

SOPHARMA GROUP
NOTES TO THE INTERMEDIARY FINANCIAL STATEMENTS
for the nine months ending 30 September 2016

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1. BACKGROUND INFORMATION ON THE GROUP

Sopharma Group (the Group) is comprised of the parent company and its thirty-seven (31 December 2015: thirty-seven) subsidiaries. In addition, the Group has investments in seven joint ventures (31 December 2015: in seven joint ventures). At the reporting date of the consolidated annual financial statements, the Group has investments in three associated companies (31 December 2015: in three associated companies).

Parent company

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

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

Subsidiaries

The subsidiaries of the Group as at 30 September 2016 were as follows:

- Sopharma Trading AD – a business entity registered in Bulgaria by Decision No. 3594/16.10.1998 of Varna District Court, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Pharmalogistica AD – a business entity registered in Bulgaria by Decision of Sofia City Court dated 12 August 2002, with a seat and address of management: Sofia, 16, Rozhen Blvd.;
- Elektroncommerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 24456 of 1991, with a seat and address of management: Sofia, 1, Samokovsko Shousse St.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and address of management: Sliven, 75, Trakiya Blvd.;
- Momina Krepost AD – a business entity registered in Bulgaria by Decision No. 3426/1991 of Veliko Tarnovo District Court, with a seat and address of management: Veliko Tarnovo, 23, Magistralna St.;
- Sopharma Buildings REIT – a business entity registered in Bulgaria by Decision No. 1/14.08.2007 of Sofia City Court, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 20;
- Unipharm AD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 3685 of 1994, with a seat and address of management: Sofia, 3, Traiko Stanoev St.;
- Phyto Palauzovo AD – a business entity registered in Bulgaria by Decision No. 20120924105551/24.09.2012 of the Registry Agency, with a seat and address of management: Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;
- Sopharmacy EOOD – a business entity registered in Bulgaria by Decision No. 201501191300026/19.01.2015 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 2 EOOD – a business entity registered in Bulgaria by Decision No. 20150617110324/17.06.2015 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;

- Sopharmacy 3 EOOD – a business entity registered in Bulgaria by Decision No. 20151202165822/02.12.2015 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 4 EOOD – a business entity registered in Bulgaria by Decision No. 20160229093338/29.02.2016 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 5 EOOD – a business entity registered in Bulgaria by Decision No. 20160301155620 /01.03.2016 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 6 EOOD – a business entity registered in Bulgaria by Decision No. 20140127170842/27.01.2014 of the Registry Agency, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12 (until 10 July 2016 the name of the company is Pharma Online EOOD)
- Medica AD - a business entity registered in Bulgaria under Company File No. 99/1991 of Blagoevgrad District Court, with a seat and address of management: Sofia, Oborishte Region, 82, Knyaz Alexander Dondukov Blvd.;
- Medica – Zdrave EOOD – represents Medica AD in the tenders and the concluding of contracts with hospitals, registered in Bulgaria under Company File No. 7432/2001 of Sofia City Court, with a seat and address of management: Sofia, Lagera Residential Complex, block 38, entr. C, floor 1, ap. 1. On 2 August 2016 the owner of the company has taken a decision registered with the Commercial Register to liquidate the company.
- Sopharma Poland Z.O.O., Poland, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554/04.11.2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and address of management: Poland, Warsaw, 58, Shashkova St.;
- Sopharma Warsaw SP. Z.O.O., Poland – a business entity registered in Poland by Decision No. DSR 0000372245 of 17 December 2010 by XII Economic Division of the State Court Register of Warsaw, with a seat and address of management: Poland, Warsaw, 8, Halubinskiego St.;
- OOO Sopharma Ukraine, Ukraine – a business entity registered in Ukraine by Decision No. 10691020000029051/07.08.2012 in the Unified State Register of Legal Entities and Physical Entities-Entrepreneurs, with a seat and address of management: Ukraine, Kiev, Oblonski Region, prospect Moskovskii No. 9, unit 4, floor 2, office 4-203;
- PAO Vitamini, Ukraine – a business entity registered in Ukraine by Decision No. 133/15.04.1994 of Uman City Court, with a seat and address of management: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri St.;
- Sopharma Trading d.o.o. Belgrade, Serbia – a business entity registered in Serbia by BD 49136/2015 on 5 September 2015 of the Business Registers Agency in Belgrade with a seat and address of management: Republic of Serbia, Belgrade, 13, Palmoticheva St.;
- Briz SIA, Latvia – a business entity registered in Latvia by Decision No. 000302737 / 18.09.1991 of the Commercial Registry of the Republic of Latvia, with a seat and address of management: Latvia, Riga, Rasas No. 5, LV – 1057;
- SOOO Brititrade, Belarus – a business entity registered in Belarus by Decision No. 1983 / 24.09.2004 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 118, M. Bogdanovicha St., office 303 – B;

- OOO Tabina, Belarus – a business entity registered in Belarus by Decision No. 1432 / 29.12.1999 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 57, Kuybisheva St., ap.1;
- SOOO Brizpharm, Belarus – a business entity registered in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 800007989 / 07.07.2009, with a seat and address of management: Belarus, Minsk, Esenina St., d. 16, ap. 1H;
- ODO Alean, Belarus – a business entity registered in Belarus by Decision No. 100160720 / 29.05.2001 in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs, with a seat and address of management: Belarus, Minsk, Tashkentskaya St., d. 16, unit 1;
- OOO Farmacevt Plus, Belarus – a business entity registered by the Minsk City Executive Committee on 24.11.2000 / No 1348 in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 190174236, with a seat and address of management: Belarus, Minsk, 1 Tverdiy Pereulok, d. 7;
- UAB TBS Pharma, Lithuania – a business entity, registered by the Lithuanian Register of Legal Entities on 01.03.2013 / 303011389, with a seat and address of management: Lithuania, Vilnius, 8 Vytauto / 7 Liubarto St., POB 08118;
- ODO Vestpharm, Belarus – a business entity registered in Belarus by Decision No. 590002202 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, Dombroskogo St., d. 47, k. 3;
- ODO BelAgroMed, Belarus – a business entity registered in Belarus by Decision No. 009126 / 29.06.2001 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, 17 Sentyabrya St.;
- TOO Sopharma Kazakhstan, Kazakhstan – a business entity registered in Kazakhstan by Decision No. 5286-1910-04-TOO / 06.11.2014 of the Ministry of Justice, Auezovski Region, with a seat and registered address: Kazakhstan, Almaty, Auezovski Region, Mamyr Microdistrict - 4, d. 190;
- OOO Danapharm, Belarus – a business entity registered in Belarus by Decision dated 09.04.2004 of Brest Regional Executive Committee, with a seat and address of management: Belarus, Brest, 53, Masheroval Blvd.;
- OOO Galenapharm, Belarus – a business entity registered in Belarus by Decision dated 12.06.2013 of Brest Regional Executive Committee, with a seat and address of management: Belarus, Brest Region, Pinsk, ul. Bretskaya 118-97;
- ODO Medjel, Belarus – a business entity registered in Belarus by Decision No. 1044 / 14.09.2000 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 60, Soltisa St.;
- ODO Alenpharm-plus, Belarus – a business entity registered in Belarus by Decision dated 25.09.2008 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 29, Logotskiy Tract;
- ODO Farmatea, Belarus – a business entity registered in Belarus by Decision dated 17.10.2012 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 20, Bakinskaya St.

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- OOO Mobil Line, Belarus – a business entity registered in Belarus by Decision dated 16.03.2010 of Borisov Regional Executive Committee, with a seat and address of management: Belarus, Minsk District, Borisov, 63, Krasnoznamennaya St.;

On February 16 the Group acquired 50% share of the capital of Mobil Line OOO, Belarus through its daughter company OOO Brititrade. As a result Mobil Line OOO is transformed to a daughter company.

On 24 March 2015 Medica Balcans EOOD (S.R.L.), Romania – a subsidiary through Medica AD has been terminated through liquidation and erased from the Commercial Register.

On 9 May 2016 the Group sold its shares in the capital of its daughter company Ivančić and Sinovi d.o.o., Serbia.

On 26 August 2016 the Group has restructured its ownership in NPK Biotest, Belarus through a negotiated sale of the controlling stake through which it reduces its share to a non-controlling one, but remains a company with substantial influence in NPK Biotest. The status of the company has been changed from “subsidiary” to “associated company”.

On 26 February 2015 an entry was made in the Commercial Register at the Registry Agency on the merger of Bulgarian Rose Sevtopolis AD ('transforming company'), into Sopharma AD within the meaning of Art. 262 and the following of the Commercial Act. The transforming company was wound-up without liquidation and all of its assets were transferred to Sopharma AD ('receiving company'). The date 1 January 2015 was accepted as a date for accounting for the merger.

On 14 May 2015, the Group sold 75% of its interest in the capital of Extab Corporation, USA, while retaining 5% of its interest, which by virtue of a signed agreement was transformed on 28 September 2015 into 5% interest in the capital of Extab Pharma Inc., USA. As a result of the transaction, the Group had also disposed of its indirect interest in Extab Pharma Limited, United Kingdom – a subsidiary thereof for 2014 and until 14 May 2015 through Extab Corporation, USA.

As at 31 December 2015, the investment in Sopharma USA, USA, was written-off since the operation of the company has been suspended in the USA.

