturity on 31 December 2020 – the date when the regulatory actions for registration of medicinal products permits are expected to be completed (31 December 2016: BGN 3,389 thousand).

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2017*		*31.12.2016*	
	'000			*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
					incl. interest		*incl. interest*
EUR	480	12.10.2022	3.05%	945	6	-	-
EUR	40	30.09.2021	6.00%	88	-	78	-
EUR	30	30.09.2021	6.00%	65	-	59	-
EUR	30	30.09.2021	6.00%	64	-	59	-
BGN	120	31.12.2019	3.50%	54	-	-	-
EUR	200	11.11.2021	8.00%	-	-	176	20
BGN	8	31.01.2018	3.00%	-	-	8	-
				1,216	***6***	***380***	***20***

23. INVENTORIES

Inventories include:	***31.12.2017***	***31.12.2016***
	BGN'000	***BGN'000***
Goods	140,218	95,180
Materials	33,102	32,744
Finished products	27,674	27,504
Semi-finished products	10,680	10,339
Work in progress	6,435	6,024
Total	**218,109**	**171,791**

Goods *by type* are as follows:	***31.12.2017***	***31.12.2016***
	BGN'000	***BGN'000***
Tablet dosage forms	68,744	45,629
Ampoule dosage forms	19,591	13,567
Syrups	9,486	7,646
Ointments	7,782	3,003
Cosmetics	7,239	5,637
Consumables, dressing materials and apparatuses	6,796	4,671
Drops	4,313	4,001
Food supplements	3,899	3,708

Lyophilic products	1,684	1,057
Suppositories	1,459	1,714
Goods in transit	1,248	280
Other	7,977	4,267
Total	**140,218**	**95,180**

The ***finished products*** include:

	31.12.2017	***31.12.2016***
	BGN'000	***BGN'000***
Tablet dosage forms	16,550	16,209
Ampoule dosage forms	4,602	3,894
Syrups	1,318	1,422
Consumables, dressing materials and apparatuses	1,218	918
Ointments	1,078	1,688
Lyophilic products	549	585
Syringes	430	702
Other	1,929	2,086
Total	**27,674**	**27,504**

Materials by type are as follows:	***31.12.2017***	***31.12.2016***
	BGN'000	***BGN'000***
Basic materials	28,463	29,727
Materials in transit	2,114	483
Auxiliary materials	619	887
Technical materials	521	493
Spare parts	392	424
Other	993	730
Total	**33,102**	**32,744**

Basic materials by type are as follows:	***31.12.2017***	***31.12.2016***
	BGN'000	***BGN'000***
Substances (active ingredients)	13,528	14,963
Chemicals	4,009	3,666
Vials, tubes and ampoules	3,256	2,732
Herbs	2,632	2,278
Packaging materials	2,131	2,732
PVC and aluminium foil	1,434	1,130

Consumables, dressing materials and apparatuses	929	1,254
Other	544	972
Total	**28,463**	**29,727**

As at 31 December 2017, there were established special pledges on inventories at the amount of BGN 89,829 thousand (31 December 2016: BGN 64,693 thousand) as collateral under received by the Group bank loans and issued bank guarantees *(Notes 29, 34 and 41).*

24. TRADE RECEIVABLES

Trade receivables include:	***31.12.2017 BGN'000***	***31.12.2016 BGN'000***
Receivables from clients	*228,961*	*214,616*
Impairment of uncollectable receivables	*(2,104)*	*(2,483)*
Receivables from clients, net	226,857	212,133
Advances to suppliers	*4,548*	*3,577*
Impairment of advances	*(127)*	*(127)*
Advances granted, net	4,421	3,450
Total	**231,278**	**215,583**

The ***receivables from clients*** are interest-free and are mainly denominated in BGN, EUR and RSD.

Usually the Group companies negotiate with their clients payment terms within the range of 30 to 180 days for receivables under sales unless there are determined specific conditions for maturity for particular clients or in the cases where new markets and products are developed and new trade counterparts are attracted. The Group has set a common credit period of 180 days for which no interest is charged to clients, with the exception of cases of restructured receivables under a special agreement, setting a longer period and interest rates. In case of sale of medical equipment to hospitals, the credit period could exceed 2 years, due to the specific financial characteristics of counterparts.

Any delay after this period is regarded by the Group as an indicator for impairment. The managing bodies of the Group companies assess collectability by analysing the exposure of the particular client, the opportunities for settlement (of the client and through the collateral) and take decision on the amount, recognition and charging of the respective impairment.

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

	31.12.2017	*31.12.2016*
	BGN'000	*BGN'000*
up to 30 days	86,448	72,018
from 31 to 90 days	52,678	50,655
from 91 to 180 days	3,547	5,604
from 181 to 365 days	488	3,056
from 1 to 2 years	243	10
over 2 years	-	967
Total	**143,404**	**132,310**

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

	31.12.2017	*31.12.2016*
	BGN'000	*BGN'000*
from 31 to 90 days	36,373	20,867
from 91 to 180 days	21,217	15,131
from 181 to 365 days	15,480	13,981
from 1 to 2 years	3,665	7,441
over 2 years	1,544	6,847
Total	**78,279**	**64,267**

With regard to the past due but not impaired receivables, there are usually already achieved or pending agreements for interest-bearing rescheduling of payments for each specific client (including penalty interest for delay).

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

	31.12.2017	*31.12.2016*
	BGN'000	*BGN'000*
from 31 to 90 days	368	941
from 91 to 180 days	1,120	3,212
from 181 to 365 days	1,958	4,932
from 1 to 2 years	2,785	5,335

over 2 years	1,047	3,619
Allowance for impairment	(2,104)	(2,483)
Total	**5,174**	**15,556**

Most past due receivables are from state hospitals. It is the Group's policy, with respect to all past due receivables, to accrue, invoice and collect default interest, by means of which it fully compensates for the payment delayed and the expense/losses incurred, both for special agreements with the respective debtor – hospital, and for litigation.

The impairment amount is calculated on an individual basis by applying the discounted cash flows method with a discount rate based on the price of attracted resources by the company adjusted against the average net yield and conservative prognosis on the expected cash flows, determined on the grounds of debtor's history and the concluded agreements, respectively, court rulings. Where the management has concluded 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 impaired to 100% *(Note 2.31.3).*

As at 31 December 2017, there are established special pledges on trade receivables at the amount of BGN 65,753 thousand (31 December 2016: BGN 75,755 thousand). They are established as collateral under received by the Group bank loans and issued bank guarantees *(Notes 29, 34 and 41).*

Movement in the allowance for impairment

	31.12.2017 *BGN'000*	*31.12.2016* *BGN'000*
Balance at the beginning of the year	**2,483**	**2,165**
Impairment amount	1,190	1,501
Reversed impairment	(1,333)	(682)
Impairment written-off upon sale of a subsidiary	-	(132)
Effect of foreign currency restatements	(7)	(5)
Transfer to impairment of court and awarded receivables *(Note 24)*	(76)	(48)
Transfer to impairment of subsidiary	(3)	-
Amounts written-off under uncollectable receivables	(150)	(316)
Balance at the end of the year	**2,104**	**2,483**

The ***advances granted*** to suppliers are regular and are mainly denominated in BGN and EUR and are for the purchase of:

	31.12.2017 *BGN'000*	*31.12.2016* *BGN'000*
Raw materials and consumables	2,605	2,239
Services	1,044	950

Goods	785	215
Allowance for impairment	(127)	(127)
Other	114	173
Total	**4,421**	**3,450**

25. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties by type are as follows:	***31.12.2017 BGN'000***	***31.12.2016 BGN'000***
Trade loans granted	3,323	11,818
Receivables on sales of finished products and materials	1,371	3,122
Advances granted	-	42
Total	**4,694**	**14,982**

The ***trade loans granted to related parties*** are unsecured and are as follows:

Currency	***Contracted amount (original currency) '000***	***Maturity***	***Interest %***	***31.12.2017 BGN '000***	***31.12.2017 BGN '000 including interest***	***31.12.2016 BGN '000***	***31.12.2016 BGN '000 including interest***
to companies related through key management personnel							
BGN	66,700	31.12.2018	2,81%	2,956	4	4,472	72
EUR	8,154	31.12.2017	4,10%	-	-	6,292	5
EUR	12,807	31.12.2017	3,05%	-	-	560	1
to companies controlled by associates							
BGN	300	31.08.2018	3,10%	305	5	-	-
BGN	190	31.12.2018	3,50%	62	-	96	-
to companies under common control							
BYN	186	08.06.2018	27,50%	-	-	146	-
BYN	122	28.01.2018	27,50%	-	-	104	-
BYN	70	24.03.2018	20,00%	-	-	67	1
BYN	126	25.11.2017	27,50%	-	-	59	-
BYN	23	28.04.2018	20,00%	-	-	22	1
Total:				**3,323**	**9**	**11,818**	**80**

The ***receivables on sales of finished products and materials*** are interest-free and denominated in BGN and in Belarusian rubles.

The Group companies usually negotiate payment terms between 90 and 180 days for receivables on sales of finished products and up to 30 days for receivables on sales of materials (including substances – active ingredients). The Group has set a maximum credit period of up to 365 days for sales counterparts – related parties. Any delay after this period is regarded by the Group as an indicator for impairment. The managing bodies of the Group companies assess collectability by analysing the specific receivables and the position of the debtor company as well as the circumstances for the delay and the opportunities for repayment and after that, they take a decision on whether impairment shall be recognised and charged on an individual basis and at what amount.

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

	31.12.2017	***31.12.2016***
	BGN'000	***BGN'000***
up to 30 days	343	1,597
from 31 to 90 days	135	686
from 91 to 180 days	109	70
Total	**587**	**2,353**

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

	31.12.2017	***31.12.2016***
	BGN'000	***BGN'000***
from 31 to 90 days	135	194
from 91 to 180 days	364	219
from 181 to 365 days	285	-
Total	**784**	**413**

The ***age structure*** of past due impaired receivables from related parties is as follows:	***31.12.2017*** ***BGN'000***	***31.12.2016*** ***BGN'000***
over 1 year	-	412
Allowance for impairment	-	(56)
Total	**-**	**356**

Movement in the allowance for impairment

	31.12.2017	***31.12.2016***
	BGN'000	***BGN'000***
Balance at 1 January	**56**	**24**
Impairment amount		32
Impairment of uncollectable receivables written-off	(56)	-
Balance at 31 December	**-**	**56**

26. OTHER SHORT-TERM RECEIVABLES AND ASSETS

Other receivables and prepayments of the Group include:

	31.12.2017	*31.12.2016*
	BGN'000	*BGN'000*
Court and awarded receivables	*8,165*	*5,516*
Impairment of court receivables	*(2,559)*	*(2,518)*
Court and awarded receivables, net	5,606	2,998
Taxes refundable	8,075	6,918
Loans granted to third parties	3,219	2,566
Prepayments	1,915	2,055
Receivables on deposits placed as guarantees	439	342
Amounts granted to investment intermediaries	125	101
Receivables from investment transactions	-	38
Receivables from sales from National Health Insurance Fund	3,915	1,001
Financial assets at fair value through profit	-	316
Other	1,661	1,392
Total	**24,955**	**17,727**

Part of the court and awarded receivables originate in relation to sales to state hospitals. Repayment schedules have been agreed or are in a process of agreement for most of them. For this reason, the management of the Group made an assessment that only a partial impairment was necessary for the above receivables.

The financial assets at fair value through profit, held by the Group, are classified as Level 1 in the fair value hierarchy *(Note 2.14.2)* and include 210,958.41 shares in the trust fund Reiffeisen (Bulgaria) Liquidity Fund. As at 31 December 2017, the Group sold its financial assets.

Taxes refundable include:	*31.12.2017*	*31.12.2016*
	BGN'000	*BGN'000*
VAT	4,235	2,353
Excise duties	3,625	3,597
Income tax	210	966
Local taxes and charges	5	2
Total	**8,075**	**6,918**

Prepayments include:	*31.12.2017*	*31.12.2016*

	BGN'000	*BGN'000*
Subscriptions	736	735
Insurance	664	825
Rentals	71	114
Licence and patent fees	53	38
Advertisements	52	48
Vouchers	44	16
Other	295	279
Total	**1,915**	**2,055**

The loans granted to third parties, amounting to BGN 3,219 thousand (31 December 2016: BGN 2,566 thousand), are granted to five entities (2016: six entities) – counterparts for working capital. The annual interest agreed for these loans for 2017 was between 4.3% and 4.7% (2016: between 4.3% and 8%).

27. CASH AND CASH EQUIVALENTS

	31.12.2017 *BGN'000*	*31.12.2016* *BGN'000*
Cash at current bank accounts	17,554	17,353
Impairment of cash at current bank accounts	(166)	(172)
Short-term deposits	2,863	3,996
Cash in hand	2,337	1,138
Short-term blocked funds	26	24
Cash and cash equivalents presented in the consolidated statement of cash flows	**22,614**	**22,339**
Blocked cash in special escrow account	10,537	-
Blocked cash under court cases and issued bank guarantees	177	200
Cash and cash equivalents presented in the consolidated statement of financial position	**33,328**	**22,539**

The available cash and cash equivalents of the Group are mainly denominated in BGN, EUR and UAH (31 December 2016: BGN, BYN and UAH).

The average level of the annual interest on current accounts in BGN and foreign currency is within the range from 0.01% to 0.03% (2016: from 0.01% to 1%) and that on deposit accounts in BGN and foreign currency is mainly within the range from 0.1% to 10.5% (2016: from 0.3% to 17%).

