

SOPHARMA GROUP**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 September 2017**

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

1. BACKGROUND INFORMATION ON THE GROUP

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

Parent company

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

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

Subsidiaries

The Group subsidiaries as at 30 September 2017 are as follows:

- Sopharma Trading AD – a business entity registered in Bulgaria by Decision No. 3594/16.10.1998 of Varna District Court, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Pharmalogistica AD – a business entity registered in Bulgaria by Decision of Sofia City Court dated 12 August 2002, with a seat and address of management: Sofia, 16, Rozhen Blvd.;
- Electron commerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 24456 of 1991, with a seat and address of management: Sofia, 1, Samokovsko Shousse St.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and address of management: Sliven, 75, Trakiya Blvd.;
- Momina Krepost AD – a business entity registered in Bulgaria by Decision No. 3426/1991 of Veliko Tarnovo District Court, with a seat and address of management: Veliko Tarnovo, 23, Magistralna St.;
- Sopharma Buildings REIT – a business entity registered in Bulgaria by Decision No. 1/14.08.2007 of Sofia City Court, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 20;
- Unipharm AD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 3685 of 1994, with a seat and address of management: Sofia, 3, Traiko Stanoev St.;
- Phyto Palauzovo AD – a business entity registered in Bulgaria by Decision No. 20120924105551/24.09.2012 of the Registry Agency, with a seat and address of management: Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;
- Sopharmacy EOOD – a business entity registered in Bulgaria by Decision No. January-September 201601191300026/19.01.January-September 2016 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;

- Sopharmacy 2 EOOD – a business entity registered in Bulgaria by Decision No. January-September 20160617110324/17.06.January-September 2016 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 3 EOOD – a business entity registered in Bulgaria by Decision No. January-September 20161202165822/02.12.January-September 2016 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 4 EOOD – a business entity registered in Bulgaria by Decision No. January-September 20170229093338/29.02.January-September 2017 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 5 EOOD – a business entity registered in Bulgaria by Decision No. January-September 20170301155620/01.03.January-September 2017 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 6 EOOD – a business entity registered in Bulgaria by Decision No. 20170315161212/15.03.2014 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12 (Until 10 July January-September 2017, the name of the company was Pharma Online EOOD);
- Sopharmacy 7 EOOD – a business entity registered in Bulgaria by Decision No. 20140127170842/27.01.2014 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 8 EOOD – a business entity registered in Bulgaria by Decision No. 20170627142803/27.06.2017 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 9 EOOD – a business entity registered in Bulgaria by Decision No. 20170911100706/11.09.2017 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 10 EOOD – a business entity registered in Bulgaria by Decision No. 20170911101412/11.09.2017 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Veta Pharma AD – business entity registered in Bulgaria under Company File No. 581/05.04.1999 of Veliko Tarnovo District Court, with a seat and address of management: Veliko Tarnovo, 32, Dulga Luka St.;
- Aromania OOD – a business entity, registered in Bulgaria by decision of the Varna Regional Court 4276/27.06.2005 and with seat and management address – Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 8;

- Sopharma Poland Z.O.O., Poland, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554/04.11.2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and address of management: Poland, Warsaw, 58, Shashkova St.;
- Sopharma Warsaw SP. Z.O.O., Poland – a business entity registered in Poland by Decision No. DSR 0000372245 of 17 December 2010 by XII Economic Division of the State Court Register of Warsaw, with a seat and address of management: Poland, Warsaw, 8, Halubinskiego St.;
- OOO Sopharma Ukraine, Ukraine – a business entity registered in Ukraine by Decision No. 10691020000029051/07.08.2012 in the Unified State Register of Legal Entities and Physical Entities-Entrepreneurs, with a seat and address of management: Ukraine, Kiev, Oblonski Region, prospect Moskovskii No. 9, unit 4, floor 2, office 4-203;
- PAO Vitamini, Ukraine – a business entity registered in Ukraine by Decision No. 133/15.04.1994 of Uman City Court, with a seat and address of management: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri St.;
- Sopharma Trading d.o.o. Belgrade, Serbia – a business entity registered in Serbia by BD 49136/January-September 2016 on 5 June January-September 2016 of the Business Registers Agency in Belgrade with a seat and address of management: Republic of Serbia, Belgrade, 13, Palmoticheva St.;
- Lekovit D.o.o., Serbia – a business entity, registered in Serbia with decision 07829531/05.02.1992 of the Agency of Business Registers with seat and management address – Serbia, Sabac municipality, Sabac city, 66, Janka Veselinovna Str.;
- SIA Briz, Latvia – a business entity registered in Latvia by Decision No. 000302737 / 18.09.1991 of the Commercial Registry of the Republic of Latvia, with a seat and address of management: Latvia, Riga, Rasas No. 5, LV – 1057;
- SOOO Brititrade, Belarus – a business entity registered in Belarus by Decision No. 1983 / 24.09.2004 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 118, M. Bogdanovicha St., office 303 – B;
- OOO Tabina, Belarus – a business entity registered in Belarus by Decision No. 1432 / 29.12.1999 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 57, Kuybisheva St., ap.1;
- SOOO Brizpharm, Belarus – a business entity registered in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 800007989 / 07.07.2009, with a seat and address of management: Belarus, Minsk, Esenina St., d. 16, ap. 1H;
- OOO Farmacevt Plus, Belarus – a business entity registered by the Minsk City Executive Committee on 24.11.2000 / No 1348 in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 190174236, with a seat and address of management: Belarus, Minsk, 1 Tverdiy Pereulok, d. 7;
- UAB TBS Pharma, Lithuania – a business entity, registered by the Lithuanian Register of Legal Entities on 01.03.2013 / 303011389, with a seat and address of management: Lithuania, Vilnius, 8 Vytauto / 7 Liubarto St., POB 08118;

- TOO Sopharma Kazakhstan, Kazakhstan – a business entity registered in Kazakhstan by Decision No. 5286-1910-04-TOO / 06.11.2014 of the Ministry of Justice, Auezovski Region, with a seat and registered address: Kazakhstan, Almaty, Auezovski Region, Mamyr Microdistrict - 4, d. 190;
- OOO Danapharm, Belarus – a business entity registered in Belarus by Decision dated 09.04.2004 of Brest Regional Executive Committee, with a seat and address of management: Belarus, Brest, 53, Masherova Blvd.;
- OOO Galenapharm, Belarus – a business entity registered in Belarus by Decision dated 12.06.2013 of Brest Regional Executive Committee, with a seat and address of management: Belarus, Brest Region, Pinsk, ul. Bretskaya 118-97;
- ODO Medjel, Belarus – a business entity registered in Belarus by Decision No. 1044 / 14.09.2000 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 60, Soltisa St.;
- ODO Alenpharm-plus, Belarus – a business entity registered in Belarus by Decision dated 25.09.2008 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 29, Logotskiy Tract;
- ODO Farmatea, Belarus – a business entity registered in Belarus by Decision dated 17.10.2012 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 20, Bakinskaya St.;
- ODO SalusLine, Belarus – a business entity registered in Belarus by Decision No. 287 / 05.05.2006 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, 6, Vilenskaya St.
- Rap Pharma International OOD, Moldova – a business entity, registered in Moldova with number 1004601000376 as of 11.02.2004 at the State Registration Authority with seat in Moldova, Kishinev, 58, Mitropolit Varlaam str. And management address – Moldova, Kishinev, 9/1, Uzinelor str.
- ZAO Interfarm, Belarus – business entity registered in Belarus at the Unified State Register of the legal entities and the entrepreneurs under number 300000556 and with headquarters and management address – Belarus, Vitebsk, Stroitelei Square, building 3, app. 2;
- OOO Zdorovei, Belarus – a business entity registered in Belarus with decision as of 04.06.2014 of the Minsk City Executive Committee with seat and management address – Belarus, Minsk, 20, Bakinskaia Str.;
- OOO Ivm I K, Belarus – a business entity, registered in Belarus with decision as of 27.07.2001 of the Minsk City Executive Committee with seat and management address – Belarus, Minsk, 20, Bakinskaia Str.;
- OOO Ariens, Belarus – a business entity, registered in Belarus with decision 605 as of 30.12.1996 of the Vitebsk City Executive Committee with seat and management address – Belarus, Polotzk, Shkolnaia Str.;
- On 22 January 2017 the company Medica – Zdrave EOOD was deleted from the Commercial Register.

- On 15 March 2017 the company Sopharmacy 7 EOOD, a subsidiary of the Group through the subsidiary Sopharmacy EOOD was registered in the Commercial Register.
- On 4 July 2017 a merger of Mobil Line, Belarus in ODO Medjel, Belarus was registered, the merger united the assets and liabilities of both companies. The activities of the merged company OOO Mobil Line, Belarus are ceased and all its rights and obligations as of the moment of merger are transferred to ODO Medjel, Belarus;
- On 1 August 2017 a merger of ODO BelAgroMed, Belarus and ODO Vestfarm, Belarus in ODO SaliusLine, Belarus, the merger united the assets and liabilities of both companies. The activities of the merged companies ODO BelAgroMed, Belarus and ODO Vestfarm, Belarus are ceased and all its rights and obligations as of the moment of merger are transferred to ODO SaliusLine, Belarus;
- On 8 August 2017 the merger of Medica AD in Sopharma AD was registered with the Commercial Register of the Registration Agency. As a result of the transaction all assets of Medica AD are transferred to Sopharma AD and Medica AD is ceased without liquidation. The assets and liabilities of both companies are united as of 1 January 2017 – the date of merger for accounting purposes;
- On 31 August 2017 a merger of ODO Alean, Belarus in ODO Medjel, Belarus was registered, the merger united the assets and liabilities of both companies. The activities of the merged company ODO Alean, Belarus are ceased and all its rights and obligations as of the moment of merger are transferred to ODO Medjel, Belarus;
- On 26.04.2017, the Group, through its subsidiary SOOO Brititrade – Belarus, acquired 50% of the capital of OOO Mobil Line – Belarus and as a result the parent acquired control and the company was classified as a subsidiary.
- On 24.03.2016, Medica Balkans S.R.L. – Romania, a subsidiary through Medica AD, was terminated by liquidation and deleted from the Commercial Register;
- On 9 May 2016, the Group disposed of its interest in the subsidiary Ivančić and Sinovi d.o.o. – Serbia;
- On 18 November 2017, a registration was made on the merger of UP Alphamed – Belarus into ODO Alenpharm-plus – Belarus through combining of the assets and liabilities of both companies. The operations of the merged-in company UP Alphamed – Belarus were terminated and all of its rights and obligations at the time of merger were assumed by ODO Alenpharm-plus – Belarus.

As a result of a merger the Group acquires a controlling stake in the company SaliusLine ODO, Belarus, and the company is changed from an associate to a subsidiary.
- On 5 December January-September 2016 the Group divests its participation in its subsidiary OOO NPK Biotest, Belarus.

Joint ventures

The joint ventures of the Group as at 30 September 2017 are as follows:

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

Associates

The associates of the Group as at 30 September 2017 are as follows:

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

1.1. Ownership and management of the parent company

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

The shareholding structure of the parent company as at 30 September 2017 is as follows:

	%
Donev Investments Holding AD	25.19
Telecomplex Invest AD	20.41
Rompharm Company OOD	17.68
ZUPF Allianz Bulgaria	5.17
Sopharma AD (treasury shares)	3.83
Other legal persons	22.67
Natural persons	5.05
	100.00

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

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

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

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

The composition of the Audit Committee is as follows:

Vasil Naidenov	Chairman
Tsvetanka Zlateva	Member
Kristina Atanasova	Member

1.2. Structure of the Group and principal activities

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

<i>Subsidiaries</i>	<i>Jan-Sept 2017Interest %</i>	<i>Jan-Sept 2016Intere st %</i>	<i>Date of acquisition of control</i>	<i>Date of disposal of control</i>
<i>Companies in Bulgaria</i>				
Sopharma Trading AD*	72.66	72.58	08.06.2006	
Pharmalogistica AD	89.39	84.93	15.08.2002	
Electroncommerce EOOD	100	100	09.08.2005	
Biopharm Engineering AD	97.15	97.15	10.03.2006	
Sopharma Buildings REIT	40.38	40.39	04.08.2008	
Momina Krepost AD	93.54	93.54	01.01.2008	
Unipharm AD *	98.77	77.89	27.10.2010	
Phyto Palauzovo AD	95	95	21.09.2012	
Sopharmacy EOOD**	72.66	72.58	19.01.2015	
Sopharmacy 2 EOOD**	72.66	72.58	05.06.2015	
Sopharmacy 3 EOOD**	72.66	72.58	02.12.2015	
Sopharmacy 4 EOOD**	72.66	72.58	29.02.2016	
Sopharmacy 5 EOOD**	72.66	72.58	01.03.2016	
Sopharmacy 6 EOOD**	72.66	72.58	03.12.2015	
Sopharmacy 7 EOOD**	72.66	-	15.03.2017	

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Sopharmacy 8 EOOD**	72.66	-	27.06.2017	
Sopharmacy 9 EOOD**	72.66	-	11.09.2017	
Sopharmacy 10 EOOD**	72.66	-	11.09.2017	
Medica AD	-	97.96	26.10.2015	08.08.2017
Medica-Zdrave EOOD (in liquidation)**	-	97.96	26.10.2015	22.02.2017
Veta Pharma AD	68.05	68.05	11.11.2016	
Aromania OOD	76	-	31.07.2017	

* *efficient percentage of interest*

** *indirect interest*

<i>Subsidiaries</i>	Jan-Sept 2017	Jan-Sept 2016	<i>Date of acquisition of control</i>	<i>Date of disposal of control</i>
<i>Companies abroad</i>	<i>Interest %</i>	<i>Interest %</i>		
SIA Briz	66.13	66.13	10.11.2009	
SOOO Brititrade **	52.90	52.90	10.11.2009	
PAO Vitamini	99.56	99.56	18.01.2008	
Sopharma Warsaw SP. Z.O.O.	100	100	23.11.2010	
Sopharma Trading d.o.o. Belgrade**	72.66	72.58	05.06.2015	
Sopharma Poland Z.O.O. – in liquidation	60	60	16.10.2003	
OOO Tabina **	65.64	62.82	08.04.2011	
SOOO Brizpharm **	32.59	46.26	20.12.2012	
ODO Alean **	-	62.96	07.02.2013	31.08.2017
OOO Sopharma Ukraine	100	100	07.08.2012	
OOO Farmacevt Plus **	36.93	42.98	31.05.2013	
UAB TBS Pharma**	33.73	33.73	01.03.2013	
ODO Vestpharm **	-	62.96	04.07.2013	01.08.2017
ODO BelAgroMed **	-	62.96	30.07.2013	01.08.2017
TOO Sopharma Kazakhstan	100	100	06.11.2014	
OOO Danapharm**	47.61	48.94	28.02.2015	
OOO Galenapharm**	48.94	48.94	28.02.2015	
ODO Medjel**	55.55	48.94	28.02.2015	
ODO Alenpharm-plus**	48.94	48.94	30.06.2015	
OOO Farmatea**	17.85	22.39	30.11.2015	
OOO Mobil Line**	-	48.94	16.02.2016	04.07.2017
ODO SalusLine**	48.94	48.74	18.11.2016	
Rap Pharma International OOD	51	-	14.04.2017	
ZAO Interfarm**	59.52	-	26.04.2017	
Lekovit D.o.o.**	50.86	-	09.08.2017	

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OOO Zdorovei **	28.81	-	16.08.2017
OOO Ivem I K**	36.86	-	16.08.2017
OOO Ariens**	32.87	-	16.08.2017

* *efficient percentage of interest*

** *indirect interest*

- Sopharma Trading AD is a subsidiary of Sopharma AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Sopharma Trading AD with 72.63% and the indirect participation of the parent company with 0.42% through the subsidiary Medica AD holding 0.43% of the capital of Sopharma Trading AD and 0.03% through the subsidiary Unipharm AD holding 0.03% of the capital of Sopharma Trading AD;
- Sopharma Buildings REIT is a subsidiary by virtue of a written agreement for control concluded between Sopharma AD and other shareholders;
- Sopharmacy EOOD is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy EOOD;
- Sopharmacy 2 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 2 EOOD;
- Sopharmacy 3 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 3 EOOD;
- Sopharmacy 4 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 4 EOOD;
- Sopharmacy 5 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 5 EOOD;
- Sopharmacy 6 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 6 EOOD;
- Sopharmacy 7 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital Sopharmacy 7 EOOD;
- Sopharmacy 8 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital Sopharmacy 7 EOOD;
- Sopharmacy 9 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital Sopharmacy 7 EOOD;
- Sopharmacy 10 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital Sopharmacy 7 EOOD;
- Sopharma Trading d.o.o. Belgrade is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharma Trading d.o.o. Belgrade;
- Lekovit D.o.o. is a subsidiary through Sopharma Trading AD – Sopharma Trading AD owns 70% of the capital of Lekovit D.o.o.;
- SOOO Brititrade, Belarus, is a subsidiary of SIA Briz, Latvia, whereas the latter holds 80% of the capital of SOOO Brititrade;