Joint ventures

The joint ventures of the Group as at 30 September 2016 were as follows:

- OOO Vivaton Plus, Belarus – a business entity registered in Belarus by Decision No. 590004353 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, Kletskova Pr., d. 13 B, office 2;
- OOO Med-dent, Belarus – a business entity registered in Belarus by Decision No. 0018240 / 11.03.2013 of the Department of Economy at the Bobruysk City Executive Committee, with a seat and address of management: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx St., office 4;

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- BOOO SpetzApharmacia BOOO, Belarus – a business entity registered in Belarus by Decision No. 22-8 / 30.10.2000 of Mogilevsk District Executive Committee, with a seat and address of management: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx St., office 2;
- OOO Bellerophon, Belarus – a business entity registered in Belarus by Decision No. 1193 / 17.07.2003 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 5-45 Storojevskaya St.;
- ZAO Interpharm, Belarus - a business entity registered in Belarus in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 300000556, with a seat and address of management: Belarus, Vitebsk, Stroitelei Square, bl. 3 ap. 2;
- OOO Ivem & K, Belarus – a business entity registered in Belarus by Decision dated 27.07.2001 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 20, Bakinskaya St.;
- OOO Ariens, Belarus – a business entity registered in Belarus by Decision No. 605 / 30.12.1996 of Vitebsk Regional Executive Committee, with a seat and address of management: Belarus, Polotsk, Shkolnaya St.

Associates

The associates of the Group as at 30 September 2016 were as follows:

- ODO SalusLine, Belarus – a business entity registered in Belarus by Decision No. 287 / 05.05.2006 of Grodno City Executive Committee, with a seat and address of management: Belarus, 6, Vilenskaya St.,
- OOO Zdorovei, Belarus – a business entity registered in Belarus by Decision dated 04.06.2014 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 20, Bakinskaya St.
- OOO NPK Biotest, Belarus – a business entity registered in Belarus by Decision No. 48 / 24.07.1990 of Lenin District Council of People's Deputies, with a seat and address of management: Belarus, Grodno, 2, Grojskaya St.;

1.1. Ownership and management of the parent company

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

The joint-stock capital structure of the parent company as at 30 September 2016 was as follows:

	%
Donev Investments Holding AD	24.75
Telecomplect Invest AD	20.15
Rompharm Company OOD	18.04
Sopharma AD (treasury shares)	4.16
Other legal persons	29.41
Natural persons	3.49
	100.00

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

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

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

1.2. Structure of the Group and principal activities

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

<i>Subsidiaries</i>	30.09.2016	31.12.2015	<i>Date of</i>	<i>Date of</i>
	<i>Interest</i>	<i>Interest</i>	<i>acquisition</i>	<i>disposition</i>
	<i>%</i>	<i>%</i>	<i>of control</i>	<i>of control</i>
<i>Companies in Bulgaria</i>				
Sopharma Trading AD*	72.40	72.13	08.06.2006	
Pharmalogistica AD	80.80	78.37	15.08.2002	
Electroncommerce EOOD	100	100	09.08.2005	
Biopharm Engineering AD	97.15	97.15	10.03.2006	
Sopharma Buildings REIT	40.39	40.75	04.08.2008	
Momina Krepost AD	93.53	92.78	01.01.2008	
Unipharm AD *	52.53	52.06	27.10.2010	
Phyto Palauzovo AD	95	95	21.09.2012	
Sopharmacy EOOD**	72.40	72.13	19.01.2015	
Sopharmacy 2 EOOD**	72.40	72.13	05.06.2015	
Sopharmacy 3 EOOD**	72.40	72.13	02.12.2015	
Sopharmacy 4 EOOD**	72.40	-	29.02.2016	
Sopharmacy 5 EOOD**	72.40	-	01.03.2016	
Pharma Online EOOD**	72.40	72.13	03.12.2015	
Medica AD	97.96	66.72	26.10.2015	
Medica-Zdrave EOOD (in process of liquidation)**	97.96	66.72	26.10.2015	
* <i>effective percentage of interest</i>				
** <i>indirect interest</i>				

<i>Subsidiaries</i>	30.09.2016	31.12.2015	<i>Date of</i>	<i>Date of</i>
	<i>Interest</i>	<i>Interest</i>	<i>acquisition of</i>	<i>disposal of</i>
	<i>%</i>	<i>%</i>	<i>control</i>	<i>control</i>
<i>Companies abroad</i>				
SIA Briz	66.13	66.13	10.11.2009	
SOOO Brititrade **	52.90	51.91	10.11.2009	
PAO Vitamini	99.56	99.56	18.01.2008	
Ivančić and Sinovi d.o.o.	-	51	10.04.2008	09.05.2016
Sopharma Warsaw SP. Z.O.O.	100	100	23.11.2010	

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Sopharma Trading d.o.o. Belgrade**	72.40	72.13	05.06.2015	
Sopharma Poland Z.O.O. – in liquidation	60	60	16.10.2003	
Medica Balkans S.R.L.**	-	66.72	26.10.2015	24.03.2016
OOO Tabina **	62.82	58.86	08.04.2011	
SOOO Brizpharm **	46.26	39.41	20.12.2012	
ODO Alean **	65.87	64.81	07.02.2013	
OOO Sopharma Ukraine	100	100	07.08.2012	
OOO Farmacevt Plus **	42.98	42.98	31.05.2013	
UAB TBS Pharma**	33.73	33.73	01.03.2013	
ODO Vestpharm **	62.82	62.82	04.07.2013	
OOO NPK Biotest **	-	46.29	02.09.2013	26.08.2016
ODO BelAgroMed **	50.26	50.26	30.07.2013	
TOO Sopharma Kazakhstan	100	100	06.11.2014	
OOO Danapharm**	48.94	48.14	28.02.2015	
OOO Galenapharm**	48.94	48.14	28.02.2015	
ODO Medjel**	48.94	48.14	28.02.2015	
ODO Alenpharm-plus**	48.94	48.14	30.06.2015	
OOO Farmatea**	22.39	33.73	30.11.2015	
OOO Mobil Line **	48.94	-	16.02.2016	

* *effective percentage of interest*

** *indirect interest*

- Unipharm AD is a subsidiary of Sopharma AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Unipharm AD with 49.99% and the indirect participation of the parent company with 2.54% through the subsidiary Sopharma Trading AD holding 3.22% and Medica AD holding 0.23% of the capital of Unipharm AD;
- Sopharma Trading AD is a subsidiary of Sopharma AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Sopharma Trading AD with 71.98% and the indirect participation of the parent company with 0.42% through the subsidiary Medica AD holding 0.40% of the capital of Sopharma Trading AD and Unipharm AD with 0.02% of the capital of Sopharma Trading AD;
- Sopharma Buildings REIT is a subsidiary by virtue of a written agreement for control concluded between Sopharma AD and other shareholders;
- Phyto Palauzovo AD is a direct subsidiary after the merger of Bulgarian Rose Sevtopolis AD into Sopharma AD (since 1 January 2015);
- Sopharmacy EOOD is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy EOOD;
- Sopharmacy 2 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 2 EOOD;
- Sopharmacy 3 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 3 EOOD;
- Sopharmacy 4 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 3 EOOD;
- Sopharmacy 5 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 3 EOOD;

- Sopharmacy 6 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharma Trading d.o.o. Belgrade is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharma Trading d.o.o. Belgrade;
- Medica-Zdrave EOOD (in process of liquidation) is a subsidiary of Medica AD whereas the latter holds 100% of the capital of Medica-Zdrave EOOD;
- SOOO Brititrade, Belarus, is a subsidiary of Briz SIA, Latvia – Briz SIA holds 80% of the capital of SOOO Brititrade;
- OOO Tabina, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 95% of the capital of OOO Tabina;
- SOOO Brizpharm, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 69.25% of the capital of SOOO Brizpharm;
- ODO Alean, Belarus, is a subsidiary through Briz SIA, Latvia and its subsidiary SOOO Brititrade, Belarus – Briz SIA holds 98% of the capital of ODO Alean and SOOO Brititrade, Belarus – 2% of the capital of ODO Alean;
- OOO Farmacevt Plus, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 65% of the capital of OOO Farmacevt Plus;
- UAB TBS Pharma, Lithuania, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 51% of the capital of UAB TBS Pharma;
- ODO Vestpharm, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 95% of the capital of ODO Vestpharm;
- OOO NPK Biotest, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 70% of the capital of OOO NPK Biotest;
- ODO BelAgroMed, Belarus, is a subsidiary through Briz SIA, Latvia – Briz SIA holds 76% of the capital of ODO BelAgroMed;
- OOO Danapharm, Belarus, is a subsidiary through Briz SIA, Latvia, and its subsidiary SOOO Brititrade, Belarus – Briz SIA holds 10% and SOOO Brititrade holds 80% of the capital of OOO Danapharm;
- OOO Galenapharm, Belarus, is a subsidiary through Briz SIA, Latvia, and its subsidiary SOOO Brititrade, Belarus – Briz SIA holds 10% and SOOO Brititrade holds 80% of the capital of OOO Galenapharm;
- ODO Medjel, Belarus, is a subsidiary through Briz SIA, Latvia, and its subsidiary SOOO Brititrade, Belarus – Briz SIA holds 10% and SOOO Brititrade holds 80% of the capital of ODO Medjel;
- ODO Alenpharm-plus, Belarus, is a subsidiary through Briz SIA, Latvia, and its subsidiary SOOO Brititrade, Belarus – Briz SIA holds 10% and SOOO Brititrade holds 80% of the capital of ODO Alenpharm-plus;
- OOO Farmatea, Belarus, is a subsidiary through Briz SIA, Latvia and its subsidiary OOO Pharmaceft Plus, Belarus – Briz SIA holds 2%, and OOO Pharmaceft Plus – 49% of the capital of OOO Farmatea.

- OOO Mobil Line, Belarus is a subsidiary through SIA Briz, Latvia and its subsidiary SOOO Brititrade, Belarus – SIA Briz owns 10%, and SOOO Brititrade – 80% of the capital of OOO Mobil Line.

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

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

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

The Group has sold its shares in the capital of Ivančić and Sinovi d.o.o., Serbia on 09.05.2016.