The blocked funds amounting to BGN 10,537 as at 31 December 2017, represent cash in escrow account for the acquisition of shares in Lekovit d.o.o. Serbia and the Pharmastore companies, Bulgaria. The short-term blocked funds as at 31 December 2016, amounting to BGN 26 thousand (31 December 2016: BGN 24 thousand), represent mainly blocked funds under performance guarantees.

28. EQUITY

Share capital

As at 31 December 2017, the registered share capital of Sopharma AD amounts to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

Ordinary shares issued and fully paid

	Shares	*Share capital net of treasury shares BGN '000*
Balance at 1 January 2016	**129,316,754**	**116,185**
Treasury shares	(554,158)	(1,212)
Treasury shares sold	221,723	324
Balance at 31 December 2016	**128,984,319**	**115,297**
Balance at 1 January 2017	**128,984,319**	**115,297**
Treasury shares	(3,872,219)	(17,026)
Treasury shares sold	652,819	2,693
Balance at 31 December 2017	**125,764,919**	**100,964**

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

The ***treasury shares*** are 9,032,980 at the amount of BGN 33,834 thousand (31 December 2016: 6,035,303 shares at the amount of BGN 19,501 thousand).

As at 31 December 2017 the company has no shares held by its subsidiaries (31 December 2016: held by Unipharm AD - 191,166 shares).

Statutory reserves at the amount of BGN 51,666 thousand (31 December 2016: BGN 47,841 thousand) have been set aside from allocation of profit of the parent company and included all amounts for the Reserve Fund.

The ***revaluation reserve – for property, plant and equipment***, amounting to BGN 31,945 thousand (31 December 2016: BGN 32,277 thousand), has been set aside from excess of the carrying amount of property, plant and equipment of the Group companies over their fair values at the dates of the respective regular revaluation. The effect of deferred taxes on the revaluation reserve is stated directly through other components of comprehensive income for the year.

The ***available-for-sale financial assets reserve***, amounting to BGN 4,109 thousand – a positive figure (31 December 2016: BGN 2,808 thousand – a positive figure), has been set aside from the effects of subsequent measurement of available-for-sale investments to fair value (including the consolidated share of the change in this reserve in associates on their valuation under the equity method).

The ***translation of foreign operations reserve***, amounting to BGN 310 thousand – a negative figure (31 December 2016: BGN 717 thousand – a negative figure), has been set aside from exchange differences arising as a result of translation of the currency in the financial statements of foreign companies to the presentation currency of the Group.

The ***retained earnings reserve*** includes the component 'other reserves', which contains the amounts distributed from profits of the Group companies generated in prior years, as well as the component 'accumulated profits and losses'.

Retained earnings, amounting to BGN 281,509 thousand at 31 December (31 December 2016: BGN 259,984 thousand), include also the recognised accumulated actuarial loss at the amount of BGN 2,304 thousand (31 December 2016: BGN 1,729 thousand), stated upon remeasurements of defined benefit pension plans in relation with the amendment to IAS 19 *Employee Benefits.*

Net earnings per share

	2017	***2016***
Weighted average number of shares	128,647,060	129,056,144
Net profit for the year, attributable to the equity holders of the parent (BGN'000)	39,998	50,638
Net earnings per share (BGN)	**0.31**	**0.39**

29. LONG-TERM BANK LOANS

Contracted loan amount	Maturity	31.12.2017 Non-current portion	Current portion	Total	31.12.2016 Non-current portion	Current portion	Total
'000		*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*

Credit lines and working capital loans								
BGN	16,000	30.06.2024	13,109	2,462	15,571	-	-	-
BGN	4,250	16.04.2023	885	209	1,094	1,094	209	1,303
EUR	590	31.10.2021	825	141	966	-	70	70
EUR	300	05.06.2020	352	234	586	-	-	-
BGN	120	25.08.2020	40	24	64	64	24	88
RSD	6,000	25.03.2019	6	25	31	-	-	-
EUR	1,448	31.12.2017	-	-	-	-	510	510
EUR	450	31.12.2017	-	-	-	-	162	162
Investment-purpose loans								
EUR	32,000	15.04.2021	16,691	7,172	23,863	23,844	7,185	31,029
EUR	12,000	24.04.2024	18,472	3,350	21,822	-	-	-
EUR	172	28.02.2021	146	72	218	213	67	280
EUR	2,000	30.06.2018	-	569	569	489	975	1,464
EUR	565	25.10.2018	-	220	220	220	276	496
Total			**50,526**	**14,478**	**65,004**	**25,924**	**9,478**	**35,402**

The Group has gradually established a policy for annual re-negotiation of the terms and conditions of initially agreed long-term credit lines, including maturity terms. Starting from the date of re-negotiation, the extended credit lines are presented as short-term bank loans *(Note 31)*.

The bank loans obtained in Euro are contracted mainly at interest rate determined on the basis of EURIBOR plus a mark-up of up to 3.5%, or fixed to 2.35%; for loans in BGN – interest fixed to 4.1%; and for loans in RSD – BELIBOR of up to 0.5% (2016: in EUR – EURIBOR plus a mark-up of up to 4.9% or fixed to 12% or BELIBOR up to 2%, and for loans in BGN – SOFIBOR plus a mark-up of up to 3.5%). Loans are intended for providing working capital.

Investment-purpose loans are intended for purchase of tangible fixed assets and expanding of activities.

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

- Real estate mortgages *(Note 16);*
- Special pledges on:
  - machinery and equipment *(Note 16);*

- inventories *(Note 23);*
- trade receivables *(Note 24).*

Level of the movement of liabilities deriving from the financial activity

The table below presents the changes in financial liabilities by depicting both monetary and non-monetary changes. Liabilities which result from the financial activities are those for which the cash flows are or future cash flows will be classified in the cash flow statement of the Company as cash flows from financing activities.

	01.01.2017	***Changes in cash flows from financing activities (*)***	***Non-monetary changes***			***Other changes***	***31.12.2017***
			Acquisition of a subsidiary (Note 45)	***New payables during the year***	***Compensation with receivables under a factoring contract***		
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Bank loans (Note 29 and 34*)*	206,244	36,029	16,218	-	-	678	**259,169**
Factoring (Note № 37)	20,033	130,922	-	-	(131,552)	-	**19,403**
Liabilities under finance lease contracts (Note 32)	3,686	(1,745)	-	1,280	-	-	**3,221**
Loans from other enterprises (Note 40)	360	(477)	157		-	117	**157**
Dividends	697	(15,478)	-	15,367	-	-	**586**
Total	**231,020**	**149,251**	**16,375**	**16,347**	**(131,552)**	**1,249**	**282,536**
Treasury shares *(Note 28)*	-	(14,500)	-	-	-	-	**-**
Non-controlling interests in the issue of capital in subsidiaries	-	675	-	-	-	-	**-**
Net cshflow from financial activities	**-**	**135,426**	**-**	**-**	**-**	**-**	**-**

30. DEFERRED TAX ASSETS AND LIABILITIES

The total change in ***deferred tax assets and liabilities*** of the Group for the respective financial year is as follows:

	2017	2016
	BGN '000	*BGN '000*
Balance at 1 January	**(8,950)**	**(4,236)**
including: Deferred tax assets	*2,802*	*3,716*
including: Deferred tax liabilities	*(11,752)*	*(7,952)*
Acquired on purchase of a subsidiary	(4,725)	(1,483)
Recognised in profit or loss for the year	817	(1,813)
Recognised in other comprehensive income	4	(1,504)
Derecognised on disposal of a subsidiary	-	160
Recognised in the statement of changes in equity and the current tax return	77	24
Foreign exchange differences on translation of foreign operations	415	(98)
Balance at 31 December	**(12,362)**	**(8,950)**
including: Deferred tax assets	*1,342*	*2,802*
including: Deferred tax liabilities	*(13,704)*	*(11,752)*

On recognising deferred tax assets, the probability of a reversal of the individual differences and the abilities of the Group companies to generate sufficient taxable profit in the future, have been taken into account *(Note 2.27)*.

The change in the balance of ***deferred tax assets/(liabilities)*** for 2017 by items of temporary differences is as follows:

Deferred tax assets (by temporary differences)	*Balance at 1 January 2017*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Recognised in the statement of changes in equity and the current tax return*	*Translation to presentation currency reserve*	*Balance at 31 December 2017*
	Assets/(Liabilities)							*Assets/(Liabilities)*
Intangible assets	(119)	-	318	-	-		(7)	192
Available-for-sale investments	58	(108)	-	-	-		4	(46)
Inventories	2,079	1	318	-	-	34	3	2,435
Trade receivables	1,225	-	(459)	-	-		-	766
Cash	17	-	-	-	-		-	17
Retirement benefit obligations	870	-	192		-	1	(5)	1,058
Other current liabilities	533	19	(334)	-	-	-	(39)	179
Property, plant and equipment	(10,336)	(170)	576	4	-	42	80	(9,804)
Intangible assets acquired in business combinations	(3,277)	(4,467)	469		(1)	-	380	(6,896)
Investment property	-	-	(263)	-	-	-	-	(263)
	(8,950)	**(4,725)**	**817**	**4**	**(1)**	**77**	**416**	**(12,362)**

The change in the balance of ***deferred tax assets/(liabilities)*** for 2016 by items of temporary differences is as follows:

Deferred tax assets (by temporary differences)	*Balance at 1 January 2016*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Recognised in the statement of changes in equity and the current tax return*	*Translation to presentation currency reserve*	*Balance at 31 December 2016*
	Assets/(Liabilities)							*Assets/(Liabilities)*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Intangible assets	(88)	-	(110)	-	-	-	79	(119)
Available-for-sale investments	58	-	-	-	-	-	-	58
Inventories	2,960	-	(860)	-	-	-	(21)	2,079
Trade receivables	1,928	-	(702)	-	-	-	(1)	1,225
Cash	17	-	-	-	-	-	-	17
Retirement benefit obligations	891	2	39	-	(3)	(4)	(55)	870
Other current liabilities	516	-	1	-	(7)	-	23	533
Property, plant and equipment	(8,494)	(14)	(427)	(1,504)	117	21	(35)	(10,336)
Intangible assets acquired in business combinations	(2,024)	(1,471)	246	-	53	7	(88)	(3,277)
	(4,236)	**(1,483)**	**(1,813)**	**(1,504)**	**160**	**24**	**(98)**	**(8,950)**

31. RETIREMENT BENEFIT OBLIGATIONS

The long-term employee benefits as at 31 December include:

	31.12.2017	*31.12.2016*
	BGN '000	*BGN '000*
Long-term retirement benefit obligations	5,177	4,314
Long-term benefit obligations for tantieme	281	225
Total	**5,458**	**4,539**

Long-term retirement benefit obligations

The long-term payables to personnel include the present value of the obligation of the Group companies, operating mainly in *Bulgaria and Ukraine*, to pay indemnities to the hired personnel at the date of the statement of financial position on coming of age for retirement. In accordance with the Labour 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 at least the last 10 years of the service period for the same employer – six gross monthly salaries at the time of retirement *(Note 2.23)*.

Employer's obligations to personnel on retirement for the companies abroad are as follows:

- *Ukraine* – the employer is obliged to pay between BGN 7 and BGN 13 depending on the length of service as well as a social pension, which the company accrues after employees' retirement due to specific work conditions;
- *Latvia,* Belarus and Moldova – the employer does not have a legal obligation to personnel upon retirement;
- *Kazakhstan* – according to the Kazakhstani legislation, the employer does not have a legal obligation to personnel upon retirement;
- *Serbia* – the employer is obliged to pay 3 average salaries.

For the purpose of establishing the amount of these obligations to personnel, the Group companies have assigned an actuarial valuation by using the services of a certified actuary.

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

	2017 *BGN '000*	*2016* *BGN '000*
Present value of the obligation at 1 January	**4,314**	**4,022**
Effect from disposal of subsidiaries	-	(14)
Current service cost for the year	533	543
Interest cost for the year	157	161
Net actuarial loss recognised for the period	51	-
Payments made in the year	(422)	(490)
Effect of restatement	(53)	(36)
Remeasurement gains or losses for the year, including:	597	128
Actuarial losses arising from changes in financial assumptions	*372*	*88*
Actuarial losses arising from changes in demographic assumptions	*21*	*5*
Actuarial losses arising from experience adjustments	*204*	*35*
Present value of the obligations at 31 December	**5,177**	**4,314**

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

	2017 *BGN '000*	*2016* *BGN '000*
Current service cost	533	543
Interest cost	157	161
Net actuarial loss recognised for the period	51	-
Components of defined benefit plan costs recognised in profit or loss (Note 7)	**741**	**704**
Remeasurement gains or losses on the retirement benefit obligations, including:		-
Actuarial losses arising from changes in financial assumptions	372	88
Actuarial losses arising from changes in demographic assumptions	21	5
Actuarial losses arising from experience adjustments	204	35
Components of defined benefit plans cost recognised in other comprehensive income (Note 15)	**597**	**128**
Total	**1,338**	**832**

The following actuarial assumptions were used for calculating the present value of the liabilities for the companies in Bulgaria as at 31 December 2017:

- The discount factor is calculated by using 1.4% annual interest rate as basis. (2016: 2.5%). The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of the salaries is based on the information provided by the Company's management and amounts to 5 % annual growth compared to the prior reporting period (2016: 5%);
- Mortality rate – in accordance with the table on the total mortality rate of the population in Bulgaria, issued by the National Statistics Institute for the period 2014 – 2016 (2016: 2013 - 2015);
- Staff turnover rate – from 0% to 20% for the five age groups formed (2016: between 0% and 20%).

