SEPARATE STATEMENT OF COMPREHENSIVE INCOME	1
SEPARATE STATEMENT OF FINANCIAL POSITION	2
SEPARATE STATEMENT OF CASH FLOWS	3
SEPARATE STATEMENT OF CHANGES IN EQUITY	4
NOTES TO THE SEPARATE FINANCIAL STATEMENTS	
1. BACKGROUND CORPORATE INFORMATION	5
2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY	7
3. REVENUE	61
4. OTHER OPERATING INCOME AND LOSSES	63
5. RAW MATERIALS AND CONSUMABLES USED	65
6. HIRED SERVICES EXPENSE	66
7. EMPLOYEE BENEFITS EXPENSE	67
8. OTHER OPERATING EXPENSES	67
9. IMPAIRMENT OF CURRENT ASSETS	68
10. IMPAIRMENT OF NON-CURRENT ASSETS, OUTSIDE THE SCOPE OF IFRS 9	68
11. FINANCE INCOME	68
12. FINANCE COSTS	69
13. INCOME TAX EXPENSE	69
14. OTHER COMPREHENSIVE INCOME	70
15. PROPERTY, PLANT AND EQUIPMENT	71
16. INTANGIBLE ASSETS	74
17. INVESTMENT PROPERTY	75
18. INVESTMENTS IN SUBSIDIARIES	78
19. INVESTMENTS IN ASSOCIATES	81
20. OTHER LONG-TERM EQUITY INVESTMENTS	82
21. LONG-TERM RECEIVABLES FROM RELATED PARTIES	85
22. OTHER LONG-TERM RECEIVABLES	86
23. INVENTORIES	88
24. RECEIVABLES FROM RELATED PARTIES	90
25. TRADE RECEIVABLES	95
26(A). LOANS GRANTED TO THIRD PARTIES	98
26(B). OTHER RECEIVABLES AND PREPAYMENTS	99
27. CASH AND CASH EQUIVALENTS	101
28. EQUITY	102
29. LONG-TERM BANK LOANS	107
30. DEFERRED TAX LIABILITIES	109
31. GOVERNMENT GRANTS	111
32. RETIREMENT BENEFIT OBLIGATIONS	112
33. SHORT-TERM BANK LOANS	115
34. TRADE PAYABLES	116
35. PAYABLES TO RELATED PARTIES	117
36. TAX PAYABLES	118
37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY	119
38. OTHER CURRENT LIABILITIES	120
39. CONTINGENT LIABILITIES AND COMMITMENTS	121
40. RESTATEMENT RESULTING FROM MERGER OF A SUBSIDIARY	122
41. FINANCIAL RISK MANAGEMENT	130
42. SEGMENT REPORTING	146
43. RELATED PARTY TRANSACTIONS	149
44. IMPACT OF THE INITIAL ADOPTION OF IFRS 9 AND IFRS 15	153
45. POTENTIAL IMPACT OF THE APPLICATION OF NEW IFRS	160
46. EVENTS AFTER THE REPORTING PERIOD	162

1. BACKGROUND CORPORATE INFORMATION

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

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

1.1. Ownership and management

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

As at 31 December 2018, the structure of Company's joint-stock capital was as follows:

	%
Donev Investments Holding AD	25.40
Telecomplect Invest AD	20.45
Rompharm Company OOD	6.03
Sopharma AD (treasury shares)	6.59
Other legal persons	33.97
Natural persons	7.56

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 2018 as follows:

Ognian Donev, PhD	Chairperson
Vessela Stoeva	Member
Ognian Palaveev	Member
Alexander Chaushev	Member
Ivan Badinski	Member

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

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

The composition of the Audit Committee is as follows:

Vasil Naidenov	Chairperson
Tsvetanka Zlateva	Member
Kristina Atanasova - Elliot	Member

The average number of Company's personnel for 2018 is 2,137 workers and employees (2017: 2,182).

1.2. Principal activities

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

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

The Company holds manufacturing / import authorisation for medicinal products No BG / MIA -0017 dated 20 March 2018, issued by the Bulgarian Drug Agency (BDA).

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Company's activities throughout the period 2015 – 2018 are presented in the table below:

Indicator	**2015**	**2016**	**2017**	**2018**
GDP in million levs	88,575	94,130	101,043	107,987
Actual growth of GDP	3,5%	3,9%	3,8%	3,2%
Year-end inflation (HICP)	-0,9%	-0,5%	1,8%	2,3%
Average exchange rate of USD for the year	1,76	1,77	1,73	1,66
Exchange rate of the USD at year-end	1,80	1,86	1,65	1,72
Basic interest rate at year-end	0,01	0,00	0,00	0,00
Unemployment rate at year-end	10,0%	8,0%	7,1%	6,1%
Credit rating of the Republic of Bulgaria by Standard & Poors (long-term)	BB+	BB+	BB+	BBB-
Credit rating of the Republic of Bulgaria by Moody's (long-term)	Baa2	Baa2	Baa2	Baa2
Credit rating of the Republic of Bulgaria by Fitch (long-term)	BBB	BBB	BBB-	BBBB

** BNB forecast for 2018, prepared on 21 December 2018; Source: BNB*

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the separate financial statements

The separate annual financial statements of SOPHARMA AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2018 and have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

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

The adoption of these standards and/or interpretations, applicable to entities in Bulgaria for annual reporting periods beginning on 1 January 2018 at the earliest, has caused changes in Company's accounting policies with regard to the principles, rules and criteria on the accounting for the following reporting items as well as the presentation and disclosure of financial information thereon: trade receivables, receivables from third parties, loans granted, cash and cash equivalents, other long-term equity investments, guarantees granted, revenues from contracts with customers, other revenue and contract liabilities.

The changes are resultant from the application of the following standards and interpretations:

- 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 project for development of the new standard has passed through three phases and has covered the following scope of methodological matters: 1. Classification and measurement of financial assets and financial liabilities; 2. Hedge accounting; and 3. Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 and finally, in its entirety, in July 2014. 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, and an approach to measurement, incl.*

For hybrid contracts, by preserving almost entirely the rules of IAS 39 on the recognition and derecognition of financial assets and liabilities. 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. Based on that, two primary categories are established for subsequent measurement: at amortised cost and at fair value. The new rules lead to changes mainly in the accounting for financial assets of the type of debt instruments and financial liabilities designated at fair value through profit or loss (for credit risk). A specific feature of the classification and the measurement model for financial assets at fair value is the category "subsequent measurement at fair value through other comprehensive income", in which debt and capital instruments can be classified if certain conditions are met. 2. Hedge accounting – the standard includes a new chapter, introducing a new, more flexible, approach, and respectively model for hedge accounting, which permits consistent and complete reflection of all financial and non-financial risk exposures, subject to economic hedge transactions, and also, better presentation of risk management activities in the financial statements and specifically , 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 that fair value changes of financial liabilities measured at fair value through profit or loss due to changes in the entity's own credit quality (own credit risk), to be recognized in other comprehensive income rather than in profit or loss. 3. Impairment methodology – the amendment is fundamental and introduces the application of the 'expected loss' concept and approach. According to this approach, all expected credit losses of a financial asset at amortised cost shall be recognised earlier, and the three-stage model is usually applied, depending on its credit quality change, and not only if a triggering default event has occurred as per the current model under IAS 39. The three stages are: a. upon the initial recognition of the financial asset – impairment for the 12-month period, b. in case of increased credit risk – for the full lifetime of the asset; and respectively, c. upon default - of the actual impairment. This model also determines the rules to measure impairment losses and respectively the application of the effective interest rate upon recognition of interest income. The impairment of debt instruments measured at fair value through the other comprehensive income is also determined and measured by applying the methodology which is used for financial assets at amortised cost. With regards to trade receivables, lease receivables and assets under contracts with customers, the standard permits the use of a simplified model to measure impairment, which however also retains the "expected losses" concept. The management has done research and has concluded that the changes made through the new standard have an impact on the accounting policies, and on the value and classification of Company's assets, liabilities, transactions and performance, with regard to: trade and other receivables, receivables from related parties, granted loans

and guarantees, including to related parties, cash and cash equivalents, other long-term equity investments. The effects of the restatements and reclassifications made thereby are disclosed in Note 44.

- 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 upon its initial application and will not restate comparative information. (Note 44).*
- 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 on the recognition and measurement of the revenue of entities from all economic sectors. It introduces a new concept, and based on it – a complete set of new 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. The standard fully supersedes all current standards related to revenue recognition, mainly IAS 18 and IAS 11 and the interpretations thereto. The main concept of the new standard is to provide a five step model whereby the revenue amount and timing reflect the fulfilment of 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 – their distinction from the other assumed contractual commitments/promises, from which the customer would obtain benefits; (c) determination of the transaction price – 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 types of variable components of the price, incl. 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 (good/service); 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. Rules and criteria are introduced 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 application of this standard usually leads to 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 (2018) with particular disclosures for prior periods. The management has done research and has concluded that the changes made through the new standard have an impact on the accounting policies, and on the value and classification of Company's assets, liabilities, transactions and performance, with regard to: revenue from the sale of products, goods, and services and the assets and liabilities related thereto. The management has chosen modified retrospective application of IFRS 15 on its initial application and will not restate comparative information. There are no effects on the initial balances resulting from the changes made (Note 44).

- 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 foreign currency transactions or part of them upon 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.*

Regarding the other standards and interpretations stated herein below, the management has analyzed their possible impact and has determined they would not impact the Company's accounting policy, respectively its assets, liabilities, transactions and results, in as far as it does not possess/operate such items and/or does not perform such deals and transactions:

- 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.*
- Annual Improvements to IFRSs 2014-2016 Cycle (December 2016) – improvements to 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) removal of certain exemptions in the application of IFRS 1 with regards to IFRS 7, IAS 19 and IFRS 10; and (b) 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).*
- 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.*

At the date when these financial statements have been approved for issue, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2018, which have not been adopted by the Company for early application. The management has decided that out of them the following are likely to have a potential impact in the future for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements for subsequent periods, namely:

- 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 primarily for the lessee. The standard will supersede the effective so far standard related to leases – IAS 17. (a) The main principle of the new standard for lessees 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 these 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 comprehensive 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 done research and has concluded that the changes made through the new standard have an impact on the accounting policies, and on the value and classification of Company’s assets, liabilities, transactions and performance, with regard to: some of its operating lease agreements in which the Company acts as lessee. The effects of the analyses, the preliminary restatements and reclassifications performed thereby are disclosed in Note 45. The management has chosen modified retrospective application of IFRS 16 on its initial application and will not restate comparative information.*
- IFRIC 23 (amended) “Uncertainty over Income Tax Treatments” (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC). *This Interpretation provides guidance on the accounting treatment and 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 matters: (a) whether an entity considers uncertain tax treatments; (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) the entity's approach whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments.

- IFRS 9 (amended) "Financial Instruments" – regarding prepayment features with negative compensation in case of early repayment and modifications *of financial liabilities (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 initiating the early repayment. The calculation approach of this compensation payment must be the same for both type of payments - 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.*
- *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.

- IAS 19 (amended) "Employee Benefits" (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC). *This amendment clarifies that in case of changes to defined benefit plan amendments, curtailments and settlements, upon determining the current service cost and interest costs for the period following the restatement, the entity is obliged to use the assumptions made therein. Additionally, changes are envisaged to the disclosure of impact for changes to defined benefit plan amendments, curtailments and settlements in relation to the plan asset ceiling.*
- Amendments to the Conceptual Framework for Financial Reporting (in force for annual periods beginning on or after 1 January 2020, not endorsed by EC). *These amendments include revised definitions of "asset" and "liability", as well as new guidance for their measurement, derecognition, presentation, and disclosure. The amendments to the Conceptual Framework are accompanied by amendments to some references thereto in the International Financial Reporting Standards, including IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32. Some of the references state which version of the Conceptual Framework statements in the respective standards should refer to (the IASC framework adopted by IASB in 2001, the IASB framework of 2010, or the new revised framework dated 2018), while others specifically state that the standard's definitions have not been updated in accordance with the framework's latest amendments.*
- IFRS 3 (amended) "Business Combinations" (in force for annual periods beginning on or after 1 January 2020, not endorsed by EC). *This change concerns the definition of "business" provided in the appendices to the standard and is related to the difficulties that acquiring entities experience when determining whether they have acquired a business or a group of assets. The amendment aims: (a) to clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; (b) to narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; (c) to add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; (d) to remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and*

(e) to add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (in force for annual periods beginning on or after 1 January 2020 – not endorsed by EC). *These changes relate to providing a more precise definition of 'material' as stated in the two standards. According to them, the new definition of 'material' is:"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". There are three new aspects of the definition which should be noted: (a) "Obscuring". The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. (b) "Could reasonably be expected to influence". The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote; and (c) Primary users. The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose. Moreover, the amendments stress especially five ways material information can be obscured: (a) if the language regarding a material item, transaction or other event is vague or unclear; (b) if information regarding a material item, transaction or other event is scattered in different places in the financial statements; (c) if dissimilar items, transactions or other events are inappropriately aggregated; (d) if similar items, transactions or other events are inappropriately disaggregated; and (e) if material information is hidden by immaterial information to the extent that it becomes unclear what information is material.*

The management is in the process of survey, analysis and assessment of the impact of the changes to the Conceptual Framework and the above listed standards (with the exception of IFRS 16) on the accounting policies and the values and classifications of the Company's assets, liabilities, transactions and results over the next reporting periods.

Additionally, with regard to the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on 1 January 2018, the management has judged that they are unlikely to have a potential impact resulting in changes in the accounting policies and the financial statements of the Company:

- 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 Company's operations

- 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 should apply 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.*

- 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, to be determined by the IASB). *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.*

The separate financial statements of the Company have been prepared on a historical cost basis except for property, plant and equipment, investment property and financial assets constituting equity investments through other comprehensive income, which are measured at revalued amount and respectively, at fair value.

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

The presentation of financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in *Note 2.31*, *Note 15, Note 17* and *Note 20*.

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated annual financial statements for year 2018 in accordance with IFRS effective for year 2018 whereas these separate annual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated annual financial statements will be approved for issue by the Board of Directors of the Company not later than 30 April 2019 and after this date the financial statements will be publicly made available to third parties.

2.3. Merger of Unipharm AD and Medica AD into Sopharma AD (takeover)

(a) legal form of the mergers

The merger of Unipharm AD (transforming company) into Sopharma AD (receiving company) was made through the legal form of transformation regulated by the Commercial Act. The merger was entered in the Commercial Register at the Registry Agency on 13 September 2018. As a result of the transaction, the total assets of Unipharm AD were transferred to Sopharma AD while Unipharm AD was wound-up without liquidation.

On 17 May 2018, a contract was signed for transformation through merger between Sopharma AD (receiving company) and Unipharm AD (transforming company), which settles the terms and conditions for conducting the transformation. The fair price of shares in the companies involved in the merger was determined based on generally adopted valuation methods, based on which the exchange ratio of 0,951317 was set.

The Transformation Agreement and Examiner's Report were approved by the General Meeting of the receiving company on 1 August 2018.

The merger of Medica AD (transforming company) into Sopharma AD (receiving company) was made through the legal form of transformation regulated by the Commercial Act. The merger was entered in the Commercial Register at the Registry Agency on 8 August 2017. As a result of the transaction, the total assets of Medica AD were transferred to Sopharma AD while Medica AD was wound-up without liquidation.

On 31 January 2017, a contract was signed for transformation through merger between Sopharma AD (receiving company) and Medica AD (transforming company), which settles the terms and conditions for conducting the transformation. The fair price of shares in the companies involved in the merger was determined based on generally adopted valuation methods, based on which the exchange ratio of 0,9486 was set.

The Transformation Agreement and Examiner's Report were approved by the General Meeting of the receiving company on 31 January 2017.

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

- restructuring of the companies in Sopharma Group in order to eliminate overlapping activities;
- focus of the efforts on production and trade activities, and respectively, optimisation of administrative expenses;

- enhancing efficiency and achieving synergy in both management and production and trade activities as well as costs optimisation.

(b) method of accounting for the mergers

Upon the merger of Unipharm AD, the merger date was set for accounting purposes to be 1 January 2018, and that of Medica AD – 1 January 2017.

Until the merger, both companies were subsidiaries of Sopharma AD. The transactions executed were treated as restructuring of the two companies. The mergers were accounted for by applying the 'uniting of interests' method. In line with the requirements and rules of this method, the operations and the assets of the companies are presented in these financial statements as if they have always been united since the beginning of the earliest period presented in the financial statements (1 January 2016 – for Medica AD and 1 January 2017 – for Unipharm AD), regardless of the legal events and procedures and their effect on the legal status and life of the receiving and the transforming companies. The effects of all business operations between the receiving and the transforming companies, including the outstanding balances, are eliminated regardless of whether arisen prior to or after the restructuring. All differences arising on the mergers operation are stated in equity – within 'retained earnings' component *(Note 40).*

2.4. Comparatives

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

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

An exception to this rule is the presentation of the impact of the first-time adoption of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. The Company has elected modified retrospective first-time adoption of IFRS 15 *Revenue from Contracts with Customers*. Upon adopting IFRS 9 *Financial Instruments*, the Company has applied the exceptions for its initial application. All adjustments pursuant from the initial adoption of this standard are accounted for within equity (in “retained earnings”) as at 1 January 2018. Comparative data for 2017 has not been restated. It has been presented and disclosed as per the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* (repealed), IFRS 7 *Financial Instruments: Disclosure*, IAS 18 *Revenue* (repealed) and IAS 11 *Construction Contracts* (repealed) and the interpretations related thereto.

The impact of the initial adoption of the new IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* are presented in *Note 44.*

The comparative information for 2017, presented in the Company’s separate statement of financial position, the separate statement of comprehensive income, the separate statement of cash flow, and the separate statement of changes in equity, has been prepared based on the merged data from the separate annual financial statements of Sopharma AD and Unipharm AS pursuant to the merger performed, under the unified accounting policies and eliminated internal accounts, transactions and payments between them. The statement of financial position includes two comparable periods – 31 December 2017 and 1 January 2017, in as far as the combination of data from the financial statements of the two companies’ results in indicators which significantly deviate compared to the separate indicators of Sopharma AD for these periods.

2.5. Functional currency and recognition of exchange differences

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

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash and cash equivalents, receivables and payables, as monetary reporting items, denominated in a foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the Bulgarian National Bank (BNB) for the last working day of the respective month. At 31 December, these amounts are presented in BGN at the closing exchange rate of BNB.

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

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

2.6. Revenue

2.6.1. Accounting policy applied as from 1 January 2018

<u>Revenue from contracts with customers</u>

The Company's usual revenue is from the activities disclosed in *Note 3.1*.

2.6.1.1. Recognition of revenue from contracts with customers

The Company's revenue is recognised when control over the goods promised in the *contract with the customer* is transferred to the customer. Control is transferred to the customer upon satisfaction of the contractual performance obligations through transfer of the promised goods and/or provision of the promised services.

Measurement of contracts with customers

The Company accounts for a contract with a customer only if upon its enforcement: a/ it has commercial essence and rationale; b/ the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform it; c/ each party's rights and the d/ payment conditions can be identified; and e/ it is probable that the Company will collect the consideration to which it is entitled upon performing its performance obligations. In evaluating whether collectability of an amount of consideration is probable, the Company considers all relevant facts and circumstances of the transaction, including past experience, customary business practices, published rules and declarations made by the Company, collaterals and possibilities for satisfaction.

A contract for which any of the above criteria has not yet been met is subject to new assessment in each reporting period. The consideration received under such contracts shall be recognised as payable (*contract liability*) in the statement of financial position, until: a/ all criteria for recognizing a contract with a customer are met; b/ the Company meets its performance obligations and has received the whole or almost the whole remuneration (which is not recoverable); and/or c. when the contract is terminated and the remuneration received is not recoverable.

Upon the initial measurement of its contracts with customers, the Company makes additional analysis and judgement whether two or more contracts should be combined and accounted for as a single contract, respectively whether the products promised in each separate and/or combined contract should be accounted for as a single and/or multiple performance obligation(s).

Each promise to transfer goods which are distinct (in nature and in the context of the contract), is accounted for as a separate performance obligation.

The Company recognises revenue for *each separate performance obligation* at the level of *individual contracts with customers*, by analyzing the type, term and conditions of each particular contract. For contracts with similar features, revenue is recognised on a portfolio basis, only if their grouping into a portfolio would not have a materially different impact on the financial statements.

When another (third) party is involved in the performance of obligations, the Company determines whether it acts in its capacity as principal or agent, by assessing the nature of its promise to the customer: to provide the finished goods or services on its own (principal) or to arrange for another party to provide them (agent). The Company is a principal and recognises as revenue the gross amount of remuneration if it controls the promised finished goods and/or services prior to their transfer to the customers. If however the Company does not obtain control over the promised goods and/or services and its obligation is only to organise for a third party to provide these finished goods and/or services, the Company is an agent and recognises as revenue the net amount it retains for the services granted in its capacity as agent.

2.6.1.2. ***Measurement of revenue under contracts with customers***

Revenue is measured based on the *transaction price* determined for each contract.

The transaction price is the amount of consideration to which an entity expects to be entitled, excluding amounts collected on behalf of third parties. Upon determining the transaction price, the Company takes into consideration the contractual conditions and its customary business practices, including the impact of variable consideration, the existence of a significant financing component in the contract, non-cash consideration, consideration payable to the customer (if any). In contracts with more than one performance obligations, the transaction price is allocated between each performance obligation based on the standalone selling prices of each good and/or service determined based on one of the methods permitted under IFRS 15, priority being given to the method of "observable selling prices".

The change in the scope or price (or both) of the contract is accounted for as a separate contract and/or as part of the existing contract, depending on whether the change is related to the addition of goods and/or services which are distinct, and on the price determined for them.
Depending on that: a) the Company accounts for a contract modification as a separate contract if the scope of the contract increases because of the addition of promised goods or services that are distinct, and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services; b) the Company accounts for the contract modification as if it were a termination of the existing contract and the creation of a new contract (future application), if the remaining goods and/or services are distinct from the goods and/or services transferred before the contract modification, but the change in the contract price does not reflect the standalone selling price of the goods and/or services added; c) the Company accounts for the contract modification as if it were a part of the existing contract (cumulative adjustment) if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied.

2.6.1.3. *Performance obligations under contracts with customers*

Revenue from the sale of products
Wholesales of medical substances and medical forms are made in the country and abroad, both based on the Company's specification (technology) and based on the customer's specification (technology). As a whole, the Company has concluded that it acts as principal in its contracts with customers, unless it has been explicitly stated otherwise for certain transactions, since usually the Company controls its goods and/or services prior to their transfer to the customer.

Sales of products based on the Company's specifications
Upon sales of products based on the Company's specifications, control is transferred to the customer *at a point in time*.
Upon *domestic sales*, this is usually upon handover of the products and the physical ownership of the customer thereof, when the customer may dispose of the finished goods by obtaining substantially all remaining rewards.
Upon *export sales*, the judgement on the point in which the customer obtains control over the products sold is made based on the INCOTERMS applicable for the contract.

Sales of products based on the customer's specifications
Regarding products produced based on the customer's specifications, the Company has a legal and contractual restriction on direction for other use (sales to another party) and it has no alternative use. In these cases, the method of transfer is determined specifically for each contract with customers (at individual contract level). For this purpose, it is determined if the Company is entitled to payment for the work performed to date, which should at least compensate for the cost incurred, plus a reasonable margin should the contract be terminated for reasons other than the Company's default (legally exercisable right to payment).

If in the specific contract the Company has a legally exercisable right to payment, revenue is recognised *over time*, and the *output method* is used to measure progress (stage of completion) of the contract.
This method has been determined as most suitable to measure progress, as the results achieved best describe the Company's activity towards complete satisfaction of the performance obligations. Progress is measured *based on the units produced versus the total number of units ordered by the customer*. The assessments of revenue, costs and/or stage of progress towards complete satisfaction of the performance obligations are reviewed at the end of each reporting period, incl. in case of change in the circumstance/occurrence of new circumstances. Each subsequent increase or decrease of expected revenue and/or costs is stated within profit or loss for the period in which the circumstances resulted in the review became known to the management.

If in the specific contract the *Company does not have a legally exercisable right to payment*, revenue is recognised revenue is recognised *at a point in time*, when control over the products sold is transferred to the customer: when the products are handed over to the customer and it has physical title thereon (for domestic sales) and in accordance with the contract's applicable INCOTERMS (for export sales).

Transportation of the products sold
Usually, upon export sales, the Company is responsible for transporting the goods to the location agreed, and transport is organised by the Company, and the cost of transport is included (calculated) as part of the selling price. Depending on the transportation conditions agreed with the customer, it may be carried out also after control over the products sold has been transferred to the customer. Until the transfer of control over the products, the sales of products and the transportation service are accounted for as a *single performance obligation*, since they constitute parts of an integrated service.

The transportation service following transfer of control over the products sold is accounted for as a *separate performance obligation*, since the transportation can be provided by another supplier (i.e. the customer may use the products sold with easily accessible resources), and the transportation service does not modify or amend the products sold in any way. In this case, the remuneration the Company expects to be entitled to (the transaction price) is allocated between the separate performance obligations based on their standalone selling prices. The standalone selling price of the products sold is determined based on the price list effective at the transaction's date, and the standalone selling price of the transport service is determined in an approximate manner by using the cost plus margin approach.

To render the transportation service, the Company uses transportation companies – subcontractors. The Company has determined it controls the services prior to their provision to the customer and therefore it acts in its capacity as principal, since a) it bears the responsibility for rendering the services and that the services are acceptable to the customer (i.e. the Company is responsible for fulfilling the promise in the contract irrespective of whether it performs the services itself or hires a third-party service supplier to perform them; and b) it negotiates the service price independently, without interference by the customer.

Revenue from the sales of transportation services are recognised *over time*, since it is not necessary for the work performed to date to be repeated if another party has to perform the remaining work, therefore, the customer receives and consumes rewards simultaneously with the service rendition. In order to measure the contract progress (stage of completion), the *input method* is used. This method has been determined as most appropriate to measure progress since it best describes the Company's activity regarding the transfer of

control and satisfaction of obligations; respectively, it most accurately reflects the level of performance of obligations, in as far as the Company's efforts (costs incurred) are directly related to the transfer of the service to the customer. Progress is measured *based on the costs incurred versus the total costs planned for contract performance*.

Transaction price and payment terms

Selling prices are fixed based on a common or customer-specific price list and are individually determined for each product. The usual credit period is 30 to 270 days. In certain cases, the Company collects short-term advances from clients which do not have a significant financing component. The advances from clients are presented in the statement of financial position as contract liabilities.

