INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY 2016 – 31 DECEMBER 2016

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1. BACKGROUND CORPORATE INFORMATION

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

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

1.1. Ownership and management

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

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

	%
Donev Investment Holding AD	24.78
Telecomplect Invest AD	20.15
Rompharm Company OOD	18.04
Sopharma AD (treasury shares)	4.20
Other legal persons	28.92
Physical persons	3.91

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

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

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

The number of Company's employees was 1 833 workers and employees as at 31 December 2016 (2015: 2,010).

1.2. Principal activities

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

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

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the individual preliminary financial statements

The individual financial statements of Sopharma AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2016 and have been accepted by the Commission of the European Union.

For the current financial year the Company has adopted all new and/or revised standards and interpretations issued by the International Accounting Standards Board (IASB) and respectively by the Interpretations Committee of IFRIC that were relevant to its activities.

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

At the date of issuing of these financial statements, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2016, which have not been adopted by the Company for early application. The management has judged that out of them the following are likely to have a potential impact in the future for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements for subsequent periods, namely:

- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* The amendment is related to a relief from the requirement to restate the comparative financial statements and the option to present modified disclosures on the transition from IAS 39 to IFRS 9 (when this happens) depending on the date of the standard application by the Company and whether it chooses the option to restate prior periods;
- *IFRS 9 "Financial Instruments" (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* This is a new standard for financial instruments. It is ultimately intended to replace IAS 39 in its entirety. The replacement project has passed through three phases: Phase 1: Classification and measurement of financial assets and financial liabilities; Phase 2: Hedge accounting; and Phase 3: Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 and finally in July 2014. Phase 1: Classification and measurement of financial assets and financial liabilities – by the first issues it replaces those parts of IAS 39 that refer to the classification and measurement of financial instruments. It sets out

new principles, rules and criteria for classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. IFRS 9 introduces a requirement that financial assets are to be classified based on entity's business model for their management and on the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for financial assets: amortized cost and fair value. The new rules will lead to changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated at fair value through current profit or loss (for credit risk). A specific feature of the classification and measurement model for financial assets at fair value is the addition of a new category – fair value through other comprehensive income (for certain debt and capital instruments). Phase 2: Hedge accounting – a new chapter to IFRS 9 has been added for this purpose whereby a new hedge accounting model is introduced that permits consistent and complete reflection of all financial and non-financial risk exposures, subject to hedge transactions, and also, better presentation of risk management activities in the financial statements and especially, their relation to hedge transactions, and the scope and type of documentation to be used. In addition, the requirements to the structure, contents and presentation approach for hedge disclosures have been improved. Furthermore, an option is introduced fair value changes of own debts, measured at fair value through profit or loss, in the part thereof due to changes in the entity's own credit quality, to be presented in other comprehensive income rather than in profit or loss. The entities that apply IAS 39 will be able to apply this option but they will also be able to continue applying the requirements for fair value hedge accounting of an interest rate exposure under IAS 39 even when IFRS becomes effective. Phase 3: Impairment methodology – the amendment introduces the 'expected loss' impairment model where under all expected credit losses shall be recognized over the lifetime of an amortizable financial instrument and not only if a trigger event has occurred as per the current model under IAS 39. With the latest amendments to IFRS 9 the date of its coming into force has been set to 1 January 2018;

- *IFRS 10 (amended) "Consolidated Financial Statements" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding the sale or contribution of assets between an investor and its associate or joint venture (in force for annual periods beginning on or after 1 January 2016 – the procedure for the adoption by the EC has been deferred for an indefinite period).* This amendment arises as a result of the existing inconsistency between the requirements and rules of IFRS 10 and IAS 28 (as revised in 2011) regarding transactions between an investor and its associate or joint venture. It basically clarifies that in transactions, representing in substance a sale or contribution of an aggregate of assets but not constituting a business, gains or losses are recognized partially to the extent attributable to other equity holders, while in transactions, representing in substance a sale or contribution of assets but constituting a business within the meaning of IFRS 3 – gains or losses are recognized in full;
- *IFRS 10 (amended) Consolidated Financial Statements, IFRS 12 (amended) Disclosure of interests in other entities and IAS 28 (amended) Investments in associates and joint ventures – on exceptions*

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

- *IFRS 11 (amended) "Joint Arrangements" – regarding acquisitions of interests in joint operations (in force for annual periods beginning on or after 1 January 2016 – endorsed by EC).* This amendment clarifies mainly that when an investor acquires interest in a joint operation, which in substance constitutes a business, this requires the application of the requirements and rules of IFRS 3 for business combinations;
- *IFRS 15 "Revenue from Contracts with Customers" (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* This is an entirely new standard. It introduces a single complex of principles, rules and approaches for recognition, accounting for and disclosure of information about the nature, amount, timing and uncertainties related to revenue and cash flows arising from contracts with counterparts. The standard will supersede the effective to date standards related to revenue recognition, mainly IAS 18 and IAS 11. The main principle of the new standard is to provide a stepwise model whereby revenue amount and timing reflect the obligation characteristics and performance of each of the parties to the transaction. The key components include: (a) contracts with customers that are commercial in their substance and assessment of the probability for collecting contractual amounts by the entity in line with the terms and conditions of the particular contract; (b) identification of the separate performance obligations under the contract for providing of a good or service, that is distinct from the other assumed contractual commitments/promises, from which the customer would obtain benefits; (c) transaction price determination – the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer – special attention is paid to the variable component of price, the financing component, as well as the non-cash consideration; (d) allocation of the transaction price to separate performance obligations under the contract – usually on a stand-alone selling price of each component; and (e) the point of time or the period of revenue recognition – when an entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur at a point in time or over time. The standard allows a full retrospective approach or a modified retrospective approach from the beginning of the current reporting period with particular disclosures for prior periods;
- *IFRS 16 Leases (effective for annual periods beginning on 1 January 2019 - not endorsed by EC).* This standard has a completely changed concept. It introduces new principles for recognition, measurement and presentation of the leases in order to ensure a reliable and adequate representation

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

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

The individual financial statements of the Company have been prepared on a historical cost basis except for property, plant and equipment, investment property and available-for-sale financial instruments, which are measured at revalued amount and respectively, at fair value.

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

The presentation of financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). Items that require a higher degree of subjective judgment or complexity, or where assumptions and accounting estimates are significant to the financial statements are disclosed in Note 2.29, 13, 15, and 17.

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its preliminary consolidated financial statements for 2016 in accordance with IFRS that are in force for year 2016 whereas these separate annual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated financial statements will be issued by the Board of Directors of the Company not later than 28 February 2016 and after this date the financial statements will be publicly made available to third parties.

2.3. Comparatives

Commonly, the Company presents comparative information in its financial statements for one prior year.

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

2.4. Functional currency and recognition of exchange differences

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

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

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

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

2.5. Revenue

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

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

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

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

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

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

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

Finance income is presented separately on the face of the statement of comprehensive income (within profit or loss for the year) and is comprised of interest income on granted loans and term deposits, foreign exchange net gains from revaluation of loans to foreign currency, gains from investment transactions in securities and shares, including dividends,.

2.6. Expenses

Expenses are recognized as they are incurred, following the accrual and matching concepts, to the extent that this would not cause recognition of assets and liabilities that do not satisfy the relevant definitions under IFRS.

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

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

Finance costs are presented separately in the statement of comprehensive income (within profit or loss for the year) and are comprised of interest expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, expenses/losses on investments in securities and dividends and impairment of granted commercial loans.

2.7. Property, plant and equipment

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

Initial acquisition

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

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

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

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

The useful life per group of assets is as follows:

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

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

Impairment of assets

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

Gains and losses on disposal (sale)

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

2.8. Biological assets

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

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

2.9. Intangible assets

Goodwill

Goodwill represents the difference between the acquisition cost (price paid) and the fair value of the share of Sopharma AD in the net identifiable assets of the subsidiary (Bulgarian Rose - Sevtopolis AD) at the date of acquisition (business combination). This goodwill has been recognized in the separate statement of financial position of the parent company upon the merger of subsidiary in the parent company. The goodwill has been presented within the group of "intangible assets".

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

Other intangible assets

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

The Company applies the straight-line amortization method for the intangible assets with determined useful life of 5 – 10 years.

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

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

2.10. Investment properties

Investment property is property lastingly held by the Company to earn rentals and/or for capital appreciation. They are presented in the statement of financial position at fair value *(Note 2.28)*. Gains or losses arising from a change in the fair value of investment property are recognized in the statement of comprehensive income (within profit or loss for the year) as 'other operating income/(losses), net' for the period in which they arise. The income gained on investment property is presented in the same item.

Investment property is derecognized from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of investment property are determined as the difference between the disposal proceeds and the carrying amount of the asset at the date of sale. They are presented under 'other operating income/(losses), net' in the statement of comprehensive income (within profit or loss for the year).

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

2.11. Investments in subsidiaries and associates

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

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

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

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

2.12. Available-for-sale investments

The investments in the form of available-for-sale financial assets are non-derivative financial assets representing shares in the capital of other companies (minority interest), held with long-term prospects.

Initial measurement

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

Subsequent measurement

The available-for-sale investments (financial assets), held by the Company, are subsequently measured at fair value *(Note 2.28)* with the assistance of an independent certified appraiser.

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

Dividend income related with long-term investments (financial assets) representing shares in other companies (minority interest) is recognized as current income and presented in the statement of comprehensive income (within profit or loss for the year) within the item 'finance income'.

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

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

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

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

2.13. Inventories

Inventories are valued in the financial statements as follows:

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

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

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

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

On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the financial statements (Note 2.29).

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

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

2.14. Trade and other receivables

Trade receivables are recognized and carried at fair value based on the original invoice amount (cost) less any allowance for uncollectable debts. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the receivables are initially valued at their fair value and subsequently – at amortized cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method *(Note 2.23).*

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

2.15. Interest-bearing loans and other financial resources granted

All loans and other financial resources granted are initially recognized at cost (nominal amount), which is accepted to be the fair value of the amount given in the transaction, net of the direct costs related to these loans and granted resources. After the initial recognition, the interest-bearing loans and other granted resources are subsequently measured at amortized cost by applying the effective interest method. Amortized cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognized in the statement of comprehensive income (within profit or loss for the year) as finance income (interest) or costs throughout the amortization period, or when the receivables are settled, derecognized or reduced.

Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) the Company has unconditionally the right to collect its receivable within a term of more than 12 months after the end of the reporting period *(Note 2.23).*

2.16. Cash and cash equivalents

Cash and cash equivalents include cash in hand, current accounts and short-term deposits with banks, with original maturity of less than three months *(Note 2.23)*.

For the purposes of the statement of cash flows:

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

- VAT paid on fixed assets purchased from foreign suppliers is presented on the line 'taxes paid' while that paid on assets purchased from local suppliers is presented as 'cash paid to suppliers' in the cash flows from operating activities as far as it represents a part of the operating flows of the Company and is recovered therewith in the respective period (month).
- blocked funds for a period of more than 3 months are not treated as cash and cash equivalents.

2.17. Trade and other payables

Trade and other current amounts payable are carried at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortized cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method *(Note 2.23)*.