- OOO Tabina, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus - whereas SIA Briz, Latvia holds 70.1% of the capital of OOO Tabina and SOOO Brititrade – 24.9% of the capital of OOO Tabina;
- SOOO Brizpharm, Belarus, is a subsidiary through SIA Briz, Latvia and its subsidiary OOO Pharmacevt plus, Belarus – SIA Briz holds 1.27% of the capital of SOOO Brizpharm and OOO Pharmacevt Plus – 85.98% of the capital of SOOO Brizpharm;
- OOO Farmacevt Plus, Belarus, is a subsidiary through SIA Briz, Latvia, whereas the latter holds 55.84% of the capital of OOO Farmacevt Plus;
- UAB TBS Pharma, Lithuania, is a subsidiary through SIA Briz, Latvia, whereas the latter holds 51% of the capital of UAB TBS Pharma;
- OOO Danapharm, Belarus is a subsidiary through SOOO Brititrade, Belarus – SOOO Brititrade owns 90% of the capital of OOO Danapharm;
- ODO Galenapharm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 10% and SOOO Brititrade holds 80% of the capital of ODO Galenapharm;
- ODO Medjel, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 60% and SOOO Brititrade holds 30% of the capital of ODO Medjel;
- ODO Alenpharm-plus, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 10% and SOOO Brititrade holds 80% of the capital of ODO Alenpharm-plus;
- ODO Farmatea, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary OOO Farmacevt Plus, Belarus, and their subsidiary OOO Ivem I K, Belarus - whereas SIA Briz holds 2%, OOO Farmacevt Plus holds 49% and OOO Ivem I K – 49% of the capital of ODO Farmatea;
- ODO SalusLine, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus - SIA Briz holds 10%, SOOO Brititrade holds 80%.
- ZAO Interfarm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus - SIA Briz holds 50%, SOOO Brititrade holds 50%.
- OOO Zdorovei, Belarus is a subsidiary through SIA Briz, Latvia and its subsidiary OOO Farmacevt Plus, Belarus – SIA Briz owns 19% and OOO Farmacevt Plus – 44% of the capital of OOO Zdorovei;
- OOO Ivem i K, Belarus is a subsidiary through SOOO Brititrade, Belarus, OOO Farmacevt Plus, Belarus and OOO Zdorovei, Belarus – SOOO Brititrade and OOO Farmacevt Plus own each 25% of the capital of OOO Ivem i K and OOO Zdorovei owns 50% of the capital of OOO Ivem i K.
- OOO Ariens, Belarus is a subsidiary through OOO Farmacevt Plus, Belarus and OOO Zdorovei, Belarus – OOO Farmacevt Plus and OOO Zdorovei own each 50% of the capital of OOO Ariens.

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

The parent company holds a permit for production/import of pharmaceuticals No P-I-10-14/B-I-21-002 / 28.10.January-September 2016, issued by the Bulgarian Drug Agency (BDA).

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

- Sopharma AD – production and trade in medicinal substances (active ingredients) and finished drug forms; research and development activities in the field of medicinal products;
- Sopharma Trading AD – trade in pharmaceutical products;
- Biopharm Engineering AD – production and trade in infusion solutions;
- Pharmalogistica AD – secondary packaging of pharmaceutical products and real estate leases;
- Electroncommerce EOOD – trade, transportation and packaging of radioactive materials and nuclear equipment for medicinal use, household electronics and electrical equipment;
- Sopharma Buildings REIT – investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale;
- Momina Krepost AD – development, implementation and production of medical goods for human and veterinary medicine;
- Unipharm AD – production and trade in pharmaceuticals;
- Phyto Palauzovo AD – production, collection, purchase, growing and trade in herbs and medicinal plants;
- Medica-Zdrave EOOD (in liquidation) – represents Medica AD in the tenders and the concluding of contracts with hospitals;
- Veta Pharma AD – production of medicinal, non-medicinal and other products;
- Sopharmacy EOOD – franchising, know-how, renting of property, trade and other;
- Sopharmacy 2 EOOD – retail trade in medicinal products;
- Sopharmacy 3 EOOD – retail trade in medicinal products;
- Sopharmacy 4 EOOD – retail trade in medicinal products;
- Sopharmacy 5 EOOD – retail trade in medicinal products;
- Sopharmacy 6 EOOD – online and off-line retail trade in medicinal products;
- Sopharmacy 7 EOOD – retail trade in medicinal products;
- Sopharmacy 8 EOOD – retail trade in medicinal products;
- Sopharmacy 9 EOOD – retail trade in medicinal products;
- Sopharmacy 10 EOOD – retail trade in medicinal products;
- Aromania OOD – development and marketing of food supplements;
- PAO Vitamini, Ukraine – production and trade in pharmaceuticals;
- Sopharma Trading d.o.o. Belgrade, Serbia – consulting activities;
- Lekovit D.o.o. – wholesale with medicinal products;
- Sopharma Poland Z.O.O., Poland, in liquidation – market and public opinion research;

- Sopharma Warsaw SP. Z.O.O., Poland – wholesale trade in pharmaceutical and medicinal products and market and public opinion research;
- OOO Sopharma Ukraine, Ukraine – trade in pharmaceuticals and market and public opinion research;
- Briz SIA, Latvia – trade in pharmaceuticals;
- SOOO Brititrade, Belarus – trade in pharmaceuticals;
- OOO Tabina, Belarus – trade in pharmaceuticals;
- SOOO Brizpharm, Belarus – trade in pharmaceuticals;
- OOO Farmacevt Plus, Belarus – trade in pharmaceuticals;
- UAB TBS Pharma, Lithuania – trade in pharmaceuticals, production of finished drug forms and pharmaceutical products, research and development activities in the field of biotechnology;
- TOO Sopharma Kazakhstan, Kazakhstan – trade in pharmaceuticals;
- OOO Danapharm, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Galenapharm, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO Medjel, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO Alenpharm-plus, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Farmatea, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO SalusLine, Belarus – retail trade in pharmaceuticals and medical equipment.
- Rap Pharma International OOD, Moldova – trade with pharmaceuticals.
- ZAO Interfarm, Belarus – trade with pharmaceuticals and food additives.
- OOO Zdorovei, Belarus – wholesale of pharmaceuticals.
- OOO Ivem i K, Belarus - retail trade in medicinal products, pharmaceuticals and medical equipment.
- OOO Ariens, Belarus - retail trade in medicinal products, pharmaceuticals and medical equipment.

The parent company and the subsidiaries Sopharma Trading AD, Medica AD, Medica-Zdrave EOOD (in liquidation), Pharmalogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Sopharma Buildings REIT, Momina Krepost AD, Unipharm AD, Phyto Palauzovo AD, Sopharmacy EOOD, Sopharmacy 2 EOOD, Sopharmacy 3 EOOD, Sopharmacy 4 EOOD, Sopgarmacy 5 EOOD, Sopharmacy 6 EOOD, Sopharmacy 7 EOOD, Sopharmacy 8 EOOD, Sopharmacy 9 EOOD, Sopharmacy 10 EOOD, Veta Pharma AD and Aromania OOD perform their activities in Bulgaria; Sopharma Poland Z.O.O. (in liquidation) and Sopharma Warsaw SP. Z.O.O. operate in Poland; PAO Vitamini, OOO Sopharma Ukraine – in Ukraine; Sopharma Trading d.o.o. Belgrade and Lekovit D.o.o. – in Serbia; SIA Briz – in Latvia; SOOO Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, OOO Danapharm, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, ODO SalusLine and ZAO Interfarm,

OOO Zdorovei, OOO Ivem i K and OOO Ariens – in Belarus; UAB TBS Pharma – in Lithuania, TOO Sopharma Kazakhstan – in Kazakhstan, Rap Pharma International OOD – in Moldova.

As at 30 September 2017, the interest of the Group in *joint ventures* is as follows:

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

As at 30 September 2017, the interest of the Group in *associates* is as follows:

- Doverie Obedinen Holding AD – 24.94% interest of Sopharma AD. The principal activities of the company include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies – legal entities. The company has been an associate for the Group since 21 December 2017.

At the date of these interim consolidated financial statements, the average number of Group's personnel was 4,518 workers and employees (January-September 2016: 4,543).

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the activities of the Group companies throughout the period 2014 – 2017, are presented in the table below:

Indicator	2015	2016	1-9.2017
USD/BGN average for the year/period	1.76441	1.76833	1.73890
USD/BGN at end of the year/period	1.79007	1.85545	1.65664
PLN/BGN average for the year/period	0.46754	0.44846	0.45865
PLN/BGN at end of the year/period	0.46128	0.44347	0.45440
RSD/BGN average for the year/period	0.01620	0.01589	0.01601
RSD/BGN at end of the year/period	0.01608	0.01584	0.01634
UAH/BGN average for the year/period	0.08186	0.06916	0.06653
UAH/BGN at end of the year/period	0.07458	0.06881	0.06653
EUR/BGN average for the year/period	1.95583	1.95583	1.95583
EUR/BGN at end of the year/period	1.95583	1.95583	1.95583
1000 BYR/BGN average for the year/period	0.11167	-	-
1000 BYR/BGN at end of the year/period	0.09629	-	-
1 BYN/BGN average for the year/period	-	0.89057	0.92101
1 BYN/BGN at end of the year/period	-	0.95429	0.84388

KZT/BGN average for the year/period	0.00829	0.00518	0.00546
KZT/BGN at end of the year/period	0.00527	0.00555	0.00486
MDL/BGN average for the year/period	-	-	0.09337
MDL/BGN at end of the year/period	-	-	0,09427

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

On 1 July 2017 the official currency of the Republic of Belarus – Belarusian Ruble was denominated and the currency code was changed from BYR to BYN. The nominal value of money was decreased at a ratio 10,000 to 1.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for the preparation of the consolidated financial statements

The consolidated financial statement of Sopharma Group have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2017 and have been accepted by the Commission of the European Union.

IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

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

As of the date of publication of this financial statement, several new standards and interpretations, as well as revised standards and interpretations that have not been adopted for earlier application by the Company, have been issued.

The new and/or amended standards and interpretations include:

- IFRS 7 (revised) Financial Instruments: Disclosures - Concerning the Restatement Relief Relief and Related Disclosures in the Application of IFRS 9 (effective for annual periods beginning on or after 1 January 2018 - not adopted by the EC). This change is related to the introduction of a relief on the need to restate the comparative financial statements and the possibility to provide modified disclosures when switching from IAS 39 to IFRS 9 (when that occurs) according to the date of application of the Standard by the Group and whether it chooses the option To recalculate previous periods.
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018 adopted by the EC). This standard is a new standard for financial instruments. Its ultimate purpose is to replace IAS 39 entirely. The replacement project with the new standard has gone through three phases:

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

Phase 1: Classification and valuation of financial assets and liabilities; Phase 2: Accounting for the hedge; And Phase 3: Methodology for determining impairment. Currently, IFRS 9 is issued four times in November 2009, October 2010, November 2013, and finally in July 2014. Phase 1: Classification and Valuation of Financial Assets And liabilities - with its first issues, it replaces those parts of IAS 39 that are relevant to the classification and measurement of financial instruments. It establishes new principles, rules and criteria for the classification, valuation and write-off of financial assets and liabilities, Hybrid contracts. IFRS 9 introduces a requirement that the classification of financial assets be based on the business model of the entity's management and the characteristics of the contracted cash flows of the assets concerned. It defines only two major categories of estimates - at amortized and fair value. The new rules will lead to changes mainly in accounting for financial assets such as debt instruments and financial liabilities adopted at fair value through profit or loss (for credit risk). A particularity in the classification and valuation model for financial assets at fair value is the added category - with a fair value measurement through the other comprehensive income (for some debt and equity instruments). Phase 2: Hedge accounting - to this end, a new chapter has been adopted to IFRS 9 introducing a new hedge accounting model that allows consistent and comprehensive coverage of all financial and non-financial risk exposures subject to hedging, And, on the other, a better presentation of risk management activities in the financial statements, especially their relationship to hedging transactions and the scope and type of documentation to be used. The requirements for the structure, content and approach to hedge disclosures have also been improved. Additionally, the option to account for changes in the fair value of the self-assessments at fair value through profit or loss has been introduced but, due to changes in the quality of the Group's own creditworthiness, be presented in the other comprehensive income rather than in profit Or loss. Entities applying IAS 39 will be able to accept this policy as a policy and also will be able to continue applying the fair value hedge accounting requirements of IAS 39 even after IFRS 9 Came into force.

Phase 3 Methodology for determining impairment - the change proposes to apply the "expected loss" model. According to this model, all expected losses of a depreciable financial asset are recognized in three stages, depending on the change in credit quality and not only in the event of an event, as in the current IAS 39 model. The three stages are: Upon initial recognition of the financial asset - impairment over a 12-month period or over the life of the asset; And accordingly - upon the occurrence of impairment. They also determine how to measure impairment losses and respectively. The application of the effective interest rate;

- IFRS 10 (amended) Consolidated Financial Statements and IAS 28 (revised) Investments in associates and joint ventures - for sale or consideration of assets between an investor and its associate or joint venture (effective for annual periods beginning on or after 1 January January-September 2017 - procedure for the adoption by the European Commission for an indefinite period). This change arises in connection with the inconsistency between the requirements and the IFRS 10 and IAS 28 (revised 2011) in the case of transactions by an investor to an associate or a joint venture. It mainly clarifies that for transactions that by content are a sale or a contribution of a set of assets but are not a whole business, the gain or loss is only partially recognized to the extent of the share of unrelated investors and in cases where the transactions under Assets are a sale or contribution of assets that are business within the meaning of IFRS 3 - the gain or loss is recognized in full.

- IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018 - adopted by the EC). This standard is an entirely new standard. It introduces a comprehensive set of principles, rules and approaches for the recognition, reporting and disclosure of information on the type, amount, period and uncertainty associated with revenues and cash flows arising from contracts with counterparties. The standard will replace the current With the recognition of income, mainly IAS 18 and IAS 11. The guiding principle of the new standard is the creation of a model of steps in which the determination of parameters and timing of revenue are commensurate with the liability of each

Anita transaction between them. The key components are: (a) commercial contracts with customers and an assessment of the probability that the entity will collect the agreed amounts under the terms of the contract; (B) identification of the individual performance obligations under the contract for goods or services - delimitation from the other commitments under the contract from which the client would benefit; (C) determination of the cost of the transaction - the amount the undertaking expects to receive against the transfer of the relevant good or service to the customer - particular attention shall be paid to the variable component of the price, financial component and the component received in kind ; (D) allocation of the transaction price between the individual performance obligations under the contract - normally on the basis of the individual sale price of each component; And (e) the timing or period of recognition of revenue - in the successful performance of a contractual obligation by transferring control over the promised good or service, either at a given time or for a certain period of time. . The assumption is that the introduction of this standard may lead to the following changes: (a) for complex contracts with tied sales of goods and services, a clear distinction between the goods and services of each component and a condition under the contract will be necessary; b) likely to change the timing of recognition of sales; c) increasing the disclosures; And (d) introducing additional rules for the recognition of revenues from a certain type of contract - licenses; Consignments; once collected advance fees; Guarantees and more. Under. The Standard permits both a full retrospective application and a modified retrospective application from the beginning of the current reporting period with certain disclosures for prior periods. Additional clarifications to the standard give explanations to the new basic principles - identifying individual contract performance obligations, distinguishing principal-agent, licensing, and adding transitional reliefs;

- IFRS 15 Revenue from contracts with customers - clarifications (in force for annual periods beginning on 01.01.2018 - accepted by the EC). These clarifications relate to (a) identifying performance obligations based on specific promises for the supply of goods or services, (b) identifying whether a company is a principal or an agent in the supply of goods or services, and (c) transferring licenses. Also, this change gives relief for the transition to the new standard;

- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019 - adopted by the EC). This standard has a completely changed concept. It introduces new principles for the recognition, measurement and presentation of leases by imposing a new model in order to provide a more reliable and adequate representation of these transactions for both the lessee and the lessor. The Standard will replace the current IAS 17. - a) The guiding principle of the new standard is the introduction of a one-size-fits-all model of lease accounting for lessees - for all leases of more than 12 months duration, an asset will be recognized under The form of "right of use" to be amortized over the term of the contract and, respectively, a financial liability for the liability under these contracts. This is also the major change in current reporting practice. For short-term or very low-cost leases an exception is allowed and retention of practice; (B) There would be no material change in the lessors and they would continue to recognize leases similar to the old Standard IAS 17 as operating and financial. To the extent that the new standard gives a more complete concept, a more detailed analysis of the terms of the contracts should also be made on their behalf and it is possible for them (the lessors) to create grounds for reclassification of certain leasing transactions. The new standard requires expanding disclosures. The management of the company is in the process of exploring the possible effects and instances of lease and lease contracts with customers that will require changes in the accounting policy currently in place;