- Sopharma Trading d.o.o. Belgrade, Serbia – consulting activities;
- Sopharma Poland Z.O.O., Poland, in liquidation – market and public opinion research;
- Sopharma Warsaw SP. Z.O.O., Poland – trade in pharmaceutical products and market and public opinion research;
- OOO Sopharma Ukraine, Ukraine – trade in pharmaceuticals and market and public opinion research;
- Briz SIA, Latvia – trade in pharmaceuticals;
- SOOO Brititrade, Belarus – trade in pharmaceuticals;
- OOO Tabina, Belarus – trade in pharmaceuticals;
- ZAO Brizpharm, Belarus – trade in pharmaceuticals;

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- ODO Alean, Belarus – trade in pharmaceuticals;
- OOO Farmacevt Plus, Belarus – trade in pharmaceuticals;
- UAB TBS Pharma, Lithuania – trade in pharmaceuticals, production of finished drug forms and pharmaceutical products, research and development activities in the field of biotechnology;
- ODO Vestpharm, Belarus – retail trade in medicinal products and medical equipment;
- OOO NPK Biotest, Belarus – production of medicinal products on the basis of plant raw materials;
- ODO BelAgroMed, Belarus – retail trade in medicinal products and pharmaceuticals;
- TOO Sopharma Kazakhstan, Kazakhstan – trade in pharmaceuticals;
- OOO Danapharm, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Galenapharm, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO Medjel, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO Alenpharm-plus, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Farmatea, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals.
- OOO Mobil Line, Belarus – retail trade in medicinal products and medical equipment.

The parent company and the subsidiaries Sopharma Trading AD, Medica AD, Medica-Zdrave EOOD (in liquidation), Pharmedlogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Sopharma Buildings REIT, Momina Krepost AD, Unipharm AD, Phyto Palauzovo AD, Sopharmacy EOOD, Sopharmacy 2 EOOD, Sopharmacy 3 EOOD, Sopharmacy 4 EOOD, Sopharmacy 5 EOOD and Sopharmacy 6 EOOD perform their activities in Bulgaria; Sopharma Poland Z.O.O. – in liquidation and Sopharma Warsaw SP. Z.O.O. operate in Poland; PAO Vitamini, OOO Sopharma Ukraine – in Ukraine; Ivančić and Sinovi d.o.o. (daughter company up to 09.05.2016) and Sopharma Trading d.o.o. Belgrade – in Serbia; Briz SIA – in Latvia; SOOO Brititrade, OOO Tabina, ODO Alean, SOOO Brizpharm, OOO Farmacevt Plus, ODO Vestpharm, OOO NPK Biotest, ODO BelAgroMed, OOO Danapharm, OOO Galenapharm, ODO Medjel, ODO Alenpharm Plus, OOO Farmatea, and OOO Mobil Line – in Belarus; UAB TBS Pharma – in Lithuania, TOOO Sopharma Kazakhstan – in Kazakhstan, and Medica Balkans S.R.L – terminated through liquidation on 24 2016 in Romania.

As at 30 September 2016, the interest of the Group in *joint ventures* is as follows:

- OOO Vivaton Plus, Belarus, a joint venture through Briz SIA, Latvia – 50% interest jointly with Apteka Group Holding. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 20 December 2012.
- OOO Med-dent, Belarus, a joint venture through Briz SIA – 50% interest jointly with a physical person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 17 December 2013.
- BOOO SpetzApharmacia, Belarus, a joint venture through Briz SIA – 50% interest jointly with a physical person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 20 January 2014.

- OOO Bellerophon, Belarus, a joint venture through Briz SIA – 50% interest jointly with a physical person. The principal activities of the joint venture include retail trade in pharmaceuticals, medical equipment and food supplements. The company has been a joint venture for the Group since 27 November 2014.
- ZAO Interpharm, Belarus, a joint venture through Briz SIA, Latvia – 50% interest jointly with a legal entity. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 31 December 2014.
- OOO Ivem & K, Belarus, a joint venture through OOO Tabina and OOO Farmacevt Plus, which hold together 50% of the capital of OOO Ivem & K. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 1 December 2015.
- OOO Ariens, Belarus, a joint venture through OOO Farmacevt Plus, which holds 50% of the capital of OOO Ariens. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 1 December 2015.

As at 30 September 2016, the interest of the Group in *associates* is as follows:

- ODO SalusLine, Belarus – 19.84% interest (25% direct interest through SOOO Brititrade). The principal activities of the associate include retail trade in pharmaceuticals, medical equipment. The company has been an associate for the Group since 19 February 2015.
- ODO Zdorovei, Belarus – 10.75% interest (25% direct interest through SOOO Brititrade). The principal activities of the associate include wholesale trade in food additives and articles with medical designation. The company has been an associate for the Group since 9 December 2015.
- OOO NPK Biotest, Belarus – 50.26% share (76% nominal participation through SIA Briz). According to a framework agreement for the sale of the controlling stake of 70% of the capital of OOO NPK Biotest on several stages, the first stage has been finalized as of 30 September 2016 and 24% of the capital have been sold. The company's main activity is production of plant origin medicines. The company became associated for the Group in 26.08.2016.

At the date of these condensed interim financial statements, the average number of Group's personnel was 4,417 workers and employees (2015: 4,258).

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the activities of the Group companies throughout the period 2014 – 2016, are presented in the table below:

Indicator	2014	2015	1-6.2016
USD/BGN average for the year/period	1.47437	1.76441	1.75361
USD/BGN at year/period-end	1.60841	1.79007	1.76169
PLN/BGN average for the year/period	0.46760	0.46754	0.44808
PLN/BGN at year/period-end	0.45376	0.46128	0.44088
RSD/BGN average for the year/period	0.01669	0.01620	0.01591

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RSD/BGN at year/period-end	0.01617	0.01608	0.01586
UAH/BGN average for the year/period	0.12837	0.08186	0.06873
UAH/BGN at year/period-end	0.10169	0.07458	0.07096
GBP/BGN average for the year/period	2.42721	2.69672	-
GBP/BGN at year/period-end	2.5001	2.65021	-
EUR/BGN average for the year/period	1.95583	1.95583	1.95583
EUR/BGN at year/period-end	1.95583	1.95583	1.95583
RON/BGN at year/period-end	-	0.43179	0.43238
RON /BGN average for the year/period	-	-	0.43510
LVL/BGN average for the year/period	2.78820	-	-
LVL /BGN at year/period-end	2.78410	-	-
1000 BYR/BGN average for the year/period	0.1441	0.11167	0.08685
1000 BYR/BGN at year/period-end	0.13554	0.09629	0.08798
1BYN/BGN average for the year/period	-	-	0.87575
1BYN/BGN at year/period-end	-	-	0.90473
LTL/BGN average for the year/period	0.56645	-	-
LTL/BGN at year/period-end	0.56645	-	-
KZT/BGN average for the year/period	0.00863	0.00829	0.00509
KZT/BGN at year/period-end	0.00880	0.00527	0.00519

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

On 1 July 2016 the Republic of Belarus denominated its main currency – Blarus Ruble (BYN). The nominal value of the monetary units is reduced 10 000 to 1.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for the preparation of the consolidated financial statements

The consolidated financial statements of Sopharma Group have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which 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 Group has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which are relevant to its activities. The adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2016, has not caused changes in Company's accounting policies and respectively, in its assets, liabilities, transactions and performance due to the fact that the Company does not possess/operate such items and/or does not perform such deals and transactions.

At the date when these financial statements have been approved for issue, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2016, which have not been adopted by the Company for early application.

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

- *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 Group 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: amortised cost and fair value. The new rules will lead to changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated at fair value through current profit or loss (for credit risk). A specific feature of the classification and 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 Group'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 recognised over the lifetime of an amortisable 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 its effective date 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 EC endorsement procedure has been postponed 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 recognised 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 recognised 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" – regarding exemptions from consolidation for investment entities (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This amendment addresses issues that have arisen in relation to the exemption from consolidation for investment entities, namely: (1) whether an investment entity should account for a subsidiary at fair value if the subsidiary provides investment services to third parties; (2) the interaction between amendments for investment entities and the exemption from consolidation under IFRS 10; (3) whether a non-investment entity should unwind the fair value accounting of its joint ventures or associates that are investment entities.
- *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" and clarifications to the standard (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 customers. It will supersede all current 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 sale price of each component; and (e) the point of time or the period of revenue recognition – when an entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur at a point in time or over time. 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. In addition, the issued interpretations to the standard clarify the new basic principles – the identification of the contractual performance obligations, the principal – agent differentiation, licensing, and add transitional reliefs;

- *IFRS 16 "Leases" (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC).* This standard has an entirely new concept. It establishes new principles for the recognition, measurement and presentation of the leases with the objective to ensure a more faithful and adequate representation of such transactions both for lessee and lessor. It will supersede the current standard related to leases – IAS 17. The main principle of the new standard is the introduction of a single lessee accounting model – for all contracts with duration of over 12 months – a right-of-use asset is recognised, which would be subsequently depreciated for the duration of the contract, and respectively, the liability would be stated for the lease contracts. This is the significant change in the accounting treatment. There would not be any significant changes with the lessors and they would continue to account for leases as per the old standard – operating and finance. As far as the new standard introduces a more thorough concept, a more detailed analysis of their contractual terms should be carried out and it is possible that grounds for reclassification of the lease transactions may occur for them too.
- *IAS 7 (amended) "Statement of Cash Flows" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC).* This amendment is an important clarification of the standard itself with a focus on the information provided to the users of financial statements in order to improve their understanding of the liquidity and the financing activities of the entity. The amendment requires that additional disclosures be prepared in regards to the changes of liabilities of the entity from: (i) changes in financing activities, (ii) changes from obtaining or losing control of subsidiaries, (iii) changes in foreign exchange rates, (iv) changes in fair values, and (v) other changes. The disclosure requirements on the changes in the liabilities from financing activities set out that they shall be presented separately from changes in other assets and liabilities;
- *IAS 12 (amended) "Income Taxes" (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC) – recognition of deferred tax assets for unrealised losses.* The amendment clarifies the following: (1) unrealised losses on debt instruments, measured at fair value for accounting purposes and at cost for tax purposes, give rise to deductible temporary differences; (2) the assumptions for future taxable profits shall not include effect of deductions resulting from deductible temporary differences; (3) if the tax legislation restricts the utilisation of tax losses, the review and assessment of deferred tax assets should be made in combination with the other deferred tax assets of the same type.