Variable consideration

The variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The forms of variable consideration include:

- *Volume discounts:* Retrospective trade discounts provided to the customer upon reaching monthly, quarterly and/or annual turnover determined in advance, set as a uniform threshold and/or progressive bonus scheme. Upon measuring the variable consideration, the Company determines the customer's estimated turnover by using the most probable value method. The discounts granted are offset against the amounts due by the customer.
- *Price protection:* With regards to domestic sales, the Company is obliged, upon price reduction imposed by a state regulatory body, to compensate the buyer and/or its customers for finished products purchased at a higher price and not yet sold to end clients. The payment of this consideration depends on the state policy on medicinal products price regulation and is beyond the Company's control.
- *Compensation for hidden flaws:* the customer may claim returns due to hidden flaws (quality claims) throughout the validity period of the finished goods sold, which may vary from one to five years. Quality claims are settled by the provision of new compliant goods or by recovery of the amount paid by the customer. Upon determining the compensations for hidden flaws due at the end of the reporting period, the Company takes into consideration the quality assurance system implemented thereby and the accumulated experience.
- *Compensations due to the customer:* in case of inaccurate performance of contractual obligations by the Company, usually in relation of failure to meet the negotiated delivery deadline. These are included within a decrease of the transaction price only if the payment is very likely. The Company's experience shows that historically, contract terms are complied with, and the Company has not charged payables for payment of compensations.
- *Compensations owed by the customer:* variable consideration in the form of compensations for delayed payment by the customer. Receiving such consideration depends on the customer's actions and is beyond the Company's control. They are included within the transaction price only when the uncertainty regarding their receipt has been resolved.

  Including compensations (owed by and due to the customer) within the transaction price is determined for each individual contract and is subject to review at the end of each reporting period.

The variable consideration expected in the form of various discounts, defaults and compensations is determined and measured based on the accumulated historical trade experience with customers and is recognised as adjustment for the purpose of the transaction price only and respectively the revenue (as an "increase" or a "decrease" component) only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, including due to assessment restrictions. Any subsequent changes to amount of the variable consideration are recognised as adjustment of revenue (as an increase or a decrease) at the date of change and/or resolving the uncertainty. At the end of each reporting period, the Company updates the transaction prices, including whether the estimated price contains restrictions, so as to accurately present circumstances existing and occurring during the reporting period. Upon assessing the variable consideration, the Company uses the most likely value approach. Discounts accrued but not settled at the end of the reporting period, to which the customer still does not have unconditional right, are presented as refund obligations in the statement of financial position.

2.6.1.4. Contract costs

The Company treats as contract costs the following:

- the additional and directly related expenses it incurs upon concluding a contract with a customer, which it expects to recover over a period longer than twelve months *(costs to obtain a contract with a customer)* and
- the expenses it incurs to fulfil a contract with a customer and which are directly related to the specific contract, support the generation of resource to be used in the contract fulfilment and the Company expects to recover them over a period longer than twelve months (*costs to fulfil such contracts)*.

In its usual activity, the Company does not incur direct and specific costs to enter contracts with customers or costs to fulfil contracts with customers which would not have occurred if the respective contracts had not been concluded.

2.6.1.5. Contract balances

Trade receivables and contract assets

A contract asset is the Company's right to consideration in exchange for goods or services that it has transferred to a customer but is not unconditional (receivable accrual). If by transferring the products and/or providing the services the Company performs its obligation to the customer to pay the respective consideration and/or before the payment is due, a contract asset is recognised for the consideration worked-out (which is conditional). Recognised contract assets are reclassified as trade receivables when the right to consideration becomes unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Contract liabilities

A contract liability is the consideration received from the customer and/or the unconditional right to receive consideration before it has performed its contractual obligations. Contract liabilities are recognised as revenue when (or as) the performance obligations are satisfied.

Contract assets and contract liabilities are stated within other receivables and payables in the statement of financial position. They are included within current assets when their maturity is within 12 months or are part of the Company's usual operating cycle, and the others are stated as non-current. Assets and liabilities from a single contract are stated net in the statement of financial position, even if they result from difference performance obligations in the contract.

Following their initial recognition, trade receivables and contract assets are subject to review for impairment pursuant to the conditions of IFRS 9 *Financial Instruments*.

2.6.1.6. Refund obligations under contracts with customers

The refund obligation includes the Company's obligation to reimburse a portion or the whole consideration received (or subject to receipt) from the customer under contracts with a right of return – for the expected retrospective discounts, rebates and discount volumes. The obligation is initially measured at the amount which the Company does not expect to be entitled to and which it expects to return to the customer. At the end of each reporting period, the Company updates the measurement of the refund obligations, respectively of the transaction price and of the recognised revenue.

Refund obligations under contracts with customers are stated within "other current liabilities" in the statement of financial position.

Other revenue

Other revenue comprises revenue from operating leases of investment property and non-current tangible assets and is stated within the statement of comprehensive income (within profit or loss for the year) in the "revenue" item.

2.6.2. Accounting policy applied until 31 December 2017

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

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

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

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

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

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

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

2.7. Expenses

Company's expenses are recognised upon incurrence and based on the accrual and comparability principles to the extent at which this would not result in the recognition of assets/liabilities that do not meet the definitions for such under IFRS.

Deferred expenses are postponed for recognition as deferred expense in the period that contracts related thereto are performed.

Losses from the remeasurement of investment property to fair value is stated is presented in the statement of comprehensive income (within profit or loss for the year), within "other operating income/(losses)".

2.8. Finance income and expenses

2.8.1. Finance income

Accounting policy applied as from 1 January 2018

Finance income is included in the statement of comprehensive income (within profit or loss for the year) when earned, and comprises: interest revenue from loans granted and term deposits, interest revenue from receivables under special contracts, interest revenue for past due receivables, dividends on equity investments, net giants from exchange differences under loans denominated in a foreign currency, revenue from debt settlement transactions, gains from fair value measurements of investments in securities at fair value through profit or loss, or through other comprehensive income, gains from the fair value of long-term equity investments which constitute part of stage-by-stage acquisition of a subsidiary.

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets, with the exception of financial assets, which are credit-impaired (Stage 3), for which interest income is calculated by applying the effective interest rate on their amortised cost (i.e. the gross carrying amount after deducting the impairment allowance)

Accounting policy applied until 31 December 2017

Finance income is presented in the statement of comprehensive income (within profit or loss for the year) when incurred and comprise: interest income under loans granted and term deposits, interest income under special contracts, interest income under past due receivables, income/gains from transactions in long-term equity investments, incl. dividends, net foreign exchange gains under loans in a foreign currency, income from debt settling transactions, gains on fair value measurement of available-for-sale investments forming part of a subsidiary merger performed at stages.

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets.

Finance income is stated separately from finance expenses on the face of the statement of comprehensive income (within profit or loss for the year).

2.8.2. Finance expenses

Accounting policy applied as from 1 January 2018

Finance income is included in the statement of comprehensive income (within profit or loss for the year) when incurred, and are stated separately from finance income and comprise: interest expenses on loans, bank charges and guarantees, net foreign exchange loss from loans in a foreign currency, and impairment of commercial loans granted.

Accounting policy applied until 31 December 2017

Finance expenses are presented separately in the statement of comprehensive income (within profit or loss for the year) and comprise: interest expenses on loans, bank charges under loans and guarantees, net foreign exchange loss from loans in a foreign currency, expenses/losses from transactions with investments in securities and shares and impairment of commercial loans granted.

Finance expenses are stated separately from finance income on the face of the statement of comprehensive income (within profit or loss for the year).

2.9.1. Property, plant and equipment

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

Initial acquisition

Upon their initial acquisition, non-current tangible assets 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, and professional fees for people involved in the project, non-refundable taxes, expenses on capitalised interest for qualifying assets, etc.

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

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

Subsequent measurement

The approach chosen by the Company for subsequent measurement of non-current tangible assets is the revaluation model under IAS 16, i.e. measurement at revalued amount less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

Subsequent costs

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

Depreciation methods

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

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- facilities and transmitter devices – 5-25 years;
- machinery and equipment – 7-34 years;
- computers and mobile devices – 2-5 years;
- servers and systems – 4-18 years;
- motor vehicles – 5-12 years;
- furniture and fixtures – 3-12 years.

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

Impairment of assets

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

Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale, at the date of transfer of control to the asset recipient. 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 the Company expects to be entitled to (sales revenue) and the carrying amount of the assets on the date when the recipient obtains control therereon. They are stated under 'other operating income/(losses), net' on the face of the statement of comprehensive income (within profit or loss for the year). The part of 'revaluation reserve' component attributable to the asset sold is directly transferred to 'retained earnings' component in the statement of changes in equity.

2.9.2. Biological assets

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

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

2.10. Intangible assets

Goodwill

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

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

Other intangible assets

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

The Company applies the straight-line amortisation method for the intangible assets.

The useful life per group of assets is as follows:

- software – 2 - 8 years;
- patents and licenses – 2 - 10 years;
- trademarks – 5 – 13 years;
- other – 5 – 7 years.

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount.

Then impairment is recognised as an expense in the statement of comprehensive income (within profit or loss for the year).

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

2.11. Investment property

Investment property is property lastingly held by the Company to earn rentals and/or for capital appreciation. They are presented in the statement of financial position at fair value *(Note 2.30).* Gains or losses arising from a change in the fair value of investment property are recognised in the statement of comprehensive income (within profit or loss for the year) as 'other operating income/(losses), net' for the period in which they arise. The income gained on investment property is presented in the same item.

Investment property is derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale, at the date of transfer of control to the asset recipient. Gains or losses arising from the disposal of investment property are determined as the between the consideration the Company expects to be entitled to (sales revenue) and the carrying amount of the assets on the date when the recipient obtains control therereon. They are presented under 'other operating income/(losses), net' in the statement of comprehensive income (within profit or loss for the year).

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

2.12. Investments in subsidiaries and associates

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

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

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

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

2.13. Other long-term equity investments

The other long-term equity investments constitute non-derivative financial assets in the form of shares in the capital of other companies (minority interest), held for a long term.

Initial measurement

Equity investments are initially recognised at acquisition cost, which is the fair value of consideration paid, including direct costs to acquire the investment (financial asset) (*Note 2 .24*).

All purchases and sales of equity instruments are recognised at the transaction's "trade date", i.e. the date on which the Company undertakes to purchase or sell the asset.

Subsequent measurement

Accounting policy applied as from 1 January 2018

The equity investments held by the Company are subsequently measured at fair value (*Note 2.30*) determined with support by an independent licensed valuator.

The effects from subsequent remeasurement to fair value are carried within a separate component of the statement of comprehensive income (in other comprehensive income), respectively in the reserve for financial assets at fair value through other comprehensive income.

These effects are transferred to retained earnings upon disposal of the respective investment.

Accounting policy applied until 31 December 2017

The effects from subsequent remeasurement of equity investments to their fair value are carried within a separate component of the statement of comprehensive income (in other comprehensive income), respectively in the reserve for financial assets at fair value through other comprehensive income.
They are recognised (recycled) in the statement of comprehensive income (within profit or loss for the year) upon disposal of the respective investment, and are stated within the "finance income" or "finance expenses" items.

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

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

Dividend income

Dividend income related to long-term equity investments constituting shares in other entities (non-controlling interest) is recognised as current income and stated in the statement of financial position (within profit or loss for the year) in the “finance income” item.

Upon derecognising shares at disposal or sale, the average weighted price method is used, applying the price determined at the end of the month when the derecognition is performed.

2.14. Inventories

Inventories are valued in the financial statements as follows:

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

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

- raw materials, materials and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage/sale;
- finished products, semi-finished products and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs. Fixed production overheads are included in the production cost of manufactured finished products, semi-finished products and work in progress based on the normal operating capacity determined on the grounds of commonly maintained average volume of production confirmed by the production plan.
  The base, chosen for their allocation at unit-of-production level, is the standard rate of man-hours of directly engaged staff in the production of the particular unit.

The Company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard purchase cost' for basic raw materials and other production materials. At the end of each reporting period the management performs analysis of factors leading to variances on: (a) the supply of raw materials and other production materials – by comparing the actual and standard acquisition costs, and (b) the production of finished products, semi-finished products and work in progress – by comparing the actual and standard production costs. Where necessary, the value of inventories, included in the financial statements, is adjusted. On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the financial statements (*Note 2.31).*

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

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

2.15. Trade receivables

Trade receivables constitute the Company's unconditional entitlement to consideration under contracts with customers and other counterparties (i.e. it is only dependent on the passage of time before payment of the consideration).

Initial measurement
Trade receivables are initially recognised and carried at fair value based on the transaction price, which is usually equal to the invoice amount, unless they contain a significant financial component, which is not additionally charged. In this case they are recognised at their present amount determined at a discount equal to the interest associated to the client - debtor.

Subsequent measurement
The Company holds trade receivables only for the purpose of collecting contractual cash flows and subsequently measures them at amortised cost less the amount of impairment accumulated for credit losses. (*Note 2.24*).

Impairment

Accounting policy applied as from 1 January 2018
The Company applies the expected credit losses model for the entire term of all trade receivables, using the simplified approach under IFRS 9, and based on the matrix model for loss percentage *(Note 2.24.1 and Note 2.31)*.

Accounting policy applied until 31 December 2017
The impairment of trade receivables is measured based on the incurred losses model.

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 receivables is accrued through the respective corresponding allowance account for each type of receivable to the "other operating expenses" on the face of the statement of comprehensive income (within profit or loss for the year).

2.16. Interest-bearing loans and other financial resources granted

All loans and other financial resources granted are initially presented at acquisition cost (nominal amount), which is accepted to be the fair value of the amount given in the transaction, net of the direct costs related to these loans and granted resources. Following their initial recognition, interest-bearing loans and other funding granted is subsequently measured and stated in the statement of financial position at amortised cost, determined by applying the effective interest method. They are classified in this group since the Company's business model only aims to collect contractual cash flows of principal and interest. Amortised cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) as finance income (interest) or costs throughout the amortisation period, or when the receivables are settled, derecognised or reduced.

Interest income is recognised in accordance with the stage in which the respective loan or other receivables has been classified based on the effective interest method.

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

2.17. Cash and cash equivalents

Cash includes cash in hand and cash in current accounts, and cash equivalents – bank deposits with original maturity up to three months, and funds in deposits with longer maturity which are readily available to the Company under its agreements with the banks over the deposits' terms.

Subsequent measurement

Accounting policy applied as from 1 January 2018
Cash and cash equivalents at banks are subsequently measured at amortised cost, less the impairment accumulated for expected credit losses (*Note 2.24*).

Accounting policy applied until 31 December 2017
Cash and cash equivalents at banks are subsequently measured at amortised cost, less the impairment accumulated for actually incurred credit losses.

For the purposes of the statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on received investment purpose loans is reported as payments for financial activities while the interest on loans for current activities (for working capital) is included in the operating activities;
- interest received from bank deposits is included within cash flows from investing activities;

- VAT paid on fixed assets purchased from foreign suppliers is presented within the item 'taxes paid', while that paid on assets purchased from local suppliers is presented within the item 'cash paid to suppliers' in the cash flows from operating activities as far as it represents a part of the operating flows of the Company and is recovered therewith in the respective period (month).
- overdraft proceeds and payments are stated net by the Company.
- permanently blocked funds for a period of more than 3 months are not treated as cash and cash equivalents.
- proceeds under factoring agreements are stated within cash flows from financing activities.

2.18. Trade and other payables

Trade and other current amounts payable in the statement of financial position are carried at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value based on their present value at a discount rate applicable for the Company, and subsequently – at amortised cost *(Note 2.24).*

2.19. Interest-bearing loans and other borrowings

In the statement of financial position, all loans and other borrowings are initially presented at acquisition cost (nominal amount) which is designated as the fair value of the transaction's deliverable, net of the direct costs related to these loans and borrowings. Following their initial recognition, interest-bearing loans and other borrowings are subsequently measured and presented in the statement of financial position at amortised cost, determined by means of the effective interest method. The amortised cost is calculated by considering all charges, commissions and other costs, including discounts and premiums associated with these loans. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) as finance income or finance expenses (interest) over the amortisation period or when the payables are written-off or reduced (*Note № 2.24*).

Interest costs are recognised for the term of the financial instrument based on the effective interest method.

Interest-bearing loans and other borrowings are classified as current, except from the portion thereof regarding which the Company has an unconditional right to settle its payable within over 12 months after the end of the reporting period.

2.20. Capitalisation of borrowing costs

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

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

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

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

2.21. Leases

Finance lease

Lessee

Finance leases, which transfer to the Company a substantial part of all risks and rewards incidental to ownership of the leased asset, are recognised in the statement of financial position of the lessee and are presented as a leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments.

The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the statement of comprehensive income (within profit or loss for the year) as finance costs based on the effective interest rate. (*Note 2.24*)

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

Lessor

Finance lease where a substantial portion of all risks and rewards incidental to the ownership of the leased asset is transferred outside the Company, is written-off from the assets of the lessor upon transfer to the asset's lessee and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the non-earned finance income.

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

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

Operating lease

Lessee

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

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

Lessor

Lessor continues to hold a significant part of all risks and rewards of ownership over the said asset. Therefore the asset is still included in its 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.

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

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

Short-term benefits

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

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

Tantieme and bonus schemes

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

Long-term retirement benefits

Defined contribution plans

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

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

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

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

Defined benefit plans

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

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

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

Share-based payments

Share-based payments to employees and other persons rendering similar services are measured at the fair value of the equity instruments at the date of provision. For conditional share-based payments the fair value at the date of share-based payment is measured so as to reflect these conditions without actual differences between the expected and actual results.

Termination benefits

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

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

2.23. Share capital and reserves

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

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

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

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

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

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

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

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

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

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

The reserve for financial assets at fair value through other comprehensive income is formed by the effects of fair-value measurement of other long-term equity investments. Upon derecognition of these investments, the reserve form is not recycled through the statement of comprehensive income (through profit or loss for the year) – as from 1 January 2018. Prior to the adoption of IFRS 9, this reserve was called *Reserve for available-for-sale financial assets* and upon derecognition of the investment was subject to statement (recycling) through the statement of comprehensive income (through profit or loss for the year) – until 31 December 2017.

2.24. Financial instruments

2.24.1. Accounting policy applied as from 1 January 2018

A financial instrument is any contract that simultaneously gives rise to a financial asset at one entity and a financial liability or equity instrument at another entity.

Financial assets

Initial recognition, classification and measurement

Upon initial recognition, the Company's financial assets are classified in three groups, based on which they are subsequently measured: at amortised cost; at fair value through other comprehensive income, and at fair value through profit or loss.

The Company initially measures financial assets at fair value, and in the case of financial assets which are not stated at fair value through profit and loss, the direct transaction costs are added. An exception to this rule are trade receivables that do not contain a significant financing component – they are measured based on the transaction price determined under IFRS 15 *(Note 2.6.1.1).*

The purchases and sales of financial assets whose conditions require asset delivery within a certain period, usually pursuant to legislation or the effective practice of the respective market (regular way purchases), are recognised using trade date accounting, i.e. on the date when the Company committed to purchase or sell the asset.

The classification of financial assets upon their initial recognition depends on the characteristics of the contractual cash flows of the respective financial asset and on the Company's business model for management thereof. In order for a financial asset to be classified and measured at amortised value or at fair value through other comprehensive income, its conditions should give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. For this purpose, analysis is performed by means of SPPI test at instrument level.

The Company's business model for the management of financial assets reflects the way the Company manages its financial assets to generate cash flows. The business model determines if cash flows are generated by the collection of contractual cash flows, the sale of financial assets, or both.

Subsequent measurement

For the purpose of subsequent measurement, the Company's financial assets are classified in the following categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through other comprehensive income without "recycling" of cumulative gains or losses (equity instruments).

Classification groups

Financial assets at amortised cost (debt instruments)
The Company measures a financial asset at amortised cost if both of the following conditions are met:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method. They are subject to impairment. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) upon asset disposal, modification or impairment.

The Company's financial assets at amortised cost include: cash and cash equivalents at banks, trade receivables, including from related parties, loans to related and third parties (*Note 21, Note 22, Note 24, Note 25, Note 26 (a) and Note 27).*

Financial instruments at fair value through other comprehensive income (equity instruments)
Upon their initial recognition, the Company may make an irrevocable choice to classify certain equity instruments as financial instruments at fair value through other comprehensive income, but only if they meet the equity definition under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined at the level of individual instruments.

Upon derecognition of these assets, gains and losses from measurement to fair value, recognised in other comprehensive income, are not stated (recycles) through profit or loss. Dividends are recognised as "finance income" in the statement of comprehensive income (within profit or loss for the year) when the right to payment is established, with the exception of cases when the Company obtains rewards from these proceeds as compensation of a portion of the financial asset's acquisition price – in this case, gains are stated in other comprehensive income. Equity instruments designated as financial instruments at fair value through other comprehensive income are not subject to impairment test.

The Company has made an irrevocable commitment to classify into this category minority equity investments which it holds in the long term and in relation to its business interests in these entities. Some of these instruments are traded on stock exchanges, and some aren't. They are stated in the statement of financial position within the „other long-term equity investments" item.

Derecognition
A financial asset (or, when applicable, a portion of a financial asset or a group of similar financial assets) is derecognised from the Company's statement of financial position, when:
- the rights to cash flows from the asset have expired, or
- the rights to cash flows from the asset have been transferred or the Company has assumed an obligation to pay in full the cash flows received, without undue delay, to a third party under a

transfer agreement, in which: a) the Company has transferred substantially all risks and rewards from ownership of the asset; or b) the Company has neither transferred nor retained substantially all risks and rewards from ownership of the asset, but has transferred control thereon.

When the Company has transferred its right to obtain cash flows from the asset or has concluded a transfer agreement, it assesses the extent to which it has retained the risks and rewards of ownership. When the Company has neither transferred, not retained substantially all risks and rewards from ownership of the financial assets, it continues to recognise the asset transferred to the extent of its continuing interest therein. In this case, the Company also recognises the respective liability. The transferred asset and the related liability are measured on a basis reflecting the rights and obligations that the Company has retained.

Continuing involvement in the form of a guarantee on the transferred asset is measured at the lower of the two values: the initial carrying amount of the asset and the maximum amount of consideration that the Company may be required to pay.

Impairment of financial assets
The Company recognises an allowance (impairment provision) for expected credit losses for all debt instruments which are not carried at fair value through profit or loss. Expected credit losses are calculated as the difference between the contractual cash flows due under the contractual conditions, and all cash flows the Company expects to receive, discounted at the initial effective interest rate. Expected cash flows also include cash flows from the sale of collateral held or other credit enhancements that constitute an integral part of the contractual conditions.

To calculate the expected credit losses for *loans to related and third parties, incl. cash and cash equivalents at banks,* the Company applies the general impairment approach defined by IFRS 9. Under this approach, the Company applies a 3-stage impairment model based on changes versus the initial recognition of the credit quality of the financial instrument (asset).

Expected credit losses are recognised at two stages:

a. A financial asset which is not credit impaired upon its initial recognition/acquisition is classified in Stage 1. These are loans granted: to debtors with a low risk of default with stable key indicator (financial and non-financial) trends, regularly services and without any outstanding past due amounts. Since its initial recognition, its credit risk and characteristics are subject to continuous monitoring and analyses. The expected credit losses for the financial assets classified in Stage 1 are determined based on credit losses resulting from probable events or default, which could over the next 12 months of the respective asset's lifetime (12-month expected credit losses for the instrument).

b. When there has been a significant increase in credit risk since the initial recognition of a financial asset, and as a result its characteristics deteriorate, it is transferred to Stage 2. Expected credit losses for financial assets classified in Stage 2 are determined for the remaining lifetime of the respective asset, irrespective of the point of default (lifetime expected credit loss (ECL)).

The Company's management has developed a policy and a set of criteria to analyse, ascertain and assess the occurrence of a condition of "significant increase in credit risk". The main aspects related thereto are disclosed in *Note 2.31.*

In the cases when the credit risk of a financial instrument increases to a level that indicates default, the financial asset is considered to be impaired, and is classified in Stage 3. At this stage, the losses incurred for the lifetime of the respective asset are identified and calculated.

The Company's management has performed the respective analyses, based on which it has determined a set of criteria for default events, in accordance with the specifics of the respective financial instrument. One of them is delay in contract payments by over 90 days, unless circumstances exist for a certain instrument that make such claim refutable. Along with that, there are other events, based on internal and external information, which indicate that the debtor is not able to repay all contract amounts due, including in consideration of all loan collaterals and reliefs held by the Company. The main aspects of the policy and the set of criteria are disclosed in *Note 2.31*.

The Company adjusts expected credit losses determined based on historical data, with forecast macroeconomic indicators for which it has been established that correlation exists and which are expected to impact the amount of future credit losses.

In order to calculate expected credit losses for *trade receivables and contract assets* the Company has elected and applies a simplified approach based on an expected credit losses calculation matrix and does not monitor subsequent changes in their credit risk. In this approach, it recognises an allowance (impairment provision) based on lifetime expected credit losses at each reporting date. The Company has developed and applies a provisioning matrix based on its historical experience with credit losses, adjusted with forecast factors specific for debtors and the economic environment, for which a correlation has been established with the percentage of credit losses (*Note 41).*

Derecognition
Impaired financial assets are derecognised when no reasonable expectation exists to collect contractual cash flows.

Financial liabilities
Initial recognition, classification and measurement
The Company's financial assets include trade and other payables, loans and borrowings, including bank overdrafts. Upon their initial recognition, financial assets are usually classified as liabilities at amortised cost.

All financial liabilities are initially recognised at fair value, and in the case of loans and borrowings and trade and other payables, net of direct transaction costs.

Subsequent measurement
The subsequent measurement of financial liabilities depends on their classification. They are usually classified and measured at amortised cost.

Classification groups

Loans and borrowing
Following their initial recognition, the Company measures interest-bearing loans and borrowings at amortised cost, applying the effective interest method. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) when the respective financial liability is derecognised, as well as through amortisation based on the effective interest rate.

The amortised cost is calculated by taking into consideration any discounts or premiums at acquisition, as well as fees or costs that constitute an integral part of the effective interest rate. Amortisation is stated as a "finance expense" in the statement of comprehensive income (within profit or loss for the year).

Derecognition
Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the respective carrying amounts is recognised in the statement of comprehensive income (within profit or loss for the year).

Offsetting (netting) of financial instruments
Financial assets and liabilities are offset and the net amount reported in the statement of financial position, if a legally enforceable right exists to offset the recognised amounts and if there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

This requirement results from the concept of the actual economic nature of the Company's relations with a given counterpart stating that in the simultaneous presence of these two requirements the expected actual future cash flow and rewards for the Company is the net flow, i.e. the net amount reflects the Company's actual right and obligation resulting from these financial instruments – in all cases to only receive or pay the net amount. If the two conditions are not simultaneously met, it is assumed that the Company's rights and obligations with respect to these offsetting financial instruments are not exhausted in all situations by only the payment or receipt of the net amount.