- IAS 7 (Amended) Cash Flow Statement - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017) has been adopted by the EC. This change is an important explanation of the standard itself with a view to the information provided to users of financial statements that can improve understanding of the liquidity and financial operations of the company. The amendment requires additional disclosures and clarifications to be made regarding changes in the Company's liabilities in

respect of: (a) changes in the financing activity resulting from operations that result in changes in cash flows; Or (b) changes resulting from non-cash transactions such as acquisitions and disposals, interest accruals, exchange rate effects, changes in fair values, and the like. Changes in financial assets should be included in this disclosure if the resulting cash flows are presented in the financing activity (for example, in certain hedge transactions). It is also acceptable to include changes to other objects as part of the disclosure, which are stated separately;

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

- IAS 40 (revised) - Investment property - on transfers of investment property (effective for annual periods beginning on or after 1 July 2018 - not adopted by the EC). This change is related to providing further clarification on the conditions and criteria that allow transfer to and from the investment property category. More particularly, when the object of transfer is a building under construction when changing its use. Such transfers are possible and allowed only when they are executed or respectively. When the criteria and the definition of investment property are no longer met, then there is evidence that there is evidence of a change in their use. Changes in management's intentions or plans are not considered proof of change;

- Improvements to IFRS Cycle 2014- 2016 (December 2016) - Improvements to IFRS 12 (effective for annual periods beginning on or after 1 January 2017 - not adopted by the EC), IFRS 1 and IAS 28 (effective for Annual periods of 01.01.2018 - not adopted by the EC). These improvements bring about partial changes and revisions in the relevant standards, mainly with a view to eliminating existing inconsistencies or ambiguities in the application of the rules and requirements of individual standards, as well as introducing more precise terminology of concepts. Changes are principally for the following items or operations: (a) the scope and disclosure requirements of IFRS 12 are also applicable to entities classified under the IFRS as held for sale, distributive or discontinued operations; (B) waiving certain exceptions for the application of IFRS 1; And (c) the selection of venture capital funds or other similar undertakings for the valuation of their holdings in associates or joint ventures at fair value through profit or loss, which may be leveraged on an individual basis upon initial recognition (IAS 28) ;

- IFRIC 22 (revised) - Transactions in foreign currency and prepayments (effective for annual periods beginning on or after 1 January 2018 - not accepted by the EC). This Interpretation relates to the reporting of transactions or portions of foreign currency transactions upon receipt of advance payments prior to the recognition of the asset itself, expense or income. In these cases, enterprises report a prepayable asset (prepayments of assets or services) or a deferred income liability (sales receivables from customers) and are treated as non-monetary. When receiving such foreign currency prepayments, the transaction date is used to determine the exchange rate, and if there are multiple payments, the transaction date is determined for each individual payment.

Additionally, for the above-mentioned revised standards that have been issued but are not yet in force for annual periods beginning on January 1, 2017, management has determined that the following would not have a potential effect on changes in accounting policies and classification And the values of reportable items in the financial statements of the company, namely:

- IFRS 4 (revised) Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 - adopted by the EC). This change is related to the need to synchronize reporting in companies that issue insurance contracts that also fall under IFRS 9 by presenting two approaches to accounting for income or expense for certain financial assets - an overlay approach and a deferred approach;

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

The Bulgarian subsidiaries of the Group and the associate Doverie Obedinen Holding AD maintain their accounting books in Bulgarian Lev (BGN), which is accepted as being their functional and presentation currency. The subsidiaries, associates and joint ventures abroad organise their accounting and reporting in accordance with the requirements of the respective local legislation (OOO Sopharma Ukraine and PAO Vitamini – the Ukrainian legislation; Sopharma Trading d.o.o. Belgrade and Lekovit D.o.o. – the Serbian legislation; SIA Briz – the Latvian legislation; UAB TBS Pharma – the Lithuanian legislation; SOOO Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, OOO Danapharm, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, ODO SalusLine (a subsidiary as from 23 November 2017) and ZAO Interfarm, OOO Ivem i K, OOO Ariens and OOO Zdorovei – the Belarusian legislation; the joint ventures: OOO Med-dent, BOOO SpetzApharmaciana and OOO Bellerophon – the Belarusian legislation; the associates: Sopharma Poland Z.O.O. (in liquidation), Sopharma Warsaw SP. Z.O.O. – the Polish legislation; and TOO Sopharma Kazakhstan – the legislation of Kazakhstan. The companies keep their accounting ledgers in the respective local currency – Belarusian Ruble (BYN), Ukraine Hryvnia (UAH), Serbian Dinar (RSD), Euro (EUR), Polish Zloty (PLN) and Kazakhstan Tenge (KZT) and Rap Pharma International OOD – legislation of Moldova. The companies hold their accounting registers in the respective local currencies Belarus ruble (BYN), hryvnia (UAH), Serbian dinar (RSD), euro (EUR), Polish zloty (PLN), Kazakhstan tenge (KZT) and Moldovan leu (MDL).

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

The presentation of the consolidated financial statements in accordance with IFRS requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities and the disclosure of contingent receivables and payables as at the date of the financial statements, and respectively, on the reported amounts of income and expenses for the reporting year. These estimates, accruals and assumptions are based on the information, which is available at the date of the consolidated financial statements, and therefore, the future actual results might be different from them

(whereas in a situation of financial crisis the uncertainties are much more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed in *Note 2.31, Note 14, Note 16, Note 17, Note 18 and Note 19.*

2.2. Definitions

Parent company

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

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

Subsidiary company

A subsidiary is a company, or another entity, that is controlled directly or indirectly by the parent company. The subsidiary companies are consolidated as from the date on which the effective control over them has been acquired by the Group and are de-consolidated as from the date when the control over them ceases and is transferred outside the Group. The full consolidation method is applied for their consolidation.

The subsidiary companies are presented in *Note 1.2*.

Joint venture

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

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

The joint ventures are: OOO Med-dent, OOO Bellerophon, BOOO SpetzApharmacias (*Note 1.2*).

Associate

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

Significant influence is the right of participation in decision-taking with regard to financial and operating policies of the investee but is not control or joint control over these policies. Usually it exists in case of: (a) possession by the investor, directly or indirectly, of 20% to 50% of the shares in the capital of the investee

company (including by virtue of an agreement between shareholders), and (b) in addition, the investor is represented in the managing body of the investee and/or participates in the decision-taking process with regard to the policy and strategy of the investee, and/or significant transactions exist between the investor and the investee.

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

The associate companies are: Doverie Obedinen Holding AD. (*Note 1.2*).

2.3. Consolidation principles

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

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

2.3.1. Consolidation of subsidiaries

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

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

2.3.2. Acquisition of subsidiaries

The acquisition (purchase) method of accounting is used on the acquisition of a subsidiary (entity) by the Group in business combinations. The consideration transferred includes the fair value at the date of

exchange of the assets transferred, the incurred or assumed liabilities and the equity instruments issued by the acquirer in exchange of the control over the acquiree. It includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related direct costs are recognised as current expenses when incurred except for the issue costs of debt or equity instruments, which are recognised as equity components.

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

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

2.3.3. Disposal of subsidiaries

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

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

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

2.3.4. Transactions with non-controlling interests

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

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

2.3.5. Consolidation of associates and joint ventures

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

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

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

2.4. Comparatives

In these consolidated financial statements, the Group presents comparative information for one prior year.

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

2.5. Functional currency and recognition of exchange differences

The functional currency of the Group companies in Bulgaria being also presentation currency for the Group is the Bulgarian Lev. The Bulgarian Lev is fixed to the Euro, under the BNB Act, at the ratio BGN 1.95583:EUR 1.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash, receivables and payables, as monetary reporting items, denominated in a foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the Bulgarian National Bank (BNB) for the last working day of the respective month. At 30 September, these amounts are presented in BGN at the closing exchange rate of BNB.

The non-monetary items in the consolidated statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate. Foreign exchange gains or losses arising on the settlement or recording of foreign currency commercial transactions at rates different from those at which they were converted on initial recognition, are recognised in the consolidated statement of comprehensive income in the period in which they arise and are presented net under 'other operating income/(losses)'.

The functional currency of the companies in Poland (Sopharma Poland Z.O.O. (in liquidation) and Sopharma Warsaw SP. Z.O.O. is the Polish Zloty, of the subsidiary TOO Sopharma Kazakhstan – the Kazakhstan Tenge, of the subsidiaries in Ukraine (PAO Vitamini, OOO Sopharma Ukraine) – the Ukrainian Hryvnia, of the subsidiaries in Serbia (Sopharma Trading d.o.o. Belgrade and Lekovit D.o.o.) – the Serbian Dinar, of the subsidiary in Latvia (SIA Briz) and the company in Lithuania (UAB TBS Pharma) – the Euro, of the subsidiaries in Belarus (SOOO Brititrade, OOO Tabina, OOO Farmacevt Plus, – a subsidiary up to 5 December 2017, OOO Danapharm, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, ODO SalusLine, ZAO Interfarm OOO Zdorovei, OOO Ivem i K and OOO Ariens) – the Belarusian Ruble and the subsidiary in Moldova (Rap Pharma International OOD) – in Moldovian leu.

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

- (a) all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency thereto at 30 September or at the date of disposal of the company;
- (b) all income and expenses are restated to the currency of the Group at average rate of the local currency thereto for the reporting period (*Note 2.6 and Note 2.7*);

- (c) all exchange differences resulting from the restatements are recognised and presented as a separate component of equity in the consolidated statement of financial position – 'translation of foreign operations reserve', and
- (d) the exchange differences resulting from the restatement of the net investment in the companies abroad together with the loans and other currency instruments, accepted as hedge of these investments, are presented directly in equity.

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

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

2.6. Revenue

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

The types of Group's revenue are presented in *Notes 3, 4 and 10*.

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

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

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

Revenue on sale of goods under a loyalty programme are allocated between the programme and the other components of the transaction (sale of goods). The amount received under the loyalty programme is deferred as a liability and is recognised as income when the company fulfils its obligations to provide the promoted products in line with the programme terms or when it becomes unlikely that the points under the programme will be used.

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

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

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

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

2.7. Expenses

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

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

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

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

2.8. Mandatory dividend for distribution

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

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

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

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

2.9. Property, plant and equipment

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

Initial acquisition

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

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

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

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

The Group applies the straight-line depreciation method for property, plant and equipment. Depreciation of an asset begins when it is available for use. Land is not depreciated. The useful life of the groups of assets

is dependent on their physical wear and tear, the characteristic features of the equipment, the future intentions for use and the expected obsolescence.

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- installations – 5-25 years;
- machinery and equipment – 7-25 years;
- computers and mobile devices – 2-5 years;
- motor vehicles – 5-17 years;
- servers and systems – 4-12 years;
- furniture and fixtures – 6-12 years.

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

Impairment of assets

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

Gains and losses on disposal (sale)

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

2.10. Biological assets

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

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

2.11. Intangible assets***Goodwill***

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

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

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

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

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

Other intangible assets

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

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

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

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

2.12. Investment property

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

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

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

2.13. Investments in associates and joint ventures

Long-term investments, representing shares in associates and joint ventures, are presented in the consolidated financial statements under the equity method – value that includes the acquisition cost being the fair value of the consideration paid, including the direct costs on investment acquisition adjusted by

investor's share of profits or losses and respectively the other reserves of the joint ventures and associates after the dates of their acquisition.

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

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

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

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

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

2.14.1. Available-for-sale investments

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

Initial measurement

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

Subsequent measurement

The available-for-sale investments (financial assets), held by the Group, are subsequently measured at fair value (*Note 2.31*) with the assistance of an independent certified appraiser.

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

Dividend income related with long-term investments (financial assets) representing shares in other

companies (non-controlling interests) is recognised as current income and presented in the consolidated statement of comprehensive income (within profit or loss for the year) within the item 'finance income'.

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

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

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

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

2.14.2. Financial assets at fair value through profit

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

2.15. Inventories

Inventories are valued in the consolidated financial statements as follows:

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

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

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

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

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

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

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

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

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

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

2.16. Trade and other receivables

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

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

2.17. Interest-bearing loans and other financial resources granted

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

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

2.18. Cash and cash equivalents

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

For the purposes of the consolidated statement of cash flows:

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

2.19. Trade and other payables

Trade and other current amounts payable are carried to the consolidated financial statements at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit

terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method (*Note 2.25*).

2.20. Interest-bearing loans and other borrowings

All loans and other borrowings are initially recognised in the consolidated financial statements at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured and presented in the consolidated financial statements at amortised cost by applying the effective interest rate method. Amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement, associated with these loans. Gains and losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortisation period, or when the liabilities are derecognised or reduced (*Note 2.25*).

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

2.21. Capitalisation of borrowing costs

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

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

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

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

2.22. Leases

Finance lease

Lessee

Finance leases, which transfer to the Group a substantial part of all risks and rewards incidental to ownership of the leased property, plant and equipment, are recognised as assets in the statement of financial

position of the lessee and are presented as leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments.

The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the consolidated statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate (*Note 2.25*).

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

Lessor

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

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

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

Operating lease

Lessee

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

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

Lessor

Lessor continues to hold a significant part of all risks and rewards of ownership over the said asset. Therefore the asset is still included in the composition of property, plant and equipment while its depreciation for the period is included in the current expenses of the lessor.

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

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

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

Short-term benefits

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

At each date of consolidated balance sheet, the companies of the Group measure the estimated costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated amounts of employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Tantieme and bonus schemes**Sopharma AD**

In accordance with Articles of Association of the parent company and upon a decision for approval of the General Meeting of Shareholders, the Executive Director is entitled to one-off payment (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'.

Sopharma Trading AD

In accordance with the Articles of Association, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of Company's net profit if the following two conditions are present

simultaneously – a positive financial result for the respective year and a decision of the General Meeting. The payment of an amount not less than 40% of the tantieme is deferred over a period not shorter than three years (in equal monthly instalments). For the remaining personnel, including managing staff, the amount of bonuses is accrued in the period when worked-out.

The amounts of this type of remuneration are recognised after a decision of the General Meeting of Shareholders and are presented in the statement of financial position under 'payables to personnel'.

Momina Krepost AD

In accordance with the Articles of Association and following a decision of the General Meeting of Shareholders, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of company's net profit.

Long-term retirement benefits

Defined contribution plans

For Bulgaria

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

The rates of the social security and health insurance contributions are defined annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC) at the ratio 60:40 (January-September 2016: 60:40).

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

For companies abroad

The rates of the social security contributions in Poland are approved by the Law on the National Social Security System, in Ukraine – Law on Pension Provision, in Serbia – the Law on Labour in the Republic of Serbia, in Latvia – the Law on Social Security, in Lithuania – Law on National Social Security, in Belarus – the Law on the Mandatory Contributions to the Fund for Social Security of the Population of the Ministry of Labour and Social Security, and in Kazakhstan – Law of the Republic of Kazakhstan on Social Security Obligations and Moldova – with the Law for the budget and the state social insurance. The social security

contributions are being apportioned between an employer and employees at ratios regulated by the relevant local laws.

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

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

Defined benefit plans

In accordance with the requirements of the Labour Code, the employer of the companies in *Bulgaria* is obliged to pay to its personnel upon retirement an indemnity, which depending on the length of service at the entity varies between two and six gross monthly salaries as at the termination date of the employment. In accordance with the Labour Law in *Serbia*, the employer of the Serbian company is obliged to pay to its personnel on coming of age for retirement an indemnity at the amount of at least three average salaries calculated at the time of payment. In accordance with the employment legislation in *Ukraine* and the Collective labour Agreement of the Ukrainian company, the employer is obliged to pay to its personnel on coming of age for retirement an indemnity, which depending on the length of service with the entity may vary between UAH 100 and UAH 200 (between BGN 7 and BGN 14). Also, the company in Ukraine accrues social indemnities, which are paid prior to retirement of employees due to specific labour conditions. According to the employment legislation in Poland, the employer is obliged to pay upon retirement one gross monthly salary. According to the employment legislation, there are no obligations to the personnel on retirement in Lithuania, Latvia, Belarus and Moldova.

In their nature these are unfunded defined benefit schemes.

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

At the date of issue of the consolidated financial statements, the companies of the Group assign certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid

within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in the respective country where the company itself operates.

Termination benefits

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

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

2.24. Share capital and reserves

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

According to the requirements of the Commercial Act and the Articles of Association, the parent company is obliged to set aside a ***Reserve Fund (statutory reserve)*** by using the following sources:

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

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

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

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

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

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

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

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

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

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

2.25. Financial instruments

2.25.1. Financial assets

The Group classifies its financial assets in the following categories: 'loans (credits) and receivables', 'available-for-sale assets' and 'assets at fair value through profit'. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management of the parent company together with the management of the respective subsidiary determine the classification of the financial assets for the purposes of the Group at the date of their initial recognition in the statement of financial position.