The consolidated financial statements have been prepared on a historical cost basis except for: a/ property, plant and equipment, which are measured at revalued amount; and b/ investment property and available-

for-sale financial instruments, which are measured at their fair value at the date of the consolidated statement of financial position.

The Bulgarian subsidiaries of the Group maintain their accounting books in Bulgarian Lev (BGN), which is accepted as being their functional and presentation currency. The subsidiaries, associates and joint ventures abroad organise their accounting and reporting in accordance with the requirements of the respective local legislation (OOO Sopharma Ukraine and PAO Vitamini –Ukrainian legislation; Ivančić and Sinovi d.o.o. (daughter company until 09.05.2016) and Sopharma Trading d.o.o. Belgrade – Serbian legislation; Briz SIA – Latvian legislation; UAB TBS Pharma – Lithuanian legislation; SOOO Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, ODO Alean, OOO NPK Biotest (subsidiary until 25 August 2016), ODO BelAgroMed, ODO Vestpharm, OOO Danapharm, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, and OOO Mobil Line – Belarusian legislation; the joint ventures OOO Vivaton Plus, OOO Med-dent, BOOO SpetzApharmacia, OOO Bellerophon and ZAO Interpharm, OOO Ivem & K and OOO Ariens – Belarusian legislations; the associates ODO SalusLine and OOO Zdorovei and OOO NPK Biotest, Belarus (associated company since 26 August 2016) – Belarusian legislation; and Sopharma Poland Z.O.O. – in liquidation, Sopharma Warsaw SP. Z.O.O. – Polish legislation, Medica Balcans SRL – terminated through liquidation on 24 2016 – Romanian legislation and TOO Sopharma Kazakhstan – Kazakhstan). The companies keep their accounting ledgers in the respective local currency – Belarusian Ruble (BYR), Ukraine Hryvnia (UAH), Serbian Dinar (RSD), Euro (EUR), Polish Zloty (PLN), and Kazakhstan Tenge (KZT).

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

The presentation of the consolidated financial statements in accordance with IFRS requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities and the disclosure of contingent receivables and payables as at the date of the financial statements, and respectively, on the reported amounts of income and expenses for the reporting year. These estimates, accruals and assumptions are based on the information, which is available at the date of the consolidated financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed in *Note 2.32, Note 12, Note 14, Note 15, Note 16 and Note 18*.

2.2. Definitions

Parent company

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

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

Subsidiary company

A subsidiary is a company, or another entity, that is controlled directly or indirectly by the parent company. The subsidiary companies are consolidated as from the date on which the effective control over them has been acquired by the Group and are de-consolidated as from the date when the control over them ceases and is transferred outside the Group. The full consolidation method is applied for their consolidation. The subsidiary companies are presented in *Note 1.2*.

Joint venture

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

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

The joint ventures are: OOO Vivaton Plus, OOO Med-dent, OOO Bellerophon, BOOO SpetzApharmacia, ZAO Interpharm, OOO Ivem & K and OOO Ariens – Belarus (*Note 1.2*).

Associate

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

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

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

The associate companies are: ODO SalusLine and OOO Zdorovei and OOO BPK Biotest - Belarus (*Note 1.2*).

2.3. Consolidation principles

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

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

2.3.1. Consolidation of subsidiaries

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

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

2.3.2. Acquisition of subsidiaries

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

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

acquisition/(disposal) of subsidiaries'. Any non-controlling interest in a business combination is measured based on the method of the 'proportionate share of the net assets' of the acquiree.

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

2.3.3. Disposal of subsidiaries

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

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

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

2.3.4. Transactions with non-controlling interests

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

When the Group ceases to have control, joint control and significant influence, any retained minority investment as interest in the capital of the respective entity, is remeasured to its fair value, with the change

in carrying amount recognised in profit or loss. Respectively, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of all components related to the initial investment (in a subsidiary, joint venture or associate).

2.3.5. Consolidation of associates and joint ventures

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

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

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

2.4. Comparatives

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

2.5. Functional currency and recognition of exchange differences

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

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash 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 consolidated statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate.

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

The functional currency of the companies in Poland (Sopharma Poland Z.O.O. – in liquidation and Sopharma Warsaw SP. Z.O.O.) is the Polish Zloty, of the subsidiary TOO Sopharma Kazakhstak – the Kazakhstan Tenge, of the subsidiaries in Ukraine (PAO Vitamini, OOO Sopharma Ukraine) – the Ukrainian Hryvnia, of the subsidiaries in Serbia (Ivančić and Sinovi d.o.o. (daughter company until 09.05.2016) and Sopharma Trading d.o.o. Belgrade) – the Serbian Dinar, of the subsidiary in Latvia (Briz SIA) and the company in Lithuania (UAB TBS Pharma) – the Euro, of the subsidiaries in Belarus (SOOO Brititrade, OOO Tabina, ODO Alean, SOOO Brizpharm, OOO Farmacevt Plus, ODO Vestpharm, OOO NPK Biotest – subsidiary until 25 August 2016, ODO BelAgroMed, OOO Danapharm, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus. OOO Mobil Line and OOO Farmatea) – the Belarusian Ruble.

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

- (a) all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency thereto at 30 September;
- (b) all income and expenses are restated to the currency of the Group at average rate of the local currency thereto for the reporting period (*Note 2.7*);
- (c) all exchange differences resulting from the restatements are recognised and presented as a separate component of equity in the consolidated statement of financial position– 'translation of foreign operations reserve', and
- (d) the exchange differences resulting from the restatement of the net investment in the companies abroad together with the loans and other currency instruments, accepted as hedge of these investments, are presented directly in equity.

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

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

2.6. Revenue

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

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

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

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

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

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

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

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

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

2.7. Expenses

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

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

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

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

2.8. Mandatory dividend for distribution

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

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

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

2.9. Property, plant and equipment

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

Initial acquisition

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

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

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

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

Subsequent measurement

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

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

Subsequent costs

Repair and maintenance costs are recognised as current expenses as incurred. Subsequent costs incurred in relation to property, plant and equipment having the nature of replacement of certain components,

significant parts and aggregates or improvements and restructuring, are capitalised in the carrying amount of the respective asset whereas the residual useful life is reviewed at the capitalisation date. At the same time, the non-depreciated part of the replaced components is derecognised from the carrying amount of the assets and is recognised in the current expenses for the period of restructure.

Depreciation methods

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

The useful life per group of assets is as follows:

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

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

Impairment of assets

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

Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' group are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They

are stated net under 'other operating income/(losses), net' on the face of the consolidated statement of comprehensive income (within profit or loss for the year). The part of 'revaluation reserve' component attributable to the sold asset is directly transferred to 'retained earnings' component in the consolidated statement of changes in equity.

2.10. Biological assets

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

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

2.11. Intangible assets

Goodwill

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

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

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

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

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

Other intangible assets

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

The Group applies the straight-line amortisation method for the intangible assets with determined useful life from 5 to 16 years.

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

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

2.12. Investment property

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

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

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

2.13. Investments in associates and joint ventures

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

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

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

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

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

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

2.14.1. Available-for-sale investments

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

Initial measurement

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

Subsequent measurement

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

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

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

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

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

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

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

2.14.2. Financial assets at fair value through profit

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

2.15. Inventories

Inventories are valued in the consolidated financial statements as follows:

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

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

- raw materials, materials and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage (sale);
- finished products, semi-finished products and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs.

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

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

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

The parent company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard acquisition cost' for basic raw materials and other production materials. At the end of each reporting period the management performs analysis of factors leading to variances on: (a) the supply of raw materials and other production materials – by comparing the actual and standard acquisition costs, and (b) the production of finished products, semi-finished products and work in progress – by comparing the actual and standard production costs. Where necessary, the value of inventories, included in the financial statements, is adjusted. On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the consolidated financial statements (*Note 2.32.3*).

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

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

2.16. Trade and other receivables

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

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

2.17. Interest-bearing loans and other financial resources granted

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

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

2.18. Cash and cash equivalents

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

For the purposes of the consolidated statement of cash flows:

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

2.19. Trade and other payables

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

amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method (*Note 2.25*).

2.20. Interest-bearing loans and other borrowings

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

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

2.21. Capitalisation of borrowing costs

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

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

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

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

2.22. Leases

Finance lease

Lessee

Finance leases, which transfer to the Group a substantial part of all risks and rewards incidental to ownership of the leased property, plant and equipment, are recognised as assets in the statement of financial position of the lessee and are presented as leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the consolidated statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate (*Note 2.26*). Assets acquired under finance lease are depreciated on the basis of their useful economic life and within the lease term.

Lessor

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

Operating lease

Lessee

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

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

Lessor

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

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

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

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

Short-term benefits

Short-term benefits to hired personnel in the form of remuneration, bonuses and social payments and benefits (due for payment within 12 months after the end of the period when the employees have rendered

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

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

Tantieme and bonus schemes

Sopharma

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

Sopharma Trading

In accordance with the Articles of Association, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of Company's net profit if the following two conditions are present simultaneously – a positive financial result for the respective year and a decision of the General Meeting. The payment of an amount not less than 40% of the tantieme is deferred over a period not shorter than three years (in equal monthly instalments). For the remaining personnel, including managing staff, the amount of bonuses is accrued in the period when worked-out.

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

Momina Krepost

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

Long-term retirement benefits

Defined contribution plans

For Bulgaria

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

The rates of the social security and health insurance contributions are defined annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC) at the ratio 60:40 (2015: 60:40).

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

For companies abroad

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

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

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

Defined benefit plans

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

In their nature these are unfunded defined benefit schemes.

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

At the date of issue of the consolidated financial statements, the companies of the Group assign certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in the respective country where the company itself operates.

Termination benefits

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

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

2.24. Share capital and reserves

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

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

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

- other sources as provided for by a decision of the General Meeting.