2.18. Interest-bearing loans and other borrowings

All loans and other borrowings are initially recognized at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, net of the direct costs related to these loans and borrowings. After the initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortized cost by applying the effective interest method. Amortized cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement, associated with these loans. Gains and losses are recognized in the statement of comprehensive income (within profit or loss for the year) as finance costs (interest) or income throughout the amortization period, or when the liabilities are derecognized or reduced *(Note 2.23)*.

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

2.19. Capitalization of borrowing costs

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

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

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

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

2.20. Leases

Finance lease

Lessee

Finance leases, which transfer to the Company a substantial part of all risks and rewards incidental to ownership of the leased asset, are recognized in the statement of financial position of the lessee and are presented as a leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate.

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

Lessor

Finance lease where a substantial portion of all risks and rewards incidental to the ownership of the leased asset is transferred outside the Company, is written-off from the goods of the lessor and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the non-earned finance income. The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognized in the statement of comprehensive income (within profit or loss for the year) in the inception of the lease term (when the asset is delivered) as sales income.

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

Operating lease

Lessee

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

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

Lessor

Lessor continues to hold a significant part of all risks and rewards of ownership over the said asset. Therefore the asset is still included in its tangible fixed assets while its depreciation for the period is included in the current expenses of the lessor.

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

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

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

Short-term benefits

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

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

Tantieme and bonus schemes

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

Long-term retirement benefits

Defined contribution plans

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

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

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

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

Defined benefit plans

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

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

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

Termination benefits

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

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

2.22. Share capital and reserves

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

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

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

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

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

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

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

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

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

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

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

2.23. Financial instruments

2.23.1. Financial assets

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

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

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

Loans and receivables

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

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the statement of financial position *(Notes 2.14, 2.15 and 2.16)*. Interest income on loans and receivables is recognized by applying the effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

At the end of each reporting period, the Company assesses whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired *(Note 2.29)*.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are either acquired for the purpose of being sold or are not classified in any other category. These are usually shares or interest in other companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where the Company intends to sell them in the following 12 months and is actively searching for a buyer *(Note 2.12)*.

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

The available-for-sale financial assets are subsequently measured at fair value except for the shares in closed-end companies not traded in a stock-exchange market *(Note 2.12)*.

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

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

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

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

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

2.23.2. Financial liabilities and equity instruments

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

Financial liabilities

Financial liabilities include loans and payables to suppliers and other counterparts. They are initially recognized in the statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method *(Note 2.17, Note 2.18 and Note 2.20)*.

2.24. Income taxes

Company's *current income taxes* are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate in Bulgaria for 2016 was 10% (2015: 10%).

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

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

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

The carrying amount of all deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, to allow the deferred tax asset to be deducted or compensated.

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

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

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

The deferred income tax liabilities of the Company as at 31 December 2016 were assessed at a rate, valid for 2017, at the amount of 10% (31 December 2015: 10%).

2.25. Government grants

Gratuitous aids from public institutions (municipal, government and international, including under the procedure of using the European funds and program) are initially recognized as deferred income (financing) when there is reasonable assurance that they will be received by the Company and that the latter has complied and complies with the associated thereto requirements.

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

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

2.26. Earnings per share

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

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

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

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

2.27. Segment reporting

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

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

Information by operating segments

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

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

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

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

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

2.28. Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

2.29. *Critical accounting judgments on applying the Company’s accounting policies. Key estimates and assumptions of high uncertainty.*

Inventories

Normal capacity

Company's normal production capacity is determined on the basis of management assessments (made after relevant analyses) for optimum load of the production facilities and return on the investments made therein, with structure of the manufactured finished products accepted as being common for the Company. When actually realized volume in separate productions is below the volume of normal production capacity, determined by the Company, the Company makes appropriate adjustments in fixed costs included in cost of production and work in progress inventories.

Allowance for impairment

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

As a result of the reviews and analyses made in 2016 an impairment of inventories has been recorded amounting to 2,867 thousand BGN (2015: 2,822 thousand BGN) (Note 5 and Note 8).

Actuarial calculations

Calculations of certified actuaries have been used when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor *(Note 28).*

Revaluation of property, plant and equipment

As at 31 December 2016 a complete review and revaluation of long-term assets has been performed with the assistance of independent appraisers.

From the acknowledged revaluation the company formed a revaluation reserve of 2,622 thousand BGN (the previous one in 2011: 2,706 thousand BGN), net from revaluation (Note 14).

Operating lease

The Company has classified a building, partially leased to related parties under operating lease terms, in the group of ‘property, plant and equipment’. Since a significant part of the building is used thereby in its own operations as well, the management has decided that the building shall not be treated as investment property.

Impairment of investments in subsidiaries

At each reporting date, the management assesses whether there are indicators of impairment of the investments in subsidiaries. The calculations were made by the management with the assistance of independent certified appraisers.

As a result of the calculations carried out for 2016 we acknowledge the need for impairment of investments in subsidiaries amounting to 5,224 thousand BGN (2015: 8,567 thousand BGN)

Impairment of receivables

The Company estimates the losses from doubtful and bad debts at the end of each reporting period on an individual basis. Where difficulties in collecting certain receivables are observed, they are subject to analysis in order to determine the actually collectable portion therefrom while the remaining portion to the nominal value of the respective receivable is recognized in the statement of comprehensive income (within profit or loss for the year) as impairment loss *(Note 8).*

After 180 days of delay it is already considered that indicators for impairment may exist. In the judgment of collectability of receivables, the management performs analysis of the total exposure of each counterpart in order to establish the actual chance for their collection and not only at the level of past due individual receivables of a counterpart, including the potential opportunities for collecting eventual interest for compensating delay. When the collectability of a receivable (a group of receivables) is highly uncertain, an assessment is made what part thereof is secured by collateral (pledge, mortgage, warrant, bank guarantee) and thus with ensured collection (through future realization of the collateral or guarantee payment). Where the management has judged that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are fully written off.

As at 31 December 2016 the change in acknowledged impairments of commercial receivables totals 41 thousand BGN – (accounted for)/recovered (31 December 2015: BGN (234) thousand) (*Note 9*).

Impairment of commercial loans

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

As at 31 December 2016 there are 688 thousand BGN recognized impairments (net of recovered), related to the commercial loans (31 December 2015: BGN 1,955) (Note 12).

Deferred tax assets

The Company has not recognized deferred taxes at the amount of BGN 3,063 thousand (31 December 2015: BGN 2,541 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference, on which no tax asset is recognized, amounts to BGN 30,629 thousand (31 December 2015: BGN 25,409 thousand).

Litigation provisions

With regard to the pending litigations against the Company, the management together with Company's lawyers has judged that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, it has not included provisions for litigation payables in the statement of financial position as at 31 December 2016 (*Note 39*).

3. REVENUE

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

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

Sales by product - export

	2016	*2015*
	BGN '000	*BGN '000*
Tablet dosage forms	79,361	83,404
Ampoule dosage forms	10,784	12,969
Syrup dosage forms	6,336	5,640
Ointments	3,952	5,910
Lyophilic products	593	1,125
Suppositories	434	689
Drops	191	260
Other	4	-
Total	**101,655**	**109,997**

Sales by product– domestic market

	2016	*2015*
	BGN '000	*BGN '000*
Tablet dosage forms	33,302	31,629

Ampoule dosage forms	16,683	19,610
Lyophilic products	4,993	4,721
Inhalators	2,557	3,433
Ointments	1,842	1,763
Syrup dosage forms	1,736	1,642
Drops	605	545
Suppositories	429	454
Other	25	9
Total	**62,172**	**63,806**

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

	2016 BGN '000	***Relative share***	***2015 BGN '000***	***Relative share***
Europe	82,790	51%	91,608	53%
Bulgaria	62,172	38%	63,806	37%
Other countries	18,865	12%	18,389	11%
Total	**163,827**	**100%**	**173,803**	**100%**

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

	2016 BGN '000	***% of revenue***	***2015 BGN '000***	***% of revenue***
Client 1	62,172	38%	63,806	37%
Client 2	56,829	35%	32,550	19%
Client 3	-	-	31,762	18%

The commercial relationship with Client 3 has been inactive in 2016.

4. OTHER OPERATING INCOME AND LOSSES

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

	2016 BGN '000	***2015 BGN '000***
Services rendered	3,494	3,364
Grants under European projects	503	397

Sales of goods	*1,693*	*1,783*
Cost of goods sold	*(1,519)*	*(1,520)*
Gain on sales of goods	174	263
Sales of long-term assets	*677*	*686*
Carrying amount of long-term assets sold	*(555)*	*(824)*
Gain from sale of long-term assets	122	(138)
Sales of materials	*4,530*	*6,007*
Carrying amount of materials sold	*(4,421)*	*(5,890)*
Gain on sales of materials	109	117
Fines and penalties income	35	204
Gain from revaluation of biological assets to fair value	3	14
Loss from revaluation of investment properties to fair value	(233)	(79)
Net loss from exchange differences under trade receivables and payables and current accounts	(258)	(800)
Other income	241	309
Total	**4,190**	**3,651**

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

Services rendered include:

	2016	***2015***
	BGN '000	***BGN '000***
Rentals	1,750	1,803
Social activities	688	638
Manufacturing services	505	333
Regulatory services	160	121
Laboratory analyses	108	198
Gamma irradiation	79	90
Transport organization	58	47
Other	146	134
Total	**3,494**	**3,364**

Sales of goods include:

	2016	***2015***
	BGN '000	***BGN '000***
Foodstuffs	954	938
Cosmetics	425	440
Sanitary and bandaging products	166	149
Food supplements	143	231

Goods with technical designation	5	25
Total	**1,693**	**1,783**

The *cost of goods sold* is as follows:

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

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	2016	***2015***
	BGN '000	***BGN '000***
Basic materials	40,556	47,075
Electric energy	4,183	3,934
Heat power	2,506	3,227
Laboratory materials	2,146	1,498
Auxiliary materials	1,236	1,253
Spare parts	874	1,211
Technical materials	739	1,028
Working clothes and personal safety equipment	636	654
Fuels and lubricating materials	520	672
Water	515	494
Impairment of materials	1,044	401
Rejected materials	227	172
Total	**55,182**	**61,619**

Expenses on basic materials include:

	2016	***2015***
	BGN '000	***BGN '000***

Substances	20,940	22,230
Packaging materials	7,091	9,490
Liquid and solid chemicals	6,287	7,734
Ampoules	1,881	1,951
Herbs	1,798	2,467
Tubes	1,351	1,568
Aluminum and PVC foil	842	592
Vials	366	1,043
Total	**40,556**	**47,075**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2016	***2015***
	BGN '000	***BGN '000***
Manufacturing of medicinal products	7,495	8,967
Advertisement	3,091	7,902
Logistic services – domestic market	2,934	2,032
Transport	2,915	2,623
Buildings and equipment maintenance	2,352	3,030
Consulting services	1,884	2,963
Rentals	1,830	2,233
Local fees and taxes	1,247	1,142
State and regulatory fees	1,112	646
Security	1,056	976
Subscription fees	798	756
Medicinal services	747	789
Services under civil contracts	672	699
Insurance	520	595
Logistics services - export	495	630

Vehicles repair and maintenance	435	345
Tax on expenses	415	467
Communication	383	424
License fees and charges	370	337
Services on medicinal products registration	355	743
Clinical trials	354	1,339
Services for destruction of medicines	349	215
Commission fees	265	302
Translation of documents	242	219
Fees for servicing of current bank accounts	146	151
Courier services	93	121
Other	1,098	629
Total	**33,653**	**41,275**