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

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

Loans and receivables

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

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the consolidated statement of financial position (*Notes 2.16, 2.17 and 2.18*). Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the consolidated statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are either acquired for the purpose of being sold or are not classified in any other category. For the Group, these are usually shares, bonds or interest in other (third) companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where a Group company intends to sell them in the following 12 months and is actively searching for a buyer (*Note 2.14.1*).

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

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

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

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

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

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

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

Financial assets at fair value through profit

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

2.25.2. Financial liabilities and equity instruments

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

Financial liabilities

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

2.26. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle (repay) the obligation. The provisions are valued based on the best estimate of the respective company management and the Group at the date of the consolidated statement of financial position of the expenses necessary to settle the respective obligation. The estimate is discounted if the obligation is long-term. When part the resources required to settle the obligation are expected to be recovered from a third party, the respective company of

the Group recognises a receivable if it is virtually certain that reimbursement will be received, its amount can be reliably measured and income (credit) is recognised in the same item of the consolidated statement of comprehensive income (within profit or loss for the year) where the provision itself is presented.

2.27. Income taxes

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

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

<i>Country</i>	<i>Tax rate</i>	
	<i>January- September</i>	<i>January- September</i>
	<i>2017</i>	<i>2016</i>
Ukraine	18%	18%
Serbia	15%	15%
Latvia	15%	15%
Belarus	18%	18%
Lithuania	15%	15%
Poland	19%	19%
Kazakhstan	20%	20%
Moldova	12%	12%

Deferred income taxes are determined using the liability method on all temporary differences of each consolidated company existing at the consolidated financial statements date, between the carrying amounts of the assets and liabilities and their tax bases, including for those arising from consolidation adjustments. Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those originating from recognition of an asset or liability, which has not affected the accounting and the taxable profit/(loss) at the transaction date.

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

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

Deferred taxes, related to items directly credited or charged as other components of comprehensive income or as an equity item in the consolidated statement of financial position, are also reported directly in the

respective component of the comprehensive income or the equity item in the statement of financial position.

Deferred tax assets and liabilities are measured at the tax rates 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 under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

Deferred tax assets of a Group company are presented net against the deferred tax liabilities of this company when it is the tax payer in the respective jurisdiction, and this is only in cases where the company is legally entitled to perform or receive net payments of current tax liabilities or income tax receivables.

As at 31 December January-September 2017, the deferred income taxes of the Group companies are assessed at the rate, valid for 2017, which is 10% for the Bulgarian companies, while those of the subsidiaries, joint ventures and associates abroad are as follows:

<i>Country</i>	<i>Tax rate 2017</i>
Ukraine	18%
Serbia	15%
Latvia	15%
Belarus	18%
Lithuania	15%
Poland	19%
Kazakhstan	20%

2.28. Government grants

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

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

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

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

2.29. Net earnings or losses per share

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

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

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

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

Diluted net earnings or losses per share are not calculated because no dilutive potential ordinary shares have been issued within the Group.

2.30. Segment reporting

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

Group's operating segments are currently monitored and directed separately as each of them represents a separate business area that bears various business risks and rewards. The operating segments by which the Group's management monitors, measures and controls the risks and returns thereof are identified in line with the main business activities performed with pharmaceuticals, namely: production and trade.

Information by operating segments

The Group uses one 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, including inter-segment ones. Usually they include: (a) for revenue – sales of finished products and goods; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration, carrying amount of goods sold; (c) for assets – property, plant and equipment, inventories, receivables from related parties, trade receivables and cash and cash equivalents; (d) for liabilities – current payables to personnel and for social security, payables to related parties, trade payables and bank loans for direct financing (long-term and short-term).

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 Group manages its investments in securities, certain trade accounts and financial resources granted as well as taxes at Group and separate company level but 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 Group as well as revenue, expenses, liabilities and assets that are not subject to allocation are stated separately in the item 'total at Group 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, other receivables, tax accounts, general-purpose production and administrative equipment.

Intersegmental transfers: segment revenue, segment expense and segment results include internal transfers between business segments. These transfers are stated at competitive market prices charged to non-related clients for similar goods and are eliminated at consolidated financial statements level.

The investments in joint ventures and associates recorded under the equity method are excluded from the assets by segment and the revenue by segment. They are presented as part of unallocated assets and the income therefrom is presented in 'gains/(losses) from joint ventures and associates, net'.

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

In addition, the Group discloses information regarding important clients when the amount of achieved revenue from a client exceeds 10% of the total amount of consolidated revenue earned from Group's operations.

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

2.31.1. Recognition of tax assets

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

As a result of this analysis, it has taken a decision for not recognising deferred tax assets at the amount of BGN 5,942 thousand in the consolidated financial statements (January-September 2016: BGN 4,243 thousand) (*Note 30*).

2.31.2. Inventories

Normal capacity

The normal production capacity of each production company is determined on the basis of management assessments (made after relevant analyses) for optimum load of their production facilities and return on the

investments made therein, with structure of the manufactured finished products accepted as being common for the company.

Allowance for impairment

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

As a result of the performed reviews and analyses in January-September 2017, impairment of inventories at the amount of BGN 722 thousand has been recovered and recognized in the consolidated statement of comprehensive income (within profit or loss for the year) (2016: accounted for recovered impairment of BGN 153 thousand) (*Note 9*).

2.31.3. Impairment of receivables

The losses from doubtful and bad debts are estimated at the date of the consolidated financial statements on individual basis for each receivable. Where difficulties in collecting certain receivables are observed, they are subject to analysis in order to determine the actually collectable portion therefrom while the remaining portion to the nominal value is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as impairment (*Note 9*).

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

- (a) With regard to clients – hospitals, accrual of interest for delay starts (in- or off-balance sheet) in case of 30 days of delay after the end of the credit period. If delinquency continues for further 30 days actions are undertaken for signing of a rescheduling agreement. In case the agreement is not complied with, the Company initiates legal actions and the relevant legal procedures whereby to ensure the collection of the receivable together with the respective interest and penalties;
- (b) With regard to clients – pharmacies, on a 5-day delay after the expiry of the credit period, the sales under deferred payment terms are suspended. If delays continue, on the 45th day of delinquency all sales are terminated and actions are undertaken for concluding of an agreement for payment of the due amounts. If the agreement is not complied with, legal proceedings are initiated;
- (c) With regard to clients –related parties (hospitals), deliveries are suspended in case of more than 30-day delinquency. If delinquencies continue for further 30 days, actions are undertaken for signing of a rescheduling agreement.

After 180 days of delay it is already considered that indicators for impairment may exist. In the assessment of the collectability of receivables, the management of the Group companies perform analysis of the total exposure of each counterpart in order to establish the actual possibility for their collection and not only at the level of past due individual receivables from the total amount due by the counterpart, including the potential for collecting interest for compensating delays. When the collectability of a receivable (a group of receivables) is highly uncertain, an assessment is made what part thereof is secured by collateral (pledge,

mortgage, guarantees) and thus with ensured collection (through future realisation of the collateral or guarantee payment). Where the management has concluded that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are impaired to 100% (*Notes 22, 23 and 24*).

The amount of the accrued impairment for the period January-September 2017 the net impairments amount to BGN 109 thousand (2016: BGN 181 thousand recovered impairment net from accrued) (*Note 9*).

2.31.4. Revaluation of property, plant and equipment

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

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

The management made detailed analysis of the reports of the certified appraisers, including the sensitivity tests. As a result thereof, the Group stated revaluation and recognised a new revaluation reserve at the amount of BGN 10,298 thousand, net of taxes (*Note 15*), and recorded current impairment loss at the amount of BGN 314 thousand (*Note 14*).

The Group decided to not revalue the following groups of assets: (a) fully depreciated assets, acquired before 31 December 2001, as far as the possible additional depreciation expenses for them are already being compensated by the increased maintenance costs; (b) computers and standard computer hardware, office equipment and furniture and fixtures – as far as these show a common trend of significant decrease in their current market prices within short terms juxtaposed to the expected term for their internal use by the Company; (c) assets, acquired in January-September 2017, as far as the cost of these assets is close to their fair value; and (d) assets of all groups (excluding properties), for which the analyses of the valuation effects show that they are not resultant from the price and market changes in the value of these assets, occurred during the period, but ensue from the differences in the assumptions for the useful life.

2.31.5. Actuarial calculations

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

As a result of the calculations made, a liability has been stated for long-term employee benefits at the amount of BGN 4,396 thousand BGN (31 December 2016: BGN 4,314 thousand) (*Note 31*).

2.31.5. Operating lease

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

2.31.7. Litigation provisions

With regard to the pending litigations against companies of the Group, the management of respective companies have judged, jointly with their lawyers, that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, no provisions for payables under litigations have been included in the consolidated statement of financial position as at 30 September 2017 (31 December 2016: none) (*Note 37*).

3. REVENUE

Group revenue includes:

	<i>January- September 2017 BGN'000</i>	<i>January- September 2016 BGN'000</i>
Goods	535,157	470,473
Finished products	184,554	167,917
Total	719,711	638,390

	<i>January- September 2017 BGN'000</i>	<i>January- September 2016 BGN'000</i>
<i>Sales of goods by type</i>		
Tablet dosage forms	264,699	215,708
Ampoule dosage forms	131,316	135,406
Syrup dosage forms	35,483	25,928
Drops	22,742	22,498
Consumables and dressing materials	18,849	19,150
Ointments	15,915	13,632
Food supplements and herbs	14,465	6,680
Cosmetics	10,591	7,003
Veterinary products	4,155	5,476
Liophilic products	3,804	3,290
Suppositories	3,403	2,706
Other	9,735	12,996

Total	535,157	470,473
	<i>January- September 2017 BGN'000</i>	<i>January- September 2016 BGN'000</i>
<i>Sales of finished products by type</i>		
Tablet dosage forms	123,523	109,506
Ampoule dosage forms	24,421	22,924
Consumables, dressing materials and apparatuses	7,303	6,675
Syrups	6,785	5,495
Ointments	6,555	5,397
Lyophilic products	4,699	5,661
Inhalation products	1,945	2,036
Infusion solutions	1,272	105
Drops	1,151	1,038
Veterinary vaccines	845	-
Other	6,055	9,080
Total	184,554	167,917

4. OTHER OPERATING INCOME AND LOSSES, NET*Other operating income and losses, net* include:

	<i>January- September 2017 BGN'000</i>	<i>January- September 2016 BGN'000</i>
Services rendered	3,652	3,444
Net gain/(loss) on exchange differences under trade receivables and payables and current accounts	(2,806)	(2,560)
Government grants	850	853
Social activities and events	721	692
Rentals	384	605
Liabilities written-off	83	27
Gain from sale of LTA	72	6
Gain on sale of materials	65	28
Other	263	688
Total	3,284	3,783

The services rendered include:

	<i>January- September 2017</i>	<i>January- September 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Pre-distribution income	771	695
Advertising and marketing	753	1,345
Manufacturing services	338	312
Revenue from secondary packaging	183	-
Laboratory analyses	118	136
Gamma irradiation	103	49
Transporation	101	84
Other	1,285	823
Total	3,652	3,444

5. MATERIALS AND CONSUMABLES USED

Expenses on materials include:

	<i>January- September 2017</i>	<i>January- September 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Basic materials	49,396	41,899
Electric energy	5,079	4,416
Spare parts, laboratory and technical materials	4,218	3,703
Heat power	2,350	1,859
Fuels and lubricating materials	2,041	1,746
Auxiliary materials	1,606	1,664
Other	2,972	2,702
Total	67,662	57,989

Expenses on basic materials include:

	<i>January- September 2017</i>	<i>January- September 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Substances (active ingredients)	22,250	21,066
Packaging materials	10,213	6,274
Liquid and solid chemicals	6,368	4,821
Herbs	2,631	1,615
Ampoules	1,749	1,271
Aluminium foil	1,195	930
Polypropylene, polyethylene, polystyrene	1,131	1,058
Other	3,859	4,864

Total	49,396	41,899
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6. HIRED SERVICES EXPENSE*Hired services expense* includes:

	<i>January- September 2017</i>	<i>January- September 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Advertising and marketing services	8,620	9,257
Rentals	6,608	5,328
Consulting services	4,699	4,789
Forwarding and transportation services	3,985	3,419
Buildings and equipment maintenance	3,372	2,662
Manufacturing of medicinal products	2,413	1,393
Subscription fees	1,908	710
Bank and regulatory charges	1,746	1,402
Local taxes and charges	1,609	1,495
Security	1,301	1,123
Services under civil contracts	969	743
Insurance	952	1,070
Motor vehicles repair	830	711
Service fees	816	757
Communication services	736	690
Services on medicinal products registration	626	577
Medical services	603	624
Other	3,131	4,556
Total	44,924	41,306

7. EMPLOYEE BENEFITS EXPENSE

	<i>January- September 2017</i>	<i>January- September 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Current wages and salaries	56,523	50,985
Social security/health insurance contributions	10,828	9,266
Social benefits and payments	2,440	2,738
Accruals for unused paid leaves	1,257	861

SOPHARMA GROUP**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2017**

Tantiems	775	768
Accruals for long-term retirement benefits to personnel (Note 28)	283	235
Social security/health insurance contributions on leaves	220	150
Total	72,326	65,003

8. OTHER OPERATING EXPENSES

	<i>January-September 2017 BGN'000</i>	<i>January-September 2016 BGN'000</i>
Entertainment allowances	1,750	1,975
Scrap and shortages of goods	1,255	725
Business trip costs	1,181	956
Training	492	408
Charged/(reversed) impairment of current assets, net (Note 9)	(430)	(151)
Donations	408	253
Unrecognized tax credit	168	156
Scrap and shortages of products and unfinished goods	122	100
Other	287	1,044
Total	5,233	5,466

9. IMPAIRMENT OF CURRENT ASSETS

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

	<i>1 January - 30 September 2017 BGN'000</i>	<i>1 January - 30 September 2016 BGN'000</i>
<i>Impairment of receivables</i>	523	12
<i>Recovered impairment of receivables</i>	(414)	(193)
Net change of impairment of receivables (Note № 8, №22, № 23 and № 24)	109	(181)
Impairment of goods	(539)	30
Impairment of receivables on commercial loans granted	874	-

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

Impairment of materials (<i>Note № 5</i>)	(183)	(183)
Total impairment of non-current assets	261	(334)

10. FINANCE INCOME

	<i>January- September 2017 BGN'000</i>	<i>January- September 2016 BGN'000</i>
<i>Finance income</i> includes:		
Interest income on past due trade receivables	3,090	2,966
Net gain on transactions with investments in securities	2,421	438
Interest income on loans granted	930	1,110
Income from equity investments (dividends)	144	92
Interest income on receivables from special contracts	22	58
Interest income on bank deposits	21	15
Revaluation of previously held equity to fair value	7	-
Total	6,635	4,679

11. FINANCE COSTS

	<i>January- September r 2017 BGN'000</i>	<i>January- September r 2016 BGN'000</i>
<i>Finance costs</i> include:		
Interest expense on loans received	5,280	6,655
Net loss on exchange differences under loans in foreign currency	2,437	1,124
Impairment of receivables under trade loans granted	874	607
Bank fees and charges on loans and guarantees	570	1,115
Net loss from exchange rate differences from receivables from sale of a subsidiary	398	-
Effects from merging available and for sale investments	289	-
Interest expense under factoring agreement	263	201
Interest expense on finance lease	235	266
Effects from derivatives	70	-
Impairments of cash in banks under special supervision	-	4
Total	10,416	9,972

12. GAINS/LOSSES FROM ASSOCIATES AND JOINT VENTURES

	<i>January- September 2017 BGN'000</i>	<i>January- September 2016 BGN'000</i>
Share in the gains/(losses) from associates, net	(226)	(256)
Share in the (losses)/gains from joint ventures	(2)	(111)
	<u>(228)</u>	<u>(367)</u>

13. OTHER COMPREHENSIVE INCOME

Other components of comprehensive income include:

	Items of other comprehensive income attributable to the Group		Items of other comprehensive income attributable to non- controlling interests		Total items of other comprehensive income	
	<i>January- September 2017 BGN '000</i>	<i>January- September 2016 BGN '000</i>	<i>January September 2017 BGN '000</i>	<i>January September 2016 BGN '000</i>	<i>January September 2017 BGN '000</i>	<i>January- September 2016 BGN '000</i>
Items that may be reclassified to profit or loss						
Following evaluations of plans with defined pension income	(22)	-	-	-	(22)	-
Items that may be reclassified to profit or loss						
Net change in fair value of available-for-sale financial assets:	2,049	(64)	3	(20)	2,052	(84)
Gains arising during the year	2,054	(57)	3	(20)	2,057	(77)
Less: Reclassification adjustments for (gains) /losses included in profit or loss for the current year	(5)	(7)	-	-	(5)	(7)
Net exchange rate changes from foreign operations recalculation	301	1,734	(1,005)	796	(704)	2,530
Other comprehensive income for the year	<u>2,328</u>	<u>1,670</u>	<u>(1,002)</u>	<u>776</u>	<u>1,326</u>	<u>2,446</u>