The offsetting policy is also related to the measurement, presentation and management of actual credit risk and the liquidity risk pursuant from these offsetting instruments.

The criteria applied to establish the "current and legally enforceable entitlement to offsetting" are:

- lack of dependence on a future event, i.e. it should not only be applicable upon the occurrence of a future event;

- the offsetting should be enforceable and legally defendable during (cumulatively):

  - the Company's usual business operations;
  - in case of default/delay, and
  - in case of insolvency.

The applicability of criteria is measured against the requirements of the Bulgarian legislation and the contractual relations between the parties. The condition of "presence of current and legally enforceable right to offsetting" is always and mandatorily assessed together with the second condition – for "mandatory settling of these instruments on a net basis".

2.24.2. Accounting policy applies until 31 December 2017

2.24.2.1. Financial assets

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

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

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

Loans and receivables

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

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the statement of financial position (*Notes 2.15, 2.16 and 2.17*). Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

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

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. These are usually shares or interest in other companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where the Company intends to sell them in the following 12 months and is actively searching for a buyer (*Note 2.13*).

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

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

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

Where subsequent permanent impairment is identified or on sale of an available-for-sale investment, the amount of impairment and all previously accumulated losses (net) to the reserve are presented within other comprehensive income (within the item “net change in the fair value of available-for-sale financial assets”).

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

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

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

2.24.2.2. Financial liabilities and equity instruments

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

Financial liabilities

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

2.24.3. Reference correspondence between the classification and subsequent measurement of financial assets and liabilities under IFRS 9 and IAS 39

The reference correspondences between classifications of financial assets under IFRS 9 and IAS 39 are presented in the table below:

	IFRS 9		**IAS 39**	
	Classification	**Subsequent measurement**	**Classification**	**Subsequent measurement**
Financial assets				
Shares in other entities (with a long-term perspective)	Financial assets at fair value through other comprehensive income	Fair value through other comprehensive income	Available for sale	Fair value through other comprehensive income
Trade receivables	Financial assets at amortised cost	Amortised cost	Loans and receivables	Amortised cost
Interest-bearing loans and other funding	Financial assets at amortised cost	Amortised cost	Loans and receivables	Amortised cost
Cash and cash equivalents	Financial assets at amortised cost	Amortised cost	Loans and receivables	Amortised cost

	IFRS 9		**IAS 39**	
	Classification	**Subsequent measurement**	**Classification**	**Subsequent measurement**
Financial liabilities				
Trade and other payables	Financial liabilities at amortised cost	Amortised cost	Loans and payables	Amortised cost
Interest-bearing loans and other borrowings	Financial liabilities at amortised cost	Amortised cost	Loans and payables	Amortised cost
Finance lease liabilities	Financial liabilities at amortised cost	Amortised cost	Loans and payables	Amortised cost

The impact of the initial adoption of IFRS 9 is disclosed in *Note 44*.

2.25. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make certain payments to recover the holder’s loss incurred when a debtor failed to make payment when due, in accordance with the initial or amended conditions of a debt instrument.

Financial guarantee contracts are initially recognised a financial liabilities at fair value, which is determined based on current value of cash flows between contractual payments, required in accordance with the debt instrument and the payments which be required without the guarantee or the forecast amount which would be payable to a third party for undertaking the liabilities at guarantee issuance. The liability for financial guarantees subsequently is carried out at the higher of the following:

- the amount determined in accordance with the expected credit losses model, and
- the initially recognised amount, less, when applicable, the cumulative amount of the revenue recognised under the principles of IFRS 15 *Revenue from Contracts with Customers*.

The expected losses under financial guarantee contracts is included in the statement of financial position, within “other current liabilities”.

2.26. Income taxes

Company's *current income taxes* are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate in Bulgaria for 2018 is 10% (2017: 10%).

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

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

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

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

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

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

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

The deferred income tax liabilities of the Company as at 31 December 2018 were assessed at a rate valid for 2019, at the amount of 10% (31 December 2017: 10%).

2.27. Government grants

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

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

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

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

2.28. Net earnings or loss per share

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

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

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

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

2.29. Segment reporting

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

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

Information by operating segments

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

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

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

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

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

2.30. Fair value measurement

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

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

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

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

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

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

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

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

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

The Company uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: *financial assets at fair value through other comprehensive income (prior reporting period* – available-for-sale financial assets*)* Level 2 and Level 3, investment property – Level 2, property, plant and equipment – Level 3. The choice of such appraisers is made on an annual basis using the following criteria: applied professional standards, professional experience and knowledge, reputation and market status. The need for rotation of external appraisers is periodically assessed – every three to five years. The applied valuation approaches and techniques as well as the used inputs for each case of fair value measurement are subject to mandatory discussion and coordination between the external experts – appraisers and the specifically designated individual, engaged with measurements, and so is the acceptance of the issued appraiser's reports – especially with regard to the significant assumptions and the final conclusions and proposals for the fair value amount. The final fair value measurements are subject to approval by Company's Finance Director and/or Chief Accountant, Executive Director and the Board of Directors.

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

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

For the purposes of fair value disclosures, the Company has determined 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 Company's accounting policies. Key estimates and assumptions of high uncertainty.

Fair value measurement of equity investments

When the fair value of equity investments carried in the statement of financial positions cannot be obtained based on quoted prices on active markets, their fair value is determined by using other valuation models and techniques, including the discounted cash flows model. The input used in these models is obtained from observable markets, where possible, but when this cannot be done, significant judgement is applied to determine fair values. Such judgement involves the review, analysis and assessment of input, for instance regarding liquidity risk, credit risk, and volatility. The changes in assumptions for these factors may impact the amount of the fair value of financial instruments stated. The main key assumptions and components of the model are disclosed in *Note 20*.

Calculation of expected credit losses for loans and guarantees granted, trade receivables, incl. from related parties, and cash and cash equivalents

The measurement of expected credit losses for financial assets stated at amortised cost (loans granted, contract receivables and assets, cash and cash equivalents), as well as for financial guarantees granted is an area that requires the use of complex models and material assumptions for future economic conditions and the credit behaviour of customers and debtors (for instance, the probability of counterparties not meeting their obligations and the pursuant losses).
In order to apply these requirements, the Company's management makes a number of material judgements, such as: a) determining criteria to identify and measure significant credit risk increases; b) selection of suitable models and assumptions to measure expected credit losses; c) establishing groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses; d) establishing and assessing the correlation between historical default rates and the behaviour of certain macro indicators to reflect the effects of forecasts for these macro indicators in the calculation of expected credit losses. (*Note 41).*

Regarding trade receivables, including from related parties
The Company uses provisioning matrixes calculate expected credit losses from trade receivables and contract assets. The provision rates are based on days past due for groups from different customer segments (portfolios) sharing similar loss models (type of client sector).

Each provisioning matrix is initially based on detailed historical observation of default rates in the Company's receivables and the movement of receivables by delay groups. Usually, historical data is used for at least three years as per the financial statement's date. Moreover, the Company calibrates the matrix so as to adjust historically ascertained dependence for credit losses with forecast information by also using probability scenarios. If certain forecast economic conditions, measured by means of certain macro indicators, are expected to aggravate or improve in the next year, which might result in established correlational increase in payment delays for a certain sector (type of client), the historic default rates are adjusted. At each reporting date, the observable historical default rates are updated and the effects of changes in the estimates are accounted for.

The assessment of the relation between observable historical default rates, the forecast economic conditions and expected credit losses is a significant accounting judgement. The amount of expected credit losses is sensitive to changes in circumstances and forecast conditions. The Company's historical credit closes and the forecast economic conditions may deviate from actual collection rates in the future.

Information about the provision for expected credit losses on trade receivables and receivables from related parties is disclosed in *Note 24 and Note 25*.

In 2018, an impairment has been stated at the amount of BGN 3,617 thousand (on 1 January 2018: BGN 880 thousand) *(Note 9, Note 24 and Note 25*).

Regarding loans and guarantees granted:

The Company has adopted the general approach for calculating impairment based expected credit losses of the loans granted, pursuant to IFRS 9. For this purpose, the Company applies a model of its choice. Its application goes through several stages. First, the debtor's credit rating is determined by means of several rating agencies' methodologies for the respective economic sectors and ratios, quantitative and qualitative parameters and indicators of the entity. Second, by using statistical models including historical default probability data (PD), transfer between ratings, macro economic data and forecast, the relevant marginal PD are calculated by year for each rating. Third, based on this analysis and the determined rating, and based on a set of indicators for the instrument's characteristics at the date of each financial statements, the following parameters are determined: instrument stage (Stage 1, Stage 2 or Stage 3), PD needed for the instrument's lifetime, as well as loss given default (LGD). The main formula used to calculate expected credit losses is: ECL=EADxPDxLGD, where:

ECL is the expected credit losses indicator;
EAD is the exposure at default indicator;
PD is the probability of default indicator;
LGD is the loss given default indicator.

Upon determining losses, all guarantees and/or collaterals and/or insurances are taken into consideration. Thus, in the final step, by using all these parameters and following discount, the expected credit loss for the respective period of the respective financial assets is calculated.

Stage 1 includes loans granted which are classified as "regular" according to the internal risk classification scheme developed. These are loans granted to debtors with low default rates, regular servicing, without considerable aggravation of key indicators (financial and non-financial), and without amounts past due. The expected impairment loss for such loans is calculated based on default probability for the next 12 months and the Company's expectation for loss amount upon exposure default over the next 12 months.

Stage 2 includes granted loans classified as "renegotiated". These are loans with respect to which (based on a set of indicators) a significant aggravation of the credit risk related to the debtor has been established as compared to the exposure's initial recognition. The expected impairment loss for these loans is calculated based on the default probability for the lifetime of the loan which is considered to be credit-unimpaired, and the Company's expectations for loss amount upon exposure default over the lifetime.

Stage 3 includes granted loans which are classified as "underperforming". These are loans for which evidence exists that the asset is credit-impaired, i.e. a credit event has occurred (according to the policy on default event eligibility). Therefore, an analysis is performed of a system of indicators used to identify the occurrence of credit losses. Impairment losses for such loans are calculated based on probability-weighted scenarios for the Company's expectations for the loss amount of the non-performing credit-impaired exposure throughout its lifetime.

A granted loan, respectively financial assets, is credit-impaired when one or more events have occurred which have an adverse effect on expected future cash flows from this loan, accordingly financial assets.

The Company applies the same model with respect to expected credit losses from guarantees granted and certain individual receivables.

The main matters related to the policy and set of criteria to assess the Company's exposure to credit risk related to loans granted are disclosed in *Note 41.*

Information about expected credit losses from loans and guarantees is disclosed in *Note 21, Note 22, Note 24, Note 26(a), and Note 38*.

In 2018, impairment was stated at the amount of BGN 166 thousand (on 1 January 2018: BGN 278 thousand) (*Note 12, Note 21, Note 22, Note 24, Note 26(a*)), and expected credit losses have been accrued for guarantees at the amount of BGN 30 thousand (on 1 January 2018: BGN 297 thousand) (*Note 38*).

Cash

To calculate expected credit losses for cash and cash equivalents at banks, the Company applies the general "three-stage" impairment model under IFRS 9. For this purpose, it applies a model based on the bank's public ratings as determined by internationally recognised rating firms like Moody's, Fitch, S&P, BCRA and Bloomberg. Based on this, on the one hand, PD (probability of default) indicators are set by using public data about PD referring to the rating of the respective bank, and on the other hand, through the change in the rating of the respective bank from one period to the next, the Company assesses the presence of increased credit risk. Loss given default is measured by using the above formula.

Upon determining LGD, the presence of secured amounts in the respective bank accounts is taken into consideration.

In 2018 and on 1 January 2018, no impairment was recognized.

Estimates until 31 December 2017:

The estimate of losses from underperforming and non-performing receivables is made at the date of each statements, on an individual basis. Receivables for whose collection difficulties have been identified, are subject to analysis to determine the actually collectable portion thereof, and the remaining amount of the respective receivable is recognised in the statement of comprehensive income (within profit or loss for the year) as loss from the impairment of financial assets (*Note 9*).

After 180 days of delay it is considered that impairment indicators may exist. Upon assessing the collectability of receivables, the management analyses each counterpart's entire exposure in order to determine actual collectability, rather than just at the level of individual past due receivables from the counterpart, including the potential possibilities for interest charges to compensate for delays. Upon identifying high uncertainty regarding the collection of a receivable (group of receivables), it is assessed what portion thereof is secured (pledge, mortgage, guarantors, bank securities) to guarantee collectability (through potential future realisation of the collateral or payment by a guarantor). The receivables or portions thereof for which the management determines a high uncertainty for collection exists and are not secured, are 100% impaired.

Revenue from contracts with customers

Upon revenue recognition and preparation of the annual financial statements, the management performs various judgements, estimates and assumptions that impact the revenue, costs, assets and liabilities accounted for and the respective disclosures thereto. As a result of the uncertainty regarding these assumptions and estimates, significant adjustments may occur in the carrying amount of the assets and liabilities concerned in the future, respectively the costs and revenue stated.

The key judgements and assumptions that materially impact the amount and term for recognition of revenue from contracts with customers are related to determining the point in time when control over the goods and/or services promised in the contract is transferred to the customer and assessment of the variable consideration for returned goods and volume rebates (*Note 2.6.1.*).

Inventories

Normal capacity

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

Allowance for impairment

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

As a result of the reviews and analyses made in 2018, impairment of inventories was stated at the amount of BGN 2,762 thousand (2017: BGN 2,578 thousand) *(Note 5 and Note 8).*

Remeasurement of property, plant and equipment

The Company uses the expertise of external licensed valuators to determine the fair values of property, machines and equipment. The selection of such valuators is done on an annual basis by using the following criteria: professional standards applied, professional experience and expertise, reputation and market status. On a periodic basis (once every five years), the need of external valuators rotation is assessed. The application of valuation approaches and techniques, as well as the input used for each instance of fair value measurement, are subject to mandatory discussion and coordination between the external expert valuators and a person designated as responsible for valuation and the approval of the valuation reports issued – especially with respect to the material assumptions and final conclusions and suggestions for the fair value amount. The final fair value measurement is subject to approval by the Company's Finance Director and Executive Director.

At the date of each financial statements, as per the Company's accounting policies, a person specially designated performs general analysis of information collected in advance on the movement in the values of assets and liabilities which are subject to measurement or fair value disclosure, on the type of data available and the possible factors for observable changes, and proposes to the Finance Director the approach to measuring the fair values of the respective assets and liabilities at this date. If necessary, this is expressly coordinated with the external valuators appointed.

The outcomes of the fair value measurement process are presented to the Company's Audit Committee and independent auditors.

In 2018 and 2017 the Company did not perform revaluation of its property, plant and equipment, because the management's observations show there has been no significant change in the price levels and behaviour of the markets of assets in these groups, which based on their characteristics belong to the Company's non-current tangible assets. (*Note 15*).

Actuarial calculations

Calculations of certified actuaries have been used when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor. They are disclosed in Note 32.

Long-term retirement benefit obligations to personnel at the amount of BGN 4,100 thousand (31 December 2017: BGN 3,890 thousand) have been stated as a result of these calculations *(Note 32)*.

Operating lease

Until 31 December 2017 the Company classified a building, partially leased to related parties under operating lease terms, in the group of 'property, plant and equipment'. Since a significant part of the building is used thereby in its own operations as well, the management has decided that the building shall not be treated as investment property. As from 1 January 2018, the building and the adjacent facilities are classified within investment properties, since it is not used by the Company.

Impairment of investments in subsidiaries

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

As a result of the calculations made in 2018, the Company found it necessary to recognise impairment of particular investments in subsidiaries at the amount of BGN 76 thousand (2017: BGN 3,913 thousand) *(Note 10)*.

Deferred tax assets

There are unrecognised deferred tax assets at the amount of BGN 3,527 thousand (31 December 2017: BGN 3,520 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference on which no tax asset is recognised amounts to BGN 35,273 thousand (31 December 2017: BGN 35,197 thousand).

Litigation provisions

With regard to the pending litigations against the Company, the management, jointly with Company's lawyers, has decided that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, it has not included provisions for litigation payables in the statement of financial position as at 31 December 2018.

3. REVENUE

Company's revenue includes:

	2018	*2017*
	BGN '000	*BGN '000*
Revenue from contracts with customers	210,784	217,485
Other revenue	1,634	1,594
Total	**212,418**	**219,079**

3.1. The revenue from contracts with customers is from sales of medication produced and includes:

	2018	*2017*
	BGN '000	*BGN '000*
Export	118,905	128,139
Domestic market	91,879	89,346
Total	**210,784**	**217,485**

Revenue from export sales by product includes:

	2018	*2017*
	BGN '000	*BGN '000*
Tablet dosage forms	91,539	98,289
Ampoule dosage forms	12,182	12,968
Ointments	5,826	7,022
Syrup dosage forms	5,566	6,127
Lyophilic products	1,135	1,405
Medical cosmetics	1,024	691
Suppositories	562	555
Wound dressings	454	217
Plasters	338	421
Drops	271	234
Sanitary and hygienic products	8	142
Other	-	68
Total	**118,905**	**128,139**

Revenue from domestic sales by product includes:

	2018	*2017*
	BGN '000	*BGN '000*
Tablet dosage forms	47,648	49,192
Ampoule dosage forms	20,813	17,376
Wound dressings	5,885	4,979
Lyophilic products	5,146	4,186
Plasters	2,736	2,672
Ointments	2,070	1,923
Syrup dosage forms	2,029	1,887
Haemodialysis concentrates	1,945	1,824
Inhalers	1,128	2,161
Drops	801	1,132
Sanitary and hygienic products	738	1,465
Suppositories	393	424
Sachets	327	29
Medical cosmetics	220	95
Others	-	1
Total	**91,879**	**89,346**

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

	2018 BGN '000	*Relative share*	*2017 BGN '000*	*Relative share*
Europe	97,580	46%	104,995	48%
Bulgaria	91,879	44%	89,346	41%
Other countries	21,325	10%	23,144	11%
Total	**210,784**	**100%**	**217,485**	**100%**

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

	2018 BGN '000	*% of revenue*	*2017 BGN '000*	*% of revenue*
Client 1	90,298	43%	80,158	37%
Client 2	57,050	27%	65,841	30%
Client 3	20,442	10%	20,301	9%

Contract balances are as follows:

	31.12.2018	***01.01.2018***
	BGN '000	***BGN '000***
Receivables under contracts with customers – third parties, net of impairment *(Note 25 and 44)*	18,868	21,500
Receivables under contracts with customers – related parties, net of impairment *(Note 24 and 44)*	71,806	64,471

The increase/decrease in trade receivables under contracts with customers, including receivables from related parties, is the result of an increase/decrease in operating volumes.

The reimbursement obligations as at 31 December 2018 amount at BGN 324 thousand (01 January 2018: BGN 137 thousand) and include liabilities under retrospective trade volume discounts payable under contracts with customers which will be reimbursed over the next reporting period. *(Note 38 and Note 44).*

3.2. Other revenue at the amount of BGN 1,634 thousand is revenue from investment property and non-current tangible assets under operating leases (2017: BGN 1,594 thousand).

4. OTHER OPERATING INCOME AND LOSSES

	2018	***2017***
	BGN '000	***BGN '000***
Services rendered	2,612	1,877
Payables written-off	1,398	213
Income from government grants under European projects	588	847
Sales of non-current assets	*540*	*475*
Carrying amount of non-current assets sold	*(392)*	*(253)*
Gain on sale of non-current assets	148	222
Sales of goods	*1,480*	*1,366*
Carrying amount of goods sold	*(1,366)*	*(1,313)*
Gain on sale of goods	114	53
Sales of materials	*1,009*	*971*
Cost of materials sold	*(937)*	*(898)*
Gain on sale of materials	72	73
Gains/ (losses) on revaluation of investment property to fair value *(Note 17)*	58	(34)
Net loss on exchange differences under trade receivables and payables and current accounts	(226)	(335)
Other income	146	164
Total	**4,910**	**3,080**

The liabilities written-off comprise mostly tantieme written-off in 2018, at the amount of BGN 1,137 thousand (2017: no tantieme written-off).

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

Services rendered include:

	2018	*2017*
	BGN '000	*BGN '000*
Manufacturing services	1,070	432
Social activities	910	897
Gamma irradiation	195	145
Laboratory analyses	99	107
Regulatory services	63	98
Transport organisation	28	24
Other	247	174
Total	**2,612**	**1,877**

Sales of goods include:

	2018	*2017*
	BGN '000	*BGN '000*
Foodstuffs	1,211	1,037
Cosmetics	205	274
Goods with technical designation	55	34
Medical products	9	-
Food supplements	-	21
Total	**1,480**	**1,366**

The book value of goods sold by types of goods is as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Foodstuffs	1,129	962
Cosmetics	185	287
Goods with technical designation	44	47
Medical products	8	-
Food supplements	-	17
Total	**1,366**	**1,313**

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	2018	*2017*
	BGN '000	*BGN '000*
Basic materials	56,238	57,429
Electric energy	5,673	5,087
Heat power	3,647	3,237
Laboratory materials	3,100	2,568
Auxiliary materials	1,691	2,448
Technical materials	1,552	1,432
Spare parts	1,276	1,629
Working clothes and personal protective equipment for work	838	726
Water	655	644
Fuels and lubricating materials	621	857
Impairment of materials *(Note 9)*	269	601
Scrapped materials	192	248
Total	**75,752**	**76,906**

Expenses on basic materials include:

	2018	*2017*
	BGN '000	*BGN '000*
Substances	23,648	25,571
Packaging materials	11,469	10,703
Liquid and solid chemicals	8,530	8,651
Herbs	3,476	3,837
Sanitary-hygienic and dressing material	2,778	2,610
Ampoules	2,010	2,175
Tubes	1,924	1,508
Aluminium and PVC foil	1,298	1,563
Vials	1,105	811
Total	**56,238**	**57,429**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2018	*2017*
	BGN '000	*BGN '000*
Advertising and marketing	9,072	4,949
Building and equipment maintenance	4,470	3,707
Manufacturing of medical products	3,798	3,464
Transportation and spedition services	3,141	3,603
Rentals	2,346	2,036
Consulting services	2,316	2,336
Logistic services – domestic market	1,619	1,706
Local taxes and charges	1,402	1,433
State and regulatory charges	1,390	1,199
Subscription fees	1,196	1,035
Security	1,149	1,175
Services under civil contracts	944	930
Medical services	842	792
Insurance	578	577
Taxes on expenses	565	514
Vehicles repair and maintenance	441	541
Licence fees and charges	399	444
Announcements and communications	373	402
Translation of documentation	364	263
Logistic services (export)	337	507
Medicinal products registration services	296	716
Destruction of pharmaceuticals	228	342
Fees and charges on current bank accounts	171	207
Courier services	141	130
Commissions	67	106
Other	1,009	807
Total	**38,654**	**33,921**

The expenses accounted for the year on statutory audit of the separate annual financial statements amount to BGN 93 thousand (2017: BGN 151 thousand).

7. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2018	*2017*
	BGN '000	*BGN '000*
Current wages and salaries	36,256	36,266
Social security/health insurance contributions	6,839	6,528
Social benefits and payments	2,678	3,766
Tantieme	1,276	778
Share-based payments (*Note 28*)	1,224	-
Accruals for unpaid leaves	1,153	1,219
Social security/health insurance contributions on leaves	205	202
Accruals for long-term retirement benefit obligations *(Note 32)*	516	474
Total	**50,147**	**49,233**

8. OTHER OPERATING EXPENSES

Other expenses include:

	2018	*2017*
	BGN '000	*BGN '000*
Entertainment allowances	2,916	2,385
Impairment of finished products and work in progress *(Note 9)*	2,491	1,919
Charged/(reversed) impairment for credit losses of receivables, including from related parties, net *(Note 9)*	1,147	251
Business trip expenses	837	969
Scrapped finished products and work in progress	488	516
Scrapping of non-current assets	321	128
Donations	289	386
Other taxes and payments to the state budget	287	56
Training courses	269	268
Unrecognised input tax under VATA	223	113
Scrapped goods	40	5
Written-off receivables	7	36
Charged/(reversed) impairment of goods, net (*Note 9*)	2	58
Other	262	135
Total	**9,579**	**7,225**

9. IMPAIRMENT OF CURRENT ASSETS

	2018	***2017***
	BGN '000	***BGN '000***
Impairment of finished products and work in progress *(Note 8)*	2,491	1,919
Provision for expected credit losses on receivables, including from related parties	*3,617*	*1,431*
Reversed provision for expected credit losses on receivables, incl. from related parties	*(2,470)*	*(1,180)*
Net change in the provision for expected credit losses *(Note 8)*	1,147	251
Impairment of materials (*Note 5*)	269	601
Impairment of goods (*Note 8*)	2	58
Total	**3,909**	**2,829**

10. IMPAIRMENT OF NON-CURRENT ASSETS, OUTSIDE THE SCOPE OF IFRS 9

Impairment losses on non-current assets include:

	2018	***2017***
	BGN '000	***BGN '000***
Impairment of investments in subsidiaries *(Note 18)*	76	3,913
Impairment of property, plant and equipment *(Note 15)*	-	43
	76	**3,956**

11. FINANCE INCOME

Finance income includes:

	2018	***2017***
	BGN'000	***BGN'000***
Dividend income	8,789	7,314
Interest income on loans granted	1,579	1,699
Net foreign exchange gain under a receivable from sale of a subsidiary	152	-
Impairment of receivables on commercial loans granted	-	*(504)*
Reversed impairment of receivables on commercial loans granted	-	*1,929*
Net change in impairment of receivables on commercial loans granted	-	1,425
Net gain on transactions with investments in securities and shares	-	1,239
including gain on sale of subsidiaries	-	*1*
Income from liquidation of subsidiaries	-	7
Total	**10,520**	**11,684**

12. FINANCE COSTS

Finance costs include:

	2018	*2017*
	BGN'000	*BGN'000*
Interest expense on loans received	1,255	1,358
Bank fees and charges on loans and guarantees	222	217
Provision for expected credit losses on loans granted	*166*	-
Reversed provision for expected credit losses on loans granted	*(12)*	-
Net change in the impairment of loans granted	154	-
Effects of derivatives	47	74
Impairment of available-for-sale investments	-	4
Provision for financial guarantees	30	-
Interest expense on finance lease	1	6
Net foreign exchange loss under a receivable from sale of a subsidiary	-	443
Total	**1,709**	**2,102**

13. INCOME TAX EXPENSE

Statement of comprehensive income (profit or loss for the year)	*2018*	*2017*
	BGN '000	*BGN '000*
Taxable profit for the year under tax return	40,410	43,473
Revaluation reserve included as an increase in the annual tax return	(928)	(427)
Taxable profit for the year	39,482	43,046
Current income tax expense for the year - 10% (2017: 10%)	3,948	4,305
Deferred income taxes related to:		
Origination and reversal of temporary differences	(713)	(41)
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**3,235**	**4,264**
Reconciliation of income tax expense applicable to the accounting profit or loss		
Accounting profit for the year	*36,533*	*48,492*
Income tax – 10% (2017: 10%)	3,653	4,849
From unrecognised amounts as per tax returns related to:		
increases – BGN 6,439 thousand (2017: BGN 6,553 thousand)	644	655
decreases – BGN 10,351 thousand (2017: BGN 12,601 thousand)	(1,035)	(1,260)
Recognised deferred taxes originated in prior years	(27)	20
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**3,235**	**4,264**

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

	2018 BGN '000			2017 BGN '000		
	Pre-tax amount	**Tax effects recognised in equity**	**Amount net of tax**	**Pre-tax amount**	**Tax effects recognised in equity**	**Amount net of tax**
Items that will not be reclassified to profit or loss						
Gains/(losses) on revaluation of property, plant and equipment	341	(34)	307	(42)	4	(38)
Net change in the fair value of equity investments at FVOCI	(792)	-	(792)	-	-	-
Remeasurements of liabilities under defined benefit pension plans	(30)	-	(30)	(564)	-	(564)
Items that may be reclassified to profit or loss						
Net change in fair value of available-for-sale financial assets	-	-	-	1,298	-	1,298
Total other comprehensive income for the year	**(481)**	**(34)**	**(515)**	**692**	**4**	**696**

14. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2018 *BGN '000*	*2017* *BGN '000*
Subsequent revaluation of property, plant and equipment	341	(42)
Net change in the fair value of equity investments measured at FVOCI	(792)	-
Remeasurement of liabilities under defined benefit pension plans	(30)	(564)
Net change in fair value of available-for-sale financial assets:		
Gains arising during the year	-	*1,310*
Less: Reclassification adjustments for (gains)/losses included in profit or loss for the current year	-	*(12)*
	(481)	**692**
Income tax relating to items of other comprehensive income	(34)	4
Total comprehensive income for the year	**(515)**	**696**

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*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	**172,843**	**168,075**	**186,029**	**179,889**	**24,273**	**25,821**	**4,282**	**2,471**	**387,427**	**376,256**
Additions	382	252	930	2,368	403	606	11,899	11,872	13,614	15,098
Transfer to property, plant and equipment	3,376	4,643	7,078	5,136	952	224	(11,406)	(10,003)	-	-
Transfer to investment property	(11,248)	-	(2,511)	-	(1,328)	-	-	-	(15,087)	-
Effect from remeasurement to fair value	34	-	232	-	75	13	-	-	341	13
Disposals	(82)	(127)	(1,568)	(1,364)	(2,425)	(2,391)	-	(58)	(4,075)	(3,940)
Balance at 31 December	**165,305**	**172,843**	**190,190**	**186,029**	**21,950**	**24,273**	**4,775**	**4,282**	**382,220**	**387,427**
Accumulated depreciation										
Balance at 1 January	**30,538**	**25,761**	**98,857**	**89,609**	**18,311**	**18,281**	**-**	**-**	**147,706**	**133,651**
Depreciation charge for the year	4,682	4,832	10,351	10,378	1,456	2,156	-	-	16,489	17,366
Transfer to investment property	(3,230)	-	(1,325)	-	(1,091)	-	-	-	(5,646)	-
Impairment	-	-	-	42	-	-	-	-	-	42
Depreciation written-off	(2)	(55)	(1,385)	(1,172)	(1,898)	(2,126)	-	-	(3,285)	(3,353)
Balance at 31 December	**31,988**	**30,538**	**106,498**	**98,857**	**16,778**	**18,311**	**-**	**-**	**155,264**	**147,706**
Carrying amount at 31 December	**133,317**	**142,305**	**83,692**	**87,172**	**5,172**	**5,962**	**4,775**	**4,282**	**226,956**	**239,721**
Carrying amount at 1 January	**142,305**	**142,314**	**87,172**	**90,280**	**5,962**	**7,540**	**4,282**	**2,471**	**239,721**	**242,605**

The Company’s *land and buildings* as at 31 December 2018 include:

- land amounting to BGN 43,627 thousand (31.12.2017: BGN 45,060 thousand);
- buildings of carrying amount of BGN 89,690 thousand (31.12.2017: BGN 97,245 thousand).

The Company's other PPE as at 31 December includes:

- Transport vehicles with carrying amount BGN 1,713 thousand (31 December 2017: BGN 2,905 thousand);
- Fixtures and fittings with carrying amount BGN 2,522 thousand (31 December 2017: BGN 2,918 thousand);
- Perennial crops – yellow acacia trees at the amount of BGN 937 thousand (31 December 2017: BGN 139 thousand).

Tangible fixed assets in progress as at 31 December include:

- expenses on construction of new buildings - BGN 2,369 thousand (31 December 2017: BGN 1,012 thousand);
- advances for the purchase of machines and equipment – BGN 1,023 thousand (31 December 2017: BGN 2,511 thousand);
- buildings reconstruction – BGN 191 thousand (31 December 2017: BGN 262 thousand);
- other – BGN 1,192 thousand (31 December 2017: BGN 497 thousand).

As at 31 December, the carrying amount of property, plant and equipment includes machinery and equipment, purchased using Grant Agreements under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 and Operational Programme "Energy Efficiency" *(Note 31)* as follows:

- for a tablet production facility at the amount of BGN 8,341 thousand (31 December 2017: BGN 9,266 thousand);
- for ampoule production at the amount of BGN 4,648 thousand (31 December 2017: BGN 5,053 thousand).
- combined exchange ventilation and air conditioning installation for the production of medical products at the amount of BGN 715 thousand (31 December 2017: BGN 776 thousand).
- for the production of innovative eye drops, "artificial tears" type, at the amount of BGN 238 thousand (31 December 2017: BGN 264 thousand).

Operating lease

The Company has leased tangible fixed assets with carrying amount of BGN 1,065 thousand as at 31 December 2018 to related parties (31 December 2017: BGN 6,184 thousand). In addition, tangible fixed assets at carrying amount of BGN 224 thousand are leased to third parties as at 31 December 2018 (31 December 2017: BGN 234 thousand).

Finance lease

As at 31 December 2018, assets acquired under finance lease contracts amount to BGN 124 thousand (31 December 2017: BGN 242 thousand).

Other data

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

- Buildings – BGN 722 thousand (31 December 2017: BGN 449 thousand);
- Plant and equipment – BGN 52,119 thousand (31 December 2017: BGN 42,590 thousand);
- Other – BGN 11,331 thousand. (31 December 2017: BGN 13,286 thousand).

The following encumbrances were constituted on Company's tangible fixed assets as at 31 December 2018 in relation to received loans:

- Land and buildings with a carrying amount of BGN 21,594 thousand and BGN 46,328 thousand, respectively (31 December 2017: respectively, BGN 22,316 thousand and BGN 54,363 thousand) *(Note 29, Note 33 and Note 39);*
- Pledges on equipment – BGN 33,328 thousand (31 December 2017: BGN 39,234 thousand) *(Note 29, Note 33 and Note 39).*

Periodical fair value remeasurement

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

Based on the judgement applied, the Company recognised a revaluation reserve at the amount of BGN 2,629 thousand, net of impairment.

As at 31 December 2018 the management concluded that no grounds existed for conducting new remeasurement of assets before the usual five-year period has passed *(Note 2.9.1.).*

16. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Assets in progress*		*Total*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*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	**6,698**	**6,698**	**11,145**	**10,845**	**4,420**	**3,919**	**109**	**72**	**22,372**	**21,534**
Additions	-	-	564	236	58	33	187	740	809	1,009
Transfer	-	-	31	140	52	479	(83)	(619)	-	-
Written-off	-	-	(43)	(76)	(29)	(11)	(206)	(84)	(278)	(171)
Balance at 31 December	**6,698**	**6,698**	**11,697**	**11,145**	**4,501**	**4,420**	**7**	**109**	**22,903**	**21,372**
Accumulated amortisation										
Balance at 1 January	**-**	**-**	**7,123**	**6,125**	**2,792**	**2,584**	**-**	**-**	**9,915**	**8,709**
Amortisation charge for the year	-	-	858	1,072	322	219	-	-	1,180	1,291
Amortisation written-off	-	-	(41)	(74)	(32)	(11)	-	-	(73)	(85)
Balance at 31 December	**-**	**-**	**7,940**	**7,123**	**3,082**	**2,792**	**-**	**-**	**11,022**	**9,915**
Carrying amount at 31 December	**6,698**	**6,698**	**3,757**	**4,022**	**1,419**	**1,628**	**7**	**109**	**11,881**	**12,457**
Carrying amount at 1 January	**6,698**	**6,698**	**4,022**	**4,720**	**1,628**	**1,335**	**109**	**72**	**12,457**	**12,825**

Goodwill impairment

The goodwill results from the merger of subsidiaries (Bulgarian Rose – Sevtopolis AD, Medica AD and Unipharm AD) into the parent and is recognised in the Company's separate statement of financial position (*Note 2.10)*.

At each date of the statement of financial position, the management assesses if indicators exist for impairment of the existing goodwill, with the support of independent licensed appraisers.
The key assumptions used in the calculation of the recoverable amount at 31 December 2018 are:

- growth rate – 1,31%;
- growth in the post-forecast period at terminal value calculation – 2.03%;
- interest rate /cost of debt/ - 1.7%, based on Company funding;
- discount rate (WACC-based) – from 5,7% to 7,7%.

For 2018, no need was identified to recognise impairment of goodwill.

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

Intangible assets in progress as at 31 December include expenses on licenses and permits for use of medicinal products – BGN 7 thousand (31 December 2017: BGN 109 thousand).

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

- rights on intellectual property – BGN 4,596 thousand (31 December 2017: BGN 1,923 thousand);
- software – BGN 1,755 thousand. (31 December 2017: BGN 1,818 thousand).

17. INVESTMENT PROPERTY

	31.12.2018 *BGN '000*	*31.12.2017* *BGN '000*
Balance at 1 January	**24,799**	**22,840**
Transfer from property, plant and equipment	9,441	-
Additions	3,306	1,993
Net gain/(loss) on fair value adjustment, included in profit or loss	58	(34)
Written-off	(153)	-
Balance at 31 December	**37,451**	**24,799**

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

Group of assets	*31.12.2018* *BGN '000*	*31.12.2017* *BGN '000*
Warehouse premises	29,271	19,450
Offices	2,847	2,403
Production buildings	1,010	1,065
Social objects	416	410
Investment property in progress	3,907	1,471
Total	**37,451**	**24,799**

There are established encumbrances as at 31 December 2018 on investment property as follows:

- mortgage of warehouse premises – BGN 13,007 thousand (31 December 2017: BGN 8, 286 thousand) *(Note 33 and Note 39);*
- pledges on attached equipment – BGN 5,132 thousand (31 December 2017: BGN 5,476 thousand) *(Note 33)*.

Fair value measurement

Fair value hierarchy

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

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

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

	Warehouse premises	***Offices***	***Production buildings***	***Social objects***	***Assets in progress***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Balance at 1 January 2017	**18,671**	**2,342**	**1,032**	**407**	**388**	**22,840**
Additions	-	-	29	-	1,964	1,993
Transfer	881	-	-	-	(881)	-
Remeasurement to fair value through profit or loss	(102)	61	4	3	-	(34)
Balance at 31 December 2017	**19,450**	**2,403**	**1,065**	**410**	**1,471**	**24,799**
Additions	9,441	-	-	-	3,306	12,747
Transfer	792	-	78	-	(870)	-
Written-off	(13)	-	(140)	-	-	(153)
Remeasurement to fair value through profit or loss	(399)	444	7	6	-	58
Balance at 31 December 2018	**29,271**	**2,847**	**1,010**	**416**	**3,907**	**37,451**

At the date of each statement of financial position, the management analyses and assesses the fair value of the group of assets in the scope of investment property. The calculations are made by the management with the support of independent licensed appraisers.

Valuation techniques and significant unobservable inputs

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

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

Key assumptions used in the calculation of the fair value of investment properties as at 31 December 2018:

- rate of return – from 5.25% to 8.75%;
- term to entrance into rental deals – from 3 to 12 months;

As a result of the calculations made in 2018, it was necessary to recognise gains, net of the losses on remeasurement to fair value, at the amount of BGN 58 thousand (2017: net loss of BGN 34 thousand) *(Note 4)*.

18. INVESTMENTS IN SUBSIDIARIES

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

		31.12.2018	*Interest*	*31.12.2017*	*Interest*
		BGN '000	*%*	*BGN '000*	*%*
Sopharma Trading AD	Bulgaria	30,792	72.96	30,547	72.86
Briz SIA	Latvia	22,270	66.13	22,270	66.13
Sopharma Ukraine EOOD	Ukraine	9,669	100.00	9,669	100.00
Veta Pharma AD	Bulgaria	9,666	99.98	9,666	99.98
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Momina Krepost AD	Bulgaria	4,229	93.56	4,229	93.55
Vitamina AD	Ukraine	1,127	99.56	1,127	99.56
Pharmalogistica AD	Bulgaria	961	89.39	961	89.39
Aromania AD	Bulgaria	750	76.00	750	76.00
TOO Sopharma Kazakhstan	Kazakhstan	502	100.00	502	100.00
Sopharma Buildings REIT	Bulgaria	491	40.38	567	40.38
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
Rap Pharma International OOD	Moldova	293	51.00	293	51.00
Phyto Palauzovo AD	Bulgaria	104	95.00	57	95.00
Total		**89,945**		**89,729**	

As at 31 December 2018, the composition of investments in the subsidiaries includes the investment in Sopharma Poland OOD – in liquidation, Poland, which is fully impaired (31 December 2017: fully impaired investment in Sopharma Poland OOD – in liquidation, Poland).

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

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

- Pharmalogistica AD – Scope of activities: secondary packaging and real estate leases. Date of acquisition – 15 August 2002.
- Sopharma Poland OOD – in liquidation – Scope of activities: market and public opinion research. Date of acquisition – 16 October 2003. The company is in a procedure of liquidation.
- Electroncommerce EOOD – Scope of activities: trade, transportation and packaging of radioactive materials and nuclear equipment, household electronics and electrical equipment. Date of acquisition – 9 August 2005.
- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 2008.
- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of

acquisition – 18 January 2008.

- Sopharma Buildings REIT – Scope of activities: investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale. Date of acquisition – 4 August 2008.
- Briz OOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 10 November 2009.
- Sopharma Warsaw EOOD – Scope of activities: market and public opinion research. Date of acquisition – 23 November 2010.
- Sopharma Ukraine EOOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 7 August 2012.
- Phyto Palauzovo AD – Scope of activities: production, collection of crops and trade in herbs and medicinal plants. Date of acquisition (as from the merger of a subsidiary) – 1 January 2014.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of acquisition – 30 September 2014.
- Veta Pharma AD – Scope of activities: production of medicinal, non-medicinal and other products. Date of acquisition – 11 November 2016.
- Rap Pharma International OOD – Scope of activities: trade in pharmaceutical products. Date of acquisition – 14 April 2017.
- Aromania OOD – Scope of activities: trade in finished goods, sale and management of real estate. Date of acquisition – 31 July 2017.

The shares of Sopharma Trading AD are traded on the stock exchange, the average monthly price of realised transactions for December 2018 being BGN 6.92 per share (December 2017: BGN 7.52).
The book value per share based on accounting net assets for 2018 is BGN 2.42 (2017: BGN 2.23).

The shares of Momina Krepost AD are traded on the stock exchange in marginal volumes and in December 2018 there were no transactions (December 2017: BGN 3.00).
The book value per share based on accounting net assets for 2018 is BGN 2.86 (2017: BGN 2.85).

The shares of Sopharma Buildings REIT are traded on the stock exchange at a limited volume with no deals realised in December 2018 (December 2017: no deals).
The book value per share based on accounting net assets for 2018 is BGN 1.87 (2017: BGN 1.97).

The movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
	31.12.2018	***31.12.2017***
Acquisition cost	***BGN '000***	***BGN '000***
Balance at 1 January	**124,965**	**120,074**
Additional interest acquired	244	8,946
Acquired through increase in capital	48	-
New interest acquired	-	1,043
Investments written off due to liquidation	-	(5)
Interest sold without loss of control	-	-
Effect from the merger of subsidiaries	-	(5,092)
Interest sold with loss of control	-	(1)
Balance at 31 December	**125,257**	**124,965**
Impairment charged		
Balance at 1 January	**35,236**	**31,323**
Impairment charged	76	3,913
Balance at 31 December	**35,312**	**35,236**
Carrying amount at 31 December	**89,945**	**89,729**
Carrying amount at 1 January	**89,729**	**88,751**

Impairment of investments in subsidiaries

At each reporting date, the management makes an analysis and assessment about whether indicators for impairment exist in respect of its investments in subsidiaries. The following are accepted as main indicators for impairment: significant volume reduction (over 25%) and/or termination of activities of the investee; loss of markets, clients or technological problems, reporting of losses for a longer period of time (over three years), reporting of negative net assets or assets below the registered share capital, trends of deterioration of main financial ratios as well as a decrease in market capitalisation. The calculations were made by the management with the assistance of independent certified appraisers. As a base for projected pre-tax cash flows, the Company uses financial budgets developed by the respective companies that cover a 3- to 5-year period, as well as other average-term and long-term plans and intents for their development, including projections for basic economic ratios at national level and at the level of EU/the Balkans. The key assumptions used in the calculations of recoverable amount as at 31 December 2018 are as follows:

- growth rate – from 1.6% to 13%;
- growth after the projected period upon calculation of terminal value – 2% to 5%;
- interest rate (cost of debt) – from 2.1% to 22.4%;
- discount rate (based on WACC) – from 7.1% to 25.2%.

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

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

As a result of the calculations made in 2018, the Company found necessity to recognise impairment of particular investments in subsidiaries at the amount of BGN 76 thousand (2017: BGN 3,913 thousand) *(Note 10).*

19. INVESTMENTS IN ASSOCIATES

The investments in associates are as follows:

	31.12.2018 BGN '000	***Interest %***	***31.12.2017 BGN '000***	***Interest %***
Doverie Obedinen Holding AD	7,962	33.24	7,740	32.57

As at 31 December 2018, the carrying amount of the investments in associates is BGN 7,962 thousand and includes interest at the rate of 33.24% of the capital of Doverie Obedinen Holding AD (31.12.2017: BGN 7,740 thousand and interest at the rate of 32.57%).

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

The shares of Doverie Obedinen Holding are traded on the stock exchange, the average monthly price of realised transactions for December 2018 being BGN 1.56 per share (December 2017: BGN 2.09).
The book value per share based on accounting net assets for 2018 is BGN 1.75 (2017: BGN 1.87).

The movement of investments in associates is presented below:

	31.12.2018 BGN '000	***31.12.2017 BGN '000***
Balance at 1 January	**7,740**	**5,219**
Acquisition of shares	227	4,053
Sale of shares	(5)	(1,532)
Carrying amount at 31 December	**7,962**	**7,740**

Impairment of investments in associates

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

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

The calculations have been made by the management with the support of independent licensed appraisers. The key assumptions used in the calculation of the recoverable amount at 31 December 2018 are:

- growth rate – 1,2%;
- growth in the post-forecast period at terminal value calculation – 1% ;
- interest rate /cost of debt/ – 2,9% ;
- discount rate (WACC-based) – 6,8%.

In 2018, there was no need to recognise impairment of the investments in associates.

20. OTHER LONG-TERM EQUITY INVESTMENTS

The *other long-term equity investments* include the interest (shares) in the following companies:

	31.12.2018	***Interest***	***31.12.2017***	***Interest***
	BGN '000	***%***	***BGN '000***	***%***
Lavena AD	3,616	10.89	3,519	11.30
Sopharma Properties REIT	2,078	1.55	663	0.50
Olainfarm AD - Latvia	1,484	0.77	1,826	0.77
Todorov AD	182	10.94	155	10.56
Achieve Life Science Inc. – USA	83	0.53	770	3.01
BTF Expat Bulgaria	59	0.17	78	0.19
Imventure 1 KDS	50	1.36	-	-
Elana Agrocredit AD	31	0.07	13	0.05
Ecobulpack AD	7	0.74	7	1.48
Aroma AD	4	0.02	-	-
UniCredit Bulbank AD	3	0.001	3	0.001
Expo Group AD	1	0.05	1	0.05
Gradus AD	1	0.0004	-	-
Sirma Group Holding AD	-	-	2	0.003
Chimimport AD	-	-	26	-
Hydroizomat AD	-	-	489	13.81
Total	**7,599**		**7,552**	

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

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

Equity investments	*31.12.2018* Number of shares	Fair value per share	Fair value as per the statement of financial position	*31.12.2017* Number of shares	Fair value per share	Fair value as per the statement of financial position
		BGN	*BGN '000*		*BGN*	*BGN '000*
Lavena AD	905,639	3.99	3,616	36,170	97.29	3,519
Sopharma Properties REIT	324,772	6.40	2,078	101,237	6.55	663
Olainfarm AD – Latvia	108,500	13.68	1,484	108,500	16.83	1,826
Todorov AD	372,081	0.49	182	359,001	0.43	155
Achieve Life Science Inc. – USA	35,930	2.31	83	359,305	2.14	770
BTF Expat Bulgaria	56,604	1.04	59	64,316	1.21	78
Elana Agrocredit AD	26,800	1.16	31	10,000	1.30	13
Aroma AD	2,371	1.69	4	-	-	-
Gradus AD	900	1.11	1	-	-	-
Chimimport AD	-	-	-	15,093	1.72	26
Hydroizomat AD	-	-	-	412,936	1.18	489
Sirma Group Holding AD	-	-	-	2,000	1.00	2
Total			**7,538**			**7,541**

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

Equity investments	***Fair value***	***Level 1***	***Level 2***
	31.12.2018		
	BGN'000	***BGN'000***	***BGN'000***
Lavena AD	3,616	-	3,616
Sopharma Properties REIT	2,078	2,078	-
Olainfarm AD – Latvia	1,484	1,484	
Todorov AD	182	-	182
Achieve Life Science Inc. – USA	83	83	-
BTF Expat Bulgaria	59	59	-
Elana Agrocredit AD	31	31	-
Aroma AD	4	4	-
Gradus AD	1	1	-
Total	**7,538**	**3,740**	**3,798**

Equity investments	*Fair value*	*Level 1*	*Level 2*
	31.12.2017		
	BGN'000	*BGN'000*	*BGN'000*
Lavena AD	3,519	-	3,519
Olainfarm AD – Latvia	1,826	1,826	-
Achieve Life Science Inc. – USA	770	770	-
Sopharma Properties REIT	663	663	-
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	**7,541**	**3,867**	**3,674**

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

Equity investments	*Level 1 BGN '000*	*Level 2 BGN '000*	*Total BGN '000*
Balance at 1 January 2017	**2,111**	**2,883**	**4,994**
Purchases	669	73	742
Issue of shares	424	478	902
Sales	(396)	(16)	(412)
Transfer 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 14)*	(4)	-	(4)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 14)*	1,089	209	1,298
Balance at 31 December 2017	**3,867**	**3,674**	**7,541**
Purchases	621	30	651
Issue of shares	1,043	-	1,043
Sales	(632)	(273)	(905)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 14)*	(1,159)	367	(792)
Balance at 31 December 2018	**3,740**	**3,798**	**7,538**

Valuation techniques and approaches

The market comparables approach was applied in the Level 2 fair value measurements. The valuation technique was based on the trading multiples method. Upon preparing fair value measurements, the Company has used the services of certified valuators.

For investments not traded on equity markets, the Company has used internal assessments by Company's specialists. Upon the analysis of the companies subject to these internal assessments the Company has determined that the fair value of these equity investments do not materially deviate from the carrying amounts stated at 31 December 2018.

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Long-term loans granted	22,977	21,340
Provision for expected credit losses	*(116)*	-
	22,861	21,340
Long-term rental deposit granted	194	243
Total	**23,055**	**21,583**

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Associate companies	17,574	16,538
Other related parties	5,287	3,818
Subsidiaries	-	984
Total	**22,861**	**21,340**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***31.12.2018***		***31.12.2017***	
	'000			***BGN '000***	***BGN '000 including interest***	***BGN '000***	***BGN '000 including interest***
To associates							
EUR	31,091	31.12.2021	3.50%	*17,574*	*36*	*16,538*	*17*
To other related parties							
BGN	29,900	31.12.2021	3.00%	*3,904*	*89*	*3,818*	*3*
EUR	700	31.12.2021	3.00%	*1,383*	*14*	-	-
To subsidiaries							
EUR	500	01.03.2019	6.60%	-	-	*984*	*21*
				22,861	***139***	***21,340***	***41***

The movement in the allowance (provision) for impairment of receivables from related parties under long-term loans granted is as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance on 1 January, calculated under IAS 39	**-**	**-**
Amounts recognised in the initial balance of retained earnings from restatement upon modified initial application of IFRS 9	119	-
Opening balance of the loss allowance at 1 January 2018, calculated under IFRS 9	**119**	**-**
Increase in the credit loss allowance recognised in profit or loss for the year	9	-
Decrease in the credit loss allowance recognised in profit or loss for the year	(12)	-
Balance at 31 December	**116**	**-**

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) and promissory notes.

The long-term deposit receivable is from a company related through a main shareholder under a concluded rental contract for administrative offices valid until 1 August 2022, to the amount of BGN 194 thousand (31 December 2017: BGN 243 thousand).

22. OTHER LONG-TERM RECEIVABLES

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

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Receivables under transactions in securities	3,094	2,940
Long-term loans granted	2,412	945
Provision for expected credit losses	*(71)*	-
	2,341	945
Receivables on sales of non-current assets	325	325
Total	**5,760**	**4,210**

The receivables under transactions in securities represent receivables under a sold investment in a subsidiary with deferred payment until the completion of regulatory actions for registration of permits for medicinal products at the amount of BGN 3,094 thousand and expected maturity on 31 December 2022 (31 December 2017: BGN 2,940 thousand).