7. EMPLOYEE BENEFITS EXPENSES

Employee benefits expense includes:

	2016	***2015***
	BGN '000	***BGN '000***
Current wages and salaries	25,547	26,557
Social security/health insurance contributions	4,782	4,960
Social benefits and payments	2,258	2,123
Bonuses	768	792
Unused leaves pahyments	594	474
Social security/health insurance contributions on leaves	100	80
Accruals for long-term retirement benefit obligations (Note 29)	365	345
Total	**34,414**	**35,331**

8. OTHER OPERATING EXPENSES

Other expenses include:

	2016	*2015*
	BGN '000	*BGN '000*
Entertainment allowances	1,970	2,073
Impairment of finished and unfinished producst (Note 9)	1,805	2,421
Business travel	581	697
Accrued (recovered) impairment of receivables, net (*Note 9*)	(41)	(234)
Donations	365	373
Training	197	205
Unrecognized input tax under VATA	160	43
Scrapping of finished and unfinished products	101	2
Scrapping of LTA	77	270
Scrapping of goods	37	-
Impairment of goods (Note 9)	20	243
Other taxes and payments to the State budget	18	-
Court cases won	7	7
Unrecognized excise duty	-	12
Other	229	98
Total	**5,526**	**6,210**

9. IMPAIRMENT OF CURRENT ASSETS

Impairment losses on current assets include:

	2016	*2015*
	BGN '000	*BGN '000*
Impairment of finished products (Note 8)	1,805	2,240
Impairment of materials (Note 5)	1,044	401
Impairment of goods (Note 8)	18	-

Impairment of unfinished goods (Note 8)	-	181
Impairment of receivables	*1,182*	*242*
Reversed impairment of receivables	*(1,223)*	*(476)*
Net change in the impairment of receivables (*Note 4*)	(41)	(234)
Total	**2,826**	**2,588**

10. IMPAIRMENT OF NON-CURRENT ASSETS

Impairment of investments in subsidiaries	5,224	8,567
Impairment of LTA (Note 14)	342	-
Impairment of intangible assets (Note 15)	61	-
Total	**5,627**	**8,567**

11. FINANCIAL INCOME

Finance income includes:

	2016 ***BGN'000***	***2015*** ***BGN'000***
Net gain on transactions with securities	12,872	6,908
incl. gain from sale of subsidiaries	*12,721*	*6,851*
Income from shareholdings	9,161	7,881
Interest income on loans granted	2,126	3,120
Neg gain from currency exchange rate differences on loans	-	13
Total	**24,159**	**17,922**

12. FINANCIAL EXPENSES

Finance costs include:

	2016 ***BGN'000***	***2015*** ***BGN'000***
Interest expense on loans received	2,061	3,510
Impairment of receivables from granted commercial loans	688	1,955
Bank fees and charges on loans and guarantees	302	270
Net loss on exchange-rate differences from financial operations	109	-
Impairment of cash on hand	8	165
Impairment of investments available and for sale	5	398
Financial leasing interest expense	3	14
Total	**3,176**	**6,312**

13. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2016 BGN '000	***2015 BGN '000***
		-
Gain from change in fair value of available-for-sale financial assets:	2,622	
Net change in fair value of financial assets available and for sale	1522	485
Profit, which occurred during the year		
Reduced by: *Reclassification corrections of (profits)/losses, included in profit or loss for the current year*	(7)	(292)
Reevaluations of defined benefit pension plans	(120)	(51)
	4,017	**142**
Income tax related to the components of other comprehensive income	(262)	**-**
Total comprehensive income for the year	**3,755**	**142**

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

	2016 BGN'000			**2015 BGN'000**		
	Pre-tax amount	**Tax effects recognised in equity**	**Amount net of tax**	**Pre-tax amount**	**Tax effects recognised in equity**	**Amount net of tax**
Items that will not be reclassified to profit or loss						
Gain/(loss) from revaluation of property, plant and equipment	2,622	(262)	2,360	-	-	-

Revaluation of defined benefit pension plans	(120)	-	(120)	(51)	-	(51)
Items that may be reclassified to profit or loss						
Net change in the fair value of available-for-sale financial assets	1,515	-	1,515	193	-	193
Total other comprehensive income for the period	**4,017**	**(262)**	**3,755**	**142**	**-**	**142**

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Machinery and equipment*		*Other*		*Assets in progress*		*Total*	
	2016	***2015***	***2016***	***2015***	***2016***	***2015***	***2016***	***2015***	***2016***	***2015***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN '000***	***BGN'000***
Book value										
Balance at 1 January	**132,512**	**131,399**	**157,003**	**150,344**	**22,762**	**23,795**	**13,402**	**7,188**	**325,679**	**312,726**
Additions	15	158	879	560	76	140	9,410	15,211	10,380	16,069
Transfer to property, plant and equipment	9,880	956	8,308	8,003	1,474	38	(19,662)	(8,997)	-	-
Transfer from investment properties	-	127	-	2	-	-	-	-	-	129
Transfer to investment properties	-	-	-	-		-	(525)	-	(525)	-
Effect from remeasurement to fair value	167	-	1,071	-	(65)	14	-	-	1,173	14
Allowance for impairment	(13)	-	(283)	-	(46)	-	-	-	(342)	-
Written-off	(70)	(128)	(1,594)	(1,906)	(2,017)	(1,225)	-	-	(3,681)	(3,259)
Balance at 31 December	**142,491**	**132,512**	**165,384**	**157,003**	**22,184**	**22,762**	**2,625**	**13,402**	**332,684**	**325,679**
Accumulated depreciation										
Balance at 1 January	**18,647**	**14,806**	**78,195**	**70,972**	**16,894**	**15,892**	**-**	**-**	**113,736**	**101,670**
Depreciation charge for the year	3,851	3,841	8,433	8,495	1,503	2,086	-	-	13,787	14,422
Depreciation written-off	-	-	(1,483)	(1,272)	(1,611)	(1,084)	-	-	(3,094)	(2,356)

Effect from remeasurement to fair value	(37)	-	(1,101)	-	(314)	-	-	-	(1,452)	-
Balance at 31 December	**22,461**	**18,647**	**84,044**	**78,195**	**16,472**	**16,894**	**-**	**-**	**122,977**	**113,736**
Carrying amount at 31 December	**120,030**	**113,865**	**81,340**	**78,808**	**5,712**	**5,868**	**2,625**	**13,402**	**209,707**	**211,943**
Carrying amount at 1 January	**113,865**	**116,593**	**78,808**	**79,372**	**5,868**	**7,903**	**13,402**	**7,188**	**211,943**	**211,056**

As at 31 December 2016, Company's tangible fixed assets included: land amounting to BGN 34,621 thousand (31 December 2015: BGN 33,251 thousand) and buildings of carrying amount BGN 85,409 thousand (31 December 2015: BGN 80,614 thousand).

Tangible fixed assets in progress as at 31 December include:

- buildings reconstruction – BGN 1,704 thousand (31 December 2015: BGN 100 thousand);
- advances granted for purchase of machinery and equipment – BGN 568 thousand (31 December 2015: BGN 3,188 thousand);
- expenses related to construction of new buildings – BGN 271 thousand (31 December 2015: BGN 10,132 thousand)
- other – BGN 82 thousand (31 December 2015: BGN 82 thousand).

As at 31 December, the carrying amount of property, plant and equipment includes machinery and equipment, which have been purchased using grants under Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 (Note 30) as follows:

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

The amount of other assets as at 31 December 2016 includes also biological assets – Golden Chain (Laburnum anagyroides) plantation at the amount of BGN 134 thousand (31 December 2015: BGN 131 thousand).

Operating lease

The Company has leased tangible fixed assets with carrying amount of BGN 5,669 thousand as at 31 December 2016 to related parties (31 December 2015: BGN 6,263 thousand). In addition, tangible fixed assets at carrying amount of BGN 246 thousand were leased to third parties as at 31 December 2016 (31 December 2015: BGN 686 thousand).

Finance lease

As at 31 December 2016, assets at the carrying amount of BGN 29 thousand were acquired under finance lease contracts (31 December 2015: BGN 111 thousand).

Other data

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

- Buildings – BGN 278 thousand (31 December 2015: BGN 123 thousand);
- Machinery and equipment – BGN 34,290 thousand (31 December 2015: BGN 34,576 thousand);
- Motor vehicles – BGN 3,504 thousand (31 December 2015: BGN 3,266 thousand);
- Furniture and fixtures – BGN 6,980 thousand (31 December 2015: BGN 6,878 thousand);
- Other – BGN 63 thousand (31 December 2015: BGN 63 thousand).

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

- Land and buildings with carrying amount of BGN 22,415 thousand and BGN 66,385 thousand, respectively (31 December 2015: BGN 22,009 thousand and BGN 61,271 thousand, respectively) *(Notes 28, 33 and 39);*
- Pledges on equipment – BGN 47,758 thousand (31 December 2015: BGN 38,316 thousand) *(Notes 28, 33 and 39).*

Revaluation of property, plant and equipment to fair value

As at 31 December 2016, the Company performed an overall review and assessment for price changes of property, plant and equipment with the assistance of certified appraisers: As a result of this review it made the latest revaluation of property, plant and equipment the results of which were accounted for.

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

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

Revaluation reserve at the amount of BGN 2,532 thousand was then recognized as a result of the revaluation net of impairment.

15. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Assets in progress*		*Total*	
	2016	***2015***	***2016***	***2015***	***2016***	***2015***	***2016***	***2015***	***2016***	***2015***
	BGN‘000	***BGN ‘000***	***BGN‘000***	***BGN‘000***	***BGN ‘000***	***BGN‘000***	***BGN‘000***	***BGN‘000***	***BGN‘000***	***BGN‘000***
Book value										
Balance at 1 January	**768**	**768**	**1,474**	**1,869**	**3,734**	**4,180**	**57**	**131**	**6,033**	**6,948**
Additions	-	-	78	49	63	4	1	21	142	74
Transfer	-	-	-	-	22	-	(22)	-	-	-
Disposals	-	-	(61)	-	-	-	-	-	(61)	-
Written-off	-	-	(208)	(444)		(450)	(11)	(95)	(219)	(989)
Balance at 31 December	**768**	**768**	**1,283**	**1,474**	**3,819**	**3,734**	**25**	**57**	**5,895**	**6,033**
Accumulated amortization										
Balance at 1 January	**-**	**-**	**1,185**	**1,216**	**2,341**	**2,522**	**-**	**-**	**3,526**	**3,738**
Amortization charge for the year	-	-	133	191	208	269	-	-	341	460
Amortization written-off	-	-	(149)	(222)		(450)	-	-	(149)	(672)
Balance 31 December	**-**	**-**	**1,169**	**1,185**	**2,549**	**2,341**	**-**	**-**	**3,718**	**3,526**
Carrying amount at 31 December	**768**	**768**	**114**	**289**	**1,270**	**1,393**	**25**	**57**	**2,177**	**2,507**
Carrying amount at 1 January	**768**	**768**	**289**	**653**	**1,393**	**1,658**	**57**	**131**	**2,507**	**3,210**

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

Intangible assets in progress as at 31 December include:

- expenses on permits for use of medicinal products – BGN none thousand (31 December 2015: BGN 36 thousand);
- expenses for the acquisition of software products – BGN 25 thousand (31 December 2015: BGN 21 thousand).