This defined benefit plan exposes the Group companies to the following risks: investment risk, interest risk, longevity risk and salary growth related risk: The management of the parent defines them as follows:

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

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

The effects of the change (increase or decrease) by 1% of salary growth, discount rate and staff turnover rate on the amount of the stated current service cost and interest cost for 2018 and respectively, on the present value of the obligation for payment of defined retirement benefits, are assessed as follows:

Effects of changes in the basic assumptions on the amount of stated expenses for 2017:

	Increase	***Decrease***
	BGN '000	*BGN '000*
Change in salary growth	69	(59)
Change in discount rate	(15)	17

Change in staff turnover rate	(48)	52

Effects of changes in the basic assumptions on the amount of the stated liability as at 31 December 2017:

	Increase	***Decrease***
	BGN '000	*BGN '000*
Change in salary growth	417	(360)
Change in discount rate	(367)	434
Change in staff turnover rate	(310)	350

The weighted average duration of the defined benefit obligation to personnel is from 3.9 to 15 years.

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

Forecasted payments	***Old age and length of service retirement***	***Poor health retirement***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Payments in 2018	805	19	824
Payments in 2019	406	19	425
Payments in 2020	460	17	477
Payments in 2021	398	18	416
Payments in 2022	423	18	441
	2,492	**91**	**2,583**

Long-term benefit obligations for tantieme

As at 31 December 2017, the long-term benefit obligations to personnel include also the amount of BGN 281 thousand (31 December 2016: BGN 225 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months – until 2020 (2016: until 2019).

32. FINANCE LEASE LIABILITIES

As at 31 December, the finance lease liabilities are under revocable contracts for motor vehicles acquisition. They are presented net of the future interest due and are as follows:

Term	***31.12.2017***	***31.12.2016***
	BGN'000	***BGN'000***
Up to one year *(Note 40)*	1,271	1,104

Over one year	1,950	2,582
Total	**3,221**	**3,686**

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

Term	***31.12.2017 BGN'000***	***31.12.2016 BGN'000***
Up to one year	1,360	1,254
From one to three years	2,030	2,711
	3,390	3,965
Future finance costs under finance leases	(169)	(279)
Total	**3,221**	**3,686**

The lease payments due within the next 12 months are presented in the consolidated statement of financial position as 'other current liabilities' *(Note 37)*.

33. GOVERNMENT GRANTS

The government grants to Group companies as at 31 December include:

	31.12.2017 BGN'000	***31.12.2016 BGN'000***
Government grants, non-current portion	8,250	9,011
Government grants, current portion *(Note 40)*	867	1,224
Total	**9,117**	**10,235**

The government grants received as at 31 December are to the following Group companies:

	31.12.2017 BGN'000	***31.12.2016 BGN'000***
Sopharma AD	5,986	6,494
Biopharm Engineering AD	1,953	2,093
Veta Pharma AD	638	769
Unipharm AD	540	879
Total	**9,117**	**10,235**

The government grants are received by the Group companies under European Operational Programmes mainly in relation to the acquisition of machinery and equipment *(Note 16)*.

The current portion of the grants, amounting to BGN 867 thousand (31 December 2016: BGN 1,224 thousand), will be recognised as current income over the following 12 months from the date of the consolidated statement of financial position and is presented as 'other current liabilities' *(Note 40)*.

34. SHORT-TERM BANK LOANS

The ***short-term bank loans*** of the Group as at 31 December are as follows:

Currency	*Contracted amount*	*Maturity*	*31.12.2017*	*31.12.2016*
	'000		*BGN'000*	*BGN'000*
Bank loans (overdrafts)				
EUR	26,000	31.10.2018	42,567	30,425
EUR	10,000	31.10.2018	13,614	11,603
BGN	20,000	21.04.2018	11,775	9,242
EUR	7,500	25.04.2018	10,742	10,743
BGN	10,000	28.02.2018	10,001	10,001
EUR	5,000	25.04.2018	9,757	9,757
EUR	3,500	02.09.2018	6,319	4,698
EUR	3,000	25.04.2018	5,862	5,862
EUR	2,000	21.09.2018	3,912	-
EUR	2,000	11.03.2018	3,520	-
BGN	10,000	31.05.2018	2,860	-
EUR	1,500	25.11.2018	2,847	2,949
UAH	77,000	23.01.2018	1,752	5,299
EUR	600	25.12.2018	1,173	-
EUR	1,000	30.12.2018	1,076	-
EUR	500	08.03.2018	978	-
EUR	400	22.12.2018	782	-
EUR	600	19.06.2018	608	-
EUR	530	19.06.2018	519	-
BYN	350	23.03.2018	292	314
BYN	345	20.02.2020	274	-
BYN	211	14.08.2020	175	-
BYN	183	07.06.2018	152	-
EUR	355	20.02.2018	115	-
BYN	150	25.02.2018	108	66
BYN	75	31.05.2018	60	-
EUR	2,500	14.09.2017	-	4,824
BYN	500	21.10.2018	-	477
EUR	10,000	20.03.2017	-	6,827
UAH	59,000	31.12.2017	-	4,060
EUR	2,050	31.10.2017	-	3,712
EUR	6,000	15.02.2017	-	2,056
BYN	1,528	29.05.2017	-	1,458
BYN	14	31.01.2017	-	13

			131,840	**124,386**

Currency	*Contracted amount*	*Maturity*	*31.12.2017*	*31.12.2016*
	BGN '000		*BGN'000*	*BGN'000*
Credit lines				
EUR	8,434	28.02.2018	15,908	15,908
BGN	10,000	28.02.2018	10,000	10,000
BGN	10,000	30.10.2018	9,244	8,005
EUR	3,000	01.11.2019	8,821	5,913
EUR	3,000	04.03.2019	5,797	-
EUR	5,000	31.08.2018	5,594	2,613
BYN	6,009	02.07.2019	2,256	-
BYN	1,849	24.05.2019	1,552	-
BYN	1,200	01.06.2019	1,009	-
BYN	1,000	19.01.2019	831	-
BYN	500	31.07.2020	416	-
BGN	1,000	20.12.2018	288	680
BYN	345	29.11.2018	287	285
BYN	150	31.10.2020	122	-
BYN	146	07.06.2019	121	-
BYN	100	10.02.2020	79	-
EUR	2,600	28.05.2019	-	3,052
			62,325	**46,456**
			194,165	**170,842**

The bank loans obtained in Euro are contracted mainly at interest rate determined on the basis of EURIBOR plus a mark-up of up to 2.2%, or fixed to 12%, or EONIA plus a mark-up of up to 2.1% or BELIBOR plus a mark-up of 0.5%; for loans in BGN – interest is based on SOFIBOR plus a mark-up of up to 2.95%; for loans in BYN – fixed rate of 15%; and for loans in UAH – fixed rate of 17% (2016: EURIBOR plus a mark-up of up to 3%, or fixed to 25.5%, or EONIA plus a mark-up of up to 2.1%; for loans in BGN – interest is based on SOFIBOR plus a mark-up of up to 3.26%; for loans in BYN – fixed rate of 36.8%; and for loans in UAH – fixed rate of 16.5%). Loans are intended for providing working capital.

The following special pledges have been established as collateral for the above loans in favour of the creditor banks:

- machinery and equipment *(Note 16);*
- raw materials, consumables and finished products *(Note 23);*
- trade receivables *(Note 24).*

As at 31 December 2017, there are special pledges on receivables from related parties, subject to consolidation and eliminated for the purpose of the consolidated financial statements, at the amount of BGN 44,726 thousand (31 December 2016: BGN 18,229 thousand), established as collateral under received by the Group bank loans and issued bank guarantees *(Notes 29, 32 and 38).*

35. TRADE PAYABLES

Trade payables include:	***31.12.2017***	***31.12.2016***
	BGN'000	***BGN'000***
Payables to suppliers	134,556	91,091
Advances from clients	612	962
Total	**135,168**	**92,053**

The ***payables to suppliers*** refer to:	***31.12.2017***	***31.12.2016***
	BGN'000	***BGN'000***
Suppliers outside Bulgaria	96,674	68,968
Suppliers from Bulgaria	37,882	22,123
Total	**134,556**	**91,091**

The payables to suppliers are regular, interest-free and refer to supplies of materials, goods and services. The average credit period, for which usually no interest is charged on trade payables, is up to 180 days.

The payables to suppliers are denominated in the following currencies:

- in EUR – BGN 47,699 thousand (31 December 2016: BGN 47,119 thousand);
- in BGN – BGN 38,238 thousand (31 December 2016: BGN 22,600 thousand);
- in USD – BGN 6,468 thousand (31 December 2016: BGN 2,274 thousand);
- in BYN – BGN 13,581 thousand (31 December 2016: BGN 18,866 thousand);
- in RSD – BGN 27,294 thousand (31 December 2016: BGN 85 thousand);
- in other currency – BGN 1,276 thousand (31 December 2016: BGN 147 thousand).

36. PAYABLES TO RELATED PARTIES

The ***payables to related parties*** refer to:

	31.12.2017	***31.12.2016***
	BGN'000	***BGN'000***
Payables to companies related through a main shareholder	403	9
Payables to companies related through key management personnel	291	240
Payables to joint ventures and associates	42	292
Payables to main shareholding companies	21	25

Total	**757**	**566**

The payables to related parties by type are as follows:

	31.12.2017	*31.12.2016*
	BGN'000	*BGN'000*
Payables on supply of goods and materials	468	331
Supply of services	252	235
Payables on supply of fixed assets	37	-
Total	**757**	**566**

The payables to related parties are regular, denominated in BGN, interest-free and are not additionally secured through a special pledge or guarantee by the Group.

37. PAYABLES UNDER FACTORING AGREEMENT

Companies of the Group have entered into factoring agreements with a financial institution (Factor), dated 19 January 2016, for transfer of existing uncallable receivables from debtors.

The Factor is entitled to recourse for all amounts paid in advance regardless of whether they are included not in the approved credit limit. The approved credit limit is BGN 25,000 thousand. The transferred invoices are paid in advance up to 90% (ninety per cent) of their amount with VAT included.

The interest for the amounts paid in advance is 1M SOFIBOR + 1.80% on an annual basis and is deducted on a monthly basis in the end of each calendar month.

The payable under the factoring agreement amounts to BGN 19,403 thousand as at 31 December 2017 (31 December 2016: BGN 20,033 thousand).

The financing granted for 2017 amounts to BGN 131,269 thousand (31 December 2016: 132,375 thousand) (Note 2.18).

38. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security include:

	31.12.2017	*31.12.2016*
	BGN'000	*BGN'000*
Payables to personnel, including:	10,317	8,264
current wages and salaries	4,499	3,675
tantieme	3,328	2,895
accruals on unused compensated leaves	2,490	1,694
Payables for social security/health insurance, including:	2,578	1,829

current payables for social security contributions	2,227	1,588
accruals on unused compensated leaves	351	241
Total	**12,895**	**10,093**

39. TAX PAYABLES

Tax payables include:

	31.12.2017	*31.12.2016*
	BGN'000	***BGN'000***
VAT	4,305	4,493
Income taxes	1,471	385
Individual income taxes	839	458
Taxes on expenses	563	544
Withholding taxes	15	5
Other	182	64
Total	**7,375**	**5,949**

By the date of issue of these consolidated financial statements the following tax inspections and audits of Group companies have been performed:

Company	**Full-scope tax audit**	**VAT inspection**	**Inspection under the social security legislation**
Sopharma AD	31.12.2011	30.11.2011	30.09.2013
Sopharma Trading AD	31.12.2011	31.12.2011	31.12.2004
Sopharmacy EOOD	none	30.09.2017	none
Sopharmacy 2 EOOD	none	30.09.2017	none
Sopharmacy 3 EOOD	none	30.11.2017	none
Sopharmacy 4 EOOD	none	30.11.2017	none
Sopharmacy 5 EOOD	none	31.10.2017	none
Sopharmacy 6 EOOD	none	31.01.2018	none
Sopharmacy 7 EOOD	none	30.11.2017	none
Biopharm Engineering AD	31.12.2014	31.01.2018	30.04.2009
Momina Krepost AD	31.12.2005	31.10.2006	31.10.2006
Pharmalogistica AD	31.12.2005	31.03.2007	none
Sopharma Buildings REIT	none	30.11.2017	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none
Unipharm AD	31.12.2011	31.12.2011	31.12.2017
PAO Vitamini	31.12.2013	31.12.2013	01.04.2014
OOO Sopharma Ukraine	31.12.2014	31.12.2013	31.03.2016
SIA Briz	31.12.2013	28.02.2014	31.12.2014
COOO Brititrade	31.12.2011	31.12.2011	31.12.2011
OOO Tabina	31.12.2010	31.12.2010	31.12.2006

ODO Alean (merged in ODO Medjel)	28.02.2011	28.02.2011	28.02.2010
SOOO Brizpharm	31.12.2012	31.12.2012	none
ODO Vetspharm (merged in ODO SalusLine)	30.04.2005	30.04.2005	31.03.2004
ODO BelAgroMed (merged in ODO SalusLine)	28.02.2003	28.02.2003	30.05.2005
OOO Vivaton Plus	29.02.2012	29.02.2012	29.02.2012
OOO Med-Dent	31.12.2010	31.12.2010	31.12.2007
BOOO SpetzApharmacia	31.03.2014	31.03.2014	31.12.2007
OOO Bellerophon	01.04.2010	01.04.2010	none
Medica AD (merged in Sopharma AD)	31.12.2002	31.01.2013	31.01.2016
OOO Mobil Line (merged in ODO Medjel)	31.03.2010	31.03.2010	31.03.2006
OOO Ivem & K	30.04.2008	30.04.2008	30.11.2007
OOO NPKF Ariens	31.12.2011	31.12.2011	31.12.2010
ODO Medjel	30.04.2013	30.04.2013	31.12.2012
Veta Pharm AD	none	31.12.2017	30.06.2016
ODO SalusLine	31.10.2007	31.10.2007	31.03.2016
ZAO Intepharm	30.04.2013	30.04.2013	none
OOO Ariens	31.12.2016	31.03.2017	none
Sopharma Warsaw SP. Z.O.O.	none	none	06.07.2017
Lekovit d.o.o.	31.03.2017	30.06.2017	15.04.2017

Tax audit of the companies in Bulgaria 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 ultimately the tax liability of the respective company — tax liable person except in the cases explicitly stated by law. For the companies outside Bulgaria a tax audit is performed as follows: in Ukraine, Latvia and Belarus – within a term of three years, in Poland, Kazakhstan and Lithuania – within a term of five years, and in Serbia – within a term of ten years, and Moldova – within a term of four years.