The terms of the long-term loans granted to third parties are as follows:

Currency	*Contracted amount*	*Maturity*	*Interest rate*	*31.12.2018*		*31.12.2017*	
	'000			*BGN'000*	*BGN'000 Incl. interest*	*BGN'000*	*BGN'000 Incl. interest*
EUR	695	12.10.2022	3.05%	*1,360*	-	*945*	*6*
EUR	1,000	29.06.2023	3.05%	*961*	-	-	-
BGN	24	14.03.2023	5.00%	*20*	-	-	-
				2,341	**-**	**945**	**6**

The movement in the allowance (provision) for impairment of receivables from third parties under long-term loans granted is as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance on 1 January, calculated under IAS 39	**-**	**-**
Amounts recognised in the opening balance of retained earnings from restatement upon modified initial application of IFRS 9	6	-
Opening balance of the loss allowance at 1 January 2018, calculated under IFRS 9	**6**	**-**
Increase in the credit loss allowance recognised within profit or loss for the year	65	-
Balance at 31 December	**71**	**-**

The receivables on sales of non-current assets under deferred payment terms at the amount of BGN 325 thousand mature on 10 April 2021 (31 December 2017: BGN 325 thousand).

23. INVENTORIES

Company's *inventories* include:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Materials	30,458	29,238
Finished products	21,055	22,924
Semi-finished products	9,090	10,680
Work in progress	7,830	6,073
Goods	66	103
Total	**68,499**	**69,018**

Materials by type are as follows:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Basic materials	28,158	26,201
Materials in transit	1,362	2,114
Technical materials	437	490
Spare parts	238	180
Auxiliary materials	198	159
Other	65	94
Total	**30,458**	**29,238**

Basic materials by type are as follows:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Substances	15,256	12,925
Chemicals	4,092	3,765
Ampoules	2,245	2,156
PVC and aluminium foil	1,919	1,346
Packaging materials	1,511	1,976
Herbs	1,469	2,632
Sanitary-hygienic products	1,353	929
Vials	262	235
Tubes	51	237
Total	**28,158**	**26,201**

Finished products at 31 December include:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Tablet dosage forms	13,255	13,907
Ampoule dosage forms	3,050	4,304
Ointments	1,573	989
Dressing products	1,137	779
Syrups	638	996
Plasters	348	297
Lyophilic products	283	533
Sanitary-hygienic products	203	142
Inhalers	193	394
Suppositories	150	195
Medical cosmetics	95	45
Drops	62	191
Hemodialisis concentrates	60	130
Sachets	8	22
Total	**21,055**	**22,924**

Goods by types are as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Foodstuffs	65	51
Medicinal products	1	10
Nutritional supplements	-	42
Total	**66**	**103**

Pledges were established on Company's inventories with carrying amount of BGN 29,555 thousand as at 31 December 2018 as collateral to bank loans received (31 December 2017: BGN 30,442 thousand) *(Note 33 and Note 39).*

24. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2018 BGN '000	*31.12.2017* BGN '000
Receivables from subsidiaries	*85,604*	*75,540*
Provision for expected credit losses	*(2,697)*	*(1,648)*
	82,907	73,892
Receivables from companies related through key managing personnel	5,376	2,956
Provision for expected credit losses	(5)	-
	5,371	2,956
Receivables from other related parties	3,264	370
Provision for expected credit losses	*(33)*	-
	3,231	370
Total	**91,509**	**77,218**

The receivables from related parties by type are as follows:

	31.12.2018 BGN '000	*31.12.2017* BGN '000
Receivables under contracts with customers	*73,603*	*65,624*
Provision for expected credit losses	*(1,797)*	*(848)*
Receivables under contracts with customers, net	71,806	64,776
Trade loans granted	*20,641*	*13,242*
Provision for expected credit losses	*(938)*	*(800)*
Trade loans granted, net	19,703	12,442
Total	**91,509**	**77,218**

The receivables under contracts with customers – related parties are interest-free and BGN 59,416 thousand of them are denominated in BGN (31 December 2017: BGN 40,640 thousand) and in EUR – BGN 12,390 thousand (31 December 2017: BGN 24,136 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals are the most significant and amount to BGN 59,253 thousand as at 31 December 2018 or 82,52% of all receivables under contracts with customers - related parties (31 December 2017: BGN 40,524 thousand – 62,56%).

The Company usually negotiates with its subsidiaries payment terms ranging from 45 to 270 days for receivables on sales of finished products and up to 90 days for receivables on sales of materials (incl. substances).

The management assesses collectability on an individual basis by analysing the specific receivables and the circumstances relating to the delay in order that impairment is charged.

The movement in the allowance (provision) for impairment of trade receivables from related parties is as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance on 1 January, calculated under IAS 39	**848**	**1,134**
Amounts recognised in the opening balance of retained earnings from restatement upon modified initial application of IFRS 9	305	-
Opening balance of the loss allowance at 1 January 2018, calculated under IFRS 9	**1,153**	**-**
Increase in the credit loss allowance recognised within profit or loss for the year	1,797	847
Decrease in the credit loss allowance recognised within profit or loss for the year	(1,153)	(1,136)
Transfer from the allowance for trade receivables	-	3
Balance at 31 December	**1,797**	**848**

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

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
up to 30 days	17,739	10,868
from 31 to 90 days	19,843	26,539
from 91 to 180 days	23,493	17,059
from 181 to 365 days	1,324	1,789
Gross amount of non-matured (regular) receivables from related parties	*62,399*	*56,255*
Provision for expected credit losses	*(586)*	-
Non-matured (regular) receivables from related parties, net	**61,813**	**56,255**

The provision for expected credit losses on non-matured (regular) trade receivables from related parties is as follows:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
up to 30 days	166	-
from 31 to 90 days	192	-
from 91 to 180 days	216	-
from 181 to 365 days	12	-
Total	**586**	**-**

The *age structure* based on invoice date of past due trade receivables from related parties is as follows:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
from 31 to 90 days	854	2,096
from 91 to 180 days	430	3,629
from 181 to 365 days	8,799	3,644
over 365 days	1,121	-
Gross amount of past due receivables from related parties	*11,204*	*9,369*
Provision for expected credit losses	*(1,211)*	*(848)*
Past due receivables from related parties, net	**9,993**	**8,521**

The provision for expected credit losses of past due trade receivables from related parties is as follows:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
up to 30 days	113	-
from 31 to 90 days	123	-
from 91 to 180 days	60	-
from 181 to 365 days	393	-
over 365 days	522	-
Total	**1,211**	**-**

Until 31 December 2017, the Company applied the incurred losses model with respect to bad debt based on individual assessment. In 2018, the Company applies the simplified approach under IFRS 9 to measure expected credit losses for trade receivables by recognizing expected lifetime losses for all trade receivables from related parties *(Note 2.15)*.

Based on that, the credit loss allowance as at 31 December 2018 and 1 January 2018 is determined as follows:

31 December 2018		***Regular***	***Up to 90 days past due***	***Over 90 days past due***	***Over 180 days past due***	***Over 365 days past due***	**Total**
Average percentage of expected credit losses		1%	3%	16%	44%	97%	
Trade receivables from related parties (gross carrying amount)	***BGN '000***	62,399	9,394	376	895	539	73,603
Expected credit loss (Impairment allowance)	***BGN '000***	(586)	(236)	(60)	(393)	(522)	(1,797)

1 January 2018		***Regular***	***Up to 90 days past due***	***Over 90 days past due***	***Over 180 days past due***	***Over 365 days past due***	**Total**
Average percentage of expected credit losses		1%	2%	10%	23%	-	
Trade receivables from related parties (gross carrying amount)	***BGN '000***	56,239	6,415	890	2,080	-	65,624
Expected credit loss (Impairment allowance)	***BGN '000***	(441)	(151)	(92)	(469)	-	(1,153)

Special pledges have been established as at 31 December 2018 on receivables from related parties at the amount of BGN 64,947 thousand as collateral under bank loans received (31 December 2017: BGN 44,726 thousand) *(Note 33)*.

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Subsidiaries	*12,045*	*9,919*
Provision for expected credit losses	*(908)*	*(800)*
	11,137	9,119
Receivables from companies related through key managing personnel	5,376	2,956
Provision for expected credit losses	(5)	-
	5,371	2,956
Other related parties	3,220	367
Provision for expected credit losses	(25)	-
	3,195	367
Total	**19,703**	**12,442**

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

Currency	*Contracted amount '000*	*Maturity*	*Interest %*	*31.12.2018*		*31.12.2017*	
				BGN'000	*BGN'000 including interest*	*BGN'000*	*BGN'000 including interest*
to subsidiaries							
EUR	2,770	31.12.2019	4.70%	*4,812*	*-*	*4,702*	*-*
BGN	12,229	31.12.2019	4.10%	*3,599*	*-*	*3,369*	*9*
EUR	500	01.03.2019	6.60%	*985*	*7*	*-*	*-*
BGN	1,550	31.12.2019	3.50%	*935*	*-*	*300*	*-*
EUR	390	10.05.2019	3.95%	*806*	*43*	*748*	*15*
to companies related through key managing personnel							
EUR	2,735	31.12.2019	2.81%	*5,371*	*27*	*-*	*-*
BGN	67,450	31.12.2018	2.81%	-	-	*2,956*	*4*
to other related parties							
BGN	3,130	31.12.2019	3.10%	*3,140*	*34*	*305*	*5*
BGN	190	31.12.2019	3.50%	*55*	*-*	*62*	*-*
				19,703	**111**	**12,442**	**33**

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

The movement in the allowance (provision) for impairment of loans granted to related parties is as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance on 1 January, calculated under IAS 39	**800**	**2,378**
Amounts recognised in the opening balance of retained earnings from restatement upon modified initial application of IFRS 9	87	-
Opening balance of the loss allowance at 1 January 2018, calculated under IFRS 9	**887**	**-**
Increase in the credit loss allowance recognised within profit or loss for the year	51	340
Decrease in the credit loss allowance recognised within profit or loss for the year	-	(1,909)
Receivables written off as non-performing over the year	-	(9)
Balance at 31 December	**938**	**800**

25. TRADE RECEIVABLES

Trade receivables include:

	31.12.2018	*31.12.2017*
	BGN '000	***BGN '000***
Receivables under contracts with customers	*20,685*	*22,831*
Provision for expected credit losses	*(1,817)*	*(756)*
Receivables under contracts with customers, net	18,868	22,075
Advances granted	563	1,183
Total	**19,431**	**23,258**

The *receivables from clients* are interest-free and BGN 950 thousand of them are denominated in BGN (31 December 2017: BGN 2,972 thousand), in EUR – BGN 16,162 thousand (31 December 2017: BGN 18,014 thousand), and in USD – BGN 1,756 thousand (31 December 2017: BGN 1,089 thousand).

One main counterparty of the Company is accountable for about 72,56% of the receivables from clients (2017: one main counterparty accountable for 72.49%).

The Company usually agrees with its clients payment terms from 30 to 180 days for receivables under sales except for the cases when new markets and products are being developed and new trade counterparties are being attracted.

The movement in the allowance (provision) for impairment of trade receivables from third parties is as follows:

	2018	*2017*
	BGN '000	***BGN '000***
Balance on 1 January, calculated under IAS 39	**756**	**286**
Amounts recognised in the opening balance of retained earnings from restatement upon modified initial application of IFRS 9	575	-
Opening balance of the loss allowance at 1 January 2018, calculated under IFRS 9	**1,331**	**-**
Increase in the credit loss allowance recognised within profit or loss for the year	1,817	573
Decrease in the credit loss allowance recognised within profit or loss for the year	(1,318)	(35)
Transfer to the allowance for court and awarded receivables	(13)	(65)
Transfer to the allowance for related parties	-	(3)
Balance at 31 December	**1,817**	**756**

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
up to 30 days	6,456	5,767
from 31 to 90 days	5,797	6,774
from 91 to 180 days	686	936
Gross amount of non-matured (regular) trade receivables	*12,939*	13,477
Provision for expected credit losses	*(196)*	-
Non-matured (regular) trade receivables, net	**12,743**	**13,477**

The provision for expected credit losses of non-matured (regular) trade receivables is as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
up to 30 days	98	-
from 31 to 90 days	90	-
from 91 to 180 days	8	-
Total	**196**	**-**

The *age structure based on invoice date* of past due trade receivables is as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
from 31 to 90 days	4,995	7,758
from 91 to 180 days	519	102
from 181 to 365 days	1,062	663
over 365 days	1,170	831
Gross amount of past due trade receivables	*7,746*	*9,354*
Provision for expected credit losses	*(1,621)*	*(756)*
Past due trade receivables, net	**6,125**	**8,598**

The provision for impairment of credit losses of past due trade receivables is as follows:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
up to 30 days	144	-
from 31 to 90 days	39	-
from 91 to 180 days	280	-
from 181 to 365 days	114	-
over 365 days	1,044	-
Total	**1,621**	**-**

Until 31 December 2017, the Company applied the incurred losses model with respect to bad debt based on individual (portfolio) assessment. In 2018, the Company applies the simplified approach under IFRS 9 to measure expected credit losses for trade receivables by recognizing expected lifetime losses for all trade receivables *(Note 2.15)* Based on that, the loss allowance as at 31 December 2018 and 1 January 2018 is determined as follows:

31 December 2018		*Regular*	*Up to 90 days past due*	*Over 90 days past due*	*Over 180 days past due*	*Over 365 days past due*	*Total*
Average percentage of expected credit losses		1%	3%	31%	50%	98%	
Trade receivables (gross carrying amount)	*BGN '000*	12,939	5,548	902	229	1,067	20,685
Expected credit loss (Impairment allowance)	*BGN '000*	(196)	(183)	(280)	(114)	(1,044)	(1,817)

1 January 2018		*Regular*	*Up to 90 days past due*	*Over 90 days past due*	*Over 180 days past due*	*Over 365 days past due*	*Total*
Average percentage of expected credit losses		1%	3%	25%	46%	94%	
Trade receivables (gross carrying amount)	*BGN '000*	13,585	7,628	447	588	583	22,831
Expected credit loss (Impairment allowance)	*BGN '000*	(185)	(214)	(112)	(273)	(547)	(1,331)

As at 31 December 2018, special pledges have been established as collateral of bank loans received on trade receivables at the amount of BGN 19,088 thousand (31 December 2017: BGN 21,393 thousand) (*Note 33 and Note 39*).

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

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Inventories	375	896
Services	188	287
Total	**563**	**1,183**

The *advances granted* are regular. They include: in BGN – BGN 476 thousand (31 December 2017: BGN 506 thousand), in EUR – BGN 33 thousand (31 December 2017: BGN 135 thousand), in USD: BGN 48 thousand (31 December 2017: BGN 541 thousand), and in other currency – BGN 6 thousand (31 December 2017: BGN 1 thousand).

26(A). LOANS GRANTED TO THIRD PARTIES

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

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Granted commercial loans	*3,815*	*3,639*
Provision for expected credit losses	*(545)*	*(438)*
Total	**3,270**	**3,201**

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

Currency	*Contracted amount '000*	*Maturity*	*Interest %*	*31.12.2018*		*31.12.2017*	
				BGN '000	*BGN '000 including interest*	*BGN '000*	*BGN '000 including interest*
BGN	4,184	31.12.2019	4.30%	*2,764*	-	*2,846*	-
BGN	732	31.12.2019	4.50%	*408*	*7*	*251*	*1*
BGN	949	31.12.2019	4.70%	*98*	-	*104*	*1*
				3,270	**7**	**3,201**	**2**

The movement in the allowance (provision) for impairment of loans to third parties is as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance on 1 January, calculated under IAS 39	**438**	**273**
Amounts recognised in the opening balance of retained earnings from restatement upon modified initial application of IFRS 9	66	-
Opening balance of the loss allowance at 1 January 2018, calculated under IFRS 9	**504**	**-**
Increase in the credit loss allowance recognised within profit or loss for the year	41	165
Balance at 31 December	**545**	**438**

26(B). OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Taxes refundable	4,423	3,463
Prepayments	831	849
Receivables under return claims	333	175
Receivables under deposits granted as guarantees	138	172
Funds provided to an investment intermediary	11	125
Court and awarded receivables	*137*	*2,222*
Provision for expected credit losses from court and awarded receivables	*(137)*	*(2,222)*
	-	-
Other	201	117
Total	**5,937**	**4,901**

Taxes refundable include:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Excise duties	4,423	3,136
Value added tax	-	327
Total	**4,423**	**3,463**

Prepayments include:	***31.12.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Subscriptions	407	319
Insurance	292	297
Licence and patent fees	91	53
Rentals	9	38
Vouchers	4	53
Other	28	89
Total	**831**	**849**

Deposits placed as guarantees include:	***31.12.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Guarantees under contracts for fuel supply	86	106
Guarantees under construction contracts	22	44
Guarantees under contracts for supply of medicinal products	13	2
Guarantees under rental contracts	4	2
Guarantees under contracts for electricity supply	3	-
Other	10	18
Total	**138**	**172**

The movement in the allowance (provision) for impairment of court and awarded receivables is as follows:

	2018	***2017***
	BGN '000	***BGN '000***
Balance on 1 January, calculated under IAS 39	**2,222**	**2,167**
Opening balance of the loss allowance at 1 January 2018, calculated under IFRS 9	**2,222**	**-**
Increase in the credit loss allowance recognised within profit or loss for the year	3	7
Decrease in the credit loss allowance due to write-off	(2,101)	(17)
Transfer of the allowance from trade receivables	13	65
Balance at 31 December	**137**	**2,222**

27. CASH AND CASH EQUIVALENTS

Cash includes:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Cash at current bank accounts	*9,096*	*5,797*
Impairment of cash at current bank accounts	*(166)*	*(166)*
Cash at current bank accounts, net of impairment	8,930	5,631
Cash in hand	29	122
Blocked cash under issued bank guarantees	12	11
Total	**8,971**	**5,764**

The composition of cash at current bank accounts is as follows: in BGN: BGN 5,964 thousand (31 December 2017: BGN 3,679 thousand), in EUR – BGN 2,365 thousand (31 December 2017: BGN 640 thousand), in USD – BGN 512 thousand (31 December 2017: BGN 1,245 thousand) and in other currency – BGN 89 thousand (31 December 2017: BGN 67 thousand).

Cash in hand is BGN-denominated.

The cash blocked under bank securities issued is: in BGN – BGN 12 thousand (31 December 2017: none), and in EUR – none (31 December 2017: BGN 11 thousand).

As a result of the analyses made and the methodology applied to calculate expected credit losses for cash and cash equivalents, the management has determined that no impairment is necessary of cash and cash equivalents. Therefore, the Company has not recognised a provision for the impairment of expected credit losses at either 1 January 2018 or 31 December 2018.

28. EQUITY

Share capital

As at 31 December 2018, the registered share capital of Sopharma AD amounts to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value of BGN 1 each.

Ordinary shares issued and fully paid	*Shares*	*Share capital net of treasury shares*
	number	*BGN '000*
Balance at 1 January 2017	**128,984,319**	**115,662**
Effects of a subsidiary merger	332,468	929
Treasury shares sold	419,931	1,399
Treasury shares bought	(3,971,799)	(16,974)
Expense for treasury shares	-	(52)
Balance at 31 December 2017	**125,764,919**	**100,964**
Balance at 1 January 2018	**125,764,919**	**100,964**
Share-based payments	288,500	1,082
Effects of a subsidiary merger	70,606	265
Treasury shares sold	3,000	11
Treasury shares bought	(210,462)	(857)
Expense on treasury shares	-	(4)
Balance at 31 December 2018	**125,916,563**	**101,461**

On 1 January 2017, by virtue of a concluded contract, a restructuring was made through a merger of Medica AD into Sopharma AD. The effect from the merger at the expense of the 181,302 treasury shares amounts to BGN 602 thousand.

On 1 January 2018, by virtue of a concluded contract, a restructuring was made through a merger of Unipharm AD into Sopharma AD. The effect from the merger at the expense of the 70,606 treasury shares amounts to BGN 265 thousand.

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Share capital (registered), nominal	134,798	134,798
Share premium	8,785	8,785
Total paid capital	**143,583**	**143,583**

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

The ***treasury shares*** are 8,881,336 at the amount of BGN 33,337 thousand as at 31 December 2018 (31 December 2017: 9,032,980 shares at the amount of BGN 33,834 thousand). The number of shares purchased in the current year is 210,462 (2017: 3,971,799 shares) and the number of shares sold is 3,000 (2017: 419,931). The effect of the merger of a subsidiary into Sopharma AD is 70,606 shares at the amount of BGN 265 thousand (2017: 332,468 shares at the amount of BGN 929 thousand).

On 15 June 2018, a decision was made by the General Meeting of Shareholders to provide to employees 288,500 treasury shares as bonus one-off payment for the 85th anniversary of Sopharma AD to all persons with over 1 year's service at the Company working under employment or management contracts ("eligible persons"). The shares were distributed among 1,808 eligible persons based on a progression scheme according to their service at the Company *(Note 7)*.

As at 31 December 2018 and 31 December 2017, the Company has no ***shares held by its subsidiaries***.

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Statutory reserves	55,967	51,666
Property, plant and equipment revaluation reserve	22,433	23,839
Reserve for financial assets at fair value through other comprehensive income	2,933	4,089
Additional reserves	275,977	251,089
Total	**357,310**	**330,683**

Statutory reserves at the amount of BGN 55,967 thousand (31 December 2017: BGN 51,666 thousand) represent the Reserve Fund, which is set aside under a requirement of the Commercial Act and Company's Articles of Association, and includes two components: (a) amounts from distribution of profit for the Reserve Fund – BGN 47,182 thousand (31 December 2017: BGN 42,881 thousand), and (b) share premium representing the excess of the issue value over the nominal value of the issued shares on the merger of a subsidiary into Sopharma AD – BGN 8,785 thousand (31 December 2017: BGN 8,785 thousand).

The movements of statutory reserves were as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance at 1 January	**51,666**	**47,841**
Distribution of profit	4,301	3,825
Balance at 31 December	**55,967**	**51,666**

The ***property, plant and equipment revaluation reserve***, amounting to BGN 22,433 thousand (31 December 2017: BGN 23,839 thousand), is set aside from the surplus between the carrying amount of property, plant and equipment and their fair value at the date of the respective revaluation. The deferred tax effect on the revaluation reserve was directly carried to this reserve.

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

	2018	*2017*
	BGN '000	*BGN '000*
Balance at 1 January	**23,839**	**24,171**
Effects from subsidiary merger	1,744	-
Transfer to retained earnings	(3,457)	(294)
Revaluation of property, plant and equipment	341	(42)
Deferred tax relating to revaluations	(34)	4
Balance at 31 December	**22,433**	**23,839**

The reserve of financial assets at fair value through other comprehensive income, amounting to BGN 2,933 thousand (31 December 2017: BGN 4,089 thousand) is formed of the effects of fair-value measurement of other long-term equity investments. Upon derecognition of these investments, the reserve formed is not recycled through the statement of comprehensive income (through profit or loss for the period). Prior to the adoption of IFRS 9, this reserve was called *Reserve for available-for-sale financial assets* and upon derecognition of the investment was subject to recycling through the statement of comprehensive income (through profit or loss for the year).

The movements of the reserve of financial assets at fair value through other comprehensive income are as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance at 1 January	**4,089**	**2,805**
Net change in the fair value of other long-term equity investments	(792)	1,296
Effect from subsidiary merger	20	-
Transfer to retained earnings	(384)	-
Cumulative (gains)/losses reclassified to current profit or loss upon sale/realisation of available-for-sale financial assets	-	(12)
Balance at 31 December	**2,933**	**4,089**

Additional reserves at the amount of BGN 275,977 thousand (31 December 2017: BGN 251,089 thousand) are set aside from distribution of profits under a decision of shareholders and can be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additional reserves are as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance at 1 January	**251,089**	**229,586**
Distributed profit in the year	24,888	21,503
Balance at 31 December	**275,977**	**251,089**

Base net earnings per share

	31.12.2018	*31.12.2017*
Weighted average number of shares	125,798,842	128,888,776
Net profit for the year (BGN '000)	33,298	44,228
Base net earnings per share (BGN)	**0.26**	**0.34**

As at 31 December 2018, ***retained earnings*** amount at BGN 30,448 thousand (31.12.2017: BGN 45,831 thousand).

The movement in ***retained earnings*** is as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance at 1 January (restated)*	**45,831**	**45,358**
Amounts recognised in the opening balance of retained earnings pursuant from restatement upon modified initial application of IFRS 9	(1,309)	-
Balance at 1 January (restated)**	**44,522**	**45,358**
Net profit for the year	33,298	44,228
Transfer from revaluation reserve of property, plant and equipment	3,457	294
Transfer from reserve of financial assets at fair value through other comprehensive income	384	-
Share-based payments	142	-
Profit distribution to reserves	(29,189)	(25,328)
Distribution of profit for 2017 for dividends	(13,822)	(12,921)
Distribution of 6-month dividends of profit for 2018	(6,284)	-
Effect from subsidiary merger	(2,029)	(5,715)
Actuarial losses from remeasurement	(30)	(497)
Effect from treasury shares	(1)	479
Effect from the merger of subsidiaries arising from actuarial losses from remeasurement	-	(67)
Balance at 31 December	**30,448**	**45,831**

29. LONG-TERM BANK LOANS

Long-term bank loans include:

				31.12.2018			*31.12.2017*	
Currency	***Contracted loan amount***	***Maturity***	***Non-current portion***	***Current portion***	***Total***	***Non-current portion***	***Current portion***	***Total***
	'000		***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Investment-purpose loans								
EUR	32,000	15.04.2021	9,539	7,157	**16,696**	16,691	7,172	**23,863**
AZN	35	16.03.2021	17	11	**28**	-	-	**-**
EUR	565	25.10.2018	-	-	**-**	-	220	**220**
			9,556	**7,168**	**16,724**	**16,691**	**7,392**	**24,083**

The investment-purpose loan received in Euro was agreed at interest rate based on three-month EURIBOR plus a mark-up of up to 1.7 points but not less than 1.7 points fixed interest rate at the amount of 24.10% (2017: three-month EURIBOR plus a mark-up of up to 1.7 points but not less than 1.7 points and one-month EURIBOR plus a mark-up of up to 1.7 points, but not less than 1.7 points).

The following collaterals were established under the loans in favour of the creditor bank:

- Mortgages of real estate with a carrying amount of BGN 39,200 thousand as at 31 December 2018 (31 December 2017: BGN 42,387 thousand) (*Note 15*);
- Special pledges on machinery and equipment with a carrying amount of BGN 16,076 thousand as at 31 December 2018 (31 December 2017: BGN 17,390 thousand) *(Note 15).*

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

Reconciliation of the movement of liabilities from financing activities

The table below shows changes in liabilities from financing activities, representing both cash and non-cash changes. Liabilities from financial liabilities are those for which cash flows are or future cash flows will be classified in the Company's statement of cash flows as cash flows from financing activities.