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

- Intellectual property rights (R&D products) – BGN 909 thousand (31.12.2015: BGN 833 thousand);
- Software products – BGN 1,737 thousand (31.12.2015: BGN 1,412 thousand);
- Other – BGN 7 thousand (31 December 2015: BGN 7 thousand)

16. INVESTMENT PROPERTY

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Balance at 1 January	**22,160**	**22,368**
Transfer from investment properties	525	-
Net loss on fair value adjustment, included in profit or loss	(233)	(79)
Transfer to investment properties	-	(129)
Balance at 31 December / 31 December	**22,452**	**22,160**

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

Asset group	***31.12.2016*** ***BGN '000***	***31.12.2015*** ***BGN '000***
Warehouse premises	18,671	18,380
Offices	2,342	2,331
Production buildings	1,032	1,056
Social objects	407	393
Total	**22,452**	**22,160**

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

- mortgages of warehouse premises – BGN 8,226 thousand (31 December 2015: BGN 9,308 thousand) (*Note 30 and 39*);
- pledges on attached equipment – BGN 5,730 thousand (31 December 2015: BGN 5,912 thousand) (*Note 33*).

Fair value measurement

Fair value hierarchy

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

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

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

	Warehouse premises	***Offices***	***Production buildings***	***Special purpose***	***Total***
	BGN '000	***BGN'000***	***BGN '000***	***BGN '000***	***BGN'000***
Balance at 1 January 2015	**18,498**	**2,310**	**1,140**	**420**	**22,368**
Transfer to property, plant and equipment			(129)		(129)
Revaluation to fair value through profit or loss - unrealized	(118)	21	45	(27)	(79)
Balance at 31 December 2015	**18,380**	**2,331**	**1,056**	**393**	**22,160**
					-
Transfer from property, plant and equipment	525				525
Revaluation to fair value through profit or loss - unrealized	(234)	11	(24)	14	(233)
Balance at 31 December 2015	**18,671**	**2,342**	**1,032**	**407**	**22,452**

Valuation techniques and significant unobservable inputs

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

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

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

17. INVESTMENTS IN SUBSIDIARIES

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

		31.12.2016 BGN '000	***Interest %***	***31.12.2015 BGN '000***	***Interest %***
Medika AD	Bulgaria	32,874	97.96	21,832	66.72
Sopharma Trading AD	Bulgaria	29,096	72.14	28,557	71.85
Unipharm AD	Bulgaria	26,749	77.88	19,448	49.99
Briz OOD	Latvia	22,270	66.13	22,270	66.13
Sopharma Ukraine	Ukraine	11,783	100.00	16,991	100.00
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Veta Pharma AD	Bulgaria	6,549	68.05	-	-
Momina Krepost AD	Bulgaria	4,874	93.54	4,833	92.78
Vitamina AD	Ukraine	1,980	99.56	1,980	99.56
Pharmalogistica AD	Bulgaria	1,190	84.93	1,058	78.37
Sopharma Buildings REIT	Bulgaria	568	40.39	573	40.75
Sopharma Kazakhstan EOOD	Kasakhstan	502	100.00	502	100.00
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
Phyto Palauzovo AD	Bulgaria	57	95.00	25	95.00
Ivanchich and sons	Serbia	-	-	5,739	51.00
Total		**147,583**		**132,899**	

As at 31 December 2016 the composition of investments in subsidiaries also includes the investment in the subsidiary Sopharma Poland OOD – in liquidation, Poland, which is fully impaired (31 December 2015: the investments in Sopharma Poland OOD – in liquidation, Poland was fully impaired).
Sopharma AD has direct or indirect control on the above-mentioned companies.

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

- Pharmalogistica AD – Scope of activities: secondary packaging and real estate leases. Date of acquisition – 15 August 2002.
- Electroncommerce EOOD – Scope of activities: trade, transportation and packaging of radioactive materials and nuclear equipment, household electronics and electrical equipment. Date of acquisition – 9 August 2005.
- Sopharma Poland OOD – in liquidation – Scope of activities: market and public opinion research. Date of acquisition – 16 October 2003. The company is in a procedure of liquidation.
- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Phyto Palauzovo AD – Scope of activities: production, gathering, extraction and marketing of herbs and medicinal plants. Date of acquisition – (since the merging of Bulgarian Rose – Sevtopolis AD) – 1 January 2014.
- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 18 January 2008.
- Ivanchich and sons OOD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 10 April 2008. The shares of the company were sold on 9 May 2016.
- Sopharma Buildings REIT – Scope of activities: investment of funds, accumulated by issuance of securities, in real estate (securitization of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale. Date of acquisition – 4 August 2008.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 2008.
- Briz OOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 10 November 2009.
- Unipharm AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 27 October 2010.
- Sopharma Warsaw EOOD – Scope of activities: market and public opinion research. Date of acquisition – 23 November 2010.
- Sopharma Ukraine EOOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 7 August 2012.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of acquisition – 31

December 2014.

- Medika AD – Scope of activities: production of bandages and sanitary and hygiene products and finish medicinal products. Date of acquisition – 26 October 2015.
- Veta Pharma AD – scope of activities: production of medicinal, non-medicinal and other products. Date of acquisition – 11 November 2016.

Changes in investments in subsidiaries is represented in the table below.

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

Impairment of investments in subsidiaries

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in subsidiaries. The following are accepted as main indicators for impairment: significant volume reduction (over 25%) or termination of activities of the subsidiary where investments have been made; reporting of losses for a longer period of time (over three years) as well as reporting of negative net assets or assets below the registered share capital. The calculations are carried out by the managements with the assistance of independent licensed appraisers. The basis used for the cash flow forecasts are the financial budgets prepared by the respective companies covering 3-5 year period and other mid-term and long-term plans and intentions for their development, including main economic national indicators for national level, the Balkans and the EU. The key assumptions use for the calculations of recovered value as of 31 December 2016 are:

- Growth rate – from 2% to 34.2%;
- Growth for the after forecast period when calculation terminal value – 1.8% to 5%;
- Interest rate (debt cost) – from 2.3% to 16.5%;
- Discount rate (based on WACC) – from 6.4% to 28.9%.

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

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

As a result of the calculations in 2016 we have determined the necessity to acknowledge an impairment of certain investments in subsidiaries amounting to 5,244 thousand BGN (2015: 8,567 thousand BGN) (Note 10).

18. INVESTMENTS IN ASSOCIATES

As at 31 December 2016 the balance value of the investments in associates amounts to 5,219 thousand BGN and includes a 30.22% participation in the capital of Doverie Obedinen Holding AD.
The latter has a scope of activities acquisition, management, evaluation and sale of shares in Bulgarian and foreign companies – legal entities.
On 21 December 2016 Sopharma AD acquired 2,871,011 shares of Doverie Obedinen Holding AD and as a result the latter is transformed to an associate.

The change of investments in associates is represented below:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Balance on 1 January	**-**	**7,015.00**
Acquisition of shares	3,117	14,818
Transfer from available and for sale investments (Level 3)	2,102	
Sale of shares	-	(1)
Transfer to subsidiaries	-	(21,832)

Balance at 31 December 2016	**5,219**	**-**

Impairment of investments in associates

Upon each date on which the management preprares a report for the financial condition it also evaluates whether there are indicators for impairment of its investments in associates. Some of the main indicators include: significant reduction in the volume (over 25%) or cessation of activities of the company in which Sopharma AD has invested; recurring losses for a continuous period of time (over 3 years) and reporting of net negative assets or assets under the registered main shareholder capital. The calculations are carried out by the management together with the assistance of independent licensed appraisers.
The tests and conclusions of the management for impairment are carried out in the light of its future economic gains, which are expected to be received from the associates, including commercial and enterprise experience, providing key positions on local or foreign markets, expectations for future sales etc.
As a result of these calculations in 2016 the management has not reached a conclusion that there is a need for an impairment in an associate.

19. AVAILABLE-FOR-SALE INVESTMENTS

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

	31.12.2016 BGN '000	***Interest %***	***31.12.2015 BGN '000***	***Interest %***
Lavena AD	2,883	11.29	1,296	9.12
Olainfarm AD - Latvia	1,796	0.77	1,553	0.77
Extab Pharma Inc. - USA	290	5.00	290	5.00
Hydroizomat AD	131	10.67	132	10.65
Expat Bulgaria BTF	82	0.32	-	-
Todorov AD	37	4.98	22	4.74
Ecobulpack AD	7	1.48	7	1.48
UniCredit Bulbank AD	3	0.001	3	0.001
Doverie Obedinen Holding AD	-	-	2,102	14.90
Elana Agrocredit AD	-	-	67	1.26
Sopharma properties REIT	-	-	37	0.05
Chimimport AD	-	-	1	0.00003
Total	**5,229**		**5,510**	

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

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

Available-for-sale investments	**31.12.2016** *Number of shares*	*Fair value per share*	*Fair value as per the statement of financial position*	**31.12.2015** *Number of shares*	*Fair value per share*	*Fair value as per the statement of financial position*
		BGN	***BGN'000***		***BGN***	***BGN'000***
Lavena AD	30,100	95.78	2,883	24,309	53.31	1,296
Olainfarm AD - Latvia	108,500	16.55	1,796	108,500	14.31	1,553
Hydroizomat AD	318,889	0.41	131	318,301	0.41	132
Expat Bulgaria BTF	74,550	1.10	82	-	-	-
Todorov AD	169,468	0.22	37	161,014	0.14	22
Doverie Obedinen Holding AD	-	-	-	2,791,352	0.75	2,102
Elana Agrocredit AD	-	-	-	64,350	1,03	67
Sopharma properties REIT	-	-	-	8,695	4.28	37
Chimimport AD	-	-	-	1,000	1.38	1
Total			**4,929**			**5,210**

The investments in Ecobulpack AD, UniCredit Bulbank AD, and Extab Pharma Inc., USA are valued and presented at acquisition price (cost).

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

Hierarchy of value

The table below shows the reconciliation between beginning and ending balance of fair value according to Level 1, Level 2 and Level 3:

Available-for-sale financial investments (shares)	***Fair value*** ***31.12.2016***	***Level 1***	***Level 2***	***Level 3***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
Lavena AD	2,883	-	2,883	-
Olainfarm AD - Latvia	1,796	1,796	-	-
Hydroizomat AD	131	131	-	-
Expat Bulgaria BTF	82	82	-	-

Todorov AD	37	37	-	-
Total	**4,929**	**2,046**	**2,883**	**-**

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

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

Available-for-sale financial investments (shares)	***Level 1***	***Level 2***	***Level 3***	***Total***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
Balance at 1 January 2015	**1,384**	**1,209**	**1,836**	**4,429**
Purchases	106	94	894	1,094
Share issuing	68	-	-	68
Sales	(180)	(3)	-	(183)
Realized gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securities*	7	-	-	7
Unrealized loss included in the current profit and loss for the year (Note 11)	(4)	(70)	(324)	(398)
Unrealized gain/(loss), net, included in other comprehensive income (Note 12)	299	198	(304)	193
Balance at 31 December 2015	**1,680**	**1,428**	**2,102**	**5,210**
Purchases	461	328		789

Share issuing	230	-	-	230
Sales	(737)	(4)	-	(741)
Transfer to investments in associates	-	-	(2,102)	(2,102)
Transfer from level 2 to Level 3	132	(132)	-	-
Realized gain/(loss) included in the current profit and loss for the year in the item Finance income – *Net gain on transactions with securities*	23	2		25
Unrealized loss included in the current profit and loss for the year (Note 11)	(2)	(2)		(4)
Unrealized gain/(loss), net, included in other comprehensive income (Note 12)	259	1,263		1,522
Balance at 31 December 2015	**2,046**	**2,883**	**-**	**4,929**

When determining the fair value of the investments available and for sale as at 31 December 2016 the methods used are peers comparison and market multiples.