SOPHARMA GROUP
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2017
14. PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i>		<i>Plant and equipment</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>January-September 2017</i>	<i>January- September 2016</i>	<i>January- September 2017</i>	<i>January-September 2016</i>	<i>January- September 2017</i>	<i>January- September 2016</i>	<i>January-September 2017</i>	<i>January- September 2016</i>	<i>January-September 2017</i>	<i>January-September 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Book value</i>										
Balance at 1 January	222,998	208,413	222,692	211,048	41,789	42,519	6,026	17,724	493,505	479,704
Additions	634	1,417	2,278	4,822	1,308	3,980	8,329	11,930	12,549	22,149
Acquired assets in newly acquired subsidiaries	7	2,301	189	2,185	1,177	302	6	-	1,379	4,788
Effect from remeasurement to fair value	-	1,985	-	1,800	-	10	-	-	-	3,795
Effects of foreign currency restatements	(200)	(103)	(301)	(114)	(114)	2	(28)	(18)	(643)	(233)
Disposals	(4,796)	(96)	(293)	(2,808)	(1,917)	(3,955)	(99)	(237)	(7,105)	(7,096)
Written-off book value of assets on disposal of subsidiaries	-	(3,642)	-	(2,627)	-	(2,585)	-	(1,633)	-	(10,487)
Allowance for impairment	-	86	-	(344)	-	(56)	-	-	-	(314)
Transfer to property, plant and equipment	3,017	11,438	2,457	8,730	310	1,572	(5,784)	(21,740)	-	-
Transfer to investment property		1,199	-	-	-	-		-	-	1,199
Balance at 30 September/31 December	221,660	222,998	227,022	222,692	42,553	41,789	8,450	6,026	499,685	493,505
<i>Accumulated depreciation and impairment</i>										
Balance at 1 January	40,019	33,942	105,628	103,685	26,638	27,066	5	6	172,290	164,699
Depreciation charge for the year	5,776	7,658	10,357	13,263	3,319	4,429	-	-	19,452	25,350
Effect from remeasurement to fair value	-	(1,104)	-	(6,270)	-	(633)	-	-	-	(8,007)
Effects of foreign currency restatements	103	52	180	64	55	17	-	2	338	135
Written-off depreciation	(2,964)	(2)	(215)	(2,715)	(1,459)	(3,371)	-	(3)	(4,638)	(6,091)
Written-off depreciation of assets on disposal of	-	(527)	-	(2,399)	-	(870)	-	-	-	(3,796)

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

SOPHARMA GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2017

subsidiaries

Balance at 31 September/ 31 December	42,934	40,019	115,950	105,628	28,553	26,638	5	5	187,442	172,290
Carrying amount at 30 September/31 December	178,726	182,979	111,072	117,064	14,000	15,151	8,445	6,021	312,243	321,215
Carrying amount at 1 January	182,979	174,471	117,064	107,363	15,151	15,453	6,021	17,718	321,215	315,005

SOPHARMA GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 September 2017

As at 30 September 2017, the tangible fixed assets of the Group include: land amounting to BGN 49,304 thousand (31 December 2016: BGN 48,676 thousand) and buildings of carrying amount BGN 129,422 thousand (31 December 2016: BGN 134,303 thousand).

Tangible fixed assets in progress as at 30 September include:

- buildings reconstruction – BGN 4,331 thousand (31 December 2016: BGN 3,186 thousand);
- expenses on new buildings construction – BGN 1,199 thousand (31 December 2016: BGN 1,029 thousand);
- advances granted – BGN 2,179 thousand (31 December 2016: BGN 723 thousand);
- supply of equipment – BGN 500 thousand (31 December 2016: BGN 487 thousand);
- other – BGN 236 thousand (31 December 2016: BGN 88 thousand).

Finance lease

The carrying amount of the tangible fixed assets (motor vehicles) of the Group obtained under finance lease as at 30 September 2017 is BGN 4,471 thousand (31 December 2016: BGN 4,682 thousand).

Operating lease

The Group has leased fixed tangible assets with carrying amount of BGN 3,249 thousand as at 30 September 2017 to related parties (31 December 2016: BGN 3,296 thousand). In addition, tangible fixed assets at carrying amount of BGN 781 thousand have been leased to third parties as at 30 September 2017 (31 December 2016: BGN 818 thousand).

Other data

The following encumbrances have been constituted on tangible fixed assets of the Group as at 30 September 2017 in relation to received loans (*Notes 27 and 31*) as follows:

- Land and building with a carrying amount respectively of BGN 25,692 thousand and BGN 67,404 thousand (31 December 2016: respectively, BGN 25,659 thousand and BGN 72,449 thousand)
- Pledges on facilities with carrying amount of BGN 405 thousand (31 December 2016: BGN 2,771 thousand);
- Pledges on equipment, transportation vehicles and furniture and fixtures – BGN 45,755 thousand (31 December 2016: BGN 48,490 thousand);
- Pledges on assets in progress – BGN 2,063 thousand (31 December 2016: BGN 1,189 thousand).

Periodical revaluation to fair value

Revaluation of property, plant and equipment was performed as at 30 September 2017 with the assistance of an independent appraiser for the purpose of determining the fair value of the assets in accordance with the requirements of IFRS 13 and IAS 16.

The effects of the revaluation carried out at the amount of BGN 11,488 thousand are reported in the The comprehensive income (in profit or loss for the year and other components of the comprehensive Income).

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

In this reassessment, the following two main approaches and assessment methods are applied
Measurement of the fair value of individual types of tangible fixed assets:

"Market Approach" through the "Market Analogue Method" - for the lands in regulation and Agricultural land for which there is a real market, analogous properties and transactions are observed, and is there is entity basis for comparability - fair value has been accepted their market price, determined by the comparative method;

"Cost Approach" through "Depreciated Recovery Method" and "Depreciation Method" Cost basis for creating or replacing the asset "- for specialized buildings, machinery, equipment, equipment and other assets for which there is no real market and comparable sales of analogue assets - the fair value of the assets is amortized Restorative value based on an indexed historical cost of the asset and on the basis of the current costs of creating or replacing the asset.

The revaluation is recognized as a revaluation reserve amounting to BGN 11,802 thousand. Net of Impairment.

SOPHARMA GROUP
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 September 2017
15. INTANGIBLE ASSETS

	<i>Goodwill</i>		<i>Intellectual property rights</i>		<i>Software</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>January- September 2017</i>	<i>January- September 2016</i>	<i>January- September 2017</i>	<i>January- September 2016</i>	<i>January- September 2017</i>	<i>January- September 2016</i>	<i>January- September 2017</i>	<i>January- September 2016</i>	<i>January- September 2017</i>	<i>January- September 2016</i>	<i>January- September 2017</i>	<i>January- September 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Book value</i>												
Balance at 1 January	19,662	20,560	30,667	21,114	15,042	10,254	4,493	5,122	1,325	3,465	71,189	60,515
Additions	-	106	529	411	802	2,003	-	510	1,232	1,239	2,563	4,269
Acquired assets in newly acquired subsidiaries	11,512	-	20,084	10,647	10	-	-	-	-	-	31,606	10,647
Effects of foreign currency restatements	(311)	(135)	(1,619)	45	(22)	(2)	(12)	(5)	-	1	(1,964)	(96)
Transfer	-	-	2,179	47	1,181	3,144	(2,144)	20	(1,216)	(3,211)	-	-
Written-off book value of assets on disposal of subsidiaries	-	(869)	-	(1,051)	-	(332)	-	(1,154)	-	(60)	-	(3,466)
Disposals	-	-	(76)	(546)	-	(25)	-	-	(47)	(109)	(123)	(680)
Balance at 30 September /31 December	30,863	19,662	51,764	30,667	17,013	15,042	2,337	4,493	1,294	1,325	103,271	71,189
<i>Accumulated amortisation and impairment</i>												
Balance at 1 January	9,777	9,185	8,445	8,056	6,578	5,771	1,903	1,971	-	30	26,703	25,013
Amortisation charge for the year	-	-	2,619	1,955	997	924	109	688	-	-	3,725	3,567
Allowance for impairment	-	592	-	61	-	-	-	-	-	-	-	653
Effects of foreign currency restatements	-	-	189	13	15	-	11	3	-	-	215	16
Written-off amortisation of assets on disposal of subsidiaries	-	-	-	(1,160)	-	(117)	-	(759)	-	(5)	-	(2,041)

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

SOPHARMA GROUP
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2017

Amortisation written-off	-	-	(76)	(480)	-	-	-	-	-	(25)	(76)	(505)
Balance at 30 September/31 December	9,777	9,777	11,177	8,445	7,590	6,578	2,023	1,903	-	-	30,567	26,703
Carrying amount at 31 December	21,086	9,885	40,587	22,222	9,423	8,464	314	2,590	1,294	1,325	72,704	44,486
Carrying amount at 1 January	9,885	11,375	22,222	13,058	8,464	4,483	2,590	3,151	1,325	3,435	44,486	35,502

Intangible assets in progress as at 30 September include:

- expenses on acquisition of software – BGN 1,077 thousand (31 December 2016: BGN 1,215 thousand)
- expenses for acquisition of licenses – BGN 140 thousand (31 December 2016: none);
- expenses on permits for use of medicinal products – BGN 75 thousand (31 December 2016: BGN 25 thousand);
- other – BGN 2 thousand (31 December 2016: BGN 37 thousand);
- advances granted – none (31 December 2016: BGN 48 thousand).

The rights on intellectual property include products of development activities related to medicinal substances (active ingredients) and dosage forms, acquired patents and trademarks and complex intangible assets (licences and pharmacy chain locations).

Within the total intellectual property, owned by the Group, the largest share belongs to internally created trademarks, which have not been capitalised in the consolidated statement of financial position.

These trademarks grant exceptional rights on the names of pharmaceuticals while those with biggest relative share in the sales of the Group are: Carsil, Tempalgin, Broncholit, Tabex, Analgin, Tribestan, Vicetin, Sydnopharm, Antistenocardin, Spasmalgon, Softensif, Chlofadin, Chlofasolin, Sofafailin, Sopral, Vasopren, Buscolisin, Nivalin, Maraslavin, Dimex, Allergosan, Amination.

Capitalised trademarks as a result of performed business combinations are as follows: Probiotic, Laxomucil, Alfalipoin, Influrex, etc. The Group holds a patent for production of dosage forms containing Ranitidin.

The intangible assets, acquired through business combinations mainly in Belarus, include the exclusive contracts with counterparts, licences and a distribution network

Goodwill impairment

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

The calculations were made by the management of the Group with the assistance of an independent certified appraiser and a detailed review was performed on the availability of events and facts that could serve as indicators for changes in the assumptions and assessments made at 30 September 2017.

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

- growth rate within a three (or five) year period – from 0% to 55%;
- growth after the projected period upon calculation of terminal value – 0% to 5%;
- discount rate (based on WACC) – from 5.60% to 36.90%;
- Interest rate (price of debt) – from 2.3% to 16.5%.

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

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

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

As a result of the performed analyses, the Group management has concluded that as at 30 September 2017 there are no conditions for recognition of additional impairment of the recognised goodwill (31 December 2016: BGN 592 thousand for 4 subsidiaries in Belarus).

16. INVESTMENT PROPERTY

	<i>Jan-Sept 2017</i>	<i>Jan-Sept 2016</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	9,483	10,562
Additions	19	18
Net loss on fair value adjustment, included in profit or loss (Note 4)	-	102
Transfer to property, plant and equipment (Note 14)	-	(1,199)
Balance at 30 September/31 December	9,502	9,483

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

<i>Group of assets</i>	<i>Jan-Sept 2017</i>	<i>Jan-Sept 2016</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Warehouse premises	3,932	3,921
Offices	2,722	2,722
Production buildings	2,448	2,440
Recreational facilities	400	400
Total	9,502	9,483

Fair value measurement

Fair value hierarchy

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

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

	<i>Warehouse premises</i>	<i>Offices</i>	<i>Production buildings</i>	<i>Recreational facilities</i>	<i>Commercial facilities</i>	<i>Total</i>
Balance at 1 January January-September 2016	3,801	3,921	2,440	400	10,562	10,562
Purchases and capitalised costs	18	-	-	-	18	18
Net change in fair value through profit or loss – unrealised	102	-	-	-	102	102
Transfer to property, plant and equipment	-	(1,199)	-	-	(1,199)	(1,199)
Balance at 30 September 2017	3,921	2,722	2,440	400	9,483	9,483
Purchases and capitalised costs	11	-	8	-	19	271
Balance at 30 September 2017	3,932	2,722	2,448	400	9,502	9,754

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	<i>Jan-Sept 2017 BGN '000</i>	<i>Jan-Sept 2016 BGN '000</i>
Investments in associates	14,930	15,033
Investments in joint ventures	1,616	3,682
Total	16,546	18,715

The movement of the investments in associates is presented below:

	<i>Jan- Sept 2017 BGN '000</i>	<i>Jan- Sept 2016 BGN '000</i>
Balance at 1 January	15,033	1,536
Acquisition of shares	796	2,414
Sale of shares	(469)	-
Share in the current profit/(loss) for the period	366	-
Effects from change of status	(592)	-
Transfer to investments in subsidiaries	(204)	(1,536)
Transfer from available-for-sale investments	-	2,805
Effect of revaluation of previously held shares at fair value	-	928
Profit from the acquisition of an associate	-	8,886

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Balance at 30 September/31 December	14,930	15,033
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The movement of investments in joint ventures is presented below:

	<i>Jan- Sept 2017</i>	<i>Jan- Sept 2016</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	3,682	3,688
Acquisition of shares	-	68
Disposal	(102)	-
Capital increase	71	271
Transfer to investments in subsidiaries	(1,875)	-
Share in the current profit/(loss) for the period	(29)	(157)
Effects from change of status	27	-
Effects of transactions with companies of the Group	1	(64)
Effects of foreign currency restatements	(159)	(19)
Allowance for impairment	-	(105)
Balance at 30 September/31 December	1,616	3,682

18. AVAILABLE-FOR-SALE INVESTMENTS

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

	<i>Country</i>	<i>Jan-Sept 2017</i>	<i>Interest</i>	<i>Jan-Sept 2016</i>	<i>Interest</i>
		<i>BGN '000</i>	<i>%</i>	<i>BGN '000</i>	<i>%</i>
Lavena AD	Bulgaria	2,896	11.34	2,883	11.29
Olainfarm AD	Latvia	2,171	0.77	1,796	0.77
Achieve Life Siences Inc.	USA	1,663	3.28	-	-
Hydroizomat AD	Bulgaria	202	13.53	131	10.65
OOO Pharmico	Belarus	172	2.00	172	2.00
Sopharma Properties REIT	Bulgaria	116	0.10	64	0.07
ODO DKM-Pharm	Belarus	100	2.00	100	2.00
Todorov AD	Bulgaria	93	10.57	37	4.98
OOO Set Aptek	Belarus	70	2.00	70	2.00
BTF Expat Bulgaria	Bulgaria	25	0.20	82	0.32
Elana Agrocredit AD	Bulgaria	15	0.20	-	-
Achieve Life Siences Inc.	USA	-	-	290	4.70
Other		111		96	
Total		7,634		5,721	

The other available-for-sale investments as at 30 September 2017, amounting to BGN 112 thousand (31 December 2016: BGN 96 thousand), include a number of minority interests of the Group in the capital of seven companies (31 December 2016: five companies).