	01.01.2018	*Changes in cash flows from financing activities*	*Acquisition of a subsidiary (Note 40)*	*Newly arising liabilities over the year*	*Other non-cash changes*	*31.12.2018*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Bank loans (Notes 29 and 33)	77,171	4,843	-	372	(10)	82,376
Finance lease liabilities (Note 38)	71	(71)	-	-	-	-
Dividends	196	(20,000)	-	20,106	(31)	271
Total	**77,438**	**(15,228)**	**-**	**20,478**	**(41)**	**82,647**
Treasury shares (Note 28)	(33,834)	(850)	265	-	1,082	(33,337)
Net cash flows from financing activities	**43,604**	**(16,078)**	**265**	**20,478**	**1,041**	**49,310**

	01.01.2017	*Changes in cash flows from financing activities*	*Acquisition of a subsidiary (Note 40)*	*Newly arising liabilities over the year*	*Other non-cash changes*	*31.12.2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Bank loans (Notes 29 and 33)	79,816	(3,195)	-	550	-	77,171
Finance lease liabilities (Note 38)	346	(275)	-	-	-	71
Dividends	347	(12,872)	-	12,721	-	196
Total	**80,509**	**(16,342)**	**-**	**13,271**	**-**	**77,438**
Treasury shares (Note 28)	(18,809)	(14,500)	602	-	(1,127)	(33,834)
Net cash flows from financing activities	**61,700**	**(30,842)**	**602**	**13,271**	**(1,127)**	**43,604**

30. DEFERRED TAX LIABILITIES

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

Deferred tax liabilities/(assets)	*temporary difference*	*tax*	*temporary difference*	*tax*
	31.12.2018	***31.12.2018***	***31.12.2017***	***31.12.2017***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	70,802	7,080	80,755	8,076
including revaluation reserve	*20,760*	*2,076*	*24,589*	*2,459*
Intangible assets	2,296	230	2,309	231
Investment property	7,684	768	6,026	603
including revaluation reserve	*516*	*52*	*187*	*19*
Biological assets	-	-	26	3
Total deferred tax liabilities	**80,782**	**8,078**	**89,116**	**8,912**
Payables to personnel	(7,424)	(742)	(7,708)	(771)
Receivables	(5,990)	(599)	(5,334)	(533)
Inventories	(4,241)	(424)	(3,969)	(397)
Accrued liabilities	(611)	(61)	(410)	(41)
Cash	(166)	(17)	(166)	(17)
Total deferred tax assets	**(18,432)**	**(1,843)**	**(17,587)**	**(1,759)**
Deferred income tax liabilities, net	**62,350**	**6,235**	**71,529**	**7,153**

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

The change in the balance of deferred taxes for 2018 is as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2018*	*Recognised in the statement of comprehensive income*	*Recognised in equity*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 31 December 2018*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(8,076)	937	(34)	93	(7,080)
Intangible assets	(231)	1	-	-	(230)
Investment property	(602)	(166)	-	-	(768)
Biological assets	(3)	3	-	-	-
Payables to personnel	771	(29)	-	-	742
Receivables	533	(50)	116	-	599
Inventories	397	27	-	-	424
Accrued liabilities	41	(10)	30	-	61
Cash	17	-	-	-	17
Total	**(7,153)**	**713**	**112**	**93**	**(6,235)**

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

Deferred tax (liabilities)/ assets	*Balance at 1 January 2017*	*Recognised in the statement of comprehensive income*	*Recognised in equity*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 31 December 2017*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(8,200)	81	-	43	(8,076)
Intangible assets	(310)	79	-	-	(231)
Investment property	(515)	(87)	-	-	(602)
Biological assets	(1)	(2)	-	-	(3)
Payables to personnel	636	135	-	-	771
Receivables	685	(152)	-	-	533
Inventories	423	(26)	-	-	397
Accrued liabilities	26	15	-	-	41
Cash	17	-	-	-	17
Total	**(7,239)**	**41**	**-**	**43**	**(7,153)**

31. GOVERNMENT GRANTS

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

	31.12.2018			*31.12.2017*		
	Non-current portion	*Current portion*	*Total*	*Non-current portion*	*Current portion*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Acquisition of machinery and equipment for a new tablets production line	2,638	179	**2,817**	2,817	179	**2,996**
Implementation of innovative products in the production of ampoule dosage forms	2,100	200	**2,300**	2,300	200	**2,500**
Acquisition of non-current assets and building reconstruction	320	8	**328**	326	41	**367**
Acquisition of machinery and equipment for technological renovation and modernisation of tablet production	130	120	**250**	250	120	**370**
Implementation of innovative “artificial tears” eye drops production	108	24	**132**	126	47	**173**
Acquisition of combined exchange ventilation and air conditioning installation	101	9	**110**	111	9	**120**
	5,397	**540**	**5,937**	**5,930**	**596**	**6,526**

The current portion of the financing will be recognised as current income over the following 12 months from the date of the separate statement of financial position and presented as 'other current liabilities' (*Note 38).*

32. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Long-term retirement benefit obligations	4,100	3,890
Long-term benefit obligations for tantieme	318	249
Total	**4,418**	**4,139**

Long-term retirement benefit obligations

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

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

For the purpose of establishing the amount of these obligations to personnel, the Company has assigned an actuarial valuation as at 31 December 2018 by using the services of a certified actuary.

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

	2018	*2017*
	BGN '000	*BGN '000*
Present value of the obligation at 1 January	**3,890**	**3,145**
Current service cost	438	356
Interest cost	63	86
Net actuarial loss recognised for the period	15	32
Payments made in the year	(336)	(293)
Remeasurement gains or losses on the retirement benefit obligations, including:	30	564
Actuarial losses arising from changes in demographic assumptions	11	12
Actuarial losses arising from changes in financial assumptions	108	293
Actuarial (gains)/losses arising from past experience adjustments	(89)	259
Present value of the obligation at 31 December	**4,100**	**3,890**

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

	2018	*2017*
	BGN '000	*BGN '000*
Current service cost	438	356
Interest cost	63	86
Net actuarial loss recognised for the period	15	32
Components of defined benefit plan costs recognised in profit or loss *(Note 7)*	**516**	**474**
Remeasurement gains or losses on the retirement benefit obligations, including:		
Actuarial losses arising from changes in demographic assumptions	11	12
Actuarial losses arising from changes in financial assumptions	108	293
Actuarial (gains)/losses arising from past experience adjustments	(89)	259
Components of defined benefit plans cost recognised in other comprehensive income *(Note 14)*	**30**	**564**
Total	**546**	**1,038**

The following actuarial assumptions were used in calculating the present value of the liabilities as at 31 December 2018:

- The discount factor is calculated by using as basis of 1,0% (2017: 1.4%). 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 (2017: 5%);
- Mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2015-2017 (2017: 2014 - 2016);
- Staff turnover rate – from 0% to 16% for the five age groups formed (2017: between 0% and 16%).

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

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

- salary growth related risk – the present value of the retirement benefit liability is calculated by reference to the best estimate of the future increase in plan participants' salaries. Such an increase would increase the plan liability.

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

The effects of the change (increase or decrease) by 1% of:
a. salary growth
b. discount rate
c. staff turnover rate

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

	2018		***2017***	
	Increase	***Decrease***	***Increase***	***Decrease***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in salary growth	343	(299)	315	(274)
Change in discount rate	(306)	361	(279)	328
Change in staff turnover rate	(324)	378	(296)	335

The weighted average duration of the defined benefit obligation to personnel is 8 years (31 December 2017: *for Sopharma AD (receiving company) – 8.2 years, for Unipharm AD (transforming company) – 4,6 years)*.

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

Forecast payments	***Old age and length of service retirement***	***Poor health retirement***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Payments in 2019	794	13	807
Payments in 2020	369	13	382
Payments in 2021	384	13	397
Payments in 2022	282	13	295
Payments in 2023	420	13	433
	2,249	**65**	**2,314**

Long-term benefit obligations for tantieme

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Long-term benefit obligations for tantieme with maturity in 2021	167	-
Long-term benefit obligations for tantieme with maturity in 2020	151	152
Long-term benefit obligations for tantieme with maturity in 2019	-	97
	318	**249**

33. SHORT-TERM BANK LOANS

Short-term bank loans include:

Currency	*Contracted amount*	*Maturity*	*31.12.2018*	*31.12.2017*
	BGN '000		*BGN '000*	*BGN '000*
Bank loans (overdrafts)				
BGN	20,000	21.05.2019	12,947	11,775
BGN	10,000	31.01.2019	10,002	10,001
BGN	10,000	31.05.2019	9,996	2,860
EUR	10,000	31.01.2019	9,817	13,614
BGN	9,779	01.06.2019	3,636	-
			46,398	**38,250**
Extended credit lines				
BGN	20,000	30.11.2019	19,254	9,244
EUR	5,000	31.08.2019	-	5,594
			19,254	**14,838**
Total			**65,652**	**53,088**

The bank loans received in Euro have been agreed at interest rate based on one-month EURIBOR plus a mark-up of up to 1.3 points, but not less than 1.3 points, one-month EURIBOR plus a mark-up of up to 1.7 points, but not less than 1.7 points, and one-month EURIBOR plus a mark-up of up to 1.5 points, and for those in BGN – from 1.3% to 1.45% and average deposit index plus 1 point (2017: 1-month EURIBOR plus a mark-up of up to 1.7 points, but not less than 1.7 points and 1-month EURIBOR plus a mark-up of up to 1.5 points, and those in Bulgarian Levs – at interest rate based on 3-month SOFIBOR plus 1.3 points, but not less than 1.45, 1-month SOFIBOR plus 1.3 points, but not less than 1.3 points, 1-month SOFIBOR plus 1.5 points, 1-month SOFIBOR plus 1.45 points, and 1-month SOFIBOR plus 1.25 points). The loans are for working capital.

A portion of the loans drawn at 31 December at the amount of BGN 269 thousand (31 December 2017: BGN 516 thousand) are in the form of bank guarantees in favour of the National Health Insurance Fund (NHIF) and suppliers for covering obligations.

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

- Mortgages of real estate with a carrying amount of BGN 31,716 thousand as at 31 December 2018 (31 December 2017: BGN 32,347 thousand) *(Note 15 and Note 17);*
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 12,649 thousand as at 31 December 2018 (31 December 2017: BGN 16,950 thousand) *(Note 15 and Note 17);*
  - inventories with a carrying amount of BGN 29,555 thousand as at 31 December 2018 (31 December 2017: BGN 30,442 thousand) *(Note 23)*;
  - receivables from related parties with a carrying amount of BGN 64,947 thousand as at 31 December 2018 (31 December 2017: BGN 44,726 thousand) *(Note 24*);
  - trade receivables with a carrying amount of BGN 19,088 thousand as at 31 December 2018 (31 December 2017: BGN 21,393 thousand) *(Note 25*);
  - trade receivables from third parties of a subsidiary with a carrying amount of BGN 7,823 thousand as at 31 December 2018 (31 December 2017: BGN 7,823 thousand).

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

34. TRADE PAYABLES

Trade payables include:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables to suppliers	8,775	7,650
Advances received	147	63
Total	**8,922**	**7,713**

Payables to suppliers are as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables to foreign suppliers	6,988	5,435
Payables to local suppliers	1,787	2,215
Total	**8,775**	**7,650**

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in BGN amount to BGN 1,787 thousand (31 December 2017: BGN 2,120 thousand), in EUR – BGN 3,727 thousand (31 December 2017: BGN 3,283 thousand), in USD – BGN 3,181 thousand (31 December 2017: BGN 2,243 thousand), in PLN – BGN 1 thousand (31 December 2017: BGN 1 thousand), and in other currency – BGN 79 thousand (31 December 2017: BGN 3 thousand).

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

The Company has placed deposits and bank guarantees as security for payables to suppliers under commercial transactions at the amount of BGN 246 thousand (31 December 2017: BGN 688 thousand) *(Note 26b and Note 33*).

35. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables to subsidiaries	283	125
Payables to companies related through key managing personnel	262	269
Payables to companies related through main shareholders	58	21
Payables to companies related through a main shareholder	30	403
Total	**633**	**818**

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Supply of services	402	350
Advances received	123	-
Supply of non-current assets	45	37
Obligations for increasing the capital of a subsidiary	36	-
Obligation for supply of inventories	27	431
Total	**633**	**818**

The trade payables to related parties are regular and interest-free. The payables in Bulgarian Levs amount to BGN 509 thousand (31 December 2017: BGN 719 thousand), in EUR – BGN 97 thousand (31 December 2017: BGN 78 thousand), and in PLN – BGN 27 thousand (31 December 2017: BGN 21 thousand).

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

The Company has placed deposits as security for payables to related parties under commercial transactions at the amount of BGN 194 thousand (31 December 2017: BGN 243 thousand) *(Note 21)*.

36. TAX PAYABLES

Tax payables include:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Taxes on expenses	546	515
Personnel income tax	500	558
Corporate tax	415	450
Value added tax	423	2
Total	**1,884**	**1,525**

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

Sopharma AD (receiving company):

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

Bulgarian Rose Sevtopolis (transforming company)

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

Medica AD (transforming company)

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

Unipharm AD (transforming company)

- under VAT Act – until 31 December 2011;
- full-scope tax audit – until 31 December 2011;
- National Social Security Institute – until 31 December 2017.

By means of Order No P-29002918008030-020-001/20.12.2018, a tax audit was assigned of Unipharm AD (transforming company), as follows:

- under VAT Act – from 1 December 2012 until 31 August 2018;
- full-scope tax audit – from 1 January 2012 until 31 December 2017.

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

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables to personnel, including:	5,905	6,443
Tantieme	*3,030*	*3,328*
current liabilities	*1,452*	*1,587*
accruals on unused compensated leaves	*1,423*	*1,528*
Payables for social security/health insurance, including:	1,214	1,385
current liabilities	*968*	*1,129*
accruals on unused compensated leaves	*246*	*256*
Total	**7,119**	**7,828**

38. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Government grants *(Note 31)*	540	596
Provision for financial guarantees granted (*Note 2.25*)	327	-
Refund obligations under contracts with customers (*Note 2.6*)	324	-
Awarded amounts under litigations	323	303
Dividend liabilities	271	196
Deductions from work salaries	214	206
Liabilities under deposits received as guarantees	24	24
Finance lease liabilities	-	71
Total	**2,023**	**1,396**

The provision for financial guarantees granted, at the amount of BGN 327 thousand, arises as a result of commitment undertaken by the Company to perform payments for a debtor which fails to make payment in accordance with a debt instrument (*Note 2.25*).

The movement in the provision for financial guarantees is as follows:

	2018	*2017*
	BGN '000	*BGN '000*
Balance at 1 January, calculated under IAS 39	**-**	**-**
Amounts recognised in the opening balance of retained earnings on restatement upon modified initial application of IFRS 9	297	-
Opening balance of the loss allowance at 1 January 2018, stated under IFRS 9	**297**	**-**
Provision for financial guarantees recognised within profit or loss for the year	30	-
Balance at 31 December	**327**	**-**

39. CONTINGENT LIABILITIES AND COMMITMENTS

Significant irrevocable agreements and commitments

The Company received government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 and Operational Programme "Energy Efficiency" *(Note 31 and Note 38*), related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section and the acquisition of combined exchanger installations for ventilation and air conditioning in the production of medical products *(Note 15*). The Company undertook a commitment that for a period of 5 years after the completion of the respective projects they shall not be subject to significant modifications affecting the essence and the terms and conditions for their execution or giving rise to unjustified benefits to the company, neither modifications resulting from a change in the nature of ownership over the assets acquired in relation to the grants. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Issued and granted guarantees

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

Company	Maturity	Currency	Contracted amount		Guarantee amount as at
			Original currency	BGN '000	31.12.2018 BGN '000
Sopharma Trading AD	2019 - 2024	EUR	73,394	143,546	123,924
Sopharma Trading AD	2019 - 2024	BGN	30,732	30,732	27,842
Sopharma Properties REIT	2024	EUR	22,619	44,239	16,864
OAO Vitamini	2019	EUR	7,000	13,691	9,212
Biopharm Engineering AD	2019-2020	BGN	8,550	8,550	2,028
Energoinvestment AD	2020	BGN	2,000	2,000	1,552
Mineralcommerce AD	2019-2021	BGN	726	726	493
Momina Krepost AD	2019	BGN	500	500	440
Pharmaplant AD	2023	EUR	235	460	323
Veta Pharma AD	2019	BGN	1,000	1,000	128
Total					**182,806**

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

(a) under loans of subsidiaries:

- Mortgages of real estate with a carrying amount of BGN 10,013 thousand as at 31 December 2018 (31 December 2017: BGN 10,231 thousand) *(Note 15)*;
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 9,735 thousand as at 31 December 2018 (31 December 2017: BGN 10,370 thousand) *(Note 15)*;
  - inventories with a carrying amount of BGN 17,000 thousand as at 31 December 2018 (31 December 2017: BGN 17,000 thousand) *(Note 23)*;
  - trade receivables with a carrying amount of BGN 11,735 thousand as at 31 December 2018 (31 December 2017: BGN 11,735 thousand) *(Note 25)*.

40. RESTATEMENT RESULTING FROM MERGER OF A SUBSIDIARY

In its financial statements for 2018 Sopharma AD presents comparative data for 2017 based on the merger of the separate financial statements of the transforming (Unipharm AD) and receiving (Sopharma AD) companies (*Note 2.3.*), as follows:

40.1. Opening statement of financial position as at the date of merger – 1 January 2018

The opening statement of financial position of Sopharma AD resulting from the merger dated 1 January 2018 is prepared based on the carrying amount of the two companies' assets and liabilities, as per their separate statements of financial position as at 31 December 2017.

As far as the date of accounting for the merger is 1 January 2018, the data in the statement of financial position at this date coincide with the comparative data as at 31 December 2017.

The assets and liabilities of the two companies, combined as at the date of accounting for the merger, 1 January 2018, have the following structure and amounts:

STATEMENT OF FINANCIAL POSITION	Sopharma AD	Unipharm AD	Adjustments at merger	Combined statement of financial position
	31 December 2017	*31 December 2017*	*31 December 2017*	*31 December 2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
ASSETS				
Non-current assets				
Property, plant and equipment	223,097	9,658	6,966	239,721
Intangible assets	6,471	57	5,929	12,457
Investment property	24,799	-	-	24,799
Investments in subsidiaries	120,145	-	(30,416)	89,729
Investments in associates	7,740	-	-	7,740
Available-for-sale investments	7,206	802	(456)	7,552
Long-term receivables from related parties	21,583	-	-	21,583
Deferred tax assets	-	106	(106)	-
Other long-term receivables	4,210	-	-	4,210
	415,251	**10,623**	**(18,083)**	**407,791**
Current assets				
Inventories	66,433	2,911	(326)	69,018
Receivables from related parties	74,920	3,299	(1,001)	77,218
Trade receivables	22,527	920	(189)	23,258
Loans granted to third parties	3,201	-	-	3,201
Other receivables and prepayments	4,757	120	24	4,901
Cash and cash equivalents	3,216	2,557	(9)	5,764
	175,054	**9,807**	**(1,501)**	**183,360**
TOTAL ASSETS	**590,305**	**20,430**	**(19,584)**	**591,151**

STATEMENT OF FINANCIAL POSITION (continued)	Sopharma AD	Unipharm AD	Adjustments at merger	Combined statement of financial position
	31 December 2017	*31 December 2017*	*31 December 2017*	*31 December 2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
EQUITY AND LIABILITIES				
EQUITY				
Share capital	134,798	6,000	(6,000)	134,798
Treasury shares	(33,834)	-	-	(33,834)
Reserves	330,683	11,021	(11,021)	330,683
Retained earnings	46,687	1,325	(2,181)	45,831
	478,334	**18,346**	**(19,202)**	**477,478**
LIABILITIES				
Non-current liabilities				
Long-term bank loans	16,691	-	-	16,691
Deferred tax liabilities	6,553	-	600	7,153
Government grants	5,478	452	-	5,930
Provisions for liabilities	-	513	(513)	-
Long-term obligations to personnel	3,624	2	513	4,139
	32,346	**967**	**600**	**33,913**
Current liabilities				
Short-term bank loans	53,088	-	-	53,088
Current portion of long-term bank loans	7,392	-	-	7,392
Current portion of finance lease liabilities	-	71	(71)	-
Trade payables	7,569	134	10	7,713
Payables to related parties	1,752	51	(985)	818
Tax payables	1,429	96	-	1,525
Payables to personnel and for social security	7,172	656	-	7,828
Deferred income from financing	-	88	(88)	-
Other current liabilities	1,223	21	152	1,396
	79,625	**1,117**	**(982)**	**79,760**
TOTAL LIABILITIES	**111,971**	**2,084**	**(382)**	**113,673**
TOTAL EQUITY AND LIABILITIES	**590,305**	**20,430**	**(19,584)**	**591,151**

The adjustments made to the statements of financial position of the two companies for the purpose of combining them are mainly the result of: a) unification of the accounting policy and b) elimination of the investments in a subsidiary and of intra-group accounts and balances between the companies, including the effects on deferred taxes related thereto. The net effect on accumulated profit as at 1 January 2018 is a loss at the amount of BGN 856 thousand.

40.2.Comparatives

The financial statements of Sopharma AD (receiving company) for year 2018 contain restatement of the comparative data for 2017 and the earlier comparable period – 1 January 2017, solely for the purpose of comparability. These restatements were made in order to combine data in: *a) statement of financial position as at 31 December 2017; b) statement of comprehensive income for the year ended 31 December 2017; c) statement of cash flow for the year ended 31 December 2017; and d) statement of financial position as at 1 January 2017* of the two companies, as if the transforming and receiving company were always combined.

The effects of the merger in the respective statements are presented as follows:

a) statement of financial position as at 31 December 2017

The data from the opening statement of financial position as at 1 January 2018 is presented as comparative data as at 31 December 2017 in the current financial statements (*Note 40.1)*.

b) statement of comprehensive income for the year ended 31 December 2017:

STATEMENT OF COMPREHENSIVE INCOME	Sopharma AD	Unipharm AD	Adjustments at merger	Combined statement of comprehensive income
	2017	*2017*	*2017*	*2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Revenue	205,259	19,007	(5,187)	219,079
Other operating income/(losses), net	4,500	627	(2,047)	3,080
Changes in inventories of finished goods and work in progress	6,451	204	(216)	6,439
Raw materials and consumables used	(68,983)	(8,107)	184	(76,906)
Hired services expense	(38,769)	(2,064)	6,912	(33,921)
Employee benefits expense	(43,804)	(5,608)	179	(49,233)
Depreciation and amortisation expense	(16,238)	(2,145)	(64)	(18,447)
Other operating expenses	(6,569)	(416)	(240)	(7,225)
Profit from operations	**41,847**	**1,498**	**(479)**	**42,866**
Impairment of non-current assets	(5,280)	-	1,324	(3,956)
Finance income	11,927	331	(574)	11,684
Finance costs	(2,096)	(12)	6	(2,102)
Finance income/(costs), net	**9,831**	**319**	**(568)**	**9,582**
Profit before income tax	**46,398**	**1,817**	**277**	**48,492**
Income tax expense	(4,159)	(176)	71	(4,264)
Net profit for the year	**42,239**	**1,641**	**348**	**44,228**
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Gain on revaluation of property, plant and equipment, net	(42)	-	-	(42)
Remeasurement of defined benefit pension plans	(497)	(67)	-	(564)
Income tax relating to items of other comprehensive income that will not be reclassified	4	-	-	4
	(535)	**(67)**	**-**	**(602)**
Items that may be reclassified to profit or loss:				
Net change in fair value of available-for-sale financial assets	1,284	27	(13)	1,298
	1,284	**27**	**(13)**	**1,298**
Other comprehensive income for the year, net of tax	**749**	**(40)**	**(13)**	**696**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**42,988**	**1,601**	**335**	**44,924**

The effect on the total comprehensive year for 2017 as a result from the merger of the subsidiary amounts to BGN 1,936 thousand, formed as follows:

a) the total comprehensive income for the year of Unipharm AD is a profit at the amount of BGN 1,601 thousand;

b) the effects of the eliminations of intragroup transactions between the two companies and the deferred tax related thereto amount to a profit of BGN 335 thousand.

c) statement of cash flows for the year ended 31 December 2017:

STATEMENT OF CASH FLOWS	**Sopharma AD**	**Unipharm AD**	**Adjustments at merger**	**Combined statement of cash flows**
	2017 BGN'000	***2017 BGN'000***	***2017 BGN'000***	***2017 BGN'000***
Cash flows from operating activities				
Cash receipts from customers	216,495	16,458	(1,300)	231,653
Cash paid to suppliers	(120,731)	(7,132)	1,291	(126,572)
Cash paid to employees and for social security	(40,678)	(5,055)	-	(45,733)
Taxes paid (except income taxes)	(6,444)	(2,098)	(43)	(8,585)
Taxes refunded (except income taxes)	1,957	-	43	2,000
Income taxes (paid)/refunded, net	(3,201)	(131)	-	(3,332)
Interest and bank charges paid on working capital loans	(999)	-	-	(999)
Foreign currency exchange gains/(losses), net	(284)	(25)	-	(309)
Other proceeds/(payments), net	(1,200)	20	(6)	(1,186)
Net cash flows from operating activities	**44,915**	**2,037**	**(15)**	**46,937**
Cash flows from investing activities				
Purchases of property, plant and equipment	(12,649)	(1,174)	-	(13,823)
Proceeds from sales of property, plant and equipment	111	306	-	417
Purchases of intangible assets	(29)	-	-	(29)
Purchases of shares in associates	(4,052)	-	-	(4,052)
Proceeds from sale of shares in associates	3,080	-	-	3,080
Purchases of available-for-sale investments	(1,377)	(3)	(265)	(1,645)
Proceeds from sales of available-for-sale investments	731	-	-	731
Purchases of shares in subsidiaries	(10,013)	-	(377)	(10,390)
Proceeds from sales of shares in subsidiaries	1	-	-	1
Proceeds from liquidation shares in subsidiaries	12	-	-	12
Loans granted to related parties	(108,465)	-	-	(108,465)
Loan repayments by related parties	104,655	-	-	104,655
Loans granted to other companies	(2,568)	-	-	(2,568)
Proceeds from dividends from investments in subsidiaries	7,397	-	(229)	7,168
Proceeds from dividends from available-for-sale investments	142	22	(18)	146
Interest received on granted loans	3,340	-	-	3,340
Other proceeds/(payments), net	(65)	-	-	(65)
Net cash flows from/(used in) investing activities	**(19,749)**	**(849)**	**(889)**	**(21,487)**