20. LONG-TERM RECEIVABLES FROM RELATED PARTIES

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

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

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***31.12.2016***		***31.12.2015***	
	'000			***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***

					Incl. interest		Incl. interest
to associates							
EUR	16,177	01.12.2018	3.50%	*9,797*	*48*	-	-
to companies related through key management personnel							
EUR	16,177	01.12.2018	3.50%	-	-	*13,074*	*18*
EUR	3,272	01.12.2018	3.50%	-	-	*7,139*	*739*
to subsidiaries							
EUR	500	01.03.2019	6.60%	*983*	*6*	-	-
				10,780	***54***	**20,213**	***757***

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

The long-term deposit receivable is from a company related through key management personnel under a concluded rental contract for administrative offices with validity term on 1 August 2022.

21. OTHER NON-CURRENT RECEIVABLES

Other non-current receivables include*:*

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Receivables from transactions with securities	3,389	3,257
Receivables from sale of long-term assets	325	-
Total	**3,714**	**3,257**

Receivables from the sale of an investment in subsidiary with differed payment until the completion of regulatory steps related to the registration of marketing authorizations for medicinal products with an expected maturity 31 December 2018.

The receivables from sale of long-term assets are with maturity 10.04.2021.

22. INVENTORIES

Company’s *inventories* include:

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Materials	24,879	27,868
Finished products	17,282	22,841

Semi-finished products	10,659	5,262
Work in progress	3,724	5,255
Goods	272	475
Total	**56,816**	**61,701**

Materials by type are as follows:

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

Basic materials by type are as follows:

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

Finished products existing as at 31 December include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Tablet dosage forms	11,347	15,482

Ampoule dosage forms	2,662	2,916
Ointments	1,608	951
Syrups	929	2,535
Lyophilic products	344	122
Suppositories	199	114
Drops	100	387
Inhalers	93	334
Total	**17,282**	**22,841**

Pledges were established on Company's inventories with a carrying amount of BGN 25,782 thousand as at 31 December 2016 as collateral to bank loans received (31 December 2015: BGN 31,341 thousand) (*Note 33 and 39*).

23. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Receivables from subsidiaries	*62,887*	*59,515*
Impairment of uncollectable receivables	*(3,254)*	*(3,025)*
	59,633	56,490
Receivables from companies related through key managing personnel	11,689	21,545
Impairment of uncollectable receivables	(269)	-
	11,420	21,545
Receivables from companies related through a main shareholders	13	-
Total	**71,066**	**78,035**

The receivables from related parties by type are as follows:

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Receivables on sales of finished products and materials	53,163	50,847
Impairment of uncollectable receivables	*(1,145)*	*(1,062)*
	52,018	49,785
Trade loans granted	21,426	30,213

Impairment of uncollectable receivables	*(2,378)*	*(1,963)*
	19,048	28,250
Total	**71,066**	**78,035**

The receivables on sales are interest-free and BGN 37,813 thousand of them are denominated in BGN (31 December 2015: BGN 28,364 thousand) and in EUR – BGN 14,205 thousand (31 December 2015: BGN 21,421 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 37,788 thousand as at 31 December 2016 or 72.64% of all receivables on sales of finished products and materials to related parties (31 December 2015: BGN 27,103 thousand – 54,44%).

The Company usually negotiates with its subsidiaries payment terms of 180 days for receivables on sales of finished products and up to 90 days for receivables on sales of materials (incl. substances).

The Company determined a period of up to 270 days in total for which no interest was usually charged to sales counterparts - related parties and this was in line with the specifics of the end users – hospitals, Health Insurance Fund and other. Any delay after this period is regarded by the Company as an indicator for impairment. The management assesses collectability on an individual basis by analyzing the specific receivables and the circumstances relating to the delay in order that impairment is charged.

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
up to 30 days	5,859	9,368
from 31 to 90 days	23,297	22,850
from 91 to 180 days	18,889	7,269
from 181 to 240 days	862	838
over 241 days	1,640	1,372
Total	**50,547**	**41,697**

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
from 31 to 90 days	25	7
from 91 to 180 days	429	1,712
from 181 to 365 days	1,017	6,369

Total	**1,471**	**8,088**

The past due but not impaired receivables are mainly from subsidiaries, which are in a process of implementing the purposes of the Group for expanding its market share, promotion of its products and its strategic objectives for presence in the territory in which they operate. The collection methods and schemes are under current monitoring at 'company' level and 'group' level and comply with the achievement of the market objectives of the group.

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
over 1 year	1,145	1,062
Allowance for impairment	(1,145)	(1,062)
Total	**-**	**-**

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

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

	2016	***2015***
	BGN '000	***BGN '000***
Balance at 1 January	**1,062**	**2,278**
Reversed impairment	944	120
Stated impairment	(861)	-
Transfer to impairment of investments in subsidiaries	-	(1,336)
Balance at 31 December / 31 December	**1,145**	**1,062**

Special pledges have been established as at 31 December 2016 on receivables from related parties at the amount of BGN 18,229 thousand (31 December 2015: BGN 18,229 thousand) (Note 33) as collateral under bank loans received.

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***

Receivables from companies related through key managing personnel	11,689	21,545
Impairment of trade loans	*(269)*	-
	11,420	21,545
Subsidiaries	*9,737*	*8,668*
Impairment of trade loans	*(2,109)*	*(1,963)*
	7,628	6,705
Total	**19,048**	**28,250**

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

	2016	***2015***
	BGN '000	***BGN '000***
Balance at 1 January	**1,963**	**8**
Stated impairment	415	1,955
Balance at 31 December / 31 December	**2,378**	**1,963**

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

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

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

24. TRADE RECEIVABLES

Trade payables include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Receivables from clients	21,422	21,185
Impairment of uncollectable receivables	(251)	(631)
	21,171	20,554
Advances granted	1,210	912
Total	**22,381**	**21,466**

The *receivables from clients* are interest-free and BGN 283 thousand of them are denominated in BGN (31 December 2015: BGN 498 thousand), in EUR – BGN 19,421 thousand (31 December 2015: BGN 18,551 thousand), and in USD – BGN 1,467 thousand (31 December 2015: BGN 1,505 thousand.

Of the receivables from clients 79.12% are attributable to one main counterpart of the Company (for 2015: one main counterpart compounds 81,67%).

The Company usually agrees with its clients payment terms from 60 to 180 days for receivables under sales except for the cases when new markets and products are being developed and new trade counterparts are being attracted.

The Company has set a common period of 180 days for which no interest is charged to clients. Any delay after this period is regarded by the Company as an indicator for impairment. The management assesses collectability by analyzing the individual exposure of the client as well as its repayment capacity and takes a decision as to whether to charge impairment.

Special pledges on trade receivables at the amount of BGN 21,215 thousand were established at 31 December 2016 as collateral to bank loans received (31 December 2015: BGN 20,554 thousand)..

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***

up to 30 days	11,436	10,963
from 31 to 90 days	7,973	8,371
from 91 to 180 days	160	168
Total	**19,569**	**19,502**

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
from 31 to 90 days	867	480
from 91 to 180 days	126	224
Over 1 year	609	348
Total	**1,602**	**1,052**

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
from 91 to 180 days	44	54
over 1 year	207	577
Allowance for impairment	(251)	(631)
	-	**-**

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

	2016	***2015***
	BGN '000	***BGN '000***
Balance at 1 January	**631**	**1,003**
Stated impairment	226	105
Amounts written-off as uncollectable	(360)	(3)
Reversed impairment	(246)	(474)
Balance at 31 December / 31 December	**251**	**631**

The advance payments to suppliers as at 31 December / 31 December are for:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Services	645	304
Inventories	565	608

Total	**1,210**	**912**

The *advances granted* are regular. They include: in BGN – BGN 1,140 thousand (31.12.2015: BGN 550 thousand), in EUR - 70 thousand (31.12.2015: BGN 100 thousand) and in USD – none (31.12.2015: BGN 262 thousand).

25. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Taxes refundable	3,609	3,104
Loans granted to third parties	2,445	2,481
Prepayments	880	849
Receivables on deposits placed as guarantees	189	236
Amounts granted to an investment intermediary	81	199
Court and awarded receivables	*2,163*	*2,151*
Impairment of court receivables	*(2,163)*	*(2,151)*
	-	-
Other	81	12
Total	**7,285**	**6,881**

Refundable taxes include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Excise duties	2,713	2,616
Corporate tax	455	430
Value added tax	441	58
Total	**3,609**	**3,104**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***31.12.2016***		***31.12.2015***	
	'000			***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***

					Incl. interest		***Incl. interest***
BGN	1,873	31.12.2017	4.30%	*1,769*	*-*	*1,570*	*94*
BGN	949	31.12.2017	4.70%	*546*	*3*	*911*	*6*
BGN	412	24.05.2017	4.50%	*130*	*-*	*-*	*-*
				2,445	**3**	**2,481**	**100**

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

Prepayments include:

	31.12.2016 BGN '000	***31.12.2015 BGN '000***
Insurance	369	396
Subscriptions	362	353
License and patent fees	38	35
Rentals	37	12
Vouchers	11	4
Other	63	49
Total	**880**	**849**

Deposits placed as guarantees include:

	31.12.2016 BGN '000	***31.12.2015 BGN '000***
Guarantees under contracts for fuel supply	86	86
Guarantees under construction contracts	66	88
Guarantees for delivery of LTA	19	-
Guarantees on rental contracts	12	12
Guarantees for delivery of communication services	-	34
Other	6	16
Total	**189**	**236**

26. CASH AND CASH EQUIVALENTS

Cash includes:

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

Cash at current bank accounts are as follows: in BGN: BGN 3,927 thousand (31 December 2015: BGN 2,124 thousand), in EUR – BGN 257 thousand (31 December 2015: BGN 597 thousand), in USD – BGN 39 thousand (31 December 2015: BGN 799 thousand) and in other currency – BGN 10 thousand (31 December 2015: BGN 160 thousand).
Cash in hand is denominated in BGN – BGN 73 thousand (31 December 2015: BGN 47 thousand) and in other currencies – BGN 12 thousand (31 December 2015: BGN 9 thousand).