The companies Phyto Palauzovo AD, Aromania OOD, Sopharmacy 8 EOOD, Sopharmacy 9 EOOD, Sopharmacy 10 EOOD, OOO Phamracevt Plus, TOO Sopharma Kazakhstan, Sopharma Trading d.o.o. Belgrade, OOO Pharmatea, UAB TBS Pharma, OOO Galenapharm, OOO Zdorovei, OOO Ivem&K, Rap Pharma International, Pharmastore 1 EOOD, Pharmastore 2 EOOD, Pharmastore 3 EOOD, Pharmastore 4 EOOD and Pharmastore 5 have not been subject to full-scope tax audits, VAT audits and inspections under the social security regulations.

40. OTHER CURRENT LIABILITIES

Other current liabilities include:	*31.12.2017 BGN'000*	*31.12.2016 BGN'000*
Outstanding conditional liability related to acquisition of shares in a subsidiary	8,603	-
Finance lease liabilities *(Note 29)*	1,271	1,104
Government grants *(Note 30)*	867	1,224
Dividends payable	586	697
Liabilities related to share purchase	376	860
Awarded amounts under litigations	303	343
Deductions from work salaries	234	183
Trade loans received from third parties	157	360
Other	924	371
Total	**13,321**	**5,142**

41. CONTINGENT LIABILITIES AND COMMITMENTS

Issued and granted guarantees

Sopharma AD

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:

	Maturity	**Currency**	**Amount**		**Debt status**
			Original Currency	**BGN'000**	***31.12.2017*** **BGN'000**
Sopharma Properties REIT	2024	EUR	22,619	44,240	22,467
Mineralcommerce AD	2018 – 2021	BGN	726	726	625
Total					**23,092**

Bank guarantees

Sopharma Trading AD

The bank guarantees issued for the Company at the amount of BGN 13,427 thousand (31 December 2016: BGN 10,596 thousand) are to secure payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medicinal products to hospitals under concluded contracts, customs office guarantees and tender participation.

The bank guarantees have been issued by:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Raiffeisenbank EAD	4,801	4,664
SG Expressbank AD	4,837	4,049
ING Bank N.V.	3,789	1,883
	13,427	**10,596**

The collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 8,997 thousand (31 December 2016: BGN 9,801 thousand) *(Note 23).*
- Special pledge on receivables from clients with a carrying amount of BGN 2,347 thousand (31 December 2016: BGN 2,347 thousand) *(Note 24).*

Unipharm AD

The following have been issued as at 31 December 2017: bank guarantees at the amount of BGN 166 thousand within the loan agreement limit.

Under a contract for issuing multiple bank guarantees, dated 23 February 2012, special pledges have been established on Company's assets as follows:

- Pledge on current and future movables (materials, finished products, goods) with a carrying amount of BGN 400 thousand;
- Pledge on current and future payment accounts opened with DSK Bank EAD.

Electroncommerce EOOD

The bank guarantees issued for the company amount to BGN 32 thousand as at 31 December 2017 (31 December 2016: BGN 74 thousand).

Operating lease

Sopharma Trading AD

The significant *revocable* contracts for the obtained assets under operating lease are as follows:

2017

Lease contract for real estate (SFBT):

- contract term: by 01/09/2021
  annual lease payment: BGN 833 thousand

Lease contract for real estate:

- contract term: by 01/11/2017
  annual lease payment: BGN 72 thousand

Other lease contracts for:

- office spaces – 3
  total annual lease payment: BGN 88 thousand
- motor vehicles – 138
  annual lease payment: BGN 705 thousand

2016

Lease contract for real estate (SFBT):

- contract term: by 01/09/2021
  annual lease payment: BGN 804 thousand

Lease contract for real estate:

- contract term: by 01/11/2017
  annual lease payment: BGN 72 thousand

Other lease contracts for:

- office spaces – 3
  total annual lease payment: BGN 88 thousand
- motor vehicles – 104
  annual lease payment: BGN 407 thousand

The future minimum rental payments due under all operating lease contracts are as follows:

	31.12.2017	***31.12.2016***
	BGN '000	***BGN '000***
Up to 1 year	1,585	1,912
From 1 to 3 years	2,069	2,678
From 3 to 5 years	560	1,452
	4,214	**6,042**

Co-debtor under lease contracts for motor vehicles at the total amount of BGN 545 thousand (31 December 2016: BGN 952 thousand) is Sopharma AD.

Assets held under safe custody

Sopharma Trading AD

According to concluded pre-distribution contracts, the Company has received goods for safe custody amounting to BGN 4,723 thousand as at 31 December 2017 (31 December 2016: BGN 4,046 thousand).

Significant irrevocable agreements and commitments

Sopharma AD

The Company received government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 *(Note 33 and Note 40),* related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section and the acquisition of general exchanged ventilation and air conditioning systems in the process of manufacturing of medicinal products *(Note 16).* The Company undertook a commitment that for a period of 5 years after the completion of the respective projects they shall not be subject to significant modifications affecting the essence and the terms and conditions for their execution or giving rise to unjustified benefits to the company, neither modifications resulting from a change in the nature of ownership over the assets acquired in relation to the grants. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Unipharm AD

The company is a beneficiary under three grant contracts for acquisition of assets. In accordance with the contractual provisions, the tangible and intangible fixed assets, acquired with project funds, should remain within the assets of the beneficiary and the receiving region (Republic of Bulgaria) for a period of minimum five years after execution of the total investment. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Biopharm Engineering AD

The company has assumed a commitment under a grant contract with a term of five years after completion of the project for acquisition of

(a) line for production of amino acid solution for parenteral nutrition, which includes components for inflation, filling and hermetisation in aseptic environment, and
(b) clean rooms construction (omega profile ceilings, separation walls, doors, blocking devices, lighting, air conditioning, etc.). The term commenced on 27 April 2015 (the date on which the project was ultimately approved by the financing institution) and according to the contract the project should not suffer significant changes referring to its nature, the conditions of its performance or leading to unjustifiable benefits for the company as well as changes resultant from modification in the nature of ownership of infrastructural component or discontinuance of production activities. On non-compliance with these requirements, the financing shall be returned. At the date of approval for issue of the financial statements, all contractual requirements were being fulfilled.

Sopharma Trading AD

The company is a beneficiary under a government grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" for the project on Development and Implementation of Information Security Management System Project in accordance with ISO 27001:2007 in the amount of BGN 82 thousand.

42. SEGMENT REPORTING

The segment reporting in the Group is organised on the basis of two basic business segments – 'production of pharmaceutical products' and 'distribution of pharmaceutical products (goods)'. The group 'other' includes mainly production and distribution of non-pharmaceutical products.

The ***items of income, expenses and result of business segments*** determined in the Group include:

	Production of pharmaceutical products		*Distribution of pharmaceutical products (goods)*		*Other*		*Elimination*		*Consolidated*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
External sales	*242,840*	*223,182*	*757,980*	*628,078*	*16,285*	*25,825*	*-*	*-*	*1,017,105*	*877,085*
Intersegmental sales	*122,265*	*104,042*	*44*	*80*	*-*	*693*	*(122,309)*	*(104,815)*	*-*	*-*
Total revenue	**365,105**	**327,224**	**758,024**	**628,158**	**16,285**	**26,518**	**(122,309)**	**(104,815)**	**1,017,105**	**877,084**
Segment result (margin)	**127,277**	**114,228**	**83,638**	**61,684**	**9,726**	**12,986**	**(11,161)**	**2,353**	**209,480**	**191,251**
Non-allocated operating income									6,684	9,483
Non-allocated operating expenses									(160,328)	(155,783)
Profit from operations									**55,836**	**44,951**
Finance (costs)/income, net									(3,262)	(5,707)
Impairment of non-current assets									(671)	(967)
Gain (loss) on disposal of subsidiaries									-	14,860
Losses from associates, net									447	8,972
Profit before income tax									**52,350**	**62,109**
Income tax expense									(6,578)	(7,207)
Net profit for the year									**45,772**	**54,902**
Attributable to owners of the parent									39,998	50,638
Non-controlling interests									5,774	4,264

The ***assets and liabilities of the business segments*** include:

Assets by business segment	*Production of pharmaceutical products*		*Distribution of pharmaceutical products (goods)*		*Other*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	163,033	160,021	46,741	44,762	13,438	23,552	223,212	228,336
Inventories	73,366	65,082	143,454	102,081	1,289	4,628	218,109	171,791
Receivables from related parties	23,903	20,476	1,339	3,688	51	846	25,293	25,010
Trade receivables	25,607	26,707	192,433	175,510	13,238	13,366	231,278	215,583
Cash and cash equivalents	7,817	12,158	13,286	8,103	1,543	2,078	22,646	22,339
Segment assets	**293,726**	**284,444**	**397,253**	**334,144**	**29,559**	**44,470**	**720,538**	**663,058**
Non-allocated assets							260,195	196,163
Total assets							**980,733**	**859,221**

Liabilities by business segment	*Production of pharmaceutical products*		*Distribution of pharmaceutical products (goods)*		*Other*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Payables to personnel and for social security	1,728	2,080	4,587	3,199	311	354	6,626	5,633
Trade payables	8,577	7,412	119,482	80,601	7,109	4,039	135,168	92,053
Payables to related parties	617	380	126	151	14	35	757	566
Bank loans	79,931	83,901	179,238	122,343	-	-	259,169	206,244
Segment liabilities	**90,853**	**93,773**	**303,433**	**206,294**	**7,434**	**4,429**	**401,720**	**304,496**
Non-allocated liabilities							75,903	63,502
Total liabilities							**477,623**	**367,998**

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

	Production of pharmaceutical products		*Distribution of pharmaceutical products (goods)*		*Other*		*Total*	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Capital expenditures	8,788	5,553	10,601	12,235	231	530	19,620	18,318
Depreciation and amortisation	13,682	13,968	8,985	8,701	990	1,432	23,657	24,101
Non-monetary expenses, other than depreciation and amortisation	3,478	1,224	617	1,004	58	7	4,153	2,235

The distribution of Group revenue *by type and by geographic area* is as follows:

	Bulgaria		***Europe***		***Other countries***		***Total***	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Sales of finished products	94,828	96,590	129,124	113,052	25,578	22,072	249,530	231,714
Sales of goods	593,106	541,040	169,879	104,168	4,590	163	767,575	645,371
	687,934	**637,630**	**299,003**	**217,220**	**30,168**	**22,235**	**1,017,105**	**877,085**

The carrying amount as at 31 December of Group's non-current assets other than financial instruments, *distributed by geographic area*, is as follows:

	Bulgaria		***Europe***		***Other countries***		***Total***	
	2017	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	297,769	302,102	19,646	19,009	205	104	317,620	321,215
Intangible assets	34,803	21,786	28,616	12,776	30	39	63,449	34,601
Goodwill	6,960	6,936	16,187	2,949	-	-	23,147	9,885
Investment property	9,811	9,483	-	-	-	-	9,811	9,483
	349,343	**340,307**	**64,449**	**34,734**	**235**	**143**	**414,027**	**375,184**

The total revenue from transaction with the largest clients of the Group and the respective business segment is as follows:

	2017	***%***	***2016***	***%***
	BGN '000		***BGN '000***	
Client 1	119,748	12%	126,438	14%

Client 1 is an association of a group of enterprises with similar business characteristics, which are under common control by the Bulgarian state.

43. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group 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 Group.

The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the finished products and services of the Group companies 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 the management of the parent company and respectively, the managing bodies of the subsidiaries, in line with the policy defined by the Board of Directors of the parent. The Board of Directors has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the separate specific types of risk such as currency, price, interest, credit and liquidity risk and the risk of use of non-derivative instruments.

The structure of financial assets and liabilities is as follows:

	31.12.2017	*31.12.2016*
	BGN '000	*BGN '000*
Financial assets	***296,015***	***276,657***
Loans and receivables, including:	**288,033**	**270,620**
Receivables and loans *(Notes 21, 22, 24, 25 and 26)*	265,419	248,281
Cash and cash equivalents *(Note 27)*	22,614	22,339
Available-for-sale financial assets	22,614	**5,721**
Financial assets at fair value through profit or loss *(Note 26)*	-	**316**
Financial liabilities	***427,643***	***324,251***
Financial liabilities at amortised cost	**427,643**	**324,251**
Short-term and long-term bank loans *(Notes 29 and 34)*	259,169	206,244
Other loans and liabilities *(Notes 32, 35, 36 and 40)*	*149,071*	*97,974*
Payables under factoring agreement	*19,403*	20,033

Foreign currency risk

The Group companies perform their operations with active exchange with foreign suppliers and clients and therefore, they are exposed to currency risk.