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

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

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

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

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

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

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

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

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

2.25. Financial instruments

2.25.1. Financial assets

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

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

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

Loans and receivables

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

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the consolidated statement of financial position (*Notes 2.16, 2.17, 2.18 and 2.19*). Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the consolidated statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

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

Available-for-sale financial assets

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

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

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

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

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

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

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

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

Financial assets at fair value through profit

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

2.25.2. Financial liabilities and equity instruments

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

Financial liabilities

The financial liabilities of the Group include loans and payables to suppliers and other counterparts. They are initially recognised in the consolidated statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method (*Notes 2.20, 2.21 and 2.23*).

2.26. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle (repay) the obligation. The provisions are valued based on the best estimate of the respective company management and the Group at the date of the consolidated statement of financial position of the expenses necessary to settle the respective obligation. The estimate is discounted if the obligation is long-term. When part the resources required to settle the obligation are expected to be recovered from a third party, the respective company of the Group recognises a receivable if it is virtually certain that reimbursement will be received, its amount can be reliably measured and income (credit) is recognised in the same item of the consolidated statement of comprehensive income (within profit or loss for the year) where the provision itself is presented (*Note 2.26*).

2.27. Income taxes

Current income taxes of the Bulgarian companies of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for year 2016 was 10 % (2015: 10%).

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

<i>Country</i>	<i>Tax rate</i>	
	<i>2016</i>	<i>2015</i>
Ukraine	18%	18%
Serbia	15%	15%
USA	15.35%	15.35%
United Kingdom	21%	21%
Latvia	15%	15%
Belarus	18%	18%
Lithuania	15%	15%
Poland	19%	19%
Romania	16%	16%
Kazakhstan	20%	20%

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

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

Deferred tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax losses, to the extent that it is probable they will reverse and a taxable profit will be available or taxable temporary differences might occur, against which these deductible temporary differences can be utilised,

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

The carrying amount of all deferred tax assets is reviewed at each reporting date and reduced to the extent that it is 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 consolidated statement of financial position, are also reported directly in the respective component of the comprehensive income or the equity item in the statement of financial position.

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

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

2.28. Government grants

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

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

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

2.29. Earnings per share

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

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

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

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

2.30. Fair value measurement

Some of Group's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. Such are: (a) on a recurring basis – *certain trade and other receivables and payables, 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 independent market participants at the measurement date. Fair value is an exit price and is based on the assumption that the sale transaction will take place either in the principal market for this asset or liability or in the absence of a principal market – in the most advantageous market for the asset or liability. Both the designated as a principal market and the most advantageous market are markets to which the Group companies must have an access.

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

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

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

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

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

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

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

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

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

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

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

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

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

2.31.1. Recognition of tax assets

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

2.31.2. Inventories

Normal capacity

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

Allowance for impairment

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

As a result of the performed reviews and analyses for the period January - September 2016, recovered impairments of inventories (net of recognized) at the amount of BGN 154 thousand has been recognised in the consolidated statement of comprehensive income (within profit or loss for the year) (2015: BGN 118 thousand) (*Note 9*).

2.31.3. Impairment of receivables

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

After 180 days of delay it is already considered that indicators for impairment may exist. In the assessment of the collectability of receivables, the management of the Group companies perform analysis of the total exposure of each counterpart in order to establish the actual possibility for their collection and not only at the level of past due individual receivables from the total amount due by the counterpart, including the potential for collecting interest for compensating delays. When the collectability of a receivable (a group of receivables) is highly uncertain, an assessment is made what part thereof is secured by collateral (pledge, mortgage, guarantees) and thus with ensured collection (through future realisation of the collateral or guarantee payment). Where the management has concluded that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are impaired to 100% (*Notes 22, 23, 24*).

For the period 1 January - 30 September 2016 there are BGN 181 thousand reversed impairments of receivables (2015: BGN 782 reversed impairment net of the recognised) (*Note 9*).

2.31.4. Actuarial calculations

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

2.31.5 Operating lease

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

2.31.6. Litigation provisions

With regard to the pending litigations against companies of the Group, the management of respective companies have judged, jointly with their lawyers, that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, no provisions for payables under litigations have been included in the consolidated statement of financial position as at 30 September 2016 (31 December 2015: none) (*Note 38*).

SOPHARMA GROUP
NOTES TO THE INTERMEDIARY FINANCIAL STATEMENTS
for the nine months ending 30 September 2016

3. REVENUE

	<i>1 January - 30 September 2016 BGN '000</i>	<i>1 January - 30 September 2015 BGN '000</i>
Goods	470,473	465,209
Finished products	167,917	182,392
Total	638,390	647,601

Sales of goods by type

Tablet dosage forms	215,708	213,249
Ampoule dosage forms	135,406	130,554
Syrup dosage forms	25,928	26,137
Drops	22,498	26,381
Consumables, dressing materials and apparatuses	19,150	26,613
Ointments	13,632	13,676
Cosmetics	7,003	6,303
Food supplements and herbs	6,680	3,112
Veterinary vaccines	5,476	4,638
Lyophilic products	3,290	2902
Suppositories	2,706	2583
Isotopes	1,354	928
Food products	1,315	-
Infusion solutions	1,055	1467
Other	9,272	6,666
Total	470,473	465,209

<i>1 January - 30 September 2016 BGN '000</i>	<i>1 January - 30 September 2015 BGN'000</i>
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Sales of finished products by type:

Tablet dosage forms	109,506	122,463
Ampoule dosage forms	22,924	25,810
Consumables, dressing materials and apparatuses	6,675	-
Lyophilic products	5,661	5,209
Syrup dosage forms	5,495	8,806
Ointments	5,397	6,613
Inhalation products	2,036	-
Drops	1,038	4,007
Blass products	957	733
Syringes	949	1,320
Suppositories	694	947
Infusion solutions	105	299
Other	6,480	6,185

SOPHARMA GROUP
NOTES TO THE INTERMEDIARY FINANCIAL STATEMENTS
for the nine months ending 30 September 2016

Total	167,917	182,392
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4. OTHER OPERATING INCOME AND LOSSES, NET

Other operating income and losses, net include:

	<i>1 January - 30 September 2016</i>	<i>1 January - 30 September 2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Services rendered	3,444	4,086
Financing from public institutions	853	704
Social activities and events	692	671
Rentals	605	352
Income from penalties	-	204
Net loss on exchange differences under trade receivables and payables and current accounts	(2,560)	(9,950)
Other	749	428
Total	3,783	(3,505)

The *services rendered* include:

	<i>1 January - 30 September 2016</i>	<i>1 January - 30 September 2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Advertising and marketing	1,345	1,257
Preholesales	695	470
Laboratory services	136	230
Other	1,268	2,129
Total	3,444	4,086

5. MATERIALS AND CONSUMABLES USED

Expenses on materials include:

	<i>1 January - 30 September 2016</i>	<i>1 January - 30 September 2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Basic materials	41,899	45,162
Electric energy	4,416	4,248
Spare parts, laboratory and technical materials	3,703	3,567
Heat power	1,859	2,826
Fuels and lubricating materials	1,746	1,955
Auxiliary materials	1,664	927
Office materials	517	652
Water	454	473
Advertising materials	446	344

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Work clothes	430	476
Rejects of materials	124	63
Other	731	799
Total	57,989	61,492

Expenses on basic materials include:

	<i>1 January - 30 September 2016</i>	<i>1 January - 30 September 2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Substances (active ingredients)	21,066	22,140
Packaging materials	6,274	8,752
Liquid and solid chemicals	4,821	5,998
Herbs	1,615	1,064
Ampoules	1,271	1,717
Polypropylene, polyethylene, polystyrene	1,058	839
Aluminium foil	930	679
Other	4,864	3,973
Total	41,899	45,162

6. EXPENSES FOR HIRED SERVICES

Hired services expense includes:

	<i>1 January - 30 September 2016</i>	<i>1 January - 30 September 2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Advertisements and marketing services	9,257	14,830
Rentals	5,328	5,084
Consulting services	4,789	4,088
Forwarding and transportation services	2,786	3,075
Building and equipment maintenance	2,662	3,398
Local taxes and charges	1,495	1,908
Bank and regulatory fees	1,402	2,046
Manufacturing of medicinal products	1,393	1,253
Clinical trials	1,385	875
Security	1,123	1,021
Insurance	1,070	936
Service fees	757	230
Civil contracts	743	1,028
Vehicle maintenance	711	668
Subscriptions	710	1,518
Communication	690	758
Logistics services	633	830

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Medicinal services	624	615
Services on medicinal products registration	577	660
Expense tax	424	481
Destruction of medicines	255	195
Licences and remuneration	236	254
Translation of documents	220	188
Other	2,036	2,331
Total	41,306	48,270

7. EMPLOYEE EXPENSES

	<i>1 January - 30 September 2016</i>	<i>1 January - 30 September 2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Current wages and salaries	50,985	46,332
Social security/health insurance contributions	9,266	9,483
Social benefits and payments	2,738	2,657
Accruals for unused paid leaves	861	697
Tantiem	768	998
Accruals for long-term retirement benefits to personnel (<i>Note 28</i>)	235	200
Social security/health insurance contributions on leaves	150	132
Total	65,003	60,499

8. OTHER OPERATING EXPENSES

	<i>1 January - 30 September 2016</i>	<i>1 January - 30 September 2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Entertainment allowances	1,975	1,865
Business trip costs	956	1,125
Scrap and shortages of goods	725	910
Written-of receivables	522	238
Training	408	432
Donations	253	445
Unrecognised tax credit	156	151
Scrapping of finished products and work in progress	100	26
Scrapping of non-current assets	71	198
Taxes and interest on taxes paid	62	280
Reversed/(charged) impairment of current assets, net (<i>Note 9</i>)	(151)	(664)
Other	389	195
Total	5,466	5,201