27. EQUITY

Main shareholder equity

Share capital

As at 31 December 2016, the registered share capital of Sopharma AD amounted to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

Ordinary shares issued and fully paid	*Shares*	*Share capital net of treasury shares*
	number	*BGN '000*
Balance at 1 January 2015	**126,885,870**	**114,797**

Effect from the merger of a subsidiary	2,797,899	2,798
Treasury shares purchased	(105,166)	(392)
Expenses on treasury shares	-	(2)
Balance at 31 December 2015	**129,578,603**	**117,201**
Balance at 1 January 2016	**129,578,603**	**117,201**
Treasury shares sold	300	1
Treasury shares acquired	(443,418)	(1,207)
Expenses on treasury sahres	-	(6)
Balance at 31 December 2016	**129,135,485**	**115,989**

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

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

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Share capital /registered/, nominal	134,798	134,798
Premium reserve	8,785	8,785
Total paid-in capital	**143,583**	**143,583**

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

The ***treasury shares*** were 5,662,416 at the amount of BGN 18,809 thousand as at 31 December 2016 (31 December 2015: (31 December 2015: 5,219,296 at the amount of BGN 17,597 thousand). During the current year were purchased 443,418 shares (2015: 105,166 shares) and 300 are sold (2015: None) .

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

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

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

	31.12.2016	*31.12.2015*
	BGN '000	*BGN '000*
Statutory reserves	47,841	45,256
Property, plant and equipment revaluation reserve	24,165	22,286
Available-for-sale financial assets reserve	2,805	1,290
Additional reserves	229,586	215,395
Total	**304,397**	**284,227**

The ***statutory reserves*** at the amount of BGN 47,841 thousand (31 December 2015: BGN 45,256 thousand) represent the "Reserves" fund, which is formed according to the requirements of the Commercial Act and the Articles of Association of the Company and includes two components: a) profit distribution to the "Reserves" fund at the amount of BGN 36,471 thousand (31 December 2015: BGN 39,056 thousand) and b) premium reserve, formed by the positive difference between the issue and the nominal value of the issued shares upon the merger of the subsidiary Bulgarian Rose – Sevtopolis AD into Sopharma AD at the amount of BGN 8.785 thousand (31 December 2015: BGN 8,785 thousand).

The movements of statutory reserves were as follows:

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

The ***property, plant and equipment revaluation reserve*** amounting to BGN 24,165 thousand (31 December 2015: BGN 22,286 thousand), was set aside from the positive difference between the carrying amount of property, plant and equipment and their fair value at the date of the respective revaluation. The deferred tax effect on the revaluation reserve was directly carried to this reserve.

The movements of property, plant and equipment revaluation reserve were as follow:

	2016	*2015*
	BGN '000	*BGN '000*

Balance at 1 January	**22,286**	**22,434**
Revaluation of property, plant and equipment	2,622	-
Deferred tax related to revaluation	(262)	-
Transfer to retained earnings	(481)	(492)
Effect from the merger of a subsidiary	-	344
Balance at31 December	**24,165**	**22,286**

The ***available-for-sale financial assets reserve***, amounting to BGN 2,805 thousand (31 December 2015: BGN 1,290 thousand) was set aside from the effects of subsequent revaluation of available-for-sale investments to fair value.

The movements of available-for-sale financial assets reserve were as follows:

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

Additional reserves at the amount of BGN 229,586 thousand (31 December 2015: BGN 215,395 thousand) were set aside from distribution of profits under a decision of shareholders and could be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additioanl reserves are as follows:

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

As at 31 December 2016 ***undistributed profit amounts to*** BGN 41,965 thousand (31.12.2015: BGN 30,198 thousand).

The movements of undistributed profit were as follows:

	2016	*2015*
	BGN '000	*BGN '000*
Balance at 1 January	**30,198**	**45,484**
Net profit for the year	37,252	25,354
Transfer from property, plant and equipment revaluation reserve	481	492
Distribution of profit for reserves	(16,776)	(29,154)
Deistribution of profit for dividends	(9,070)	-
Actuarial losses from subsequent revaluation	(120)	(51)
Effect from merging of a subsidiary	-	(11,927)
Balance at 31 December / 31 December	**41,965**	**30,198**

Basic earning sper share

	31.12.2016	*31.12.2015*
Weighted average number of shares	129,393,992	129,379,961
Net profit for the year (BGN'000)	37,252	25,354
Basic earnings per share (BGN)	**0.29**	**0.20**

28. LONG-TERM BANK LOANS

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

The investment-purpose loan received in Euro was agreed at interest rate based on three-month EURIBOR plus a mark-up of 2.2 points, but not less than 2.2 points (2015: 3-month EURIBOR plus a mark-up of 2.8 points, but not less than 2.8 points).

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

- Mortgages of real estate – BGN 42,590 thousand (31 December 2015: BGN 44,285 thousand) (*Note 13*);

- Special pledges on machinery and equipment – BGN 18,724 thousand (31 December 2015: BGN 20,027 thousand) (*Note 14*).

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

29. DEFERRED TAX LIABILITIES

Deferred tax on profit liabilities as at 31 December are related to the following objects in the report for the financial condition:

Deferred taxes (liabilities)/assets	*Temporary difference*	*tax*	*Temporary difference*	tax
	31.12.2016	***31.12.2016***	***31.12.2015***	***31.12.2015***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Propoerty, plant and equipment	69,614	6,961	59,808	5,981
incl. revaluation reserve	*22,924*	*2,292*	*20,926*	*2,093*
Investment properties	*5,146*	515	*4,585*	459
iIncl. revaluation reserve	*187*	*19*	*187*	*19*
Biological assets	14	1	10	1
Total liabilites on deferred taxes	**74,774**	**7,477**	**64,403**	**6,441**
Receivables	(6,469)	(647)	(6,254)	(625)
Liabilities to personnel	(5,590)	(559)	(5,000)	(500)
Inventories	(3,921)	(392)	(3,796)	(380)
Intangible assets	(1,185)	(119)	(1,794)	(179)
Liabilities accounted for	(376)	(38)	(424)	(42)
Cash	(172)	(17)	(165)	(17)
Total assets on deferred taxes	**(17,713)**	**(1,771)**	**(17,433)**	**(1,744)**
Net deferred tax on profit liabilities	**57,061**	**5,706**	**46,970**	**4,697**

When acknowledging the deferred taxes assets the possibility for some of the difference to have a reverse effect in the future has been taken into consideration and also the possibility that the company will generate enough tax profit.

Assets on deferred tax amounting to 3,306 thousand BGN (31December 2015: 2,541 thousand BGN) have not been acknowledged related to imparirment in subsidiaries since the management does not envisage to dispose of these investments and it has concluded that there is no possibility that the temporary difference occurs in the foreseeable future. The size of the temporary difference on which no tax asset was acknowledged is 30,629 thousand BGN (31 December 2015: 25,409 thousand BGN).

The change in the balance of the deferred taxes for 2016 is as follows:

Deferred taxes (liabilities)/assets	***Balance at 1 January 2016***	***Acknowledgd in the comprehensive income report***	***Acknowledged in owners'equity***	***Acknowledged in the owners'equity and the current tax declaration***	***Balance at 31 December 2016***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	(5,981)	(747)	(262)	29	(6,961)
Investment properties	(459)	(56)	-		(515)
Biological assets	(1)	-	-	-	(1)
Receivables	625	22	-	-	647
Liabilities to the personnel	500	59	-	-	559
Inventories	380	12	-	-	392
Intangible assets	179	(60)	-	-	119
Accrued liabilities	42	(4)	-	-	38
Cash	17		-	-	17
Total	**(4,698)**	**(774)**	**(262)**	**29**	**(5,706)**

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

Deferred taxes (liabilities)/assets	***Balance at 1 January 2016***	***Acknowledgd in the comprehensive income report***	***Acknowledged in owners'equity***	***Acknowledged in the owners'equity and the current tax declaration***	***Balance at 31 December 2016***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***

Property, plant and equipment	(5,454)	(588)		61	(5,981)
Investment properties	(379)	(80)	-	-	(459)
Biological assets	-	(1)	-	-	(1)
Receivables	555	70	-	-	625
Liabilities to the personnel	449	51	-	-	500
Inventories	356	24	-	-	380
Intangible assets	275	(96)	-	-	179
Accrued liabilities	74	(32)	-	-	42
Cash	-	17	-	-	17
Total	**(4,123)**	**(635)**	**-**	**61**	**(4,698)**

30. GOVERNMENT GRANTS

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

- the acquisition of machinery and equipment for a new tablet production facility at the amount of BGN 2,996 thousand (31 December 2015: BGN 3,181 thousand) is under a concluded contract.
- implementation of innovative products in the ampule production at the amount of BGN 2,500 thousand (31 December 2015: BGN 2,700 thousand)
- the acquisition of machinery and equipment for the technological renovation and modernization of a tablet production facility at the amount of BGN 370 thousand (31 December 2015: BGN 490 thousand).

The current portion of the grant, amounting to BGN 499 thousand (31 December 2015: BGN 497 thousand) will be recognized as current income over the following 12 months from the date of the separate statement of financial position and is presented as “other current liabilities” *(Note 38).*

31. LONG-TERM PAYABLES TO PERSONNEL

Long-term payables to personnel include: ***31.12.2016*** ***31.12.2015***

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

Long-term retirement benefit obligations

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

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

To determine these liabilities the company has carried out an actuary evaluation as at 31 December 2016 using the services of a licensed actuary.

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

	2016	*2015*
	BGN '000	*BGN '000*
Present value of the obligation at 1 January	**2,277**	**2,195**
Current service cost	295	256
Interest cost	68	87
Net actuarial loss recognized for the period	2	2
Payments for the year	(304)	(314)
Effects of subsequent valuations of liabilities to personnel upon retirement including from:	120	51
Actuarial losses from changes in the demographic assumptions	(4)	152
Actuarial losses from changes in the financial assumptions	55	143
Actuarial losses from corrections due to past experience	69	(244)
Present value of the liability at 31 December / 31 December	**2,458**	**2,277**

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

	2016	***2015***
	BGN '000	***BGN '000***
Present value of the obligation at 1 January	295	256
Current service cost	68	87
Interest cost	2	2
Net actuarial loss recognized for the period	**365**	**345**
Payments for the year		
Effects of subsequent valuations of liabilities to personnel upon retirement including from:	(4)	152
Actuarial losses from changes in the demographic assumptions	55	143
Actuarial losses from changes in the financial assumptions	69	(244)
Actuarial losses from corrections due to past experience	**120**	**51**
Present value of the liability at 31 December / 31 December	**485**	**396**

In determining the present value as of 31.12.2016 are the following actuarial assumptions:

• The discount factor used rate based on an annual interest rate of 2.5% (2015 .: 2.8%). The assumption is based on data on the yield of government bonds with 10-year maturity;

• assumption for the future level of the salaries is based on information provided by the Company's management and amounts to 5% annual growth compared to the previous reporting period (2015 .: 5%);

• mortality - a mortality tables of NSI total mortality of the population in Bulgaria for the period 2013 - 2015 (2015: 2012 - 2014);

• staff turnover rate - between 0 and 16% for the five age groups (2015 .: between 0 and 16%).

This defined benefit plan creates exposure of the company to the following risks: investment, interest, risk associated with longevity and risk associated with the increase in wages. The Company's management defines them as follows:

• the investment - as far as nefondiran plan, the company should monitor and current balances upcoming payments on it securing sufficient cash resources. The historical experience and structure of the debt, show that the required yearly resource is not essential to routine maintenance of liquidity;

• Interest - any reduction in the yield on government securities with similar maturities lead to an increase in the obligation under the plan;

• risk associated with longevity - the present value of the liability at retirement is calculated by applying best estimate and updated information about the mortality of plan participants. The increase in life expectancy would affect a possible increase in the debt. In recent years there has been relative stability of this indicator; and

• risk related to rising wages - the present value of the liability at retirement is calculated by applying the best estimate for the future growth of wages of plan participants. Such an increase would increase the obligation of the plan.