STATEMENT OF CASH FLOWS (continued)	Sopharma AD	Unipharm AD	Adjustments at merger	Combined statement of cash flows
	2017	*2017*	*2017*	*2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Cash flows from financing activities				
Repayment of long-term bank loans	(7,463)	-	-	(7,463)
Proceeds from short-term bank loans (overdraft), net	4,823	-	-	4,823
Interest and charges paid under investment purpose loans	(555)	-	-	(555)
Treasury shares	(17,026)	-	-	(17,026)
Proceeds from sales of treasury shares	1,878	-	648	2,526
Dividends paid	(12,878)	(241)	247	(12,872)
Payments of finance lease liabilities	(4)	(271)	-	(275)
Net cash flows used in financing activities	**(31,225)**	**(512)**	**895**	**(30,842)**
Net increase (decrease) in cash and cash equivalents	**(6,059)**	**676**	**(9)**	**(5,392)**
Cash and cash equivalents at 1 January	9,275	1,881	-	11,156
Cash and cash equivalents at 31 December	**3,216**	**2,557**	**(9)**	**5,764**

The adjustments made in the statement of cash flows are primarily the result of the elimination of cash flows related to intragroup transactions between the two companies.

d) statement of financial position at 1 January 2017:

The table below also presents the impact of the merger of Medica AD at 1 January 2017 (*Note 2.3*). The assets and liabilities of the three companies, combined as at 1 January 2017, have the following structure and amounts:

STATEMENT OF FINANCIAL POSITION	Sopharma AD	Medica AD	Unipharm AD	Adjustments at merger	Combined statement of financial position
	01.01.2017	*01.01.2017*	*01.01.2017*	*01.01.2017*	*01.01. 2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
ASSETS					
Non-current assets					
Property, plant and equipment	209,326	16,168	10,599	6,512	242,605
Intangible assets	2,177	328	79	10,241	12,825
Investment property	22,840	-	-	-	22,840
Investments in subsidiaries	147,583	5	-	(58,837)	88,751
Investments in associates	5,219	-	-	-	5,219
Available-for-sale investments	5,229	888	582	(1,406)	5,293
Long-term receivables from related parties	11,011	-	-	36	11,047
Deferred tax assets	-	-	110	(110)	-
Other long-term receivables	3,714	-	-	-	3,714
	407,099	**17,389**	**11,370**	**(43,564)**	**392,294**
Current assets					
Inventories	56,807	4,904	2,707	(104)	64,314
Receivables from related parties	71,076	2,686	2,272	(255)	75,779
Trade receivables	22,479	2,722	1,421	210	26,832
Loans granted to third parties	2,445	-	-	-	2,445
Other receivables and prepayments	4,859	371	222	129	5,581
Financial assets at FVPL	-	316	-	(316)	-
Cash and cash equivalents	4,343	4,932	1,881	(10)	11,146
	162,009	**15,931**	**8,503**	**(346)**	**186,097**
TOTAL ASSETS	**569,108**	**33,320**	**19,873**	**(43,910)**	**578,391**
EQUITY AND LIABILITIES					
EQUITY					
Share capital	134,798	10,069	6,000	(16,069)	134,798
Treasury shares	(18,809)	-	-	(327)	(19,136)
Reserves	304,403	12,473	11,065	(23,538)	304,403
Retained earnings	42,483	7,553	33	(4,711)	45,358
	462,875	**30,095**	**17,098**	**(44,645)**	**465,423**
LIABILITIES					
Non-current liabilities					
Long-term bank loans	23,844	220	-	-	24,064
Deferred tax liabilities	5,703	594	-	942	7,239
Government grants	5,866	120	530	-	6,516
Provisions for liabilities	-	-	414	(414)	-
Retirement benefit obligations	2,649	243	5	452	3,349
	38,062	**1,177**	**949**	**980**	**41,168**

STATEMENT OF FINANCIAL POSITION	Sopharma AD	Medica AD	Unipharm AD	Adjustments at merger	Combined statement of financial position
	01.01.2017	*01.01.2017*	*01.01.2017*	*01.01.2017*	*01.01. 2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Current liabilities					
Short-term bank loans	48,291	-	-	-	48,291
Current portion of long-term bank loans	7,185	276	-	-	7,461
Current portion of finance lease liabilities	-	-	71	(71)	-
Trade payables	4,712	1,041	504	18	6,275
Payables to related parties	497	14	4	(216)	299
Tax payables	609	225	237	(1)	1,070
Current portion of retirement benefit obligations	-	30	-	(30)	-
Payables to personnel and for social security	5,363	416	606	(8)	6,377
Deferred income from financing	-	-	349	(349)	-
Other current liabilities	1,514	46	55	412	2,027
	68,171	**2,048**	**1,826**	**(245)**	**71,800**
TOTAL LIABILITIES	**106,233**	**3,225**	**2,775**	**735**	**112,968**
TOTAL EQUITY AND LIABILITIES	**569,108**	**33,320**	**19,873**	**(43,910)**	**578,391**

The adjustments made to the statements of financial position of the three companies for the purpose of their combination are mainly the result of: a) unification of the accounting policy and b) elimination of the investments in the subsidiaries and of intra-group accounts and balances between the three companies, including the effects on deferred taxes related thereto. The net effect on profit accumulated as at 1 January 2017 amounts to BGN 2,875 thousand, and is as follows:

a/ *from Medica AD* – profit at the amount of BGN 540 thousand;
b/ *from Unipharm AD* – profit at the amount of BGN 2,335 thousand.

The effect on treasury shares as at 1 January 2017 is an increase at the amount of BGN 327 thousand.

41. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows. The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Company.

The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the Company's finished products and services and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations.

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

The structure of financial assets and liabilities as at 31 December 2018 is as follows:

Financial assets	***31.12.2018***
	BGN '000
Financial assets at fair value through other comprehensive income, incl.:	***7,599***
Equity investments (Note 20)	*7,599*
Financial assets at amortised cost, incl.:	***151,571***
Loans and receivables (Notes 21, 22, 24, 25 and 26)	*142,600*
Cash and cash equivalents (Note 27)	*8,971*
Total financial assets	**159,170**

Financial liabilities	***31.12.2018***
	BGN '000
Financial liabilities at amortised cost, incl.:	
Long-term and short-term bank loans (Notes 29 and 33)	*82,376*
Other loans and payables (Notes 34, 35 and 38)	*9,903*
Total financial liabilities	**92,279**

At 31 December 2018, recognised liabilities under financial guarantees amount at BGN 327 thousand (1 January 2018: BGN 297 thousand) (*Note 38*).

The structure of financial assets and liabilities as at 31 December 2017 is as follows:

Categories of financial instruments:

Financial assets	***31.12.2017***
	BGN '000
Available-for-sale financial assets	***7,552***
Available-for-sale investments (in shares) (Note 20)	*7,552*
Loans and receivables	***128,459***
Long-term receivables from related parties (Note 21)	*21,583*
Other long-term receivables (Note 22)	*4,210*
Short-term receivables from related parties (Note 24)	*77,218*
Trade receivables (Note 25)	*22,075*
Other receivables (Note 26)	*3,373*
Cash and cash equivalents (Note 27)	***5,764***
Total financial assets	***141,775***

Financial liabilities	***31.12.2017***
	BGN '000
Bank loans	***77,171***
Long-term bank loans (Note 29)	*16,691*
Short-term bank loans (Note 33)	*53,088*
Current portion of long-term loans (Note 29)	*7,392*
Other liabilities	***9,062***
Trade payables to related parties (Note 35)	*818*
Trade payables(Note 36)	*7,650*
Finance lease liabilities (Note 38)	*71*
Other liabilities(Note 38)	*523*
Total financial liabilities at amortised cost	***86,233***

The impairment losses, net of reversals, related to financial assets and financial guarantees recognised in the statement of comprehensive income are as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Receivables from clients	1,143	249
Loans granted at amortised cost	154	(1,404)
Financial guarantees granted	30	-
Total	**1,327**	**(1,155)**

Credit risk

Credit risk is the risk that any of the Company's clients will fail to discharge in full and within the normally envisaged terms the amounts due.

The Company's credit risk arises both from its operating activities, through its trade receivables, and from its financing activities, including granting loans to related and third parties, commitments undertaken under loans and guarantees, and bank deposits. The Company has developed policies, procedures and rules for credit risk control and monitoring.

Policy for credit risk management and assessment applied as from 1 January 2018

Trade receivables

In its commercial practice, the Company has applied different distribution schemes until arriving at the current effective approach that takes into consideration the market operational condition, the various payment methods, and the inclusion of sales rebates. The Company works with counterparts with whom it has a history on its main markets, and partners with over 70 Bulgarian and foreign licensed distributors of medicinal products.

Work with the NHSSO and with distributors working with state hospitals also require the adoption of a deferred payment policy. In this sense, even though credit risk concentration exists, this risk is controlled by means of selection, ongoing monitoring of the liquidity and financial stability of sales partners, as well as direct communication therewith and seeking quick measures upon indications for problems.

The Company's credit policy envisages assessing each new customer's creditworthiness before proposing standard delivery and payment conditions.

Expected credit losses are calculated at the date of each reporting period. They were first calculated as at 1 January 2018, respectively as at 31 December 2018.

The Company uses provisioning matrixes to calculate expected credit losses from trade receivables and contract assets. The latter are grouped into groups (portfolios) from various client segments sharing similar characteristics, incl. for credit risk.

The percentages applied in the provisioning matrix are based on days past due for each portfolio.

Each matrix percentage is initially determined based on historical data observed by the Company for a period of three years. The method is based on analysis of the history and assessing behaviour for each invoice within a group issued over at least the last three years, including pays past due, going period by period among the different past due ranges, payments and outstanding receivables, etc. Based on that, the loss percentage is determined as bad debt for the given group of factors versus past due invoices by days. The Company does not have a practice to request collateral of trade receivables, and does not insure them.

Second, the Company makes the impairment provisioning matrixes for each portfolio precise by adjusting certain percentages based on historical data for the behaviour of payments under the invoices issued and historical losses from bad debt, by including scenarios and forecast information about certain macro factors. Historical percentages are adjusted to reflect the effect of the future behaviour of macroeconomic factors for which a statistical dependence has been identified and which are considered to impact the customers' ability to service and settle their payables.

In view of the short-term horizon of receivables and the forecasts of international institutions (EC, IMF, World Bank) for the next 2019 for the development of the Bulgarian and global economy, the management's analysis of scenarios shows that the impact of changes in the macroeconomic environment on the provisioning matrix are insignificant in their amount as at 31 December 2018.

Court and awarded receivables

Upon determining the collectability of court and awarded receivables, the management analyses on an individual basis the overall exposure from each counterpart (counterpart type) in order to determine the actual likelihood of their collection. Upon establishing it is highly unlikely to collect a given receivable (group of receivables), it is assessed what portion thereof is secured (pledge, mortgage, guarantors, bank security) to thus guarantee collectability (through potential future realisation of the collateral or payment by the guarantor). The receivables or portion thereof for which the management determines are highly unlikely to be collected and are not guaranteed, are 100% impaired.

Loans and financial guarantees granted

The assessment of each credit exposure for the management's purposes is a process that requires the use of models to reflect impact on exposure by changes in market conditions and the debtor's operation, estimated cash flows and time left to maturity. The assessment of the credit risk of loans granted leads to further judgement on the possibility of default, on the loss coefficients related to this judgement and to correlation between counterparts. The Company measures credit risk by using probability of default (PD), exposure at default (EAD) and loss given default (LGD).

To determine the credit risk of loans and financial guarantees granted, and of certain individual trade receivables, the Company's management has developed a methodology that includes two main components: determining the debtor's credit rating, and statistical models for calculating marginal PR by year for each rating. With respect to the rating, it uses internal credit ratings of its counterparts based on the global methodologies of world's leading rating agencies. The rating reflects financial indebtedness, liquidity, profitability ratios, etc. quantitative (for instance, sales volumes) and qualitative (for instance, financial policy, diversifications, etc.) criteria depending on the respective methodology and industry.

By means of statistical models based on historical global data about probability of default (PD) and transitions between different ratings, as well as forecasts for key macroeconomic indicators (GDP growth, inflation, etc.), the necessary marginal PD are determined by year for each rating.

Based on the specific rating established and the analysis of the debtor's characteristics and the loan/guarantee, incl. changes which have occurred therein compared to the prior period, the instrument's stage is determined (Stage 1, Stage 2, and Stage 3). The Company considers that a certain financial instrument has undergone a significant increase in credit risk when one or more of the following quantitative or qualitative criteria are met:

Quantitative criteria:

- An increase in the probability of default (PD) for the financial instrument's lifetime at the reporting date versus the possibility of default for the instrument's lifetime at the date on which the asset was initially recognised
- Payment is past due for over 30 days, but less than 90 days, past due
- An actual or expected significant adverse change in the debtor's operating result, above the permissible change range, measured based on the debtor's main financial and operating indicators
- A significant change in the value of the collateral, which is expected to increase the loss and risk of default.

Qualitative criteria:

- Significant adverse changes in the business, financial and/or economic conditions of the debtor;
- Actual or expected adverse changes in the debtor's operating results;
- A significant change in the collateral quality, which is expected to increase the risk of default;
- Early signs of cash flow/liquidity issues, such as delays in servicing trade creditors/bank loans.

The criteria used to identify a substantial increase in credit risk are monitored, and their viability is reviewed on a periodic basis by the Company's Finance Director.

The Company designates a financial instrument as *non*-performing and the credit loss as incurred, when it meets one or more of the following criteria:

Quantitative criteria

- The debtor's contract payments are over 90 days past due
- Significant adverse changes have occurred or are expected in the debtor's business, financial conditions and economic environment, manifest in a serious decrease in the debtor's main financial and operational indicators;
- The debtor states a number of losses and negative net assets;
- Significant adverse changes have occurred or are expected in value of the loan's key collateral, incl. loss of collateral.

Qualitative criteria

The debtor is unable to pay due to significant financial difficulties. This includes cases when:

- The debtor is in default of the financial contract, for instance with respect to interest payments, collaterals and/or another significant contract, including for financing;
- Adverse changes in the debtor's business, market, environment, and regulations;
- Concessions and reliefs have been made in relation to the debtor's financial difficulties;
- There is probability that the debtor declares insolvency.

The default definition is subsequently applied to modelling the probability of default (PD), the exposure at default (EAD), and the loss given default (LGD) determined through calculation of the Company's expected credit losses.

Expected credit losses have been determined by discounting the product of: the probability of default (PD), exposure at default (EAD), and the loss given default (LGD), determined as follows:

- PD is the probability of the debtor not meeting their financial obligations, either over the next 12 months, or over the financial asset's lifetime (lifetime PD) determined based on public PD data from generally accepted sources and statistical models of the impact of forecast macroeconomic factors. Moreover, the Company's management has conducted historical analysis and has identified the main economic variables impacting credit risk and expected credit losses per loan (portfolio) type.
- EAD is the amount payable to the Company by the debtor at default, over the next 12 months or over the remaining period of the loan, determined in accordance with the specific instrument's characteristics (amount due, repayment plans, interest, term, etc.).
- LGD is the Company's expectation for the amount of loss from a non-performing exposure. LGD varies depending on the type of counterpart, the type and superiority of the claim and the presence of collateral or other credit support. LGD is measured as a loss percentage for an open exposure at default.
- The discount rate used to calculate expected credit losses (ECL) is the instrument's initial effective interest or in the case of financial guarantees and other instruments without an applicable interest rate – the risk-free rate for the respective period, currency, etc.

The Company applies a number of policies and practices to lower the credit risk from loans granted. Most frequently, it accepts collateral. The Company assigns valuation to external experts – independent valuators, of the collateral received, as part of the process of granting loans. This valuation is reviewed on a periodic basis, but at least once per year.

The table below presents the quality of the Company's financial assets, contract assets and financial guarantee contracts, as well as the maximum exposure to credit risk according to the credit rating adopted:

31.12.2018	*Note*	*Internal credit risk categorisation*	*Expected credit losses (IFRS 9)*	*Gross carrying amount*	*Impairment loss (allowance) IAS 39*	*Carrying amount*
				BGN '000	*BGN '000*	*BGN '000*
Loans to related parties	21	Renegotiated Stage 2	Lifetime (credit-impaired)	22,977	(116)	22,861
Short-term loans to related parties	24	Renegotiated Stage 2	*Lifetime (credit-impaired)*	13,936	(36)	13,900
Short-term loans to related parties	24	Underperforming Stage 3	*Lifetime (credit-impaired)*	6,705	(902)	5,803
Long-term loans to third parties	22	Renegotiated Stage 2	*Lifetime (credit-impaired)*	2,412	(71)	2,341
Short-term loans to third parties	26 (a)	Renegotiated Stage 2	*Lifetime (credit-impaired)*	408	(1)	407
Short-term loans to third parties	26 (a)	Underperforming Stage 3	*Lifetime (credit-impaired)*	3,407	(544)	2,863
Trade receivables from related parties	21,24	N/A	*For a 12-month period*	73,797	(1,797)	72,000
Trade receivables from third parties	22,25	N/A	*For a 12-month period*	24,104	(1,817)	22,287
Financial assets				**147,746**	**(5,284)**	**142,462**

31.12.2017	*Note*	*Internal credit risk categorisation*	*Classification under IAS 39*	*Gross carrying amount*	*Impairment loss (allowance) IAS 39*	*Carrying amount*
				BGN '000	*BGN '000*	*BGN '000*
Loans to related parties	21,24	-	*Loans and receivables*	34,582	(800)	33,782
Loans to third parties	22,26 (a)	-	*Loans and receivables*	4,584	(438)	4,146
Trade receivables from related parties	21,24	-	*Loans and receivables*	65,867	(848)	65,019
Trade receivables from third parties	22,25	-	*Loans and receivables*	26,096	(756)	25,340
				131,129	**(2,842)**	**128,287**

The table below provides information about the Company’s exposure to credit risk and the impairment of credit losses for loans granted and trade receivables as at 31 December 2018:

Category	**Correlation to an external credit rating**	**Average percentage of expected credit loss**	**Gross carrying amount**	**Impairment loss *(allowance)***
			BGN '000	*BGN '000*
Performing trade receivables (Stage 1)		*3.69%*	97,901	(3,614)
Renegotiated loans (Stage 2)	B2	*0.88%*	20,071	(177)
Renegotiated loans (Stage 2)	Ba2	*0.19%*	5,297	(10)
Renegotiated loans (Stage 2)	B1	*0.11%*	4,614	(5)
Renegotiated loans (Stage 2)	Ba3	*0.10%*	6,183	(6)
Renegotiated loans (Stage 2)	B3	*0.73%*	3,574	(26)
Under-performing loans (Stage 3)	Caa1	*14.31%*	10,106	(1,446)
Non-performing trade receivables (court and awarded receivables)		*100.00%*	137	(137)
			147,883	**(5,421)**

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

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Client 1	52%	41%
Client 2	23%	21%
Client 3	9%	12%

The Company monitors concentration of receivables from related parties on a current basis by applying credit limits and additional collaterals in the form of pledge on securities and other assets and applying promissory notes.

The Company has concentration of trade receivables from a client who is not a related party, amounting to 72.56% of all trade receivables (31 December 2017: 73.11%).

Cash

The Company's cash and payment operations are concentrated in different first-class banks. To calculate expected credit losses for cash and cash equivalents, , it applies a model based on the bank's public ratings as determined by internationally recognised rating firms like Moody's, Fitch, S&P, BCRA and Bloomberg and the reference public data about PD referring to the rating of the respective bank. The management monitors changes in a bank's rating on an ongoing basis in order to assess the presence of increased credit risk, ensure the current management of incoming and outgoing cash flows and the allocation of cash in the bank accounts and banks.

Accounting policy applicable until 31 December 2017

The Company applied a similar policy to manage and assess credit risk, with the exception of measuring losses from the impairment of credit losses (*Note 2.31*).

Foreign currency risk

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

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

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

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

31 December 2018	in USD	in EUR	in BGN	in other currency	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Equity investments (Note 20)	83	1,484	6,032	-	7,599
Receivables and loans granted (Notes 21, 22, 24, 25 and 26)	4,850	65,913	71,834	3	142,600
Cash and cash equivalents (Note 27)	512	2,365	6,005	89	8,971
Total financial assets	**5,445**	**69,762**	**83,871**	**92**	**159,170**
Long-term and short-term bank loans (Notes 29 and 33)	-	26,513	55,835	28	82,376
Other loans and liabilities (Notes 34, 35 and 38)	3,485	3,847	2,464	107	9,903
Total financial liabilities	**3,485**	**30,360**	**58,299**	**135**	**92,279**

31 December 2017	in USD	in EUR	in BGN	in other currency	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	770	1,826	4,956	-	7,552
Receivables and loans granted	4,029	70,128	54,301	1	128,459
Cash and cash equivalents	1,245	651	3,800	68	5,764
Total financial assets	**6,044**	**72,605**	**63,057**	**69**	**141,775**
Bank loans	-	43,291	33,880	-	77,171
Other liabilities	2,534	3,455	3,048	25	9,062
Total financial liabilities	**2,534**	**46,746**	**36,928**	**25**	**86,233**

Foreign currency sensitivity analysis

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

		USD	
		31.12.2018	**31.12.2017**
		BGN '000	**BGN '000**
Financial result	+	176	219
Accumulated profits	+	176	219
Financial result	-	(176)	(219)
Accumulated profits	-	(176)	(219)

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2018 would be an increase by BGN 176 thousand (0.53%) (2017: increase at the amount of BGN 219 thousand) (0.50%). The same effect in terms of value would be seen on equity – 'retained earnings' component.

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

The impact of the remaining currencies (other than USD) on 10 % increase in their exchange rates to BGN on Company's (post-tax) profit is insignificant. The ultimate effect thereon for 2018 is a decrease by BGN 117 thousand (-0.35%) (2017: an increase by BGN 3 thousand (0.01%)). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

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

Price risk

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

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

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

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

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

Liquidity risk

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

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows.

Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the Company implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Maturity analysis

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

31 December 2018	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*
Long-term and short-term bank loans (Notes 29 and 33)	10,554	1,374	28,595	33,159	7,309	2,408	**83,399**
Other loans and payables (Notes 34, 35 and 38)	6,677	2,536	48	642	-	-	**9,903**
Total liabilities	**17,231**	**3,910**	**28,643**	**33,801**	**7,309**	**2,408**	**93,302**

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*
Bank loans	751	11,368	16,627	32,549	7,415	9,698	**78,408**
Other loans and payables	3,692	4,496	363	511	-	-	**9,062**
Total liabilities	**4,443**	**15,864**	**16,990**	**33,060**	**7,415**	**9,698**	**87,470**

Risk of interest-bearing cash flows

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

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

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

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

31 December 2018	**interest-free**	**with floating interest %**	**with fixed interest %**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Equity investments (Note 20)	7,599	-	-	7,599
Receivables and loans granted (Notes 21, 22, 24, 25 and 26)	94,662	-	47,938	142,600
Cash and cash equivalents (Note 27)	29	8,942	-	8,971
Total financial assets	**102,290**	**8,942**	**47,938**	**159,170**
Long-term and short-term bank loans (Note 29 and 33)	-	82,348	28	82,376
Other loans and liabilities (Notes 34, 35 and 38)	9,903	-	-	9,903
Total financial liabilities	**9,903**	**82,348**	**28**	**92,279**

31 December 2017	**interest-free**	**with floating interest %**	**with fixed interest %**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	7,552	-	-	7,552
Loans and receivables	89,674	-	38,785	128,459
Cash and cash equivalents	122	5,642	-	5,764
Total financial assets	**97,348**	**5,642**	**38,785**	**141,775**
Bank loans	-	77,171	-	77,171
Other loans and liabilities	8,991	71	-	9,062
Total financial liabilities	**8,991**	**77,242**	**-**	**86,233**

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

2018

	Increase/ decrease in interest rate	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	Increase	(119)	(119)
BGN	Increase	(251)	(251)
EUR	Decrease	119	119
BGN	Decrease	251	251

2017

	Increase/ decrease in interest rate	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	Increase	(195)	(195)
BGN	Increase	(152)	(152)
EUR	Decrease	195	195
BGN	Decrease	152	152

Capital risk management

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

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

In 2018, the strategy of the Company management was to maintain the ratio within 10% – 15% (2017: 10% – 15%).

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

	2018	*2017*
	BGN '000	*BGN '000*
Total borrowings, including:	**82,376**	**77,242**
bank loans	*82,376*	*77,171*
finance lease liabilities	-	*71*
Less: Cash and cash equivalents	**(8,971)**	**(5,764)**
Net debt	**73,405**	**71,478**
Total equity	**489,219**	**477,478**
Total capital	**562,624**	**548,956**
Gearing ratio	**0.13**	**0.13**

The liabilities shown in the table are disclosed in *Notes 27, 29, 33, 33 and 38*.

Fair value measurement

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

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

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

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

42. SEGMENT REPORTING

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

- Tablet dosage forms
- Ampoule dosage forms
- Medical products
- Other dosage forms
- Other revenue

Medical products include: plasters, sanitary and hygienic products and dressings.

The other dosage forms include: lyophilic products, ointments, syrups, drops, suppositories, medical cosmetics, shampoos, lotions, etc.

Other revenue includes revenue from investment property and operating leases of non-current tangible assets.