The Group through the companies in Belarus and Ukraine carries out business in these countries and, therefore, has significant exposure in BYN and UAH. The currency risk is related with the adverse floating of the exchange rate of these currencies against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The rest of the companies abroad perform sales mainly to the local markets, which leads to currency risk to their currencies as well – Polish Zloty (PLN), Lithuanian Lit (LTL), US Dollar (USD), British Pound (GBP) and Kazakhstani Tenge (KZT).

The Group has forward transactions for KZT.

Most operations of the Group companies are usually denominated in BGN and the fact that the BGN is fixed to the EUR reduces the potential currency volatility for the companies of the Group.

To control foreign currency risk, there is an implemented system in the whole Group for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rates and control on pending payments. The exposures of almost all subsidiaries in Bulgaria to foreign currency risk are insignificant because almost all sales are performed to the local market in Bulgarian Levs (BGN). The import of goods is performed mainly in Euro (EUR). The loans denominated in a foreign currency have been granted mainly in EUR.

The assets and liabilities of the Group denominated in BGN and presented by a foreign currency are as follows:

31 December 2017	*в BGN*	*in EUR*	*in RSD*	*in BYN*	*in USD*	*in UAH*	*in other currency*	*Total*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	5,043	1,826	-	-	1,113	-	-	7,982
Loans and receivables, including:	180,002	50,009	31,688	10,070	5,317	4,998	5,949	288,033
Receivables and loans	*169,669*	*43,169*	*31,491*	*9,167*	*4,029*	*3,432*	*4,462*	*265,419*
Cash and cash equivalents	*10,333*	*6,840*	*197*	*903*	*1,288*	*1,566*	*1,487*	*22,614*
Total financial assets	**185,045**	**51,835**	**31,688**	**10,070**	**6,430**	**4,998**	**5,949**	**296,015**
Short-term and long-term bank loans	60,897	188,756	30	7,734	-	1,752	-	259,169
Other loans and liabilities	70,074	51,193	24,854	18,347	3,199	169	638	168,474
Total financial liabilities	**130,971**	**239,949**	**24,884**	**26,081**	**3,199**	**1,921**	**638**	**427,643**

31 December 2016	*в BGN*	*in EUR*	*in RSD*	*in BYR*	*in USD*	*in UAH*	*in other currency*	*Total*
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	3,584	1,796	-	-	341	-	0	5,721
Financial assets at fair value through profit	316	-	-	-	-	-	-	316
Loans and receivables, including:	199,432	44,006	15	14,250	5,343	4,832	2,742	270,620
Receivables and loans	*183,632*	*41,750*	*11*	*12,424*	*5,086*	*3,365*	*2,013*	248,281
Cash and cash equivalents	*15,800*	*2,256*	*4*	*1,826*	*257*	1,467	*729*	22,339
Total financial assets	**203,332**	**45,802**	**15**	**14,250**	**5,684**	**4,832**	**2,742**	**276,657**
Short-term and long-term bank loans	39,319	160,252	-	2,613	-	4,060	-	206,244
Other loans and liabilities	46,809	47,639	85	19,646	3,492	148	188	118,007
Total financial liabilities	**86,128**	**207,891**	**85**	**22,259**	**3,492**	**4,208**	**188**	**324,251**

Foreign currency sensitivity analysis

The foreign currency sensitivity of the Group exposures is mainly related with the Ukrainian Hryvnia (UAH) and the Belarusian Ruble (BYN). With regard to the other currencies in which the Group operates or in which other companies of the Group operate (Serbian Dinar, Polish Zloty, US Dollar and Kazakhstani Tenge) the foreign currency risk of the Group is limited, because their exposures in these currencies are relatively small and are more easily regulated by the managing bodies of the respective subsidiaries.

The effect of foreign currency sensitivity to 10% increase/decrease in current exchange rates of BGN to Belarusian Ruble (BYR), Ukrainian Hryvnia (UAH), US Dollar (USD) and in general to the other foreign 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 consolidated financial result and on the equity of the Group.

	2017			2016		
	BYR	**UAH**	**USD**	**BYR**	**UAH**	**USD**
	BGN '000	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**
Financial result	(1,441)	277	291	(721)	56	197
Retained earnings	(1,441)	277	291	(721)	56	197

In case of 10% increase in the exchange rate of Belarusian Ruble to the Bulgarian Lev, the ultimate impact on the (post-tax) profit of the Group for 2017 would be a decrease by BGN 1,441 thousand (3.13%), while for 2016 it would be an increase by BGN 721 thousand (1.31%). The effect in terms of value on Group's equity – through the component 'retained earnings' – would be the same. The Group analyses the currency exposure in this currency and undertakes timely measures to reduce its effects on the results of the Group.

In case of 10% increase in the exchange rate of Ukrainian Hryvnia to the Bulgarian Lev, the ultimate impact on the (post-tax) profit of the Group for 2017 would be an increase by BGN 277 thousand (0.6%), while for 2016 it would be an increase by BGN 56 thousand (0.1%). The effect in terms of value on Group's equity – through the component 'retained earnings' – would be the same.

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2017 would be an increase by BGN 291 thousand (0.63%), while for 2016 it would be an increase by BGN 197 thousand (0.36%). The effect in terms of value on Group's equity – through the component 'retained earnings' – would be the same.

Respectively, on 10% decrease in the exchange rates of UAH, BYR and USD to BGN, the ultimate impact on the (post-tax) profit of the Group would be equal and reciprocal of the stated above.

'Other currencies' include mainly: BGN 3,591 thousand in PLN net financial assets (2016: BGN 2,043 thousand in PLN net financial assets).

The impact of the remaining currencies (other than the Ukrainian Hryvnia, Belarusian Ruble, USD, Euro for 2017) on Group's (post-tax) profit in case of 10% increase in their exchange rates to the Bulgarian Lev is as follows:

	2017		2016	
	PLN	RSD	PLN	RSD
	BGN '000		BGN '000	
Financial result	291	578	165	-
Retained earnings	291	578	165	-

Respectively, on 10% decrease in the exchange rates of the Polish Zloty and Serbian Dinar to the Bulgarian Lev, the ultimate impact on the (post-tax) profit of the Group would be equal and reciprocal of the stated above.

The effect on equity is of the same amount and in a direction of a decrease and reflects in the component 'retained earnings'.

Group's management is of the opinion that the presented above currency sensitivity analysis based on the balance sheet structure of foreign currency denominated assets and liabilities is representative for the usual currency sensitivity of the Group for the reporting year.

Price risk

The Group companies are exposed to price risk of inventories based on three main factors:

(a) a possible increase of purchase prices of raw materials and consumables, since a significant portion of the raw materials used are imported and they represent a significant share of production costs;

(b) a possible increase in supplier prices of goods; and

(c) the growing competition on the Bulgarian pharmaceutical market, affecting the prices of pharmaceuticals.

For the purpose of mitigating this influence, the management of the Group applies a strategy aimed at optimisation 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.

The Group is exposed to a significant price risk also with regard to the shares held thereby, classified as available-for-sale investments, mostly through the parent company. For this purpose, the management monitors and analyses all changes in security markets and also uses the consulting services of one of the country's most authoritative investments intermediaries. In addition, at this stage, the management has taken a decision for a 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 Group'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 consolidated 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 Group 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 Group works on its main markets with counterparties with history of their relations on main markets, which include a big number of licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the state hospitals also requires the implementation of deferred payments policy. There is a concentration of significant credit risk in this type of counterparts that form 35% of Group's trade receivables (31 December 2016: 39%). It is mitigated through implemented procedures for selection and current monitoring of the liquidity and financial stability of these trade partners. On delay in payments of the receivables from these counterparts, the Group has set a period of 30 days after which it starts activities for collection of receivables. With regard to *clients – hospitals*, in case of 30 days of delay after the date on which the credit period expires, interest for delay is being charged and if delinquencies are not settled after further 30 days, a meeting with the management is arranged for the purpose of signing rescheduling agreement. If the agreement is not complied with, legal proceedings are initiated. With regard to *clients – pharmacies*, in case of a 5-day delay after the expiry of the credit period, the subsequent sales under deferred payment terms are suspended. If delinquencies are not settled up to the 45th day, all sales are ceased and negotiations are held for concluding an agreement. If the agreement is not complied with, legal proceedings are initiated.

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

The credit policy of the Group envisages that every new client shall be investigated with regard to its creditworthiness prior to being offered the standard terms of supply and payment.

The analysis, performed by the Group, includes but is not limited to visits to clients' premises, but also – collection of information on monthly turnovers and in some cases a promissory note is required in favour of the Group company for 130% - 135% of the credit granted. These limits are reviewed on a monthly basis. The clients that cannot cover the creditworthiness criteria may perform purchases in cash.

As at 31 December 2017, the Group does not have concentration in trade receivables from a single counterpart that exceeds 10% of the total amount of trade receivables as presented in the consolidated statement of financial position (31 December 2016: none).

The concentration of the first five clients with regard to trade receivables of the Group is as follows:

	31.12.2017	*% credit exposure to total trade receivables*	*31.12.2016*	*% credit exposure to total trade receivables*
	BGN '000	%	***BGN '000***	%
Client 1	16,139	7%	16,751	8%
Client 2	9,086	4%	13,792	7%
Client 3	6,909	3%	7,934	4%
Client 4	6,192	3%	6,947	3%
Client 5	4,642	2%	6,232	3%

Collectability of receivables is controlled directly by the Executive, Finance and Trade Director of the parent company and, respectively, by the managing bodies of the subsidiaries. Their responsibility is to provide operating control and regulate receivables in conformity with the actual market situation and the needs of the Group. The Group has developed policy and procedures to assess the creditworthiness of its counterparts and to assign credit rating and credit limits by groups of clients. The management of the Group currently monitors and regulates the concentration of receivables by client and counterpart in total for the Group.

The financial resources of the Group as well as the settlement operations are concentrated mainly in different first-class banks. To distribute cash flows among them, the management of the parent company and the subsidiaries take into consideration a great deal of factors, as the amount of capital, reliability, liquidity, the credit potential and rating of the bank etc.

Liquidity risk

The liquidity risk is the adverse situation when the Group encounters difficulty in meeting unconditionally its obligations within their maturity.

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is its main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible general liquidity risk, the group 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 supplemented by current monitoring of the maturities of assets and liabilities, control over cash outflows and ensuring their current balancing with inflows, including renegotiation of maturities and optimisation of debt structure, increase and internal restructuring of self-generated funds and their investment.

Maturity analysis

The table below presents the financial non-derivative liabilities of the Group, classified by remaining term to maturity, determined against the contractual maturity at the consolidated financial statements 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.

Maturity analysis

31 December 2017	*up to 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*1 to 2 years*	*2 to 5 years*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Short-term and long-term bank loans	2,406	55,641	52,120	101,602	14,917	37,881	**264,567**
Other loans and liabilities	101,644	48,523	10,341	5,552	1,700	966	**168,726**
Total liabilities	**104,050**	**104,164**	**62,461**	**107,154**	**16,617**	**38,847**	433,293

31 December 2016	*до 1 м*	*от 1 до 3 м*	*от 3 до 6 м*	*от 6 до 12 м*	*от 1 до 2 г*	*от 2 до 5 г*	*Общо*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Short-term and long-term bank loans	37,135	14,702	59,642	71,405	9,453	18,429	**210,766**
Other loans and liabilities	60,009	41,989	11,257	1,488	1,130	1,385	**117,258**
Total liabilities	**97,144**	**56,691**	**70,899**	**72,893**	**10,583**	**19,814**	**328,024**

Risk of interest-bearing cash flows

Interest-bearing assets are in the structure of the Group are: cash, bank deposits and loans granted at fixed interest rate. On the other hand, the borrowings of the Group 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 Group partially dependent on interest risk. This risk is covered in two ways:

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

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

The managing bodies of the Group companies together with the management of the parent currently monitor and analyse the exposure of the respective company to the changes in interest levels. Simulations are carried out for various scenarios of refinancing, renewal of existing positions, and alternative financing. The impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated based on these scenarios. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

Interest analysis	*interest-free*	*with floating interest %*	*with fixed interest %*	*Total*
31 December 2017	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	7,982	-	-	7,982
Loans and receivables, including:	234,424	7,294	46,315	288,033
Receivables and loans	*224,724*	*15*	*40,680*	265,419
Cash and cash equivalents	*9,700*	*7,279*	*5,635*	22,614
Total financial assets	**242,406**	**7,294**	**46,315**	**296,015**
Short-term and long-term bank loans	-	229,924	29,245	259,169
Other loans and liabilities	146,154	21,897	423	168,474
Total financial liabilities	**146,154**	**251,821**	**29,668**	**427,643**

Interest analysis	*interest-free*	*with floating interest %*	*with fixed interest %*	*Total*
31 December 2016	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	5,721	-	-	5,721
Available-for-sale financial assets through profit	316	-	-	316
Loans and receivables, including:	212,141	7,590	50,889	270,620
Receivables and loans	*205,994*	*15*	*42,272*	248,281
Cash and cash equivalents	*6,147*	*7,575*	*8,617*	22,339
Total financial assets	**218,178**	**7,590**	**50,889**	**276,657**
Short-term and long-term bank loans	-	174,982	31,262	206,244
Other loans and liabilities	94,272	23,341	394	118,007
Total financial liabilities	**94,272**	**198,323**	**31,656**	**324,251**

The table below demonstrates Group's sensitivity to possible changes in interest rates by 0.5% 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 respectively, on equity.