A sensitivity analysis of key actuarial assumptions based on reasonably possible changes in these assumptions at the end of the reporting period, assuming that the rest remained unchanged.

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

a. wage

b. discount rate

c. turnover

the amount of the present value of the liability for the defined benefit at retirement, are estimated as follows:

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

The average weighted duration of the liabilities for payment of defined income of the personnel is 7.7 years (31 December 2015: 7.5 years).

The expected payments of retirement liabilities under the plan for defined income for the next 5 years is as follows:

Forecasted payments	***Retirement due to age and experience***	***Retirement due to illness***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Payments in 2017	437	9	446
Payments in 2018	217	9	226
Payments in 2019	294	9	303
Payments in 2020	325	9	334
Payments in 2021	293	9	302
	1,566	**45**	**1,611**

Long-term benefit obligations for tantieme

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

32. FINANCE LEASE LIABILITIES

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

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

The minimum lease payments under finance lease are	***31.12.2016***	***31.12.2015***

due as follows:

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

The lease payments due within the next 12 months are presented in the statement of financial position as "other current liabilities" (*Note 38*).

33. SHORT-TERM BANK LOANS

Currency	*Contracted amount*	*Maturity*	*31.12.2016*	*31.12.2015*
	'000		*BGN'000*	*BGN'000*
Bank loans (overdrafts)				
EUR	10,000	31.10.2017	11,603	30,491
BGN	10,000	31.01.2017	10,001	10,001
BGN	20,000	21.04.2017	9,242	-
EUR	10,000	20.03.2017	6,827	2,193
EUR	5,000	15.08.2016	-	9,787
EUR	5,000	15.08.2016	-	4
			37,673	**52,476**
Extended credit lines				
BGN	10,000	30.10.2017	8,007	10,006
EUR	5,000	31.08.2017	2,613	6,479
			10,620	**16,485**
Total			**48,293**	**68,961**

The bank loans received in Euro have been agreed at interest rate based on 3-month EURIBOR plus a mark-up of up to 1.5 points, but not less than 1.5 points and monthly EURIBOR plus a mark-up of up to 1.7 points and one month EURIBOR plus a markup of 1.75 points but not less than 1.75 points, while the loans received in BGN are based on monthly SOFIBOR plus 1.7 points and monthly SOFIBOR plus up to 1.75 points (2015: for bank loans in EUR – 3-month EURIBOR plus a mark-up of up to 2.45 points and monthly EURIBOR plus a mark-up of up to 2.1 points, but not less than 2.1 points, and for loans in BGN – monthly

SOFIBOR plus 2 points, weekly SOFIBOR plus 2.2 points and 2-week SOFIBOR plus 2.85 points). Loans are intended for providing working capital.

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

- of Sopharma AD at the amount of BGN 20 thousand (31 December 2015: BGN 523 thousand);
- of a subsidiary at the amount of BGN 1 thousand (31 December 2015: BGN 16 thousand);

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

- Mortgages of real estate – BGN 35,842 thousand (31 December 2015: BGN 36,612 thousand) (*Note 14 and 16*);
- Special pledges on:
  - machinery and equipment – BGN 18,029 thousand (31 December 2015: BGN 12,561 thousand) (Note 14 and 16);
  - inventories – BGN 25,782 thousand (31 December 2015: BGN 31,341 thousand) (Note 22);
  - receivables from related parties – BGN 18,229 thousand (31 December 2015: BGN 18,229 thousand) (Note 21);
  - trade receivables – BGN 11,735 thousand (31 December 2015: BGN 14,935 thousand) (Note 22);
  - trade receivables from third parties – BGN 7,823 thousand (31 December 2015: BGN 12,623 thousand).

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

34. TRADE PAYABLES

Trade payables include:

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Payables to suppliers	4,755	7,723
Advances received	360	291
Total	**5,115**	**8,014**

Trade payables are as follows:

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***

Payables to foreign suppliers	3,372	5,507
Payables to local suppliers	1,383	2,216
Total	**4,755**	**7,723**

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. They are denominated as follows: BGN 1,383 thousand (31 December 2015: BGN 2,216 thousand), in EUR – BGN 2,460 thousand (31 December 2015: BGN 2,592 thousand), in USD – BGN 908 thousand (31 December 2015: BGN 2,876 thousand), in PLN – none (31 December 2015: BGN 4 thousand) and in other currencies – 4 thousand BGN (31 December 2015: BGN 35 thousand).

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

The Company has placed deposits as security (*Note 20 and Note 25*) for payables to suppliers under commercial transactions at the amount of BGN 420 thousand (31 December 2015: BGN 528 thousand).

35. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Payables to subsidiaries	260	868
Payables to companies related through key managing personnel	215	1,702
Payables to main shareholding companies	14	89
Payables to companies related through main shareholder	-	411
Total	**489**	**3,070**

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

	31.12.2016 ***BGN '000***	***31.12.2015*** ***BGN '000***
Supply of services	336	1,121
Supply of inventories	129	557
Capital increase in a subsidiary	24	-
Supply of non-current assets	-	1,392
Total	**489**	**3,070**

The trade payables to related parties are regular and are not additionally secured by the Company. The payables in Bulgarian Levs amount to BGN 459 thousand (31 December 2015: BGN 3,051 thousand), in EUR – none (31 December 2015: BGN 10 thousand), in PLN – BGN 30 thousand (31 December 2015: BGN 9 thousand).

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

36. TAX PAYABLES

Tax payables include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Withholding taxes	415	467
Individual income taxes	193	169
Value added tax	-	329
Total	**608**	**965**

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

of Sopharma AD (acquiring company):

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

of Bulgarian Rose – Sevtopolis AD (acquiree):

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

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

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.12.2016	***31.12.2015***

	BGN '000	***BGN '000***
Payables to personnel, including:	4,541	4,021
tantieme	*2,895*	*2,486*
current liabilities	*930*	*877*
accruals on unused compensated leaves	*716*	*658*
Payables for social security/health insurance, including:	822	748
current liabilities	*706*	*642*
accruals on unused compensated leaves	*116*	*106*
Total	**5,363**	**4,769**

38. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.12.2016	***31.12.2015***
	BGN '000	***BGN '000***
Dividend liabilities	307	294
Government grants *(Note 27)*	499	497
Awarded amounts under litigations	343	332
Fines and penalties	189	188
Deductions from work salaries	172	171
Finance lease liabilities *(Note 29)*	3	19
Other	1	7
Total	**1,514**	**1,508**

39. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

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

Significant irrevocable agreements and commitments

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

Issued and granted guarantees

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

Company	**Maturity period**	**Currency**	**Contracted amount** Origninal currency	**Amount of the guarantee as at** BGN'000	**Amount of the guarantee as at** 31.12.2016 BGN'000
Sopharma Trading AD	2017 г - 2022	EUR	54,132	105,873	87,803
Sopharma Properties REIT	2024	EUR	22,619	44,240	28,818
Sopharma Trading AD	2017	BGN	14,732	14,732	13,380
Sopharma Ukraine AD	2017	EUR	7,000	13,691	4,060
Vitamini OAO	2017	EUR	7,000	13,691	5,299
Biopharm Engineering AD	2023	BGN	4,250	4,250	1,307
Veta Pharma AD	2018	BGN	1,000	1,000	680
Mineralcommerce AD	2017 г - 2021	BGN	701	294	585
Total					**144,423**

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

a) *under loans received by subsidiaries:*

- mortgages of real estate – BGN 10,368 thousand (31 December 2015: BGN 10,572 thousand) (*Note 14*);
- special pledges on:
  - -machinery and equipment – BGN 11,005 thousand (31 December 2015: BGN 11,640 thousand) (*Note 14*);
  - -inventories – BGN 17,000 thousand (31 December 2015: BGN 17,000 thousand) (*Note 22*);
  - -trade receivables – BGN 11,735 thousand (31 December 2015: BGN 11,735 thousand) (*Note 24*).

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

- mortgages of real estate – none (31 December 2015: BGN 1,119 thousand) (*Note 16*);

c) *under loans received by third parties:*

- special pledge on inventories – none (31 December 2015: BGN 2,623 thousand) (*Note 22*);

Other

The Company has met its obligations under the Waste Management Act (WMA) and therefore, has not included a product charge liability in the statement of financial position regardless of the fact that the official document evidencing that Ecobulpack (the organization in which it is a member) has fulfilled its commitments under WMA, has not been issued yet at the date of preparation of these financial statements.

40. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows. The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Company. The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the Company's finished products and services and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations.

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

Categories of financial instruments:

Financial assets	***31.12.2016***	***31.12.2015***
	BGN '000	***BGN '000***
Available-for-sale financial assets	***5,229***	***5,510***
Available-for-sale investments (in shares)	*5,229*	*5,510*
Loans and receivables	***109,596***	***125,068***
Long-term receivables from related parties	*11,011*	*20,505*
Other long-term receivables	*3,714*	*3,257*
Short-term receivables from related parties	*71,066*	*78,035*
Trade receivables	*21,171*	*20,554*
Other receivables	*2,634*	*2,717*
Cash and cash equivalents	4,343	3,745
Total financial assets	***119,168***	***134,323***

Financial liabilities	***31.12.2016***	***31.12.2015***
	BGN '000	***BGN '000***
Bank loans	***79,322***	***107,160***
Long-term bank loans	23,844	30,819
Short-term bank loans	*48,293*	*68,961*
Current portion of long-term bank loans	*7,185*	*7,380*
Other liabilities	***6,086***	***11,629***
Trade payables to related parties	*489*	*3,070*
Trade payables	*4,755*	*7,723*
Finance lease liabilities	*3*	*22*
Other liabilities	*839*	*814*
Total financial liabilities at amortized cost	***85,408***	***118,789***

Foreign currency risk

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

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

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

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

31 December 2016	**in USD**	**in EUR**	**в BGN**	**in other currency**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	-	1,796	3,433	-	5,229
Receivables and loans granted	4,856	56,446	48,282	12	109,596

Cash and cash equivalents	39	282	4,000	22	4,343
Total financial assets	**4,895**	**58,524**	**55,715**	**34**	**119,168**
Bank loans	-	52,072	27,250	-	79,322
Other liabilities	1,239	2,460	2,350	37	6,086
Total financial liabilities	**1,239**	**54,532**	**29,600**	**37**	**85,408**

31 December 2015	**in USD**	**in EUR**	**в BGN**	**in other currency**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	-	1,553	3,957	-	5,510
Receivables and loans granted	4,762	81,856	38,438	12	125,068
Cash and cash equivalents	799	606	2,171	169	3,745
Total financial assets	**5,561**	**84,015**	**44,566**	**181**	**134,323**
Bank loans	-	87,153	20,007	-	107,160
Other liabilities	3,208	2,602	5,749	70	11,629
Total financial liabilities	**3,208**	**89,755**	**25,756**	**70**	**118,789**

Currency sensitivity analysis

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

	USD	
	31.12.2016	**31.12.2015**
	BGN '000	**BGN '000**
Financial result +	329	212
Accrued profit +	329	212
Financial results -	(329)	(212)
Accrued profit -	(329)	(212)

In case of 10 % increase in the rate of USD to BGN, the final effect on post-tax profit of the Company for 2016 would be an increase by BGN 329 thousand (0.88%) (2015: increase at the amount of BGN 212 thousand) (0.84%). The effect in terms of value on Company's equity – through the component 'retained earnings' – would be the same.