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

The available-for-sale investments measured at fair value as at 30 September 2017 are as follows:

	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>Jan-Sept 2017</i>	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>Jan-Sept 2016</i>
			<i>BGN '000</i>			<i>BGN '000</i>
Lavena AD	30,232	95.79	2,896	30,100	53.31	2,883
Olainfarm AD	108,500	20.01	2,171	108,500	14.15	1,796
Achieve Life Siences Inc.	359,305	4.63	1,663	-	-	-
Hydroizomat AD	404,586	-	202	318,889	-	131
Sopharma Properties REIT	17,396	6.67	116	12,000	4.89	64
Todorov AD	359,501	-	93	169,468	-	37
BTF Expat Bulgaria	20,000	1.25	25	74,550	1.10	82
Elana Agrocredit AD	10,000	1.50	15	-	-	-
Chimimport AD	6,201	1.77	11	-	-	-
Sirma Group Holding AD	3,000	1.33	4	-	-	-
Total			7,196			4,993

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

Fair value hierarchy

<i>Available-for-sale investments</i>	<i>Fair value</i>	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>
	<i>Jan-Sept 2017</i>			
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Lavena AD	2,896	-	2,896	-
Olainfarm AD	2,171	2,171	-	-
Achieve Life Siences Inc.	1,663	1,663	-	-
Hydroizomat AD	202	202	-	-
Sopharma Properties REIT	116	116	-	-
Todorov AD	93	93	-	-
BTF Expat Bulgaria	25	25	-	-
Elana Agrocredit AD	15	15	-	-
Chimimport AD	11	11	-	-
Sirma Group Holding AD	4	4	-	-
Total	7,196	4,300	2,896	0
	<i>Fair value Jan-</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>

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<i>Available-for-sale investments</i>	<i>Sept 2016</i>			
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Lavena AD	2,883	-	2,883	-
Olainfarm AD	1,796	1,796	-	-
Hydroizomat AD	131	131	-	-
BTF Expat Bulgaria	82	82	-	-
Sopharma Properties REIT	64	64	-	-
Todorov AD	37	37	-	-
Total	4,993	2,110	2,883	-

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

<i>Available-for-sale investments</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January January-September 2016	2,191	1,699	2,805	6,695
Purchases	517	328	-	845
Issue of shares	230	-	-	230
Sales	(1,246)	(228)	-	(1,474)
Transfer to Investments in Associates	-	-	(2,805)	(2,805)
Transfers from Level 2 to Level 3	132	(132)	-	-
Realised gain/(loss) included in the current profit and loss for the year in the item <i>Finance costs – Net loss on transactions with securities</i>	23	9	-	32
Unrealised loss included in the current profit and loss for the year (Note 13)	(2)	6	-	4
Unrealised gain/(loss), net, included in other comprehensive income (Note 13)	265	1,201	-	1,466
Balance at 30 September/31 December 2016	2,110	2,883	-	4,993
Purchases	302	15	-	317
Acquired through merger	1	-	-	1
Sales	(172)	(4)	-	(176)
Realised gain/(loss) included in the current profit and loss for the year in the item <i>Finance costs – Net loss on transactions with securities</i>	10	2	-	12
Unrealised gain/(loss), net, included in other comprehensive income (Note 13)	2,049	-	-	2,049
Balance at 30 September/31 December 2013	4,300	2,896	-	7,196

Valuation techniques and significant unobservable inputs

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

19. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The *long-term receivables from related parties* as at 30 September include:

Jan-Sept 2017

Jan-Sept 2016

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	<i>BGN '000</i>	<i>BGN '000</i>
Long-term loans granted to related parties	11,998	9,797
Receivable under a long-term rental deposit granted	235	231
Total	12,233	10,028

The long-term loans are granted to associated companies (as at 31 December 2016 long-term loans are granted to companies related through key management personnel).

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

<i>Type of currency</i>	<i>Contractual amount</i>	<i>Due date</i>	<i>Interest %</i>	<i>30.9.2017</i>		<i>31.12.2016</i>	
	<i>'000</i>			<i>BGN'000</i>	<i>BGN'000 incl. interest</i>	<i>BGN'000</i>	<i>BGN'000 incl. interest</i>
<i>EUR</i>	17,915	31.12.2019	3.50%	7,962	2	9,797	48
				11,998	38	9,797	48

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

The deposit receivable, received from company related through main shareholder, related with a rent under a concluded rental contract for administrative offices with validity term on 1 August 2022.

20. OTHER LONG-TERM RECEIVABLES

The *other non-current receivables* of the Group as at 31 December include:

	<i>Jan-Sept 2017 BGN'000</i>	<i>Jan-Sept 2016 BGN'000</i>
Receivables from transactions with securities	2,991	3,389
Receivables from sale of LTA	325	325
Loans granted	314	380
Other	288	55
Total	3,918	4,149

The receivables related to sold investment in a subsidiary are with a deferred payment and expected maturity on 31 December 2018 – the date when the regulatory actions for registration of medicinal products permits are expected to be completed.

The loans at the amount of BGN 314 thousand granted by the Group as at 30 September 2017 are to third parties (31 December 2016: BGN 380 thousand), without collateral and with an agreed annual interest of 6% (31 December 2016: 8%) and mature on 18 April 2019.

21. INVENTORIES

<i>Inventories</i> include:	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Goods	122,420	95,180
Materials	32,007	32,744
Finished products	31,234	27,504
Semi-finished products	9,878	10,339
Work in progress	5,125	6,024
Total	200,664	171,791

<i>Goods by type</i> are as follows:	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Tablet dosage forms	56,715	45,629
Ampoule dosage forms	19,912	13,567
Food supplements	6,928	3,708
Syrups	6,823	7,646
Consumables and dressing materials	6,569	4,671
Goods in transit	6,012	280
Cosmetics	5,148	5,637
Ointments	4,839	3,003
Drops	2,537	4,001
Suppositories	1,503	1,714
Other	5,434	5,324
Total	122,420	95,180

The *finished products* include:

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Tablet dosage forms	17,372	16,209
Ampoule dosage forms	4,577	3,894

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Syrups	2,644	1,422
Consumables and dressing materials	1,440	918
Ointments	1,404	1,688
Liophilic	536	585
Syringes	524	702
Other	2,737	2,086
Total	31,234	27,504

Materials by type are as follows:

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Basic materials	29,092	29,727
Auxiliary materials	932	887
Technical materials	449	493
Spare parts	427	424
Materials in transit	62	483
Other	1,045	730
Total	32,007	32,744

Basic materials by type are as follows:

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Substances (active ingredients)	13,509	14,963
Chemicals	4,106	3,666
Herbs	3,689	2,278
Vials, tubes and ampoules	2,810	2,732
Packaging materials	1,749	2,732
Consumables, dressing and apparatus	1,379	1,254
PVC and aluminium foil	1,250	1,130
Other	600	972
Total	29,092	29,727

As at 30 September 2017, there were established special pledges on inventories at the amount of BGN 85,805 thousand (31 December 2016: BGN 64,693 thousand) as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 31 and 38*).

22. TRADE RECEIVABLES

<i>Trade receivables</i> include:	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
<i>Receivables from clients</i>	242,293	214,616
<i>Impairment of uncollectable receivables</i>	(2,729)	(2,483)
Receivables from clients, net	239,564	212,133
<i>Advances to suppliers</i>	4,514	3,577
<i>Impairment of advances</i>	(127)	(127)
Advances granted, net	4,387	3,450
Total	243,951	215,583

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

Usually the Group companies negotiate with their clients payment terms within the range of 30 to 180 days for receivables under sales unless there are determined specific conditions for maturity for particular clients or in the cases where new markets and products are developed and new trade counterparts are attracted. The Group has defined common credit period for up to 60 days for clients and pharmacies and up to 180 days for other customers, where no interest is charged, except in the case of restructured receivables relating to particular agreement, where a longer term and a payout plan is applied. When selling medical equipment on the hospital market, the credit period could reach up to 2 years and above due to the financial circumstances of counterparties.

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

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

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
up to 30 days	91,593	72,018
from 31 to 90 days	58,815	50,655
from 91 to 180 days	2,014	5,604
from 181 to 365 days	891	3,056
from 1 to 2 years	85	10
over 2 years	208	967
Total	153,606	132,310

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

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
from 31 to 90 days	27,225	20,867
from 91 to 180 days	20,879	15,131
from 181 to 365 days	18,265	13,981
from 1 to 2 years	9,383	7,441
over 2 years	1,342	6,847
Total	77,094	64,267

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

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

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
from 31 to 90 days	1,297	941
from 91 to 180 days	2,027	3,212
from 181 to 365 days	3,313	4,932
from 1 to 2 years	3,366	5,335
over 2 years	1,590	3,619
Allowance for impairment	(2,729)	(2,483)
Total	8,864	15,556

Most of the receivables overdue are from public hospitals. For all receivables overdue, the company's policy is to charge and collect additional interest on arrears, which fully compensates the payments overdue and costs / losses sustained, both with special agreements with the respective hospital in debt or through lawsuits.

The impairment amount is calculated on an individual basis by applying the discounted cash flows method with a discount rate based on the price of attracted resources by the company adjusted against the average net yield and conservative prognosis on the expected cash flows, determined on the grounds of debtor's history and the concluded agreements, respectively, court rulings. Where the management has concluded that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are impaired to 100% (*Note 2.31.3*).

As at 30 September 2017, there are established special pledges on trade receivables at the amount of BGN 78,003 thousand (31 December 2016: BGN 86,876 thousand). They are established as collateral under received by the Group bank loans and issued bank guarantees (*Notes 29, 34 and 41*).

Movement in the allowance for impairment

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Balance at the beginning of the year	2,483	2,165
Impairment acquired upon purchase of a daughter company	271	-
Impairment amount accrued	148	1,501
Transfer to impairment of court and awarded receivables (Note 24)	(1)	(48)
Reversed impairment	(39)	(682)
Transfer to court receivables	(133)	-
Amounts written-off under uncollectable receivables	-	(316)
Impairment written-off on sale of a subsidiary	-	(132)
Effect of recalculations	-	(5)
Balance at the end of the year	2,729	2,483

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

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Raw materials and consumables	2,736	2,239
Services	1,428	950
Goods	347	215
Allowance for impairment	(127)	(127)
Other	3	173
Total	4,387	3,450

23. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties by type

are as follows:

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Trade loans granted	12,454	11,818
Receivables on sales of finished products and materials	1,528	3,122

Advances granted	-	42
Total	13,982	14,982

The *trade loans granted to related parties* are unsecured and are to companies related through key management personnel and companies under a common indirect control and companies, controlled by an associate. They amount to BGN 12,454 thousand (31 December 2016: BGN 11,818 thousand).

The *granted loans* are as follows:

Type of currency	Contractual amount	Due date	Interest rate	30.9.2017		31.12.2016	
				'000	%	BGN '000	BGN '000 incl. interest
To company controlled through an associate							
BGN	190	31.12.2017	3.50%	84	-	96	-
to companies related through key management personnel							
BGN	66,000	31.12.2017	3.50%	6,317	20	4,472	72
EUR	8,148	31.12.2017	4.10%	6,053	-	6,292	5
EUR	12,731	31.12.2017	3.05%			560	1
to companies under a common indirect control							
BYN	186	08.06.2018	27.50%	-	-	146	-
BYN	122	28.01.2018	27.50%	-	-	104	-
BYN	70	24.03.2018	20.00%	-	-	67	1
BYN	126	25.11.2017	27.50%	-	-	59	-
BYN	23	28.04.2018	20.00%	-	-	22	1
Total:				12,454	20	11,818	80

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

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

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

	Jan-Sept 2017 BGN'000	Jan-Sept 2016 BGN'000
up to 30 days	215	1,597
from 31 to 90 days	270	686

from 91 to 180 days	88	70
Total	573	2,353

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

	<i>Jan-Sept 2017</i>	<i>Jan-Sept 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
from 31 to 90 days	-	194
from 91 to 180 days	-	219
Total	-	413

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

	<i>Jan-Sept 2017</i>	<i>Jan-Sept 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
over 1 year	1,011	412
Allowance for impairment	(56)	(56)
Total	955	356

Movement in the allowance for impairment

	<i>Jan-Sept 2017</i>	<i>Jan-Sept 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	56	24
Impairment amount	-	32
Balance at 30 September	56	56

24. OTHER SHORT-TERM RECEIVABLES AND ASSETS

Other receivables and prepayments of the Group include:

	<i>Jan-Sept 2017</i>	<i>Jan-Sept 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Taxes refundable	7,485	6,918
<i>Court and awarded receivables</i>	8,686	5,516
<i>Impairment of court receivables</i>	(2,640)	(2,518)
Court and awarded receivables, net	6,046	2,998
Loans granted to third parties	3,635	2,566
Prepayments	1,932	2,055
Amounts granted to investment intermediaries	882	101
Receivables on deposits placed as guarantees	506	342
Receivables from investment transactions	34	38
Receivables from NHIF	-	1,001
Financial assets at fair value through profit	-	316
Other	2,622	1,392

Total	23,142	17,727
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Part of the court and awarded receivables originate mainly in relation to sales to state hospitals. Repayment schedules have been agreed or are in a process of agreement for most of them. For this reason, the management of the Group made an assessment that only a partial impairment was necessary for the above receivables.

The financial assets at fair value through profit, held by the Group, are classified as Level 1 in the fair value hierarchy (*Note 2.14.2*) and consist of 210,958.41 shares in Raiffeisen (Bulgaria) trust fund. As at 30 September 2017 the Group has sold its financial assets.

Taxes refundable include:	Jan-Sept 2017	Jan-Sept 2016
	BGN'000	BGN'000
Excise duties	4,008	3,597
VAT	2,950	2,353
Income tax	524	966
Local taxes and charges	3	2
Total	7,485	6,918

Prepayments include:	Jan-Sept 2017	Jan-Sept 2016
	BGN'000	BGN'000
Subscriptions	561	735
Insurance	443	825
Vouchers	402	16
Advertisements	85	48
Rentals	57	114
Licence and patent fees	23	38
Other	361	279
Total	1,932	2,055

The loans granted to third parties, amounting to BGN 3,635 thousand (31 December 2016: BGN 2,566 thousand), are granted to nine entities (January-September 2016: six entities) – counterparts for working capital. The annual interest agreed for these loans for January-September 2017 was between 3.1% and 4.7% (January-September 2016: between 4.3% and 8%).

25. CASH AND CASH EQUIVALENTS

	Jan-Sept 2017	Jan-Sept 2016
	BGN'000	BGN'000
Cash at current bank accounts	22,411	17,353
Impairment of cash at current bank accounts (<i>Note 12</i>)	(172)	(172)
Short-term deposits	1,667	3,996
Cash in hand	1,545	1,138
Short-term blocked funds	34	24
Cash and cash equivalents presented in the consolidated statement of cash flows	25,485	22,339

Blocked cash under transactions for acquisition of a subsidiary	5,061	-
Blocked cash under court cases and issued bank guarantees	188	200
Cash and cash equivalents presented in the consolidated statement of financial position	30,734	22,539

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

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

As at 30.09.2017 the blocked cash amounting to 5061 thousand BGN in terms of Escrow account, under the contract for acquisition of shares by Lekovit OOD Serbia. The short-term blocked funds as at 30 September 2017, amounting to BGN 34 thousand (31 December 2016: BGN 24 thousand), represent mainly blocked funds under performance guarantees.

26. EQUITY

Share capital

As at 30 September 2017, the registered share capital of Sopharma AD amounts to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

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

The *treasury shares* are 5,311,927 at the amount of BGN 17,939 thousand (31 December 2016: 5,831,580 shares at the amount of BGN 19,501 thousand).

Statutory reserves at the amount of BGN 51,666 thousand (31 December 2016: BGN 47,801 thousand) have been set aside from allocation of profit of the parent company and included all amounts for the Reserve Fund.

The *revaluation reserve – for property, plant and equipment*, amounting to BGN 32,249 thousand (31 December 2016: BGN 32,277 thousand), has been set aside from excess of the carrying amount of property, plant and equipment of the Group companies over their fair values at the dates of the respective regular revaluation. The effect of deferred taxes on the revaluation reserve is stated directly through other components of comprehensive income for the year.

The *available-for-sale financial assets reserve*, amounting to BGN 4,857 thousand – a positive figure (31 December 2016: BGN 2,808 thousand – a positive figure), has been set aside from the effects of

subsequent measurement of available-for-sale investments to fair value (including the consolidated share of the change in this reserve in associates on their valuation under the equity method).

The *translation of foreign operations reserve*, amounting to BGN 416 thousand – a negative figure (31 December 2016: BGN 717 thousand – a negative figure), has been set aside from exchange differences arising as a result of translation of the currency in the financial statements of foreign companies to the presentation currency of the Group.

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

Retained earnings, amounting to BGN 275,994 thousand at 30 September (31 December 2016: BGN 259,984 thousand), include also the recognised accumulated actuarial loss at the amount of BGN 1,751 thousand (31 December 2016: BGN 1,729 thousand), stated upon remeasurements of defined benefit pension plans in relation with the amendment to IAS 19 *Employee Benefits*.

27. LONG-TERM BANK LOANS

	Contracted loan amount	Maturity	Jan-Sept 2017			Jan-Sept 2016		
			Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
			BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<i>Credit lines and working capital loans</i>								
BGN	4,250	16.04.2023	1,094	52	1,146	1,094	209	1,303
EUR	590	31.10.2021	722	188	910	-	70	70
EUR	300	15.03.2021	589	-	589	-	-	-
EUR	1,448	31.12.2017	-	111	111	-	510	510
BGN	120	25.08.2020	64	6	70	64	24	88
EUR	450	31.12.2017	-	44	44	-	162	162
EUR	53	25.03.2019	37	-	37	-	-	-
BYN	48	30.09.2019	37	-	37	-	-	-
BYN	35	30.06.2018	-	23	23	-	-	-
<i>Investment-purpose loans</i>								
EUR	32,000	15.04.2021	18,488	7,153	25,641	23,844	7,185	31,029
EUR	12,000	24.04.2024	19,341	3,340	22,681	-	-	-
EUR	2,000	30.06.2018	-	813	813	489	975	1,464
	565	25.10.2018	13	276	289	220	276	496
EUR	172	28.02.2021	163	72	235	213	67	280
Total			40,548	12,078	52,626	25,924	9,478	35,402

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

Part of the agreed long-term loans in January-September 2016 are not included in the liabilities of the Group as at 30 September 2017 due to the loss of control over two of its subsidiaries.