Increase / decrease in interest rate	***Impact on post-tax financial result and equity profit/(loss)***	
	2017	**2016**

	BGN '000	BGN '000
Increase	(1,181)	(945)
Decrease	1,181	945

Capital risk management

The capital management objectives of the Group 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. Analogous approach is applied also at the level of a separate Group company with regard to its capital structure and financing.

The Group 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 borrowings (current and non-current ones) as presented in the consolidated statement of financial position less cash and cash equivalents. Total employed capital is equal the sum of equity (including non-controlling interest) and net debt. It is a characteristic feature for both presented periods that the Group finances its operations both through its own generated profit and by maintaining a certain level of trade and other current payables and loans (bank, commercial ones). In 2017, the strategy of the parent company's management was to maintain the ratio within 25-35% at a Group level (2016: 25-35%).

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

	31.12.2017 BGN'000	***31.12.2016 BGN'000***
Total borrowings, including:	**281,793**	**229,963**
Bank loans	259,169	206,244
Loans and finance lease liabilities and factoring	22,624	23,719
Less: Cash and cash equivalents	**(22,614)**	**(22,339)**
Net debt	**259,179**	**207,624**
Total equity of the Group	**503,110**	**491,223**
Total capital of the Group	**762,289**	**698,847**
Gearing ratio	0,34	0.30

The liabilities shown in the table are disclosed in *Notes 27, 29, 31 and 34.*

Fair values

The fair value concept presumes realisation of the financial instruments through sales. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits with banks, the Group expects to realise these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at amortised cost.

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the consolidated statement of financial position based on market value (deposits placed with banks, 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). For receivables and loans with a fixed interest rate, the methodology applied in determining it uses as starting point for calculations Group's observations of market interest rates.

As far as no sufficient market experience, stability and liquidity exist in regards of purchases and sales of certain financial assets and liabilities, still no adequate and reliable quotes of market prices are available thereof, due to which alternative assessment methods and techniques are used.

The management of the parent company 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.

44. ACQUISITIONS AND INCREASING THE INTERESTS IN SUBSIDIARIES

44.1 Acquisition of subsidiaries

In 2017, the Group, through Sopharma Trading AD established the following companies by contribution for 100% of interest in the capital of the companies.

	date of acquisition	effective interest %	amount of capital contribution
			BGN '000
Through Sopharma Trading AD:			
Sopharmacy 7 EOOD	15.03.2017	72,85%	5
Sopharmacy 8 EOOD	27.06.2017	72,85%	5
Sopharmacy 9 EOOD	11.09.2017	72,85%	5
Sopharmacy 10 EOOD	11.09.2017	72,85%	5

In 2017, the Group acquired the following new subsidiaries:

	date of acquisition	% interest	acquired net assets at fair value
			BGN '000
Aromania OOD	31.07.2017	76,00%	735
Rap Pharma international OOD	14.04.2017	51,00%	256
Through Sopharma Trading AD:			
Pharmastore 1 EOOD	07.12.2017	72,85%	981
Pharmastore 2 EOOD	07.12.2017	72,85%	1,550
Pharmastore 3 EOOD	07.12.2017	72,85%	1,524
Pharmastore 4 EOOD	07.12.2017	72,85%	1,571
Pharmastore 5 EOOD	07.12.2017	72,85%	2,881

Lekovit d.o.o., Serbia	09.08.2017	50,96%	11,132
Through SIA Briz:			
ZAO Interpahrm	26.04.2017	59,52%	1,965
OOO Zdorovei	16.08.2017	28,81%	162
OOO Ivem&K	16.08.2017	36,86%	360
OOO Ariens	16.08.2017	32,87%	243

In 2016, the Group, through Sopharma Trading AD established the following companies by contribution for 100% of interest in the capital of the companies.

	date of acquisition	**effective interest %**	**amount of capital contribution**
			BGN '000
Through Sopharmacy EOOD (subsidiary of Sopharma Trading AD)			
Sopharmacy 4 EOOD	29.02.2016	72.58%	5
Sopharmacy 5 EOOD	01.03.2016	72.58%	5

In 2016, the Group acquired the following new subsidiaries:

	date of acquisition	**% interest**	**acquired net assets at fair value**
			BGN '000
Veta Pharma AD	11.11.2016	68.05%	9,469
Though SIA Briz			
Mobil Line	16.02.2016	48.14%	1,209
SalusLine	18.11.2016	48.74%	3,306

The activities of the acquired subsidiaries are disclosed in Note 1. The carrying amounts and fair values of the net assets upon acquisition of the new subsidiaries (Note 2.3.2) are presented below:

In 2017:

	Fair value	***Carrying amount***
	BGN '000	***BGN '000***
Property, plant and equipment *(Note 17)*	3,699	3,699
Intangible assets *(Note 18)*	32,617	11
Inventories	21,144	21,144
Other receivables and assets	23,887	24,141
Cash and cash equivalents	382	382
Loans	(16,218)	(16,218)
Trade payables	(19,101)	(19,101)
Other liabilities	(5,840)	(2,579)

Total net assets	**40,570**	**11,479**

	Total net assets at:		Non-controlling interests	Share of non-controlling interest		Net assets acquired by the Group	
	Fair value BGN '000	Carrying amount BGN '000	%	Fair value BGN '000	Carrying amount BGN '000	Fair value BGN '000	Carrying amount BGN '000
Aromania OOD	967	650	24,00%	232	156	735	494
Rap Pharma international OOD	500	(10)	49,00%	245	(5)	255	(5)
Pharmastore (all companies)	11,678	5	27,15%	3,171	1	8,507	4
Lekovit d.o.o.	21,844	10,374	49,04%	10,712	5,087	11,132	5,287
ZAO Interpahrm	3,302	466	40,48%	1,337	189	1,965	277
OOO Zdorovei	563	71	71,19%	401	51	162	20
OOO Ivem&K	977	(18)	63,14%	617	(11)	360	(7)
OOO Ariens	739	(59)	67,13%	496	(40)	243	(19)
	40,570	**11,479**		**17,210**	**5,428**	**23,360**	**6,051**

In 2016:

	Fair value BGN '000	***Carrying amount BGN '000***
Property, plant and equipment *(Note 16)*	4,788	4,786
Intangible assets *(Note 17)*	10,647	4
Inventories	1,536	1,536
Other receivables and assets	1,329	1,329
Cash and cash equivalents	439	439
Loans	(1,328)	(1,328)
Trade payables	(670)	(670)
Other liabilities	(2,757)	(1,215)
Total net assets	**13,984**	**4,881**

	Total net assets at: Fair value	Carrying amount	Non-controlling interests	Share of non-controlling interest: Fair value	Carrying amount	Net assets acquired by the Group: Fair value	Carrying amount
	BGN '000	BGN '000	%	BGN '000	BGN '000	BGN '000	BGN '000
Veta Pharma AD	9,469	4,595	32%	3,025	1,468	6,444	3,127
OOO Mobil Line	1,209	117	51%	617	60	592	57
ODO SalusLine	3,306	169	51%	1,695	87	1,611	82
	13,984	**4,881**		**5,337**	**1,615**	**8,647**	**3,266**

The investment price on the acquisition of subsidiaries and the resulting goodwill at the date of the deal for acquisition of control by the parent company itself were as follows:

In 2017:

The Group, through Sopharma Trading AD, has paid a share of the capital of Sopharmacy 7 EOOD, Sopharmacy 8 EOOD, Sopharmacy 9 EOOD, Sopharmacy 10 EOOD – BGN 5 thousand each.

In addition, the Group has also the following purchases of subsidiaries:

Acquisition cost	Aromania OOD	Rap Pharma international OOD	Pharmastore (all companies)	Lekovit d.o.o.	ZAO Interpahrm	OOO Zdorovei	OOO Ivem&K	OOO Ariens	**Total**
	Bulgaria	**Bulgaria**	**Bulgaria**	**Serbia**	**Belarus**	**Belarus**	**Belarus**	**Belarus**	
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Transfer from associates	-	-	-	-	-	-	-	795	795
Transfer from joint ventures					1,072	678	97	-	1,847
Interest by the acquisition of control date	-	-	-	-	(7)	(189)	9	31	(156)
Measurement to fair value of previous interest by the date of acquisition of control	-	-	-	-	586	-	263	(578)	271
Amounts paid in current period	750	293	11,760	8,524	2,462	-	-	798	44,587
Amounts accrued in current period	-	-	-	-	-	488	370	-	858
Share of the non-controlling interests in the investment on indirect acquisition	-	-	(3,171)	(4,159)	(1,719)	(617)	(496)	(629)	(10,791)
Total acquisition cost	**750**	**293**	**8,589**	**24,365**	**2,394**	**360**	**243**	**417**	**37,411**
Fair value of the acquired net assets	**(735)**	**(255)**	**(8,507)**	**(11,132)**	**(1,965)**	**(360)**	**(243)**	**(162)**	**(23,360)**
Goodwill	**15**	**38**	**82**	**13,233**	**429**	**-**	**-**	**255**	**14,051**

In 2016:

The Group, through Sopharma Trading AD, contributed share of the capital of Sopharmacy 4 EOOD – BGN 5 thousand, and Sopharmacy 5 EOOD – BGN 5 thousand.

In addition, the Group has also the following purchases of subsidiaries:

Acquisition cost	**Veta Pharma AD**	**Mobil Line**	**SalusLine**	**Total**
	Bulgaria	**Belarus**	**Belarus**	
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
Transfer from associates	-	514	1,023	1,537
Interest by the acquisition of control date	-	-	(12)	(12)
Measurement to fair value of previous interest by the date of acquisition of control	-	(108)	(19)	(127)
Amounts paid in current period	6,549	-	-	6,549
Amounts accrued in current period	-	709	2,137	2,846
Share of the non-controlling interests in the investment on indirect acquisition	-	(686)	(1,767)	(2,453)
Total acquisition cost	**6,549**	**429**	**1,362**	**8,340**
Fair value of the acquired net assets	**(6,443)**	**(583)**	**(1,449)**	**(8,475)**
Goodwill	106	-	-	**106**
Gain on acquisition	-	(154)	(87)	**(241)**

The cash outflows from acquisition of control were as follows:

In 2017:

Cash flows on acquisition of control	Aromania OOD	Pharmastore (all companies)	Rap Pharma International OOD	Lekovit d.o.o.	ZAO Interpahrm	OOO Zdorovei	OOO Ivem&K	OOO Ariens	**Total**
	Bulgaria	**Bulgaria**	**Moldova**	**Serbia**	**Belarus**	**Belarus**	**Belarus**	**Belarus**	
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Consideration paid in cash	750	11,760	293	28,524	2,462	-	-	798	44,587
Cash and cash equivalents in the acquired companies	(153)	-	(18)	(96)	(23)	(47)	(20)	(19)	(376)

This is a translation from Bulgarian of the consolidated annual financial statements of Sopharma Group for year 2017.

Cash outflow on acquisition of control, net	**597**	**11,760**	**275**	**28,428**	**2,439**	**(47)**	**(20)**	**779**	**44,211**

In 2016:

Cash flows on acquisition of control	**Veta Pharma AD**	**Mobil Line**	**SalusLine**	**Total**
	Bulgaria	**Belarus**	**Belarus**	
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Consideration paid in cash	6,549	-	-	6,549
Cash and cash equivalents in the acquired companies	(400)	(21)	(18)	(439)
Cash outflow on acquisition of control, net	**6,149**	**(21)**	**(18)**	**6,110**

44.2. Increasing interest (purchases of non-controlling interests)

The Group performed the deals for purchase of additional shares of non-controlling interests.

In **2017** the Group acquired the following shares:

Increases in interests (purchases of non-controlling interests)	**transaction date**	**% change in interest**	**acquired net assets** ***BGN '000***
Unipharm AD	19.09.2017	20,88%	5,361
Veta Pharma AD	05.12.2017	31,93%	2,969
Sopharma Trading Group	29.12.2017	0,27%	177
Pharmalogistica AD	14.02.2017	4,46%	200
Momina Krepost AD	28.12.2017	0,01%	-
OOO Galenapharm	22.12.2017	5,68%	71
ODO Medjel	31.08.2017	6,61%	42
ODO Alenpharm-plus	14.11.2017	3,30%	64
OOO Farmatea	16.08.2017	15,79%	126
ODO SalusLine	18.10.2017	3,50%	(93)
OOO Zdorovei	15.11.2017	6,18%	38
OOO Ariens	16.08.2017	2,43%	16
			8,971

In **2016** the Group acquired the following shares:

Increases in interests (purchases of non-controlling interests)	**transaction date**	**% change in interest**	**acquired net assets**
			BGN '000
Pharmalogistica AD	08.12.2016	6.56%	293
Medica AD	30.06.2016	31.24%	10,348
Sopharma Trading AD	22.12.2016	0.46%	321
Momina Krepost AD	10.08.2016	0.76%	38
ODO Alenpharm-plus	02.06.2016	0.79%	8
OOO Mobil Line	02.06.2016	0.79%	11
ODO Medjel	02.06.2016	0.79%	3
OOO Galenapharm	02.06.2016	0.79%	8
OOO Danapharm	02.06.2016	0.79%	5
OOO Tabina	31.08.2016	3.97%	(10)
SOOO Brizpharm	24.02.2016	6.85%	36
SOOOO Brititrade	02.06.2016	1.50%	(13)
ODO SalusLine	27.12.2016	4.89%	166
ODO BelAgroMed	13.10.2016	12.70%	29
ODO Vestpharm	10.11.2016	0.13%	1
Phyto Palauzovo AD	13.10.2016	45.01%	47
Unipharm AD	05.12.2016	26.00%	6,352
			17,643

The acquisition cost of the purchased additional shares in 2017, the effects and the cash outflows, relating to these transactions, were as follows:

Increases in interests (purchases of non-controlling interests)	**Total**
	BGN '000
Acquisition cost	
Consideration paid in cash	10,012

Total acquisition cost	**10,012**
Fair value of the acquired net assets	**(8,971)**
Effects assumed by the Group at the account of Group's 'accumulated profits' reserve	**1,041**
Cash outflow on increases in interests (purchases of non-controlling interests)	**10,012**

The acquisition cost of the purchased additional shares in 2016, the effects and the cash outflows, relating to these transactions, were as follows:

Increases in interests (purchases of non-controlling interests)	**Total**
	BGN '000
Acquisition cost	
Consideration paid in cash	21,946
Indirect acquisition	26
Share of the non-controlling interests on indirect acquisition	(2,557)
Total acquisition cost	**19,415**
Fair value of the acquired net assets	**(17,643)**
Effects assumed by the Group at the account of Group's 'accumulated profits' reserve	**1,772**
Cash outflow on increases in interests (purchases of non-controlling interests)	**21,946**

45. DISPOSAL OF SUBSIDIARIES AND JOINT VENTURES AND DECREASING THE INTERESTS IN SUBSIDIARIES

45.1. Total disposal of subsidiaries and joint ventures

In 2017 the Group did not release its participation in subsidiaries.