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

The impact of the remaining currencies (other than USD) on 10 % increase in their exchange rates to BGN on Company's (post-tax) profit is insignificant. The ultimate effect thereon for 2016 is a decrease by BGN 1 thousand (0.002%) (2015: increase at the amount of BGN 12 thousand (0.05%). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

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

Price risk

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

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

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

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

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

Credit risk

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

In the years of its trade experience, the Company has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts. The Company works on its main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the National Health Insurance Fund and the distributors that work the state hospitals also require the implementation of deferred payments policy. In this sense, regardless of credit risk concentration, it is controlled through the choice of trade counterparts, current monitoring of their liquidity and financial stability as well as direct communication with them and search of prompt measures on first indications for existing problems.

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

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

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

The Company has concentration of trade receivable from one client, other than related parties, which is accountable for 79.12% of all trade receivables (31 December 2015: 81,67%).

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

Collectability of receivables is controlled directly by the Executive Director, Finance Director and Commercial Director. Their responsibility is to control the receivables on a regular basis depending on the objective situation on the market, the position and the potential of the respective counterpart and respectively, the market objectives and needs of the Company.

The Company has developed policy and procedures to assess the creditworthiness of its counterparts, including related parties, and to assign credit rating and credit limits by groups of clients. Where necessary, additional collateral is required, such as pledges and mortgages, avails, and other.

The financial resources of the Company as well as the settlement operations are concentrated in different first-class banks. To distribute cash flows among them, Company management takes into consideration a great number of factors, as the amount of capital, reliability, liquidity, the credit potential of the bank etc.

Liquidity risk

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

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the Company implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Maturity analysis

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

31 December 2016	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	over 5 years	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Bank loans	10,823	8,248	11,294	26,189	7,641	17,214	-	**81,409**
Other loans and liabilities	3,593	1,626	27	840		-	-	**6,086**
Total liabilities	**14,416**	**9,874**	**11,321**	**27,029**	**7,641**	**17,214**	**-**	**87,495**

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

Interest-baring cash flow

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

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

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

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

31 December 201	**interest-free**	**with floating interest %**	**with fixed interest %**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	5,229	-	-	5,229
Loans and receivables	77,524	-	32,072	109,596
Cash and cash equivalents	85	4,258	-	4,343
Total financial assets	**82,838**	**4,258**	**32,072**	**119,168**
Bank loans	-	79,322	-	79,322
Other loans and liabilities	6,083	3	-	6,086
Total financial liabilities	**6,083**	**79,325**	**-**	**85,408**

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

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

2016			
	Increase/decrease in interest rate	***Impact on post-tax financial result profit/(loss)***	***Impact on equity increase/(decrease)***
	Increase/decrease in interest rate	***Impact on post-tax financial result***	***Impact on equity***
EUR	increase	(234)	(234)
BGN	increase	(123)	(123)
KZT	increase	-	-
EUR	decrease	234	234
BGN	decrease	123	123
KZT	decrease	-	-

2015			
	Increase/decrease in interest rate	***Impact on post-tax financial result profit/(loss)***	***Impact on equity increase/(decrease)***
	Increase/decrease in interest rate	***Impact on post-tax financial result***	***Impact on equity***
EUR	increase	(392)	(392)
BGN	increase	(90)	(90)
EUR	decrease	392	392
BGN	decrease	90	90

Capital risk management

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

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

In 2016, the strategy of the Company management was to maintain the ratio within 10% – 15% (2014: 15% – 20%).

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

	2016	***2015***
	BGN '000	***BGN '000***
Total borrowings, including:	**79,325**	**107,182**
bank loans	*79,322*	*107,160*
finance lease liabilities	*3*	*22*
Less: Cash and cash equivalents	**(4,343)**	**(3,745)**
Net debt	**74,982**	**103,437**
Total equity	**462,351**	**431,626**
Total capital	**537,333**	**535,063**
Gearing ratio	**0.14**	**0.19**

The liabilities shown in the table are disclosed in *Notes № 28, № 32, № 33 and № 38*.

Fair value measurement

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

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

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

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

38. RELATED PARTY TRANSACTIONS

The companies related to Sopharma AD for the respective period are:

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2015 and 2016
Donev Investments Holding AD	Main shareholding company	2015 and 2016
Sopharma Trading AD	Subsidiary	2015 and 2016
Pharmalogistica AD	Subsidiary	2015 and 2016
Sopharma Poland OOD – in liquidation	Subsidiary	2015 and 2016
Sopharma USA	Subsidiary	2015 and 2016
Electroncommerce EOOD	Subsidiary	2015 and 2016
Biopharm Engineering AD	Subsidiary	2015 and 2016
Vitamina AD	Subsidiary	2015 and 2016
Ivanchich and Sons OOD	Subsidiary	2015 and 2016
Sopharma Buildings REIT	Subsidiary	2015 and 2016
Momina Krepost AD	Subsidiary	2015 and 2016
Extab Corporation	Subsidiary	until 14.05.2015
Extab Pharma Limited	Subsidiary through Extab Corporation	until 14.05.2015
Briz OOD	Subsidiary	2015 and 2016
Unipharm AD	Subsidiary	2015 and 2016
Sopharma Warsaw EOOD	Subsidiary	2015 and 2016
Sopharma Ukraine EOOD	Subsidiary	2015 and 2016
Sopharma Kazakhstan EOOD	Subsidiary	2015 and 2016
Phyto Palauzovo AD	Subsidiary	2015 and 2016
Veta Pharma AD	Subsidiary	from 11.11.2016
Sopharmacy EOOD	Subsidiary through Sopharma Trading AD	from 19.01.2015 and 2016
Sopharmacy 2 EOOD	Subsidiary through Sopharma Trading AD	from 17.06.2015 and 2016
Sopharmacy 3 EOOD	Subsidiary through Sopharma Trading AD	from 02.12.2015and 2016
Sopharmacy 4 EOOD	Subsidiary through Sopharma Trading AD	from 29.02.2016
Sopharmacy 5 EOOD	Subsidiary through Sopharma Trading AD	from 01.03.2016
Pharma Online EOOD	Subsidiary through Sopharma Trading AD	from 03.12.2015and 2016
Sopharma Trading OOD – Belgrade	Subsidiary through Sopharma Trading AD	from 04.06.2015 and 2016
Medika AD	Associated company	from 01.01.2015 until 25.10.2015
Medika AD	Subsidiary	from 26.10.2015 and 2016
Medika Zdrave EOOD	Subsidiary through Medika AD	from 26.10.2015 and 2016
Medika Balkans EOOD – in liquidation	Subsidiary through Medika AD	from 26.10.2015 and 2016
Brititrade SOOO	Subsidiary through Briz OOD	2015 and 2016

Tabina OOO	Subsidiary through Briz OOD	2015 and 2016
Interpharm ZAO	Joint venture through Briz OOD	2015 and 2016
Brizpharm SOOO	Subsidiary through Briz OOD	2015 and 2016
Vivaton Plus OOO	Joint venture through Briz OOD	2015 and 2016
OOO Farmacevt Plus	Subsidiary through Briz OOD	2015 and 2016
UAB TBS Pharma ZAO	Subsidiary through Briz OOD	2015 and 2016
Vestpharm ODO	Subsidiary through Briz OOD	2015 and 2016
Alean ODO	Subsidiary through Briz OOD	2015 and 2016
OOO NPK Biotest	Subsidiary through Briz OOD	2015 and 2016
OOO NPK Biotest	Associated company	from 27.08.2016
BelAgroMed	Subsidiary through Briz OOD	2015 and 2016
SpetzApharmacia BOOO	Joint venture through Briz OOD	2015 and 2016
Med-dent OOO	Joint venture through Briz OOD	2015 and 2016
Bellerofon OOO	Joint venture through Briz OOD	2015 and 2016
Alenpharm Plus ODO	Subsidiary through Briz OOD	from 09.07.2015 and 2016
Alenpharm Plus ODO	Associate company through Briz OOD	from 18.02.2015 until 08.07.2015
Salus Line ODO	Associate company through Briz OOD	from 19.02.2015 and to 22.11.2016
Salus Line ODO	Subsidiary through Briz OOD	from 23.11.2016
Mobil Line ODO	Subsidiary through Briz OOD	from 16.02.2016
Mobil Line ODO	Associate company through Briz OOD	from 20.02.2015 until 15.02.2016
Medjel ODO	Subsidiary through Briz OOD	from 18.02.2015 and 2016
GelenaPharm OOO	Subsidiary through Briz OOD	from 20.02.2015 and 2016
Danapharm OOO	Subsidiary through Briz OOD	from 20.02.2015 and 2016
NPFK Ariens OOO	Joint venture through Briz OOD	from 01.12.2015 and 2016
Ivem and K OOO	Joint venture through Briz OOD	from 01.12.2015 and 2016
Zdorovei OOO	Associated company through Briz OOD	from 09.12.2015 and 2016
Pharmateia OOO	Subsidiary through Briz OOD	from 30.11.2015 and 2016
Sopharma Properties REIT	Company related through main shareholder	2015 and 2016
Sofprint Group AD	Company related through main shareholder	2015 and 2016
Elpharma AD	Company related through key managing personnel	2015 and 2016
Telso AD	Company related through key managing personnel	2015 and 2016
Telecomplect AD	Company related through key managing personnel	2015 and 2016
DOH Group	Company related through key managing personnel	2015 and to 20.12.2016
DOH Group	Associated company	from 21.12.2016

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

Sales to related parties	***2016***	***2015***
	BGN '000	***BGN '000***
Sales of finished products to:		
Subsidiaries	87,991	91,381
	87,991	**91,381**
Sales of goods and materials to:		
Subsidiaries	4,469	5,916

Companies related through main shareholder	585	783
Companies related through key managing personnel	-	41
Associated companies	-	1
	5,054	**6,741**
Sales of services to:		
Subsidiaries	1,663	1,577
Companies related through key managing personnel	57	82
Companies related through main shareholder	41	42
Associated companies	-	21
	1,761	**1,722**
Sale of long-term asssets:		
Subsidiaries	186	-
	186	**-**
Income from dividends from:		
Subsidiaries	9,026	7,875
Companies related through main shareholder	12	-
	9,038	**7,875**
Interest on loans granted to:		
Companies related through key managing personnel	9,110	7,874
Subsidiaries	12	-
	9,122	**7,874**
Total	**81,735**	**82,059**

The terms and conditions of these transactions do not deviate from the market ones for similar transactions.
The accounts and balances with related parties are presented in *Notes 20, 23, and 35.*
The members of the key personnel are disclosed in *Note 1.*
Salaries and other short-term benefits of key managing personnel are current and amount to BGN 1,138 thousand (31 December 2015: BGN 1,154 thousand) and are as follows:

- current – BGN 884 thousand (31.12.2015: BGN 423 thousand);
- tantiems – BGN 254 thousand (31.12.2015: BGN 265 thousand).

41. EVENTS AFTER THE REPORTING PERIOD

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