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9. IMPAIRMENT OF CURRENT

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

	<i>1 January - 30 September 2016</i>	<i>1 January - 30 September 2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>
<i>Impairment of receivables</i>	12	130
<i>Reversed impairment of receivables</i>	(193)	(901)
Net change in the impairment of receivables (Notes 9, 22, 23 and 24)	(181)	(771)
Impairment of goods (Note 9)	30	118
Impairment of unfinished goods (Note № 9)	-	(11)
Impairment on receivables on advanced payments (Note № 22)	(151)	(664)
Impairment of materials (Note 9)	(183)	-
Total	(334)	(664)

10. FINANCE INCOME

Finance income includes:

	<i>1 January - 30 September 2016</i>	<i>1 January - 30 September 2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Interest income on past due trade receivables	2,966	2,835
Interest income on loans granted	1,110	2,127
Net gain on transactions with investments in securities	438	6,422
Income from dividends	92	6
Interest income on receivables from special contracts	58	92
Interest income on bank deposits	15	70
Revaluation of previously held shares to fair value	-	255
Total	4,679	11,807

11. FINANCE EXPENSES

Finance costs include:

	<i>1 January - 30 September 2016</i>	<i>1 January - 30 September 2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Interest expense on loans received	4,789	4,178
Net loss on exchange differences under loans in foreign currency	1,204	2,952
Bank fees and charges on loans and guarantees	468	376
Impairment of receivables on commercial loans granted	328	-
Financial leasing interest expenses	129	-

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Factoring interest expense on commercial receivables	191	208
Impairment of cash held in banks under special surveillance	-	103
Total	7,109	7,817

The net exchange losses on loans in foreign currency for 2016 are mainly result of the devaluation of the Ukrainian Hryvnia (UAH) against the Bulgarian Lev by about 12% as at 31 September 2016 as compared to 31 December 2015 and the Belarusian rouble (BYR) against the Bulgarian Lev by about 6% as at 30 September 2016 as compared to 31 December 2015.

12. LOSSES/GAINS FROM ASSOCIATES AND JOINT VENTURES

	<i>1 January - 30 September 2016 BGN'000</i>	<i>1 January - 30 September2015 BGN'000</i>
Share in (losses)/gains from associates, net	(256)	259
Share in (losses)/gains from joint ventures	(111)	(204)
	(367)	55

13. OTHER COMPREHENSIVE INCOME

Other components of comprehensive income include:

	Items of other comprehensive income attributable to the Group		Other components of comprehensive income attributable to non- controlling interests		Total items of other compreh income	
	<i>1 January – 30 September 2016 BGN '000</i>	<i>1 January – 30 September2015 BGN '000</i>	<i>1 January – 30 September 2016 BGN '000</i>	<i>1 January – 30 September2015 BGN '000</i>	<i>1 January – 30 September 2016 BGN '000</i>	<i>1 January – 30 September 2015 BGN '000</i>
Items that will not be reclassified to profit or loss						
Remeasurements of defined benefit pension plans	-	(14)	-	-	-	-
Items that may be reclassified to profit or loss						
Net change in fair value of available- for-sale financial assets:	(64)	449	(20)	-	(84)	
Gains arising during the year	(57)	449	(20)	-	(77)	

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*Less: Reclassification adjustments
for (gains)/losses included in profit
or loss for the current year*

	(7)	-	-	-	(7)
Exchange differences from restating foreign operations	1,734	1,925	796	(1,092)	2,530
Tax on income related to other comprehensive income components	-	-	-	-	-
Other comprehensive income for the period	1,670	2,360	776	(1,092)	2,446

14. PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i>		<i>Plant and equipment</i>		<i>Other</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Book value						
Balance at 1 January	208,413	194,562	210,047	194,434	42,362	41,923
Additions	811	648	2,707	4,663	1,783	3,047
Acquired assets in newly acquired subsidiaries and joint ventures	-	11,263	14	5,640	24	423
Effects of foreign currency and hyperinflationary restatements	(111)	(498)	(162)	(813)	(46)	(315)
Disposals	(40)	(128)	(484)	(3,431)	(2,875)	(2,829)
Written-off book value of assets on disposal of subsidiaries	(3,641)	-	(2,621)	-	(2,585)	-
Transfer to property, plant and equipment	2,220	2,439	5,093	9,552	249	113
Transfer to investment property	-	127	-	2	-	-
Balance at 30 September/ 31 December	207,652	208,413	214,594	210,047	38,912	42,362
Accumulated depreciation and impairment						
Balance as at 1 January	33,942	27,553	102,684	91,883	26,908	25,066
Amortisation charge for the year	4,993	6,154	9,812	13,123	3,041	4,270
Effects of foreign currency and hyperinflationary restatements	72	236	101	315	29	43
Amortisation written-off due to sale of assets	(526)	-	(2,392)	-	(881)	-
Amortisation written-off	-	(1)	(380)	(2,637)	(2,399)	(2,471)
Balance at 30 September/ 31 December	38,481	33,942	109,825	102,684	26,698	26,908
Carrying amount at 30 September/ 31 December	169,171	174,471	104,769	107,363	12,214	15,454

As at 30 September 2016, the tangible fixed assets of the Group include: land amounting to BGN 47,241 thousand (31 December 2015: BGN 47,735 thousand) and buildings of carrying amount BGN 121,436 thousand (31 December 2015: BGN 127,131 thousand).

Tangible fixed assets in progress as at 30 September include:

- expenses on construction of new buildings – BGN 13,378 thousand (31 December 2015: BGN 10,898 thousand);
- advances granted – BGN 335 thousand (31 December 2015: BGN 3,372 thousand);
- buildings reconstruction – BGN 3,837 thousand (31 December 2015: BGN 3,186 thousand);
- supply of equipment – BGN 586 thousand (31 December 2015: BGN 24 thousand);
- other – BGN 296 thousand (31 December 2015: BGN 237 thousand).

Finance lease

The carrying amount of the tangible fixed assets (motor vehicles) of the Group obtained under finance lease as at 30 September 2016 is BGN 3,269 thousand (31 December 2015: BGN 3,699 thousand).

Operating lease

The Group has leased fixed tangible assets with carrying amount of BGN 3,172 thousand as at 30 September 2016 to related parties (31 December 2015: BGN 3,396 thousand). In addition, tangible fixed assets at carrying amount of BGN 349 thousand were leased to third parties as at 30 September 2016 (31 December 2015: BGN 336 thousand).

Other data

The following encumbrances were constituted on tangible fixed assets of the Group as at 30 September 2016 in relation to received loans (*Notes 27 and 31*) as follows:

- Land and buildings with carrying amount of BGN 25,659 thousand and BGN 74,568 thousand, respectively (31 December 2015: respectively, BGN 17,806 thousand and BGN 73,697 thousand);
- Pledges on facilities with carrying amount of BGN 461 thousand (31 December 2015: BGN 549 thousand);
- Pledges on equipment, transportation vehicles and furniture and fixtures – BGN 51,273 thousand (31 December 2015: BGN 33,440 thousand);
- Pledges on assets in progress – BGN 886 thousand (31 December 2015: BGN 681 thousand).

Revaluation of property, plant and equipment to fair value

As at 31 December 2011, the Company performed an overall review and assessment for price changes of property, plant and equipment of the Group 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 displayed in the consolidated financial statements.

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

- 'Market-based approach' through the 'Market comparables (analogues) method' – with regard to land and buildings for which actual market existed, analogous properties and transactions with them were observed and basis for comparison was available – their adjusted market price determined under the comparative method was accepted as fair value;
- 'Assets (expenses)-based approach' through the 'Method of amortised recoverable amount' – for special-purpose buildings for which no actual market existed, and comparative sales of analogous assets – their amortised recoverable amount was accepted as their fair value and under the hypothesis of their common use in technologically-related production business process (including the term) and taking into account: physical wear, functional and economic impairment.

Revaluation reserve at the amount of BGN 3,099 thousand was then recognised as a result of the revaluation net of impairment.

As at 30 September 2016 the Group's management again analysed the price changes of its key tangible fixed assets and concluded that no conditions and grounds were available for a new revaluation of the assets before the expiry of the adopted usual term (*Note 2.9*).

15. INTANGIBLE ASSETS

	<i>Goodwill</i>		<i>Intellectual property rights</i>		<i>Software</i>		<i>Other</i>		<i>In process of acquisition</i>		
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Book value</i>											
Balance at 1 January	20,560	20,103	21,114	11,978	10,254	10,357	5,122	3,346	3,466	1,096	60,516
Additions	-	1,533	86	93	1,611	344	510	623	873	3,452	3,080
Acquired assets in subsidiaries and joint ventures	-	-	-	10,662	-	83	-	-	-	56	-
Effects of foreign	(254)	(1,076)	(357)	(1,037)	(9)	(151)	(12)	(317)	-	(2)	(632)

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currency and
hyperinflationary
restatements
Fair value of
intangible assets as a
result of acquisition
of a subsidiary

	-	-	1,345	-	-	-	-	-	-	-	1,345
Transfer	-	-	-	(6)	3,122	74	19	1,470	(3,141)	(1,538)	-
Written-off asset value upon sale of daughter company	(869)	-	(1,051)	-	(333)	-	(1,154)	-	(60)	-	(3,467)
Written-off	-	-	(160)	(576)	(25)	(453)	-	-	(50)	402	(235)
Balance at 30 September/ 31 December	19,437	20,560	20,977	21,114	14,620	10,254	4,485	5,122	1,088	3,466	60,607
<i>Accumulated amortisation and impairment</i>											
Balance at 1 January	9,185	9,185	8,056	6,685	5,772	5,229	1,971	1,564	30	30	25,014
Amortisation charge for the year	-	-	1,420	1,546	604	993	439	407	-	-	2,463
Effects of foreign currency and hyperinflationary restatements	-	-	55	135	3	-	7	-	-	-	65
Amortisation written-off	-	-	(1,159)	-	(117)	-	(735)	-	(6)	-	(2,017)
	-	-	(113)	(310)	(25)	(450)	-	-	-	-	(138)
Balance at 30 September/ 31 December	9,185	9,185	8,259	8,056	6,237	5,772	1,682	1,971	24	30	25,387
Carrying amount at 30 September/ 31 December	10,252	11,375	12,718	13,058	8,383	4,482	2,803	3,151	1,064	3,436	35,220

Intangible assets in progress as at 30 September include:

- expenses on acquisition of software – BGN 825 thousand. (31 December 2015: BGN 3,169 thousand)
- expenses on permits for use of medicinal products – BGN 36 thousand (31 December 2015: BGN 36 thousand);
- advances granted – BGN 182 thousand (31 December 2015: BGN 156 thousand);
- other – BGN 21 thousand (31 December 2015: BGN 75 thousand).