Medica Zdrave EOOD has been terminated by liquidation on 22 February 2017.

In 2016 the Group reported disposal of its interest in the following subsidiaries:

Company	**Date of sale**	**Effective interest % disposed**
Ivančić and Sinovi	08.05.2016	51.00%
NPK Biotest	05.12.2016	46.29%

The operation of Medica Balkans S.R.L. was discontinued through liquidation on 24 April 2016.
In 2016, the net assets of the disposed companies amounted to BGN 11,870 thousand.

The financial result from the disposal of the subsidiary is as follows:

	2016 BGN '000
Consideration received	25,717
NCI share	(1,610)
	24,107
Less:	
Net assets written-off	(11,870)
Goodwill	(861)
Share of non-controlling interests	5,400
Transformation reserve	(2,157)
Gain on disposal of a subsidiary	**14,619**
Net cash flows on disposal of a subsidiary	
Consideration received	25,717
Less:	
Cash	(5,233)
Net cash flows on disposal of a subsidiary	**20,484**

45.2 Decreasing interests (sales of non-controlling interests)

In 2017:

Company	**transaction date**	**% change in interest**	**net assets sold BGN`000**
Sopharma Buildings	15/06/2017	-0.01%	-
OOO Tabina	18/12/2017	-8.45%	(5)
OOO Brizpharm	31/07/2017	-14.81%	(65)
OOO Farmacevt Plus	04/12/2017	-7.38%	(159)
			(229)

Decreases in interests (sales of non-controlling interests)	**Total** *BGN'000*
Proceeds from partial disposal of shares in Group's subsidiaries	505
Carrying amount of the net assets at the date of partial disposal of shares in subsidiaries	(229)

Effects for the Group	276
Cash inflow on partial disposal of shares in subsidiaries	**250**

In 2016:

Company	**transaction date**	**% change in interest**	**net assets sold**
Alean ODO	31.12.2016	1.85%	(9)
Farmatea	31.12.2016	11.34%	(99)
			(108)

Decreases in interests (sales of non-controlling interests)	**Total** *BGN'000*
Proceeds from partial disposal of shares in Group's subsidiaries	188
Carrying amount of the net assets at the date of partial disposal of shares in subsidiaries	(108)
Effects for the Group	**80**
Cash inflow on partial disposal of shares in subsidiaries	**11**

46. RELATED PARTY TRANSACTIONS

Related parties	***Relation type***	***Relation period***	
Telecomplect Invest AD	Main shareholding company	2017	2016
Donev Investments AD	Main shareholding company	2017	2016
Sopharma Properties REIT	Company related through a main shareholder	2017	2016
Sofprint Group AD	Company related through a main shareholder	2017	2016
Elpharma AD	Company related through key management personnel	2017	2016
Telso AD	Company related through key management personnel	2017	2016
Telecomplect AD	Company related through key management personnel	-	up to 31.12.2016
DOH Group	Company related through key management personnel	-	up to 20.12.2016
Bulgarsko Vino OOD	Other related party	2017	from 21.12.2016
ZOF Mediko 21 EAD	Other related party	2017	from 21.12.2016
CTM Doverie OOD	Other related party	2017	from 21.12.2016
Veko EOOD	Other related party	2017	from 21.12.2016
Hydroisomat AD	Other related party	2017	from 21.12.2016
Doverie Briko AD	Other related party	2017	from 21.12.2016
Vratitsa AD	Other related party	2017	from 21.12.2016
OZOF Doverie AD	Other related party	2017	from 21.12.2016
Doverie Capital AD	Other related party	2017	from 21.12.2016

Associates and joint ventures are disclosed in Note 1.

Related party transactions are as follows:

Supplies from related parties:	***2017*** ***BGN '000***	***2016*** ***BGN '000***
Supply of inventories from:		
Companies related through a main shareholder	9,197	6,870
Companies controlled by an associate	81	-
Companies under a common indirect control related through key management personnel	44	101
Associates	-	983
	9,322	**7,954**
Supply of services from:		
Companies under a common indirect control through key management personnel	3,230	3,368
Companies related through a main shareholder	2,648	2,656
Companies controlled by an associate	833	-
Main shareholding companies	229	266
	6,940	**6,681**
Supply of property, plant and equipment from:		
Companies under a common indirect control through key management personnel	344	74
Companies controlled by an associate	29	-
Associates	-	1
Companies related through a main shareholder	-	2
	373	**77**
Supplies for acquisition of non-current assets:		
Companies under a common indirect control through key management personnel	1,222	4,869
Main shareholding companies	6	-
	1,228	**4,869**
Other supplies from:		
Companies related through a main shareholder		-
Main shareholding companies	3	-
	3	**-**
Investments acquired from:		
Companies under a common indirect control through key management personnel	-	4,933
Capital increase in companies related through main shareholder	425	-
	425	**4,933**
Dividends accrued to:		
Main shareholding companies	6,141	4,227

Companies under a common indirect control through key management personnel	42	15
Key management personnel	-	1,704
	6,183	**5,946**
	24,474	**30,460**

	2017 *BGN '000*	*2016* *BGN '000*
Sales of inventories to:		
Joint ventures	4,845	10,785
Companies related through a main shareholder	784	584
Associates	-	1,106
	5,629	**12,475**
Sales of services to:		
Companies controlled by an associate	289	-
Companies related through a main shareholder	48	196
Companies under a common indirect control through key management personnel	11	57
Associates	-	277
	348	**530**
Other sales to:		
Companies related through a main shareholder	-	12
Associates	-	124
	-	**136**
Dividend income from:		
Companies related through a main shareholder	-	12
	-	**12**
Interest on loans granted:		
Companies under a common indirect control through key management personnel	541	1,475
Associates	411	10
Companies controlled by associates	76	-
	1,028	**1,485**
	7,005	**14,638**

The accounts and balances with related parties are presented in *Notes 19 and 23*.

The composition of key management personnel of the Group includes the disclosed in Note 1 Executive Director and the members of the Board of Directors of the parent company.

Salaries and other short-term benefits of key management personnel and Executive Directors, members of the Board of Directors and General Managers of the Group's subsidiaries amount to BGN 6,806 thousand (2016: BGN 5,021 thousand) and include:

- current wages and salaries – BGN 6,272 thousand (2016: BGN 4,512 thousand);
- tantiemmes – BGN 534 thousand (2015: BGN 509 thousand).

Salaries and other short-term benefits of key management personnel of the parent company amount to BGN 1,321 thousand (2016: BGN 1,368 thousand) and include:

- current wages and salaries – BGN 922 thousand (2016: BGN 1,092 thousand);
- tantiemmes – 399 thousand (2016: BGN 276 thousand).

47. SUMMARISED INFORMATION ON SUBSIDIARIES

The table below presents the groups of subsidiaries depending on the availability of lack of non-controlling interests (NCI):

	31.12.2017	**31.12.2016**
	number	**number**
Subsidiaries entirely owned by the Group	4	4
Subsidiaries with non-controlling interests material for the Group	9	7
Subsidiaries with non-controlling interests immaterial for the Group	35	28
	48	**39**

The table below presents information on the share held by the material non-controlling interests in the operations of the Group:

Country and subsidiary	***NCI share in ownership / Voting rights share held by NCI (if different from the share in ownership)***		***Profit / (loss) distributed to NCI***		***NCI at 31 December***	
	31.12.2017	**31.12.2016**	**2017**	**2016**	**31.12.2017**	**31.12.2016**
	%	%	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**
Bulgaria						
Sopharma Trading AD	27,15	27,42	3,959	2,983	19,987	18,032
Sopharmacy EOOD	27,15	-	(234)	-	1,193	-
Pharmastore 5 EOOD	27,15	-	(26)		1,048	
Unipharm AD	-	22,11	-	(67)	-	5,400
Veta Pharma AD	-	31,95	-	(17)	-	3,008
			3,699	**2,899**	**22,228**	**26,440**
Latvia						
SIA Briz	33,87	33,87	**2,210**	**330**	**15,341**	**13,131**
Serbia						
Lekovit d.o.o.	49,00	-	**648**	**-**	**11,491**	**-**
Belarus						
OOO Farmacevt Plus	64,40	57,02	(24)	488	1,389	923
SOOO Brititrade	47,10	47,10	771	1,524	4,019	(665)
Interpharm	47,76	51,26	(127)	11	1,673	1,738
SOOO Brititrade	40,48	-	(36)	-	1,108	-

	584	**2,023**	**8,189**	**1,996**
Immaterial NCI	(1,610)	(1,317)	8,941	6,954
Total	5,531	3,935	66,190	48,521

The table below presents summarised financial information on subsidiaries having non-controlling interests material for the Group. The amounts, presented in the table, are before the elimination of intragroup balances and transactions and after adjustments made to reflect differences in the Group accounting policies and the accounting base, as well as the effects of valuation of assets and liabilities at fair value at the acquisition date.

Financial indicators	*Sopharma Trading AD*	*Sopharmacy EOOD*	*Pharmastore 5 EOOD*	*SIA Briz*	*Lekovit d.o.o.*	*Interpharm*	*OOO Farmacevt Plus*	*ODO SalusLine*	*SOOO Brititrade*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*		
Summarised statement of financial position as at 31 December 2017									
Current assets	278,755	2,957	3,362	25,671	53,351	1,023	12,716	1,684	26,268
Non-current assets	75,519	6,982	4,537	48,822	14,236	2,890	4,749	3,549	24,959
Current liabilities	(247,089)	(5,531)	(3,600)	(27,979)	(41,492)	(670)	(15,235)	(1,112)	(41,601)
Non-current liabilities	(33,569)	(13)	(438)	(1,221)	(2,644)	(507)	(73)	(619)	(1,094)
Equity attributable to:	**73,616**	**4,395**	**3,861**	**45,293**	**23,451**	**2,736**	**2,157**	**3,502**	**8,532**
Equity holders of the parent	*53,629*	*3,202*	*2,813*	*29,952*	*11,960*	*1,628*	*768*	*1,829*	*4,513*
Non-controlling interests	*19,987*	*1,193*	*1,048*	*15,341*	*11,491*	*1,108*	*1,389*	*1,673*	*4,019*
Summarized statement of comprehensive income for the year ended 31 December 2017									
Revenue	672,145	7,649	1,085	31,972	51,686	2,544	38,695	8,455	59,345
Net profit for the year attributable to:	**14,581**	**(861)**	**(95)**	**6,524**	**1,322**	**(88)**	**(37)**	**(265)**	**1,636**
Equity holders of the parent	*10,622*	*(627)*	*(69)*	*4,314*	*674*	*(52)*	*(13)*	*(138)*	*865*
Non-controlling interests	*3,959*	*(234)*	*(26)*	*2,210*	*648*	*(36)*	*(24)*	*(127)*	*771*
Total comprehensive income for the year attributable to:	**14,513**	**(859)**	**(95)**	**6,524**	**1,606**	**(88)**	**(37)**	**(265)**	**1,636**
Equity holders of the parent	*10,573*	*(626)*	*(69)*	*4,314*	*819*	*(52)*	*(13)*	*(138)*	*865*
Non-controlling interests	*3,940*	*(233)*	*(26)*	*2,210*	*787*	*(36)*	*(24)*	*(127)*	*771*
Dividends paid to non-controlling interests									
Summarised statement of cash flows for the year ended 31 December 2017									
Financial indicators	(116,736)	(107)	831	3,642	(1,325)	10	(743)	459	(248)
Net cash flows from/(used in) operating activities	(46,583)	(2,806)		(6,003)	2,433	14	(2,943)	(22)	(8,016)
Net cash flows from/(used in) investing activities	164,147	2,977	1	2,404	(1,013)	-	3,139	(410)	7,847
Net cash flows from/(used in) financing activities					2	(5)	(45)	(8)	(37)
Effects of restatements for foreign subsidiaries and hyperinflationary economies	**828**	**64**	**832**	**43**	**97**	**19**	**(592)**	**19**	**(454)**

48. POTENTIAL IMPACT OF THE ADOPTION OF NEW IFRS

48.1. IFRS 9 FINANCIAL INSTRUMENTS

The Company's assessment of the effect of this new standard is presented below:

Classification:
IRFS 9 (2014) introduces 3 principal categories of financial assets: classified at amortised cost, classified at fair value through other comprehensive income, or classified at fair value through profit or loss.
The Company's management has reviewed its financial assets and liabilities with regards to the impact from the adoption of the new standard on 1 January 2018.