The euro bank loans received were mainly negotiated at EURIBOR plus a surcharge of up to 3.9% or BELIBOR up to 2.35% and for BGN loans - up to 4.1% fixed (2016: EUR - EURIBOR plus 4.9% or fixed up to 12% or BELIBOR up to 2% and for BGN loans - SOFIBOR plus a margin of up to 3.5%). Loans are for working capital.

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

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

- Real estate mortgages (*Note 14*);
- Special pledges on:
 - machinery and equipment (*Note 14*);
 - inventories (*Note 21*);
 - trade receivables (*Note 22*).

28. RETIREMENT BENEFIT OBLIGATIONS

The long-term employee benefits as at 30 September include:

	<i>Jan-Sept 2017</i> <i>BGN '000</i>	<i>Jan-Sept 2016</i> <i>BGN '000</i>
Long-term retirement benefit obligations	4,396	4,314
Long-term benefit obligations for tantieme	289	225
Total	4,685	4,539

Long-term retirement benefit obligations

The long-term payables to personnel include the present value of the obligation of the Group companies, operating mainly in *Bulgaria and Ukraine (Serbia up to Jan-Sept 2016)*, to pay indemnities to the hired personnel at the date of the statement of financial position on coming of age for retirement. In accordance with the Labour Code in *Bulgaria* each employee is entitled to indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for at least the last 10 years of the service period for the same employer – six gross monthly salaries at the time of retirement (*Note 2.23*).

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

- *Ukraine* – the employer is obliged to pay between BGN 7 and BGN 14 depending on the length of service as well as a social pension, which the company accrues after employees' retirement due to specific work conditions;

- *Latvia, Belarus and Moldova* – the employer does not have a legal obligation to personnel upon retirement;
- *Kazakhstan* – according to the Kazakhstan legislation, the employer does not have a legal obligation to personnel upon retirement.
- *Serbia* – the employer is obliged to pay 3 average salaries;

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

As at 30 September 2017, the long-term benefit obligations to personnel include also the amount of BGN 289 thousand (31 December 2016: BGN 225 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months – until 2019 (January-September 2016: until 2018).

29. FINANCE LEASE LIABILITIES

As at 30 September, the finance lease liabilities are under revocable contracts for motor vehicles acquisition. They are presented net of the future interest due and are as follows:

<i>Term</i>	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Up to one year (<i>Note 37</i>)	1,279	1,104
Over one year	2,097	2,582
Total	3,376	3,686

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

<i>Term</i>	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Up to one year	1,369	1,254
From one to three years	2,178	2,711
	3,547	3,965
Future finance costs under finance leases	(171)	(279)
Total	3,376	3,686

The lease payments due within the next 12 months are presented in the consolidated statement of financial position as 'other current liabilities' (*Note 40*).

30. GOVERNMENT GRANTS

The government grants to Group companies as at 30 September include:

<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
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Government grants, non-current portion	8,269	9,011
Government grants, current portion (<i>Note 37</i>)	1,119	1,224
Total	9,388	10,235

The government grants received as at 30 September are to the following Group companies:

	<i>Jan-Sept 2017</i>	<i>Jan-Sept 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Sopharma AD	6,113	6,494
Biopharm Engineering AD	1,988	2,093
Veta Pharma AD	670	769
Unipharm AD	617	879
Total	9,388	10,235

The government grants are received under European Operational Programmes mainly in relation to the acquisition of machinery and equipment (*Notes 14 and 38*).

The current portion of the grants, amounting to BGN 1,119 thousand (31 December 2016: BGN 1,376 thousand), will be recognised as current income over the following 12 months from the date of the consolidated statement of financial position and is presented as 'other current liabilities' (*Note 37*).

31. SHORT-TERM BANK LOANS

The *short-term bank loans* of the Group as at 30 September are as follows:

<i>Currency</i>	<i>Contractual amount</i>	<i>Due date</i>	<i>30.09.2017</i>	<i>31.12.2016</i>
	<i>'000</i>		<i>BGN'000</i>	<i>BGN'000</i>
Bank loans (overdraft)				
EUR	26,000	31.10.2017	45,603	30,425
EUR	10,000	31.10.2017	15,688	11,603
EUR	7,500	25.04.2018	10,732	10,743
EUR	5,000	25.04.2018	9,747	9,757
BGN	20,000	21.04.2018	6,985	9,242
EUR	5,000	01.06.2018	6,787	6,827
EUR	3,500	02.09.2018	6,351	4,698
EUR	3,000	25.04.2018	5,857	5,862
EUR	3,000	04.03.2019	5,506	4,824
BYN	6,009	02.07.2019	5,118	-
EUR	2,000	27.10.2018	3,926	-
UAH	77,000	27.10.2017	3,757	5,299
EUR	1,500	25.11.2018	2,887	2,949
EUR	2,050	31.10.2017	2,305	3,712
EUR	1,000	29.03.2018	1,963	-

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BYN	1,849	24.05.2019	1,575	-
EUR	2,000	15.12.2017	1,094	-
EUR	1,000	11.05.2018	1,080	-
EUR	1,000	06.05.2018	1,074	-
BYN	1,200	01.06.2019	1,024	-
BYN	1,000	21.10.2018	844	477
EUR	1,000	08.02.2018	793	-
EUR	900	26.12.2017	783	-
BYN	345	20.02.2020	295	-
BYN	350	31.12.2017	295	314
BYN	150	27.12.2017	127	-
BYN	150	31.12.2017	112	66
BYN	146	07.06.2019	111	-
BYN	100	10.02.2020	83	-
BYN	85	03.12.2017	72	13
BYN	76	27.02.2018	63	-
BYN	21	31.05.2018	14	-
BYN	1,500	29.05.2017	-	1,458
UAH	32,000	31.12.2017	-	4,060
BGN	10,000	31.10.2017	-	10,001
EUR	6,000	15.02.2017	-	2,056
			142,651	124,386
<hr/>				
<i>Currency</i>	<i>Contractual amount</i>	<i>Due date</i>	<i>30.09.2017</i>	<i>31.12.2016</i>
	<i>'000</i>		<i>BGN'000</i>	<i>BGN'000</i>
<i>Credit lines</i>				
EUR	8,434	31.12.2017	15,909	15,908
BGN	10,000	31.12.2017	10,000	10,000
BGN	10,000	31.12.2017	10,000	8,005
EUR	5,000	31.08.2018	5,852	2,613
EUR	3,000	01.11.2019	5,780	5,913
BGN	1,000	20.12.2018	514	680
BYN	300	30.01.2018	253	285
EUR	2,600	28.05.2019	-	3,052
			48,308	46,456
Total			190,959	170,842

The bank loans obtained in Euro are contracted mainly at interest rate, determined on the basis of EURIBOR plus a mark-up of up to 3%, or fixed to 12%, or EONIA plus a mark-up of up to 2.1%; for loans in BGN – interest is based on SOFIBOR plus a mark-up of up to 2.95%; for loans in BYN – fixed rate of 17%; and for loans in UAH – fixed rate of 15.5% (January-September 2016: in EUR – EURIBOR plus a mark-up of up to 3%, or fixed to 25.5%, or EONIA plus a mark-up of 2.1%; for loans in BGN –

SOFIBOR plus a mark-up of up to 3.26%; and for loans in BYN – fixed rate of 16.5%). Loans are intended for providing working capital.

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

- machinery and equipment (*Note 14*);
- raw materials, consumables and finished products (*Note 21*);
- trade receivables (*Note 22*).

As at 30 September 2017, there are special pledges on receivables from related parties, subject to consolidation and eliminated for the purpose of the consolidated financial statements, at the amount of BGN 58,345 thousand (31 December 2016: BGN 18,229 thousand), established as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 31 and 38*).

32. TRADE PAYABLES

Trade payables include:

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Payables to suppliers	110,499	91,091
Advances from clients	1,707	962
Total	112,206	92,053

The *payables to suppliers* refer to:

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Suppliers outside Bulgaria	83,358	68,968
Suppliers from Bulgaria	27,141	22,123
Total	110,499	91,091

33. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	<i>Jan-Sept 2017</i> <i>BGN'000</i>	<i>Jan-Sept 2016</i> <i>BGN'000</i>
Payables to companies related through a main shareholder	602	9
Payables to companies under common indirect control	235	292
Payables to main shareholding companies	43	25
Payables to company controlled by associated company	14	-
Payables to companies related through key managing personnel	-	240
Total	894	566

The payables to related parties by type are as follows:

	<i>Jan-Sept 2017</i>	<i>Jan-Sept 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Payables on supply of goods and materials	351	331
Supply of services	314	235
Total	8,370	566

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

34. FACTORING AGREEMENT LIABILITIES

A Company from the Group has concluded factoring agreements with a financial institution (Factor) as follows: Factor 1 of 19 January 2016 for the transfer of existing non-recurring receivables from its debtors (31.12.2016: with Factor 1 and Factor 2).

Factor 1 has the right of recourse (right of recourse) for all advance payments, whether or not included in the approved credit limit. The approved credit limit is BGN 20,000 thousand. The transferred invoices are paid in advance up to 90% (ninety percent) of their value with VAT included.

The interest rate is in the range of 1M SOFIBOR + 1.80% on a monthly basis. As of 30 September 2017 the obligation under the factoring contract amounts to BGN 19,138 thousand. (30.12.2016: BGN 20,033 thousand)

Total funding granted in 2017 amounts to BGN 97,859 thousand. (30.09.2016: BGN 100,172 thousand) (Annex № 2.18).

35. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security include:

	<i>Jan-Sept 2017</i>	<i>Jan-Sept 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Payables to personnel, including:	9,741	8,264
<i>current wages and salaries</i>	4,210	3,675
<i>tantieme</i>	3,328	2,895
<i>accruals on unused compensated leaves</i>	2,203	1,694
Payables for social security/health insurance, including:	2,149	1,829
<i>current payables for social security contributions</i>	1,802	1,588
<i>accruals on unused compensated leaves</i>	347	241
Total	11,890	10,093

36. TAX PAYABLES*Tax payables* include:

	<i>Jan-Sept 2017 BGN'000</i>	<i>Jan-Sept 2016 BGN'000</i>
VAT	4,073	4,493
Profit tax	2,377	385
Individual income taxes	762	458
Taxes on expenses	343	544
Withholding tax	24	5
Other	192	64
Total	7,771	5,949

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

Company	Full-scope tax audit	VAT inspection	Inspection under the social security legislation
Sopharma AD	31.12.2011	30.11.2011	30.09.2013
Sopharma Trading AD	31.12.2011	31.12.2011	31.12.2004
Sopharmacy EOOD	none	30.09.2017	none
Sopharmacy 2 EOOD	none	30.09.2017	none
Sopharmacy 3 EOOD	none	31.07.2017	none
Sopharmacy 4 EOOD	none	31.08.2017	none
Sopharmacy 5 EOOD	none	31.07.2017	none
Sopharmacy 6 EOOD	none	31.05.2017	none
Biopharm Engineering AD	31.12.2014	31.01.2017	30.04.2009
Momina Krepost AD	31.12.2005	31.10.2006	31.10.2006
Pharmalogistica AD	31.12.2005	31.03.2007	none
Sopharma Buildings REIT	none	28.02.2017	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none
Unipharm AD	31.12.2011	31.12.2011	31.08.2013
PAO Vitamini	31.12.2013	31.12.2013	01.04.2014
OOO Sopharma Ukraine	31.12.2014	31.12.2013	31.03.2016
SIA Briz	31.12.2013	28.02.2014	31.12.2014
SOOO Brititrade	31.12.2011	31.12.2011	31.12.2011
OOO Tabina	31.12.2010	31.12.2010	31.12.2006
ODO Alean (merged into ODO Medjel)	28.02.2011	28.02.2011	28.02.2010

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SOOO Brizpharm	31.12.2012	31.12.2012	none
ODO Vestpharm (merged into SaliusLine ODO)	30.04.2005	30.04.2005	31.03.2004
ODO BelAgroMed (merged into SaliusLine ODO)	28.02.2003	28.02.2003	30.05.2005
OOO Vivaton Plus	29.02.2012	29.02.2012	29.02.2012
OOO Med-dent	31.12.2010	31.12.2010	31.12.2007
BOOO SpetzApharmacia	31.03.2014	31.03.2014	31.12.2007
OOO Bellerophon	01.04.2010	01.04.2010	none
Medica AD(merged into Sopharma AD)	31.12.2002	31.01.2013	31.01.2016
OOO Mobil Line(merged into Medjel ODO)	31.03.2010	31.03.2010	31.03.2006
OOO Ivem & K	30.04.2008	30.04.2008	30.11.2007
OOO NPKF Ariens	31.12.2011	31.12.2011	31.12.2010
ODO Medjel	31.04.2013	30.04.2013	31.12.2012
Veta Pharma AD	none	31.01.2017	30.06.2016
ODO SalusLine	31.10.2007	31.10.2007	31.03.2016
ZAO Interfarm	30.04.2013	30.04.2013	none
OOO Ariens	31.12.2016	31.03.2017	none

Tax audit of the companies in Bulgaria is performed within a 5-year period after the end of the year when the tax return for the respective liability has been submitted. The tax audit confirms ultimately the tax liability of the respective company — tax liable person except in the cases explicitly stated by law. For the companies outside Bulgaria a tax audit is performed as follows: in Ukraine, Latvia and Belarus – within a term of three years, in Poland, Kazakhstan and Lithuania – within a term of five years, in Serbia – within a term of ten years and in Moldova within a term of four years .

The companies Phyto Palauzovo AD, Aromania OOD, Sopharmacy 7 EOOD, Sopharmacy 8 EOOD, Sopharmacy 9, EOOD, Sopharmacy 10 EOOD, OOO Farmacevt Plus, TOO Sopharma Kazakhstan, Sopharma Trading D.o.o. Belgrade, Lekovit D.o.o., OOO Farmatea, UAB TBS Pharma, OOO Galenapharm, OOO Danapharm, OOO Zdorovei, OOO Ivem i K, Rap Pharma International OOD have not been subject to full-scope tax audits, VAT audits and inspections under the social security regulations. As at the date of the issuance of this consolidated report the company Sopharma Warsaw is being audited for the period 2014-2016.

37. OTHER CURRENT LIABILITIES

	<i>Jan-Sept 2017 BGN'000</i>	<i>Jan-Sept 2016 BGN'000</i>
<i>Other current liabilities</i> include:		
Unpaid conditional liability in relation to acquisition of shares in a subsidiary	5,143	-
Finance lease liabilities (<i>Note 29</i>)	1,279	1,104

Government grants (<i>Note 30</i>)	1,119	1,224
Dividend payables	689	697
Share purchase liabilities	575	860
Awarded amounts under litigations	309	343
Deductions from work salaries	219	183
Trade loans received from third parties	157	360
Other	354	371
Total	9,844	5,142
	12,777	5,142

38. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

Sopharma AD

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

Issued and granted guarantees

Sopharma AD

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

	Maturity	Currency	Amount	Debt status	
			Original		Jan-Sept 2017
			Currency	BGN'000	BGN'000
Sopharma Properties REIT	2024	EUR	22,619	44,240	24,335
Mineralcommerce AD	2017 – 2021	BGN	726	726	639
Total					24,974

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

(a) *under loans of companies related through key management personnel:*

- Mortgages of real estate – none (31 December 2016: BGN 1,119 thousand) (*Note 16*);

(b) *under loans of third parties:*

- Special pledge on inventories – none (31 December 2016: BGN 2,623 thousand) (*Note 23*).

Bank guarantees***Sopharma Trading AD***

The bank guarantees issued for the Company are to secure payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medicinal products to hospitals under concluded contracts, customs office guarantees and tender participation.

The bank guarantees have been issued by:

	<i>Jan-Sept 2017</i>	<i>Jan-Sept 2016</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Raiffeisenbank EAD	5,278	4,664
SG Expressbank AD	4,464	4,049
ING Bank N.V.	3,239	1,883
	12,981	10,596

The collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 8,997 thousand (31 December 2016: BGN 9,801 thousand) (*Note 21*).
- Special pledge on receivables from clients with a carrying amount of BGN 2,347 thousand (31 December 2016: BGN 2,347 thousand) (*Note 22*).