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

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

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

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

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

Goodwill impairment

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

The calculations were made by the management of the Group with the assistance of an independent certified appraiser and a detailed review was performed on the availability of events and facts that could serve as indicators for changes in the assumptions and assessments made at 30 September 2016.

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

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

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

As a result of the performed analyses, the Group management has concluded that as at 30 September 2016 and as at 31 December 2015 there are no conditions for recognition of additional impairment of recognised goodwill.

Newly acquired reputation is related to business combination on acquisition of a subsidiary in Belarus.

16. INVESTMENT PROPERTY

	30.09.2016	31.12.2015
	BGN '000	BGN '000
Balance at 1 January	10,562	10,606
Disposals	-	(13)
Net loss on fair value adjustment, included in profit or loss	-	98
Transfer to property, plant and equipment (<i>Note 14</i>)	-	(129)
Balance at 30 September/ 31 December	10,562	10,562

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

<i>Group of assets</i>	<i>30.09.2016</i> <i>BGN '000</i>	<i>31.12.2015</i> <i>BGN '000</i>
Warehouse premises	3,801	3,801
Offices	3,921	3,921
Production buildings	2,440	2,440
Social objects	400	400
Total	10,562	10,562

There are established encumbrances on investment property as at 30 September 2016 – mortgage of offices – at the amount of BGN 1,199 thousand (31 December 2015: BGN 1,199 thousand).

Fair value measurement

Fair value hierarchy

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

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

	<i>Warehouse premises</i>	<i>Offices</i>	<i>Production buildings</i>	<i>Social objects</i>	<i>Total</i>
Balance at 1 January 2015	3,787	3,900	2,492	427	10,606
Disposals	-	-	(13)	-	(13)
Net change in fair value through profit or loss – unrealised	14	21	90	(27)	98
Transfer to property, plant and equipment	-	-	(129)	-	(129)
Balance at 31 December 2015	3,801	3,921	2,440	400	10,562
Purchases and capital expenses	-	-	-	-	-
Disposals	-	-	-	-	-
Net change in fair value through profit or loss – unrealised	-	-	-	-	-
Transfer to property, plant and equipment	-	-	-	-	-
Balance at 30 September 2016	3,801	3,921	2,440	400	10,562

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:

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

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	30.09.2016	31.12.2015
	BGN '000	BGN '000
Investments in associates	4,202	1,536
Investments in joint ventures	3,619	3,688
Total	7,821	5,224

On 26 August 2016 the Group has reduced its share in the capital of OONPK Biotest, Belarus to a non-controlling share and the company was with a status of a “subsidiary” from 2 September 2013 until 26 August 2016 when its status was changed to “associated company”.

On 16 February 2016 the Belarus Group has acquired through the subsidiary SOOO Brititrade a 50% stake in the capital of Mobil Line OOO, Belarus as a result of which, the latter is transformed into a subsidiary.

In 2015, the Group has acquired through its subsidiary OOO Pharmaceft Plus, Belarus an indirect stake in OOO Zdorovei in Belarus by purchasing a 25% share of its capital (an associated company). On 26 October 2015 Sopharma AD acquired 3,080,000 shares of Medica AD as a result of which, the latter is transformed into a subsidiary.

The movement of the investments in associated companies is presented below:

	30.09.2016	31.12.2015
	BGN '000	BGN '000
Balance at 1 January	1,536	7,672

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Acquisition of shares	(2)	1,502
Share in the current profit/(loss) for the year	1	(64)
Effects of transactions with companies of the Group	(39)	(39)
Effects of foreign currency restatements	(85)	(329)
Transfer to subsidiaries	(514)	(7,672)
Transfer from subsidiaries	3,305	-
Transfer from available-for-sale investments	-	254
Effect of revaluation of previously held shares at fair value	-	212
Balance at 31 December	4,202	1,536

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

On 30 November 2015, the Group acquired an indirect share in OOO Ariens and OOO Ivem & K, Belarus, through the purchase of 50% of the capital (joint control). The shares in OOO Ariens were acquired by the subsidiary OOO Farmacevt Plus, Belarus, while those in OOO Ivem & K – by the subsidiaries OOO Farmacevt Plus, Belarus and OOO Tabina, Belarus.

The movement of investments in joint ventures is presented below:

	30.09.2016	31.12.2015
	BGN '000	BGN '000
Balance as at January 1	3,688	4,715
Acquisition of shares	70	644
Capital increase	246	-
Share in the current profit/(loss) for the period	(111)	(236)
Effects of transactions with companies of the Group	(74)	14
Effects of foreign currency restatements	(200)	(1,089)
Allowance for impairment	-	(360)
Balance at 30 September/ 31 December	3,619	3,688

18. AVAILABLE-FOR-SALE INVESTMENTS

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

	Country	30.06.2016	Interest	31.12.2015	Interest
		BGN '000	%	BGN '000	%
Doverie United Holding AD	Bulgaria	2,804	19.87	2,805	19.88
Lavena AD	Bulgaria	1,599	11.21	1,567	11.03
Olainfarm AD	Latvia	1,535	0.77	1,553	0.77
Extab Pharma Inc. – USA	USA	290	5.00	290	5.00
OOO Pharmico	Belarus	172	2.00	172	2.00
Sopharma Properties REIT	Bulgaria	159	0.18	39	0.05
Hydroizomat AD	Bulgaria	133	10.65	132	10.65
ODO DKM-Pharm	Belarus	100	2.00	100	2.00
OOO Set Aptek	Belarus	70	2.00	70	2.00

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Monbat AD	Bulgaria	50	0.02	-	-
Todorov AD	Bulgaria	22	4.69	22	4.74
Elana Money Market Fund	Bulgaria	-	-	257	1.14
MF Elana Eurofund	Bulgaria	-	-	252	6.34
Elana Agrocredit AD	Bulgaria	-	-	67	1.26
Other		96		98	
Total		7,031		7,424	

The Group's intentions towards its shareholding in Doverie United Holding AD are purely investment related and, therefore, the investment is treated as "available-for-sale".

The other available-for-sale financial assets as at 30 September 2016, amounting to BGN 100 thousand (31 December 2015: BGN 98 thousand), include a number of minority interests of the Group in the capital of five companies (31 December 2015: six companies).

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

The available-for-sale investments measured at fair value as at 30 September 2016 are as follows:

	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>30.09.2016</i>	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>31.12.2015</i>
			<i>BGN '000</i>			<i>BGN '000</i>
Doverie United Holding AD	3,722,645	0.75	2,804	3,725,145	0.81	2,805
Lavena AD	29,885	53.31	1,599	29,393	51.78	1,567
Olainfarm AD	108,500	14.15	1,535	108,500	13.54	1,553
Sopharma Properties REIT	32,519	4.89	159	318,301	0.41	132
Hydroizomat AD	318,329	0.42	133	161,014	0.14	22
Monbat AD	7,000	7.14	50	-	-	-
Todorov AD	159,568	0.14	22	9,220	4.23	39
Elana Money Market Fund	-	-	-	1,667	0.15	257
MF Elana Eurofund	-	-	-	958	0.15	252
Elana Agrocredit AD	-	-	-	64,350	1.03	67
Chimimport AD	-	-	-	1,000	1.38	1
Total			6,302			6,695

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

Fair value hierarchy

Available-for-sale investments

Fair value (Level 1) (Level 2) (Level 3)

30.09.2016

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	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Doverie United Holding AD	2,804	-	-	2,804
Lavena AD	1,599	-	1,599	-
Olainfarm AD	1,535	1,535	-	-
Sopharma Properties REIT	159	159	-	-
Hydroizomat AD	133	-	133	-
Monbat AD	50	50	-	-
Todorov AD	22	22	-	-
Total	6,302	1,766	1,732	2,804

<i>Available-for-sale investments</i>	<i>Fair value 31.12.2015</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Doverie United Holding AD	2,805	-	-	2,805
Lavena AD	1,567	-	1,567	-
Olainfarm AD	1,553	1,553	-	-
Elana Money Market Fund	257	257	-	-
MF Elana Eurofund	252	252	-	-
Hydroizomat AD	132	-	132	-
Elana Agrocredit AD	67	67	-	-
Sopharma Properties REIT	39	39	-	-
Todorov AD	22	22	-	-
Chimimport AD	1	1	-	-
Total	6,695	2,191	1,699	2,805

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

<i>Available-for-sale investments</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January 2015	1,636	1,508	2,760	5,904
Purchases	356	95	894	1,345
Share issued	70	-	-	70
Sales	(180)	(115)	-	(295)
Realised gain/(loss) included in the current profit and loss for the year in the item <i>Finance costs – Net loss on transactions with securities</i>	7	-	-	7
Unrealised (loss)/gain included in the current profit and loss for the year	(4)	(70)	(401)	(475)
Unrealised gain/(loss) included in other comprehensive income (<i>Note 13</i>)	306	281	(448)	139
Balance at 31 December 2015	2,191	1,699	2,805	6,695
Purchase	398	304	-	702
Sales	(811)	(224)	(1)	(1,036)
Realised gain/(loss) included in the current profit and loss	1	-	-	1

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for the year in the item *Finance costs – Net loss on transactions with securities*