The Group's equity instruments, currently classified as available-for-sale with a carrying amount of BGN 7,982 thousand, are eligible to be classified under "fair value through other comprehensive income". Therefore, the assumption is that there will be no change in accounting principles for these assets. However, gains or losses from the sale of equity instruments, that have been measured at fair value through other comprehensive income will not be transferred to current earnings or losses as "gains or losses on disposal" but will be reclassified directly from "reserves for financial assets available-for-sale" to "retained earnings" In 2017 financial year profits to the amount of BGN 13 thousand are recognized in the current gain or loss on disposal of available-for-sale financial assets.

The other financial assets that the Group recognises are loans granted, trade and other receivables ,cash and cash equivalents and investments available for sale. Loans granted, trade and other receivables ,cash and cash equivalents are classified as "Loans and receivables" and are measured at amortized cost at the date of preparation of these consolidated financial statements. They meet the criteria for classification at amortized cost under IFRS 9, with a carrying amount BGN 288,003 thousand. (note 43), therefore the Group does not expect the guidance of the new IFRS 9 to affect the classification and measurement of its financial assets.

The Group does not expect any changes and impact on the accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have such liabilities. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement*, and have not been changed.

Impairment:
The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain other financial guarantee contracts.

The Group has reviewed and analyzed the impact of credit risk on its financial instruments and, respectively, whether and on which instruments there is a significant increase after initial recognition, as well as an initial estimate of the amount of the expected credit losses. When preparing the model, the Group considered the effect of the change in the default risk over the remaining period of the relevant financial instrument. The significant increase in credit risk after initial recognition would be determined by the Group's management as an increase in credit risk as a result of the deterioration of certain financial and economic conditions and their impact on the financial instrument. For this purpose, it has included a set of quantitative and qualitative indicators in the model.

The Group is also in the final stage of developing models for determining the impairment losses of financial assets, categorised as “loans and receivables”. These models may be divided in two main groups: model of individual provisioning of impairment, applicable for mainly large expositions, and a matrix provisioning model for the rest trade and other short-term receivables. The individual provisioning model is based on the the method of discounted cash flows. The matrix provisioning model includes: (a) Grouping of customers and counterparties of the Group by similar business, type of ownership and other characteristics and credit risk; (b) a provisioning matrix based on historically monitored default rates, corrected by additional assumptions and estimates, geared to possible changes in these rates based on macroeconomic or industry-specific factors.

Based on the preliminary estimate, the Group expects an increase in the amount of the write-down of trade and other receivables in the range of 0.4% to 1.2% of the book value of the receivables. Detailed information on trade and other short-term receivables and receivables from related parties as at 31 December 2017 is presented in Notes 22, 24, 25 and 26

The Group has a practice of providing loans to related parties and third parties. Impairment losses are calculated on an individual basis. As a result of the preliminary estimates, the Management of the Group considers that the effect of the first time addoption of IFRS 9 will not be material regarding the book value of loans granted to related parties and third parties. Detailed information on the financial instrument (loans granted to related and third parties) as at 31.12.2017 is presented in Notes 21, 22, 25 and 26.

The Group has carried out a detailed review and analysis of the impact of credit risk on cash and cash equivalents and whether there is a significant increase after initial recognition and the amount of expected credit losses. For these financial assets, the Group is in the process of developing a model for assessing 12-month expected credit losses based on external credit ratings of counterparty banks and matched to the maturity of cash. As a result of the analyzes conducted, the Group's management has assessed that, as long as it has adopted a policy of maintaining and managing cash in financial institutions with good reputation and high credit rating, the effect would be insignificant (under 0.1%) on already reported indicators under the new credit loss reporting model under IFRS 9, effective from 1 January 2018. As at 31 December 2017, the cash and cash equivalents of the Group in Bulgarian banks amounted to BGN 16,703 thousand and in Poland, Latvia, Belarus, Ukraine and Kazakhstan amounted to BGN 3,573 thousand. Further detailed information on the financial instrument (cash receivables and cash equivalents) as at 31.12.2017 is presented in Note 27.

Disclosures:

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments, particularly in the year of the adoption of the new standard – 2018. The Company expects the process of developing and implementing the policies, models and procedures for the classification and measurement of financial instruments under IFRS 9 to be completed in the first half of 2018.

Date of adoption by Company:
IFRS 9 is mandatory for financial years commencing on or after 1 January 2018. The Group has selected a modified retrospective application of the new rules of the standard from 1 January 2018 due to the practical considerations permitted under the Standard. Comparative data for 2017 will not be recalculated.

48.2. IFRS 15 REVENUES FROM CONTRACTS WITH CUSTOMERS

The new standard is based on the principle that revenue is recognised when contract performance obligations are satisfied, i.e. control of a good or service transfers to a customer.
The Group has estimate the effect of adopting the new standard on the consolidated financial statement and has identified areas, which will be potentially affected.
The Group mainly sells pharmaceutical and medical goods and products and medical equipment to hospitals, pharmacies and wholesalers. Transaction prices are fixed on a general or on a customer price list and are set individually for products and goods.

Pharmaceutical and medical production and goods
When selling pharmaceuticals and medical goods to clients, the Group offers different forms of discounts such as rebates, price discounts and sales volume discounts.
The Group has determined that the revenue from the sale of goods and products will be recognised at the "point in time" method under IFRS 15, when control over these goods or products is transferred to customer. This is usually the case when the goods and products and the physical control over them are transferred to the customer. The Group presently observes the same rules under IAS 18.

Medical equipment
Delivery of medical equipment usually includes delivery, installation, put into operation and training as the sales price is total to the specific contract. When selling medical equipment to hospitals, payment term could reach up to and over two years due to the financial specificities of counterparties.
In accordance with IFRS 15, if goods and services sold in a package are distinctive, the transaction price should be allocated between individual goods and services on the basis of their individual market prices. The Group has analyzed and determined that installation, commissioning and training services are not identifiable by the supply of medical equipment and are therefore a single performance obligation.
The Group has determined that the revenue from the sale of goods and services will be recognised at the "point in time" method under IFRS 15, when control over these goods and services is transferred to customer, usually when the installation, commissioning and training services are performed. The Group presently observes the same rules under IAS 18.

The Group does not expect a significant effect (if any) on the financial performance, as the new revenue recognition policy of the sales of goods under IFRS 15 does not differ from that applied in accordance with IAS 18.
Adapting its accounting policies for the implementation of IFRS 15, the Group's management has analyzed and considered the accounting treatment of:
Different forms of variable remuneration - variable remuneration is included in the transaction price only insofar as it is highly probable that a significant adjustment of the recognised cumulative revenue will not occur. Applicable to the Group forms of variable remuneration include all forms of discounts, rebates and sales volume discounts.
According to the previously applied accounting policy for discounts, incl. discounts and rebates, the due ones are recognized in a decrease in revenue, at the same time as recognition of the proceeds from the sale of the goods or output for which the respective discounts are due. The policy of recognition of due discounts and rebates applied so far does not differ from the requirements of IFRS 15.
Volume discounts are based on the turnover for a certain period - month and / or calendar year. They are recognized as a reduction in earnings upon reaching predefined (agreed) criteria. Under IFRS 15, the expected volume rebates determined on the basis of past experience are recognized in a transaction cost adjustment and only if it is highly probable that there will be no material reversal of the amount of recognized revenue. The management of the Group has made an estimate and has found that, as long as the financial year is not different from the calendar, the effect of that change is immaterial (if any effect).

Obligations on provided guarantees - When selling medical equipment, the Group usually provides warranty maintenance for a period of 12 months from the date of commissioning that is fully covered by the manufacturer. Under IFRS 15, if the guarantees provided are also an additional service beyond the standard warranty terms, these guarantees should be reported as a separate performance obligation and a relevant portion of the transaction price allocated to that performance obligation.
The Group has assessed the effect of this change and has determined that the guarantees provided are not distinct from the typical quality assurance services, they are of "type of security" and their accounting remains unchanged.

Component of funding - When selling medical equipment, the payment term could reach up to over 2 years. Under the accounting policy applied so far, in cases where the credit period is above the usual one, revenue is recognized without the interest accrued, and for this purpose all expected future gains are discounted at an interest rate for a similar instrument of an issuer with a similar credit rating and / or the current market interest rate.

In accordance with IFRS 15, with a financial component that is material, the transaction price is adjusted to reflect the effect of the time value of money using a discount rate that reflects the credit characteristics of the recipient country (the client). IFRS 15 allows the component of financing may not be considered if the effect does not materially alter the amount of revenue that would be recognized under the contract, the effect is insignificant, and if the period between the payment and the transfer is up to 12 months.

IFRS 15 allows the component of financing not to be considered if the effect does not significantly alter the amount of revenue that would be recognized under the contract – insignificant effect, and if the period between the payment and the transfer is up to 12 months. The IFRS 15 recognition requirements for a significant financial component are not substantially different from the policy that the Group applies in accordance with the repealed IAS 18 and the expected effect of that change is immaterial (if any).
Presentation of contractual assets and contractual liabilities in the balance sheet - according to IFRS 15, trade receivables are unconditional receivables where the payment of the consideration depends only on the expiration of a certain period of time. If only one party has fulfilled its obligations, the Group presents a contract asset or a liability under a contract, depending on the execution and payments received by the client. IFRS 15 requires assets and liabilities under contracts with customers to be presented separately from trade receivables and payables in the statement of financial position. This in turn will lead to some reclassification as of 1 January 2018 in respect of recognized liabilities in relation to expected volume discounts that are currently included in other items in the consolidated statement of financial position.

Presentation and disclosure requirements
The presentation and disclosures under IFRS 15 are, to a certain extent, different and more detailed than current IFRSs. Some of these will be completely new to the Group and will require additional disclosures. As such, the Group's management assesses the following: (a) the accounting estimates and assumptions relating to: major components of policies and arrangements with clients; the determination of individual market prices; the distribution of the transaction price between the individual execution obligations; the accepted probabilities of assessing the amount of variable remuneration in the form of bonuses and rebates; substantial financial component, guarantees provided; (b) regrouping and presenting types of revenue by customers in categories that will present how the content, amount, timing and period and uncertainties associated with each of the revenues and cash flows are influenced by the various economic factors.
The Group continues to test the relevant systems, internal controls, policies and procedures necessary to collect and maintain the required disclosure information under IFRS 15.

Date of adoption for the Group
IFRS 15 is mandatory for the financial year beginning 1 January 2018. The Group chose a modified retrospective application of the new rules of the standard from 1 January 2018. Comparative data for 2017 will not be recalculated.

48.3 IFRS 16 LEASES

IFRS 16 establishes principles and rules for the recognition, measurement and presentation of a lease. As a result of its application, lessees will account for all leases using a uniform model that requires their recognition in the balance sheet, analogous to the accounting for finance leases under IAS 17 (the distinction between finance and operating lease is removed).

The Group’s assessment of the effect of this new standard is presented below:
Potential effect of adopting IFRS 16:

The standard will affect primarily the operating leases in which the Group is a lessee. At the consolidated statements' reporting date, the Group's operating lease commitments and future lease payments are disclosed in Note 41.

However, the Group is still in the process of making analyses, assessments and clarifications on what other adjustments, if any, are necessary to its accounting policy, including because of the change in the definition of the lease term and the different treatment of variable lease payments and of the extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's retained earnings reserve.

Date of adoption by Group:
IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The Group has decided not to adopt the standard before its effective date. It has selected to apply the modified retrospective transition approach, as of 1 January 2019. Comparative amounts for the year prior to first adoption (2018) will not be restated.

49. EVENTS AFTER THE REPORTING PERIOD

By Decision No 1547-ПД / 18.12.2017 the Financial Supervision Commisson approved the Agreement for transformation through the merger of Unipharm AD (transforming company) into Sopharma AD (receiving company) as of 1 January 2018.

On 19 February 2018 the Board of Directors of the subsidiary Sopharma Trading AD, as a body exercising the rights of the sole owner of the capital of five of its subsidiaries, made a descision to increase the capital of these companies. The total amount of the capital increase in these subsidiaries is BGN 422 thousand.

An extraordinary meeting of shareholders was held on 23 February 2018, at which a decision was made for transformation through the merger of Unipharm AD into Sopharma AD. Contracts and reports were approved as follows:

- Contract for transformation by merger of Unipharm AD into Sopharma AD, concluded on 14. September.2017;
- Report of the Board of Directors of Sopharma AD to the shareholders of the company;
- Inspector's report under Art. 262 m of the Commercial Act on the transformation by merger of Unipharm AD into Sopharma AD

On 01March 2018 the Board of Directors of the subsidiary Sopharma Trading AD, as the sole owner of the capital of Sopharma EOOD, made a decision for Sopharma EOOD to set up, as sole owner of the capital, two new companies named Sopharma 16 EOOD and Sopharma 17 EOOD. The two companies should register with a capital of BGN 5,000 divided into 500 shares each with BGN 10 for an indefinite period and with the principal of activity of retail of medicinal products.

There are no events after the reporting period, which require adjustment or disclosure in consolidated financial statements.