Unipharm AD

The following have been issued as at 30 September 2017: bank guarantees at the amount of BGN 127 thousand within the loan agreement limit, a bank guarantee for arranging discounts under Ordinance No 10 for medicinal products to the NHIF at the amount of BGN 10 thousand and a bank guarantee at the amount of BGN 25 thousand secured in cash.

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

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

Electroncommerce EOOD

The bank guarantees issued for the company amount to BGN 32 thousand as at 30 September 2017 (31 December 2016: BGN 74 thousand).

Assets held under safe custody

Sopharma Trading AD

According to concluded pre-distribution contracts, the Company has received goods for safe custody amounting to BGN 4,071 thousand as at 30 September 2017 (31 December 2016: BGN 4,046 thousand).

Significant irrevocable agreements and commitments

Sopharma AD

The Company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 (*Note 30 and Note 38*), related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section (*Note 14*). The Company undertook a commitment that for a period of 5 years after the completion of the respective projects they shall not be subject to significant modifications affecting the essence and the terms and conditions for their execution or giving rise to unjustified benefits to the company, neither modifications resulting from a change in the nature of ownership over the assets acquired in relation to the grants. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Unipharm AD

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

Biopharm Engineering AD

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

- (a) line for production of amino acid solution for parenteral nutrition, which includes components for inflation, filling and hermetisation in aseptic environment, and
- (b) clean rooms construction (omega profile ceilings, separation walls, doors, blocking devices, lighting, air conditioning, etc.). The term commenced on 27 April January-September 2016 (the date on which the project was ultimately approved by the financing institution) and according to the contract the project should not suffer significant changes referring to its nature, the conditions of its performance or leading to unjustifiable benefits for the company as well as changes resultant

from modification in the nature of ownership of infrastructural component or discontinuance of production activities. On non-compliance with these requirements, the financing shall be returned. At the date of approval for issue of the financial statements, all contractual requirements were being fulfilled.

Sopharma Trading AD

The company is a beneficiary under a government grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" for the project on Development and Implementation of Information Security Management System Project in accordance with ISO 27001:2007 in the amount of BGN 82 thousand (*Note 30 and Note 38*).

39. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows.

The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Group.

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

Risk management is currently performed by the management of the parent company and respectively, the managing bodies of the subsidiaries, in line with the policy defined by the Board of Directors of the parent.

The Board of Directors has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the separate specific types of risk such as currency, price, interest, credit and liquidity risk and the risk of use of non-derivative instruments.

The structure of financial assets and liabilities is as follows:

	31.3.2017	31.12.2016
	BGN '000	BGN '000
<i>Financial assets</i>	310,518	276,657
Loans and receivables, including:		
Receivables and loans (<i>Notes 19, 20, 22, 23 and 24</i>)	302,884	270,620
Cash and cash equivalents (<i>Note 25</i>)	277,399	248,281
Available-for-sale financial assets	25,485	22,339
Financial assets at fair value through profit (<i>Note 24</i>)	7,634	5,721
<i>Financial liabilities</i>	384,129	324,251

Financial liabilities at amortised cost	384,129	324,251
Short-term and long-term bank loans (<i>Notes 27 and 31</i>)	243,585	206,244
Other loans and liabilities (<i>Notes 29, 30, 32, 33 and 37</i>)	121,406	97,974
<i>Payables under factoring agreement (Note 34)</i>	19,138	20,033

Foreign currency risk

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

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

There are forward contracts regarding the deals in Kazakhstani Tenge.

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

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

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

	<i>in BGN</i>	<i>in EUR</i>	<i>in BYN</i>	<i>in UAH</i>	<i>in USD</i>	<i>in other currenc y</i>	<i>Total</i>
<i>30 September 2017</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Available-for-sale financial assets	3,457	2,171	-	-	2,006	-	7,634
Available-for-sale financial assets through profit		-	-	-	-	-	-
Loans and receivables, including:	211,908	43,133	8,715	3,898	5,291	29,939	302,884
<i>Receivables and loans</i>	<i>190,907</i>	<i>41,833</i>	<i>7,817</i>	<i>3,477</i>	<i>4,702</i>	<i>28,663</i>	<i>277,399</i>
<i>Cash and cash equivalents</i>							

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	<u>21,001</u>	<u>1,300</u>	<u>898</u>	<u>421</u>	<u>589</u>	<u>1,276</u>	<u>25,485</u>
Total financial assets	<u>215,365</u>	<u>45,304</u>	<u>8,715</u>	<u>3,898</u>	<u>7,297</u>	<u>29,939</u>	<u>310,518</u>
Short-term and long-term bank loans	64,573	170,371	3,346	3,757	119	1,419	243,585
Other loans and liabilities	55,486	48,258	15,921	143	1,834	18,902	140,544
Total financial liabilities	<u>120,059</u>	<u>218,629</u>	<u>19,267</u>	<u>3,900</u>	<u>1,953</u>	<u>20,321</u>	<u>384,129</u>

						<i>in other</i>	
						<i>currenc</i>	
31 December 2016	<i>6 BGN</i>	<i>in EUR</i>	<i>in BYR</i>	<i>in UAH</i>	<i>in USD</i>	<i>y</i>	<i>Total</i>
	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Available-for-sale financial assets	3,584	1,796	-	-	341	0	5,721
Available-for-sale financial assets through profit	316	-	-	-	-	-	316
Loans and receivables, including:	199,432	44,006	14,250	4,832	5,343	2,757	270,620
<i>Receivables and loans</i>	<i>183,632</i>	<i>41,750</i>	<i>12,424</i>	<i>3,365</i>	<i>5,086</i>	<i>2,024</i>	<i>248,281</i>
<i>Cash and cash equivalents</i>	<i>15,800</i>	<i>2,256</i>	<i>1,826</i>	<i>1,467</i>	<i>257</i>	<i>733</i>	<i>22,339</i>
Total financial assets	<u>203,332</u>	<u>45,802</u>	<u>14,250</u>	<u>4,832</u>	<u>5,684</u>	<u>2,757</u>	<u>276,657</u>
Short-term and long-term bank loans	39,319	160,252	2,613	4,060	-	-	206,244
Other loans and liabilities	46,809	47,639	19,646	148	3,492	273	118,007
Total financial liabilities	<u>86,128</u>	<u>207,891</u>	<u>22,259</u>	<u>4,208</u>	<u>3,492</u>	<u>273</u>	<u>324,251</u>

Price risk

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

- (a) a possible increase of purchase prices of raw materials and consumables, since a significant portion of the raw materials used are imported and they represent a significant share of production costs;
- (b) a possible increase in supplier prices of goods; and
- (c) the growing competition on the Bulgarian pharmaceutical market, affecting the prices of pharmaceuticals.

For the purpose of mitigating this influence, the management of the Group applies a strategy aimed at optimisation of production costs, validation of alternative suppliers that offer beneficial commercial

conditions, expanding product range by means of new generic products development and last but not least, adoption of a flexible marketing and price policy. Price policy is a function of three main factors – structure of expenses, prices of competitors and purchasing capacity of customers.

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

Credit risk

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

In the years of its trade experience, the Group has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts.

The Group works on its main markets with counterparts with history of their relations on main markets, which include a big number of licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the state hospitals also requires the implementation of deferred payments policy.

There is a concentration of significant credit risk in this type of counterparts that form 42% of Group's trade receivables (31 December 2016: 39%). It is mitigated through implemented procedures for selection and current monitoring of the liquidity and financial stability of these trade partners. On delay in payments of the receivables from these counterparts, the Group has set a period of 30 days after which it starts activities for collection of receivables. With regard to *clients – hospitals*, in case of 30 days of delay after the date on which the credit period expires, interest for delay is being charged and if delinquencies are not settled after further 30 days, a meeting with the management is arranged for the purpose of signing rescheduling agreement. If the agreement is not complied with, legal proceedings are initiated. With regard to *clients – pharmacies*, in case of a 5-day delay after the expiry of the credit period, the subsequent sales under deferred payment terms are suspended. If delinquencies are not settled up to the 45th day, all sales are ceased and negotiations are held for concluding an agreement. If the agreement is not complied with, legal proceedings are initiated.

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

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

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

As at 30 September 2017, the Group has concentration in trade receivables from a single counterpart that exceeds 10% of the total amount of trade receivables as presented in the consolidated statement of financial position.

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

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

Liquidity risk

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

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

Maturity analysis

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

Maturity analysis

<i>30 September 2017</i>	<i>up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 2 years</i>	<i>2 to 5 years</i>	<i>over 5 years</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Short-term and long-term bank loans	76,822	39,873	26,590	61,594	14,938	28,874	248,691	210,766
Other loans and liabilities	84,206	41,989	6,517	5,417	1,681	894	140,704	117,258
Total liabilities	161,028	81,862	33,107	67,011	16,619	29,768	389,395	328,024
<i>31 December 2016</i>	<i>up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 2 years</i>	<i>2 to 5 years</i>	<i>over 5 years</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Short-term and long-term bank loans	37,135	14,702	59,642	71,405	9,453	18,429	210,766	252,387
Other loans and liabilities	60,009	41,989	11,257	1,488	1,130	1,385	117,258	95,704
Total liabilities	97,144	56,691	70,899	72,893	10,583	19,814	328,024	348,091

Risk of interest-bearing cash flows

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

- optimisation of resources and structure of credit resources for achieving relatively lower price of attracted funds; and
- combined structure of interest rates on loans comprising two components – a permanent one and a variable one; the correlation between them, as well as their absolute value, are maintained in a proportion favourable for the Group companies. The fixed component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating.

Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

The managing bodies of the Group companies together with the management of the parent currently monitor and analyse the exposure of the respective company to the changes in interest levels. Simulations

are carried out for various scenarios of refinancing, renewal of existing positions, and alternative financing. The impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated based on these scenarios. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating</i>	<i>with fixed</i>	<i>Total</i>
		<i>interest %</i>	<i>interest %</i>	
<i>30 September 2017</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	7,634	-	-	7,634
Available-for-sale financial assets through profit	-	-	-	-
Loans and receivables, including:	239,710	11,022	52,152	302,884
<i>Receivables and loans</i>	<i>238,311</i>	<i>15</i>	<i>39,073</i>	<i>277,399</i>
<i>Cash and cash equivalents</i>	<i>1,399</i>	<i>11,007</i>	<i>13,079</i>	<i>25,485</i>
Total financial assets	247,344	11,022	52,152	310,518
Short-term and long-term bank loans	-	215,608	27,977	243,585
Other loans and liabilities	118,375	22,167	2	140,544
Total financial liabilities	118,375	237,775	27,979	384,129
<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating</i>	<i>with fixed</i>	<i>Total</i>
		<i>interest %</i>	<i>interest %</i>	
<i>31 December 2016</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	5,721	-	-	5,721
Available-for-sale financial assets through profit	316	-	-	316
Loans and receivables, including:	212,141	7,590	50,889	270,620
<i>Receivables and loans</i>	<i>205,994</i>	<i>15</i>	<i>42,272</i>	<i>248,281</i>
<i>Cash and cash equivalents</i>	<i>6,147</i>	<i>7,575</i>	<i>8,617</i>	<i>22,339</i>
Total financial assets	218,178	7,590	50,889	276,657
Short-term and long-term bank loans	-	174,982	31,262	206,244
Other loans and liabilities	94,272	23,341	394	118,007
Total financial liabilities	94,272	198,323	31,656	324,251

Capital risk management

The capital management objectives of the Group are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital. Analogous approach is applied also at the level of a separate Group company with regard to its capital structure and financing.

The Group currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total amount of employed capital. Net debt is calculated as total borrowings (current and non-current ones) as presented in the consolidated statement of financial position less cash and cash equivalents. Total employed capital is equal the sum of equity (including non-controlling

interest) and net debt. It is a characteristic feature for both presented periods that the Group finances its operations both through its own generated profit and by maintaining a certain level of trade and other current payables and loans (bank, commercial ones). In January-September 2017, the strategy of the parent company's management was to maintain the ratio within 25-35% at a Group level (January-September 2016: 25-35%).

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

	<i>January-September 2017</i>	<i>January-September 2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Total borrowings, including:	266,099	229,963
<i>Bank loans</i>	243,585	206,244
<i>Loans and finance lease and factoring liabilities</i>	22,514	23,719
Less: Cash and cash equivalents	(25,485)	(22,339)
Net debt	240,614	207,624
Total equity of the Group	515,202	491,223
Total capital of the Group	755,816	698,847
Gearing ratio	0.32	0.30

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

Fair values

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

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the consolidated statement of financial position based on market value (deposits placed with banks, investments in securities, loans with floating interest rate) and therefore, their fair value is almost equal to their carrying amount.

An exception to this rule is that they are part of the investments in other minority interests, for which there is no market and no objective conditions for determining their fair value, and therefore are accepted that they should be presented at acquisition cost. In the case of loans and advances with fixed interest rates, the methodology used for determining the latter uses the current observations of the Group with regard to market interest rates as a starting point for the calculation.

Part of the investments in other companies as minority interests represent an exception to this rule, since neither market nor objective conditions exist so that their fair value could be reliably determined. Therefore, they are presented at acquisition cost (cost).

As far as no sufficient market experience, stability and liquidity exist in regards of purchases and sales of certain financial assets and liabilities and still no adequate and reliable quotes of market prices are

available, some alternative assessment methods and techniques are applied. The management of the parent company is of the opinion that the estimates of the financial assets and liabilities presented in the statement of financial position are as reliable, adequate and trustworthy as possible for financial reporting purposes under the existing circumstances.

40. RELATED PARTY TRANSACTIONS

<i>Related parties</i>	<i>Relation type</i>	<i>Relation period</i>
Telecomplect Invest AD	Main shareholding company	
Donev Investments Holding AD	Main shareholding company	2017 and 2016
Sopharma Properties REIT	Company related through a main shareholder	2017 and 2016
Sofprint Group AD	Company related through a main shareholder	2017 and 2016
Elpharma AD	Company related through key management personnel	2017 and 2016
Telso AD	Company related through key management personnel	2017 and 2016
Telecomplect AD	Company related through key management personnel	2017 and 2016
DOH Group	Company related through key management personnel	until 20.12.2016

Related party transactions are as follows:

	<i>January- September 2017 BGN '000</i>	<i>January- September 2016 BGN '000</i>
<i>Supplies from related parties:</i>		
<i>Supply of inventories from:</i>		
Companies related through a main shareholder	6,913	4,933
Companies under a common indirect control related through key management personnel	23	38
Companies controlled by an associate	17	-
Associates	-	546
<i>Total</i>	<u>6,953</u>	<u>5,517</u>

Supply of services from:

Companies related through key management personnel	2,326	2,439
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Companies related through a main shareholder	1,978	2,140
Companies controlled by an associate	606	-
Companies main shareholders	180	199
	5,090	4,778

Supply of LTA material assets from:

Companies related through key management personnel	232	15
	232	15

Supplies for acquisition of LTA:

Companies related through key management personnel	918	3,563
Companies related through a main shareholders	6	-
	924	3,563

Other supplies from:

Companies related through key management personnel	18	-
Companies related through a main shareholders	3	-
	21	-

Dividends:

Companies main shareholders	6,141	4,227
Companies related through key management personnel	545	475
Key management personnel	42	-
	6,728	4,702
	19,948	18,575

Sales to related parties

<i>January- September 2017 BGN '000</i>	<i>January- September 2016 BGN '000</i>
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Sales of inventories to:

Joint ventures	3,561	4,822
Associates	695	849
Companies related through a main shareholder	1	417
Companies related through through key management personnel	-	376
	4,257	6,464

Sales of goods and materials to:

Companies related through a main shareholder	592	-
	592	-

Sales of services to:

Associates	223	-
Companies related through a main shareholder	173	147
Companies related through key management personnel	8	259
	404	406

Other sales to:

Companies related through key management	-	197
Companies related through a main shareholder	-	12
	-	209

Interest on loans granted:

Companies related through key management personnel	451	1,205
Associates	316	-
Companies controlled by an associate	39	-
	806	1,205
	6,059	8,284

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

The composition of key management personnel of the Group includes the disclosed in Note 1 Executive Director and the members of the Board of Directors of the parent company. Additionally, it includes the Executive Directors, the members of Boards of Directors and the General Managers of the subsidiaries in the Group.

Salaries and other short-term benefits of key management personnel amount to BGN 4,609 thousand (January-September 2016: BGN 2,918 thousand) and include:

- current wages and salaries – BGN 4,077 thousand (January-September 2016: BGN 2,419 thousand);
- tantieme – BGN 532 thousand (January-September 2016: BGN 499 thousand).

41. EVENTS AFTER THE REPORTING PERIOD

On 14 September 2017 Unipharm AD (merging company) and Sopharma AD (accepting company) signed a contract for transformation through merger, which regulates the merger. The fair value of the shares of both companies has been determined using the common legal methods for evaluation and an exchange ratio of 0.891512 was formed as a result of the evaluations.

As of the date of this report the FSC has not yet issued an approval under art. 124 of the LPOS of the merger contract.