Segment revenue, expenses and results include:

	Tablet dousage forms		*Ampoule dosage forms*		*Other forms*		*Medical products*		*Other revenue*		*Total*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Segment revenue	139,187	147,481	32,995	30,344	26,872	28,949	11,730	10,711	1,634	1,594	212,418	219,079
Segment cost	(70,955)	(69,800)	(18,518)	(16,717)	(21,949)	(22,016)	(8,237)	(6,279)	(82)	(511)	(119,741)	(115,323)
Segment result	**68,232**	**77,681**	**14,477**	**13,627**	**4,923**	**6,933**	**3,493**	**4,432**	**1,552**	**1,083**	**92,677**	**103,756**
Non-allocated operating income											4,910	3,080
Non-allocated operating expenses											(69,789)	(63,970)
Profit from operations											**27,798**	**42,866**
Impairment of non-current assets											(76)	(3,956)
Finance income/(costs), net											8,811	9,582
Profit before income tax											**36,533**	**48,492**
Income tax expense											(3,235)	(4,264)
Net profit for the year											**33,298**	**44,228**

Segment assets include:

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Medical products*		*Other revenue*		*Total*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Property, plant and equipment	79,124	76,101	21,800	23,194	20,796	23,347	3,362	3,646	-	-	125,082	126,288
Inventories	39,341	38,656	11,221	11,578	12,341	13,429	3,143	2,215	-	-	66,046	65,878
Segment assets	**118,465**	**114,757**	**33,021**	**34,772**	**33,137**	**36,776**	**6,505**	**5,861**	**-**	**-**	**191,128**	**192,166**
Non-allocated assets											**417,098**	**398,985**
Total assets											**608,226**	**591,151**

Segment liabilities include:

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Medical products*		*Other revenue*		*Total*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Payables to personnel	346	412	172	171	304	409	30	27	-	-	852	1,019
Social security payables	186	219	110	125	143	254	15	16	-	-	454	614
Segment liabilities	**532**	**631**	**282**	**296**	**447**	**663**	**45**	**43**	**-**	**-**	**1,306**	**1,633**
Non-allocated liabilities											**117,701**	**112,040**
Total liabilities											**119,007**	**113,673**

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

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Medical products*		*Other revenue*		*Total*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Capital expenditures	1,182	612	768	1,744	2,061	4,126	4	113	870	881	4,885	7,476
Depreciation and amortisation	5,918	6,199	2,376	2,247	1,811	1,859	295	371	82	511	10,482	11,187
Non-monetary expenses, other than depreciation and amortisation	996	1,300	281	304	1,391	1,070	87	24	-	-	2,755	2,698

43. RELATED PARTY TRANSACTIONS

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

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2017 and 2018
Donev Investments Holding AD	Main shareholding company	2017 and 2018
Sopharma Trading AD	Subsidiary company	2017 and 2018
Pharmalogistica AD	Subsidiary company	2017 and 2018
Sopharma Poland OOD – in liquidation	Subsidiary company	2017 and 2018
Electroncommerce EOOD	Subsidiary company	2017 and 2018
Biopharm Engineering AD	Subsidiary company	2017 and 2018
Vitamina AD	Subsidiary company	2017 and 2018
Sopharma Buildings REIT	Subsidiary company	2017 and 2018
Momina Krepost AD	Subsidiary company	2017 and 2018
Briz SIA	Subsidiary company	2017 and 2018
Sopharma Warsaw EOOD	Subsidiary company	2017 and 2018
Sopharma Ukraine EOOD	Subsidiary company	2017 and 2018
TOO Sopharma Kazakhstan, Kazakhstan	Subsidiary company	2017 and 2018
Phyto Palauzovo AD	Subsidiary company	2017 and 2018
Veta Pharma AD	Subsidiary company	2017 and 2018
Rap Pharma International OOD	Subsidiary company	from 14.04.2017 and 2018
Aromania OOD	Subsidiary company	from 31.07.2017 and 2018
Sopharmacy EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 2 EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 3 EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 4 EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 5 EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 6 EOOD	Subsidiary company through Sopharma Trading AD	2017 and 2018
Sopharmacy 7 EOOD	Subsidiary company through Sopharma Trading AD	from 15.03.2017 and 2018
Sopharmacy 8 EOOD	Subsidiary company through Sopharma Trading AD	from 15.03.2017 and 2018
Sopharmacy 9 EOOD	Subsidiary company through Sopharma Trading AD	from 11.09.2017 and 2018
Sopharmacy 10 EOOD	Subsidiary company through Sopharma Trading AD	from 11.09.2017 and 2018
Sopharmacy 11 EOOD	Subsidiary company through Sopharma Trading AD	from 07.12.2017 and 2018
Sopharmacy 12 EOOD	Subsidiary company through Sopharma Trading AD	from 07.12.2017 and 2018
Sopharmacy 13 EOOD	Subsidiary company through Sopharma Trading AD	from 07.12.2017 and 2018
Sopharmacy 14 EOOD	Subsidiary company through Sopharma Trading AD	from 07.12.2017 and 2018
Sopharmacy 15 EOOD	Subsidiary company through Sopharma Trading AD	from 07.12.2017 and 2018
Sopharmacy 16 EOOD	Subsidiary company through Sopharma Trading AD	from 15.05.2018
Sopharmacy 17 EOOD	Subsidiary company through Sopharma Trading AD	from 15.05.2018
Sopharma Trading OOD – Belgrade	Subsidiary company through Sopharma Trading AD	2017 and 2018
Lekovit OOD	Subsidiary company through Sopharma Trading AD	from 09.08.2017 and 2018
Medica Zdrave EOOD – in liquidation	Subsidiary company	until 22.02.2017
Brititrade COOO	Subsidiary company through Briz OOD	2017 and 2018

Related parties	*Relation type*	*Relation period*
OOO Tabina	Subsidiary company through Briz OOD	2017 and 2018
ZAO Interpharm	Joint venture through Briz OOD	until 25.04.2017
ZAO Interpharm	Subsidiary company through Briz OOD	from 26.04.2017 and 2018
SOOO Brizpharm	Subsidiary company through Briz OOD	2017 and 2018
OOO Vivaton Plus	Joint venture through Briz OOD	until 17.05.2017
OOO Farmacevt Plus	Subsidiary company through Briz OOD	2017 and 2018
ZAO UAB TBS Pharma	Subsidiary company through Briz OOD	2017 and 2018
ODO Vestpharm	Subsidiary company through Briz OOD	until 01.08.2017
ODO Alean	Subsidiary company through Briz OOD	until 31.08.2017
BelAgroMed ODO	Subsidiary company through Briz OOD	until 01.08.2017
BOOO SpetzApharmacia	Joint venture through Briz OOD	2017 and until 15.08.2018
BOOO SpetzApharmacia	Subsidiary through Briz OOD	from 16.08.2018
OOO Med-dent	Joint venture through Briz OOD	2017 and until 15.08.2018
OOO Med-dent	Subsidiary through Briz OOD	from 16.08.2018
OOO Bellerophon	Joint venture through Briz OOD	2017 and 2018
ODO Alenpharm Olus	Subsidiary company through Briz OOD	2017 and 2018
ODO Salyus Line	Subsidiary company through Briz OOD	2017 and 2018
OOO Mobil Line	Subsidiary company through Briz OOD	until 04.07.2017
ODO Medjel	Subsidiary company through Briz OOD	2017 and 2018
OOO GalenaPharm	Subsidiary company through Briz OOD	2017 and 2018
OOO Danapharm	Subsidiary company through Briz OOD	until 01.12.2017
OOO NPFK Ariens	Joint venture through Briz OOD	15.08 2017
OOO NPFK Ariens	Subsidiary company through Briz OOD	from 16.08.2017 and 2018
OOO Ivem & K	Joint venture through Briz OOD	until 15.08 2017
OOO Ivem & K	Subsidiary company through Briz OOD	from 16.08.2017 and 2018
OOO Zdorovei	Associate through Briz OOD	15.08 2017
OOO Zdorovei	Subsidiary company through Briz OOD	from 16.08.2017 and 2018
OOO Farmatea	Subsidiary company through Briz OOD	2017 and 2018
Zabotlivaia apteka OOO	Subsidiary company through Briz OOD	from 03.04.2018
Sopharma Properties REIT	Company related through main shareholder	2017 and 2018
Sofprint Group AD	Company related through main shareholder	2017 and 2018
Elpharma AD	Company related through key management personnel	2017 and 2018
Telecomplect AD	Company related through key management personnel	2017 and 2018
Doverie Obedinen Holding AD	Associate	2017 and 2018
Bulgarsko Vino OOD	Other related party	2017 and 2018
ZOF Mediko 21 EAD	Other related party	2017 and 2018
CTM Doverie OOD	Other related party	2017 and 2018
Doverie Grizha EAD (Veko EOOD)	Other related party	2017 and 2018
Doverie Capital AD	Other related party	2017 and 2018

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

Sales to related parties	***2018***	***2017***
	BGN '000	***BGN '000***
Sales of finished products to:		
Subsidiaries	128,828	117,622
Companies related through a main shareholder	-	7
	128,828	**117,629**
Sales of goods and materials to:		
Companies related through a main shareholder	740	777
Subsidiaries	509	539
Other related parties	2	-
Companies related through key managing personnel	1	-
	1,252	**1,316**
Sales of services to:		
Subsidiaries	2,104	1,398
Companies related through a main shareholder	51	48
Other related parties	20	4
Companies related through key managing personnel	16	11
Associates	7	7
	2,198	**1,468**
Sales of property, plant and equipment to:		
Other related parties	24	-
Subsidiaries	1	53
	25	**53**
Interest on loans granted to:		
Associates	602	411
Subsidiaries	513	522
Other related parties	199	76
Companies related through key managing personnel	107	541
	1,421	**1,550**
Dividend income from:		
Subsidiaries	8,693	7,168
Companies related through a main shareholder	49	-
	8,742	**7,168**
Total	**142,466**	**129,184**

Supplies from related parties	***2018***	***2017***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies related through a main shareholder	9,235	9,197
Subsidiaries	222	149
Other related parties	112	84
Companies related through key managing personnel	13	36
	9,582	**9,466**
Supply of services from:		
Subsidiaries	9,758	5,187
Companies related through key managing personnel	2,828	3,119
Companies related through a main shareholder	1,504	1,745
Other related parties	910	817
Main shareholding companies	341	229
	15,341	**11,097**
Supply of non-current assets:		
Companies related through key managing personnel	72	344
Other related parties	1	29
	73	**373**
Supplies for acquisition of non-current assets:		
Companies related through key managing personnel	2,313	1,222
Other related parties	198	-
Subsidiaries	12	-
Main shareholding companies	-	6
	2,523	**1,228**
Investments acquired from:		
Increase in capital in companies related through a main shareholder	-	425
	-	**425**
Other supplies from:		
Main shareholding companies	6	3
	6	**3**
Dividends accrued to:		
Main shareholding companies	6,777	6,141
Key managing personnel	221	42
	6,998	**6,183**
Total	**34,523**	**28,775**

The terms and conditions of these transactions do not deviate from the market ones for similar transactions. The accounts and balances with related parties are presented in *Notes 21, 24 and 35.*

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

Salaries and other short-term benefits of key managing personnel are regular and amount to BGN 1,401 thousand (2017: BGN 1,759 thousand), including:

- current wages and salaries – BGN 970 thousand (2017: BGN 1,357 thousand);
- tantieme – BGN 429 thousand (2017: BGN 402 thousand);
- share-based payments – BGN 2 thousand (2017: none).

44. IMPACT OF THE INITIAL ADOPTION OF IFRS 9 AND IFRS 15

This Note presents the impact on the Company's financial statements for 2018 of the first-time adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* as at 1 January 2018.

IFRS 9 *Financial Instruments* replaces the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* with respect to the recognition, classification and measurement of financial assets and financial liabilities, the derecognition of financial instruments, impairment of financial assets and hedge accounting. It introduces new classification criteria and groups of financial assets, respectively new rules for their subsequent measurement and for the recognition of interest income. The other material difference is the adoption of a new approach to measure impairment – based on expected credit losses. Upon the adoption of IFRS 9 *Financial Instruments*, the Company has applied the exceptions permitted for initial adoption, and has applied the standard for contracts for financial instruments outstanding as at 1 January 2018.

The adoption of IFRS 9 *Financial Instruments* has resulted in certain changes in the accounting policies and an adjustment to the amounts of the respective items recognised in the financial statements. The new accounting policies are set out in *Notes 2.6 and 2.31*.

IFRS15 Revenue from Contracts with Customers replaces IAS 18 *Revenue*, which covers goods and services contracts, and IAS 11 *Construction Contracts*, which covers construction contracts, and the respective SIC and IFRIC. The new standard establishes a model of five steps to account for contracts with customers. This model is based on the principle that revenue is recognised when control of a good or service transfers to a customer at an amount reflecting the consideration the entity expects to be entitled to in return for the transfer of goods or services to the customer. The adoption of the new IFRS 15 *Revenue from Contracts with Customers* significantly increases the use of judgement in the recognition of revenue and provides guidance for accounting for contract expenses.

Presentation and disclosure pursuant to IFRS 15 *Revenue from Contracts with Customers* are to a certain extent different and more detailed compared to the accounting standards repealed. The Company has applied the guidance of IFRS 15 for all contracts outstanding as at 1 January 2018, with the practical expedient permitted for modified contracts with customers.

The adoption of IFRS 15 *Revenue from Contracts with Customers* has resulted in changes in the accounting policies, but has not necessitated adjustments to the respective items recognised in the financial statements. The new accounting policies are presented in *Note 2.6*.

The cumulative impact of the initial adoption of IFRS 9 and IFRS 15 for each item in the statement of financial position as at 1 January 2018 is as follows:

Statement of financial position	**Notes**	**31.12.2017 restated statement with combined indicators (Note 40)**	**Impact of the adoption of IFRS 9**	**Impact of the adoption of IFRS 15**	**01.01.2018 restated**
		BGN'000	**BGN'000**	**BGN'000**	**BGN'000**
ASSETS					
Non-current assets					
Property, plant and equipment		239,721	-	-	239,721
Intangible assets		12,457	-	-	12,457
Investment property		24,799	-	-	24,799
Investments in subsidiaries		89,729	-	-	89,729
Investments in associates		7,740	-	-	7,740
Other long-term equity investments	a	7,552	-	-	7,552
Long-term receivables from related parties	b	21,583	(119)	-	21,464
Other long-term receivables	c	4,210	(6)	-	4,204
		407,791	**(125)**	**-**	**407,666**
Current assets					
Inventories		69,018	-	-	69,018
Receivables from related parties	d	77,218	(392)	-	76,826
Trade receivables	e	23,258	(575)	-	22,820
Loans granted to third parties	f	3,201	(66)	-	3,135
Other receivables and prepayments		4,901	-	-	4,901
Cash and cash equivalents	g	5,764	-	-	5,764
		183,360	**(1,033)**	**-**	**182,464**
TOTAL ASSETS		**591,151**	**(1,158)**	**-**	**590,130**

Statement of financial position (continued)	Notes	31.12.2017 restated statement with combined indicators (Note 40)	Impact of the adoption of IFRS 9	Impact of the adoption of IFRS 15	01.01.2018 restated
		BGN'000	BGN'000	BGN'000	BGN'000
EQUITY AND LIABILITIES					
EQUITY					
Share capital		134,798	-	-	134,798
Treasury shares		(33,834)	-	-	(33,834)
Reserves		330,683	-	-	330,683
Retained earnings	b, c, d, e, f, i	45,831	(1,309)	-	44,522
TOTAL EQUITY		**477,478**	**(1,309)**	**-**	**476,169**
LIABILITIES					
Non-current liabilities					
Long-term bank loans		16,691	-	-	16,691
Deferred tax liabilities	i	7,153	(146)	-	7,007
Government funding		5,930	-	-	5,930
Long-term employee benefit obligations		4,139	-	-	4,139
		33,913	**(146)**	**-**	**33,767**
Current liabilities					
Short-term bank loans		53,088	-	-	53,088
Current portion of long-term bank loans		7,392	-	-	7,392
Trade payables		7,713	-	-	7,713
Payables to related parties		818	-	-	818
Tax liabilities		1,525	-	-	1,525
Payables to staff and for social security		7,828	-	-	7,828
Other current liabilities	h	1,396	297	137	1,830
		79,760	**297**	**137**	**80,194**
TOTAL LIABILITIES		**113,673**	**151**	**137**	**113,961**
TOTAL EQUITY AND LIABILITIES		**591,151**	**(1,158)**	**137**	**590,130**

The impact on the Company's retained earnings on 1 January 2018 of the adoption of IFRS 9 is as follows:

Effect	**Notes**	**BGN'000**
Accrual of a provision for impairment of expected credit losses under trade receivables from related parties	24	(305)
Accrual of a provision for impairment of expected credit losses under trade receivables from third parties	25	(575)
Accrual of a provision for impairment of expected credit losses under long-term loans to related parties	21	(119)
Accrual of a provision for impairment of expected credit losses under short-term loans to related parties	24	(87)
Accrual of a provision for impairment of expected credit losses under long-term loans to third parties	22	(6)
Accrual of a provision for impairment of expected credit losses under short-term loans to third parties	26 (a)	(66)
Accrual of a provision for financial guarantees	38	(297)
Increase in deferred tax assets related to provisions accrued for credit losses		146
Total impact on retained earnings		**(1,309)**
Opening balance of retained earnings on 1 January 2018 following restatement for the initial adoption of IFRS 9		**44,522**

On 1 January 2018 the Company's management assessed the business models of the separate financial assets and liabilities held by the Company, and reclassified its financial instruments into the respective categories under IFRS 9. The impact of the reclassification made on 1 January 2018 compared to the IAS 39 measurement criteria is as follows:

	Measurement categories		**Carrying amount**			
	IAS 39	**IFRS 9**	**IAS 39**	**IFRS 9**	**Difference**	**Note**
Non-current financial assets			**BGN'000**	**BGN'000**	**BGN'000**	
Other long-term equity investments	Available for sale	At fair value through other comprehensive income	7,552	7,552	-	a
Long-term receivables from related parties	Loans and receivables	At amortised cost	21,583	21,464	(119)	b
Other long-term receivables	Loans and receivables	At amortised cost	4,210	4,204	(6)	c

	Measurement categories		Carrying amount			
	IAS 39	**IFRS 9**	**IAS 39**	**IFRS 9**	**Difference**	**Note**
Current financial assets			**BGN'000**	**BGN'000**	**BGN'000**	
Receivables from related parties	Loans and receivables	At amortised cost	77,218	76,826	(392)	d
Trade receivables	Loans and receivables	At amortised cost	23,258	22,683	(575)	e
Loans to third parties	Loans and receivables	At amortised cost	3,201	3,135	(66)	f
Cash and cash equivalents	Loans and receivables	At amortised cost	5,764	5,764	-	g

Notes to the reconciliation of retained earnings before and after the reclassifications and restatements made on 1 January 2018 in relation to the initial adoption of IFRS 9

a) The Company has elected to present within other comprehensive income the changes in the fair value of equity investments earlier classified as “available for sale”, in as far as these investments are held as long-term strategic investments which are not expected to be traded or sold in the short or medium term *(Note 20).* As a result, equity investments with a fair value of BGN 7,599 thousand have been reclassified and remeasured from “financial assets available for sale” under IAS 39 to “financial assets at fair value through other comprehensive income” under IFRS 9, and this reclassification has not resulted in adjustments to the Company’s equity. The effects of the restatement made are presented in “reserve from financial assets at fair value through other comprehensive income”;

b) Long-term loans to related parties are held by the Company with the purpose of support in the funding of such companies’ activities towards common strategic objectives and obtaining contractual cash flows and give rise to cash flows constituting solely payment of principal and interest (SPPI). They are reclassified and measured from “loans and receivables” under IAS 39 to “financial assets at amortised cost” under IFRS 9. The Company has applied the general approach of IFRS 9 to measure expected credit losses from long-term loans to related parties on 1 January 2018 *(Note 21).* As a result, additional impairment has been recognised for expected credit losses at the amount of BGN 119 thousand in the opening balances, which has resulted in decrease in retained earnings, respectively in the carrying amount of long-term loans to related parties, by the same amount, on 1 January 2018;

c) Long-term loans to third parties are only held by the Company with the purpose of receiving the contractual cash flows and give rise to cash flows which are solely payments of principal and interest (SPPI). Therefore, they are reclassified and remeasured from "loans and receivables" under IAS 39 to "financial assets at amortised cost" under IFRS 9. The Company has applied the general approach of IFRS 9 to measure expected credit losses from long-term loans to third parties on 1 January 2018 *(Note 22).* As a result, additional impairment has been recognised for expected credit losses at the amount of BGN 6 thousand in the opening balances, which has resulted in decrease in retained earnings, respectively in the carrying amount of long-term loans to third parties, by the same amount, on 1 January 2018;

d) Trade receivables are held by the Company with the purpose of receiving the contractual cash flows and give rise to cash flows which are solely payments of principal and interest (SPPI). Therefore, they are reclassified and remeasured from "loans and receivables" under IAS 39 to "financial assets at amortised cost" under IFRS 9. The Company has applied the simplified approach under IFRS 9 for initial measurement of expected credit losses from trade receivables on 1 January 2018 *(Note 24).* As a result, additional impairment has been recognised at the amount of BGN 305 thousand in the opening balances, which has resulted in a decrease in retained earnings, respectively in the carrying amount of trade receivables, by the same amount, on 1 January 2018;

   The Company has granted loans to related parties with the aim of financially supporting them. These short-term loans to related parties are reclassified and remeasured from "loans and receivables" under IAS 39 to "financial assets at amortised cost" under IFRS 9. The Company has applied the simplified approach under IFRS 9 for initial measurement of expected credit losses from trade receivables on 1 January 2018 *(Note 24).* As a result, additional impairment has been recognised at the amount of BGN thousand in the opening balances, which has resulted in a decrease in retained earnings, respectively in the carrying amount of short-term loans to related parties, by the same amount, on 1 January 2018. The total impact on trade receivables and short-term loans to related parties amounts to a reduction in retained earnings by BGN 392 thousand, respectively – in the carrying amount of receivables from related parties, by the same amount, on 1 January 2018;

e) Trade receivables from third parties are held by the Company with the purpose of receiving the contractual cash flows. Therefore, they are reclassified and remeasured from "loans and receivables" under IAS 39 to "financial assets at amortised cost" under IFRS 9. The Company has applied the simplified approach under IFRS 9 for initial measurement of expected credit losses from trade receivables on 1 January 2018 *(Note 25).* As a result, additional impairment for expected credit losses has been recognised at the amount of BGN 575 thousand in the opening balances, which has resulted in a decrease in retained earnings, respectively in the carrying amount of trade receivables from third parties, by the same amount, on 1 January 2018;

f) Short-term loans granted to third parties are held by the Company with the purpose of receiving the contractual cash flows and give rise to cash flows which are solely payments of principal and interest (SPPI). Therefore, they are reclassified and remeasured from “loans and receivables” under IAS 39 to “financial assets at amortised cost” under IFRS 9. The Company has applied the simplified approach under IFRS 9 for initial measurement of expected credit losses from trade receivables on 1 January 2018 *(Note 26(a))*. As a result, additional impairment has been recognised at the amount of BGN 66 thousand in the opening balances, which has resulted in a decrease in retained earnings, respectively in the carrying amount of short-term loans granted to third parties, by the same amount, on 1 January 2018;

g) Cash and cash equivalents are also subject to impairment requirements under IFRS 9 (Note *27),* but the impairment loss identified for them is too insignificant to be entered in these statements;

h) Financial guarantees provided are included as subject to impairment under IFRS 9. The Company has applied the simplified approach under IFRS 9 for initial measurement of expected credit losses from financial guarantees provided on 1 January 2018 *(Note 38)*. As a result, additional impairment has been recognised at the amount of BGN 297 thousand in the opening balances, which has resulted in a decrease in retained earnings and an increase of expected credit losses recognised as liabilities, by the same amount, on 1 January 2018;

i) Pursuant to the restatements made under items b), c), d), e), f) and h) herein above, additional deferred tax assets have been recognised at the amount of BGN 146 thousand, which has resulted in an increase in retained earnings by the same amount on 1 January 2018.

The initial adoption of IFRS 15 *Revenue from Contracts with Customers* has not impacted the amount of Company’s retained earnings at 1 January 2018.

Recovery obligations include the Company’s obligation to recover a portion of or the entire consideration received (or subject to receipt) from the customer under contracts with a right of return – for expected retrospective volume discounts and/or quality compensations.

Recovery obligations under contracts with customers are stated within “other current liabilities” in the statement of financial position; therefore, a reclassification has been made at the amount of BGN 137 thousand from trade receivables from third parties.

45. POTENTIAL IMPACT OF THE APPLICATION OF NEW IFRS

IFRS 16 *Leases* is the new standard on leases. It will replace IAS 17 *Leases*, and the respective SIC and IFRIC.

IFRS 16 establishes principles and rules for the recognition, measurement, presentation and disclosure of leases, by both lessor and lessees.

The most significant changes concern accounting for leases by lessees.

Accounting for by lessees

IFRS 16 establishes a uniform model of lease accounting for by lessees that introduces their recognition in the balance sheet, similar to finance lease accounting under IAS 17.

Under the new standard, a contract contains a lease if the contract conveys the right to control the use of an identified asset for a certain period in return for consideration.

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability at the present value of the lease payments that are not paid at that date.

The two exceptions permitted by the standard are: (a) short-term leases (up to 12 months) and/or (b) low-value leases. If a lessee elects to apply the standard's exemptions regarding either short-term leases or leases for which the underlying asset is of low value, the lessee shall recognise the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis similar to operating lease accounting under IAS 17.

Lessees will recognise interest expense for the lease liability and respectively a depreciation expense for the right-of-use asset. Moreover, lessees will have to recognise revaluation of the lease liability upon the occurrence of certain events (for instance, changes in the conditions of the lease contract, changes to future lease payments due to changes in certain values (index, percentage, etc.) used in the calculation of lease payments). In these cases, lessees recognise changes as an adjustment of the lease liability and the right-of-use asset.

Accounting for by lessors

IFRS 16 does not substantially change accounting for leases by lessors. They will continue to classify each lease as either finance or operating, in fact applying the material rules of the old standard IAS 17, which remain unchanged in the new IFRS 16.

The Company has reviewed and analysed all lease agreements in the light of the guidance of the new IFRS 16. The standard will affect primarily the accounting of operating leases in which the Company is a lessee.

As at 31.12.2018 the Company has non-cancellable commitments under four operating lease agreements at the amount of BGN 5,538 thousand. These only constitute capitalised rentals.

As at 31.12.2018 the Company has concluded one contract which is a short-term and low-value operating lease (term until 31 December 2019, and the annual rental amount is BGN 6 thousand) (*Note* 2.21).

The effects of the change in the accounting policy resulting from the adoption of IFRS 16 are set out below:

a) The Company expects to recognise right-of-use assets of BGN 5,538 thousand on 1 January 2019, lease liabilities of BGN 5,538 thousand (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018);

b) Overall net assets will remain unchanged, and net current assets will decrease by BGN 1,516 thousand lower due to the presentation of a portion of the liability as a current liability;

c) The Company expects that the net profit for 2019 will increase by BGN 6 thousand as a result of adopting the new standard;

d) The Company's EBIDTA is expected to increase by approximately BGN 1,574 thousand due to the accounting for lease expenses as depreciation expenses of the right-of-use asset and interest on the lease liability;

e) Net operating cash flows will increase and net financing cash flows will decrease by BGN 1,574 thousand as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The Company 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.

The Company will measure the right-of-use assets under all lease agreements at an amount equal to the lease liabilities, adjusted with the amount of all lease payments paid or accrued in advance and recognised immediately prior to adoption.

46. EVENTS AFTER THE REPORTING PERIOD

On 31 January 2019 the Company received from the Executive Drugs Agency an updated permit for the production/import of medicinal products, No BG /MIA – 0081, in which the merged subsidiary Unipharm AD is registered *(Note 2.3)*.

No other events occurred after the date of the balance sheet which require adjustments or disclosures in the separate financial statements.