Unrealised (loss)/gain included in the current profit and loss for the year

Unrealised gain/(loss) included in other comprehensive income (*Note 13*)

Balance at 30 September 2016

-	(47)	-	(47)
(13)	-	-	(13)
1,766	1,732	2,804	6,302

Valuation techniques and significant unobservable inputs

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

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

Quantitative information about fair value measurements (Level 3)

The table below presents quantitative information regarding fair value measurements in which significant unobservable in which significant unobservable inputs have been used (Level 3):

<i>Valuation technique</i>	<i>Unobservable inputs</i>	<i>Range (weighted average)</i>	<i>Relationship between significant unobservable inputs and fair value measurement – sensitivity to key assumptions</i>
<i>Discounted cash flows</i>			The estimated fair value would increase (decrease), if:
	* projected annual rate of revenue growth	* 1 % (weighted average 1%)	* the projected annual rate of revenue growth was higher (lower);
	* revenue growth rate after the projected period	* 2 % (weighted average 2 %)	* the revenue growth rate after the projected period was higher (lower);
	* projected annual rate of costs growth	* 0 % (weighted average 0 %)	* the projected annual rate of costs growth was lower (higher);
	* discount rate (based on WACC)	* 10.8 % (weighted average 10.8%)	* the discount rate was lower (higher)

19. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The *long-term receivables from related parties* as at 30 September refer to companies related through key managing personnel and under a common indirect control, and include:

	30.09.2016	31.12.2015
	BGN '000	BGN '000
Long-term loans granted to related parties	10,994	20,213
Receivable under a long-term rental deposit granted	231	292
Total	11,225	20,505

The long-term loans are granted to companies related through key managing personnel.
The terms and conditions of the long-term loans granted to related parties are as follows:

<i>Currency</i>	<i>Contracted amount '000</i>	<i>Maturity</i>	<i>Interest %</i>	30.09.2016		31.12.2015	
				<i>BGN'000</i>	<i>BGN'000 Incl. interest</i>	<i>BGN'000</i>	<i>BGN'000 Incl. interest</i>
EUR	16,177	01.12.2018	5.00%	10,994	177	13,074	18
EUR	3,272	01.12.2018	5.00%	-	-	7,139	739
Total				10,994	177	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 deposit receivable related with a rent under a concluded rental contract for administrative offices with validity term on 1 August 2022.

20. OTHER LONG-TERM RECEIVABLES

The *other non-current receivables* of the Group as at 30 September include:

	30.09.2016	31.12.2015
	BGN'000	BGN'000
Receivables under a sold investment in a subsidiary	3,183	3,258
Loans granted	427	240
Receivables for sale of LTA	324	-
Other	39	48
Total	3,973	3,546

The receivables under a sold investment in a subsidiary at the amount of BGN 3,183 thousand (USD 2,000 thousand) represent receivables under a sold investment in the subsidiary Extab Corporation, USA – 75% of the shares held. The receivables are with a deferred payment and expected maturity on 31 December 2018 – the date when the regulatory actions for registration of medicinal products permits are expected to be completed.

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The loans granted by the Group as at 30 September 2016 are to third parties, without collateral and with an agreed annual interest of 8% (31 December 2015: 8%) and the due date is 14 November 2021.

The receivables for sale of LTA are due 10 April 2021.

21. INVENTORIES

<i>Inventories</i> include:	30.09.2016 BGN'000	31.12.2015 BGN'000
Goods	80,301	78,904
Materials	35,852	34,916
Finished products	33,347	38,159
Semi-finished products	5,241	5,888
Work in progress	5,004	5,262
Total	159,745	163,129

<i>Goods by type</i> are as follows:	30.09.2016 BGN'000	31.12.2015 BGN'000
Tablet dosage forms	38,162	36,501
Ampoule dosage forms	12,346	11,046
Syrups	5,259	6,977
Consumables, dressing materials and apparatuses	4,898	5,172
Drops	4,102	3,425
Ointments	2,434	2,979
Goods in transit	144	4,262
Other	12,956	8,542
Total	80,301	78,904

<i>Finished products</i> existing at 30 September include:	30.09.2016 BGN'000	31.12.2015 BGN'000
Tablet dosage forms	19,617	22,493
Ampoule dosage forms	5,650	5,811
Syrups	2,487	3,265
Lyophilic products	582	756
Other	5,011	5,834
Total	33,347	38,159

<i>Materials</i> by type are as follows:	30.09.2016 BGN'000	31.12.2015 BGN'000
Basic materials	33,269	29,501
Auxiliary materials	620	505
Technical materials	561	496

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Spare parts	400	379
Materials in transit	-	3,078
Other	1,002	957
Total	35,852	34,916

Basic materials by type are as follows:

	30.09.2016	31.12.2015
	BGN'000	BGN'000
Substances (active ingredients)	17,872	15,832
Chemicals	3,873	4,370
Vials, tubes and ampoules	2,879	3,032
Consumables, dressing materials and apparatuses	2,484	-
PVC and aluminium foil	1,152	1,492
Packaging materials	1,519	1,962
Herbs	2,457	1,201
Other	1,033	1,612
Total	33,269	29,501

As at 30 September 2016, there were established special pledges on inventories at the amount of BGN 70,769 thousand (31 December 2015: BGN 82,439 thousand) as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 31 and 38*).

22. TRADE RECEIVABLES

<i>Trade receivables</i> include:	30.09.2016	31.12.2015
	BGN'000	BGN'000
<i>Receivables from clients</i>	220,001	205,624
<i>Impairment of uncollectable receivables</i>	(1,357)	(1,585)
Receivables from clients, net	218,644	204,039
<i>Advances to suppliers</i>	8,175	1,712
<i>Impairment of advances</i>	(127)	(162)
Advances granted, net	8,048	1,550
Total	226,692	205,589

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

Usually the Group companies negotiate with their clients payment terms within the range of 30 to 180 days for receivables under sales unless there are determined specific conditions for maturity for particular clients or in the cases where new markets and products are developed and new trade counterparts are attracted. The Group has set a common credit period of 180 days for which no interest is charged to clients. Any delay after this period is regarded by the Group as an indicator for impairment. The managing bodies of the Group companies assess collectability by analysing the exposure of the particular client, the opportunities

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for settlement (of the client and through the collateral) and take decision on the amount, recognition and charging of the respective impairment.

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

	30.09.2016	31.12.2015
	BGN'000	BGN'000
up to 30 days	70,806	61,638
from 31 to 90 days	51,644	50,279
from 91 to 180 days	1,209	2,980
from 181 to 365 days	1,153	2,807
from 1 to 2 years	247	111
over 2 years	1,225	1,653
Total	126,284	119,468

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

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

	30.09.2016	31.12.2015
	BGN'000	BGN'000
from 31 to 90 days	3,810	1,765
from 91 to 180 days	1,359	3,978
from 181 to 365 days	4,554	8,172
from 1 to 2 years	3,241	7,049
over 2 years	85	3,195
Impaired	(1,357)	(1,585)
Total	11,692	22,574

The impairment amount is calculated on an individual basis by applying the discounted cash flows method with a discount rate based on the price of attracted resources by the company adjusted against the average net yield and conservative prognosis on the expected cash flows, determined on the grounds of debtor's history and the concluded agreements, respectively, court rulings. Where the management has concluded that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are impaired to 100% (*Note 2.32.3*).

As at 30 September 2016, there were established special pledges on trade receivables at the amount of BGN 66,178 thousand (31 December 2015: BGN 86,876 thousand). They were established as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 31 and 38*).

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Movement in the allowance for impairment

	2016 BGN'000	2015 BGN'000
Balance as at 1 January	1,585	2,382
Impairment amount	260	1,216
Amounts written-off under uncollectable receivables	(244)	(226)
Reversed impairment	(190)	(1,758)
Effect from currency revaluations	(6)	-
Written-off impairments upon sale of daughter company	(48)	-
Transfer to impairment of court and awarded receivables (<i>Note 24</i>)	-	(29)
Balance at 30 September/ 31 December	1,357	1,585

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

	30.09.2016 BGN'000	31.12.2015 BGN'000
Raw materials and consumables	6,908	740
Services	886	475
Goods	239	265
Other	142	232
Allowance for impairment	(127)	(162)
Total	8,048	1,550

23. RECEIVABLES FROM RELATED PARTIES

<i>Receivables from related parties</i> include:	30.09.2016 BGN'000	31.12.2015 BGN'000
Receivables from companies related through key managing personnel	21,115	21,545
Receivables from companies under a common indirect control	3,195	5,889
Receivables from companies related through main shareholders	412	-
Total	24,722	27,434

The *receivables from related parties* by type are as follows:

	30.09.2016 BGN'000	31.12.2015 BGN'000
Trade loans granted	20,913	21,545
Receivables on sales of finished products and materials	3,397	5,889

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Advance payments granted	400	-
Dividend receivables	12	-
Total	24,722	27,434

The trade loans granted to related parties are unsecured and are to companies, related through key managing personnel and amount to BGN 20,913 thousand (31.12.2015: BGN 21,545 thousand).

The *granted loans* are as follows:

Currency	Contracted amount	Maturity	Interest	30.09.2016		31.12.2015	
				BGN '000	BGN '000	BGN '000	BGN '000
	'000		%		Incl. interest		Incl. interest
<i>to companies related through key managing personnel</i>							
EUR	8,113	31.12.2016	4.50%	7,928	-	7,982	146
EUR	12,731	31.12.2016	4.50%	7,828	23	8,310	26
BGN	6,000	31.12.2016	5.50%	4,426	26	4,636	1
BGN	190	31.12.2016	5.50%	115	2	114	-
BGN	1,300	31.12.2016	5.50%	-	-	503	42
<i>to companies related through key managing personnel</i>							
BYR	186	14.02.2017	27.50%	180	12	-	-
BYR	254	14.02.2017	27.50%	152	10	-	-
BYR	75	28.01.2017	25.00%	117	10	-	-
BYR	74	26.11.2016	25.00%	75	2	-	-
BYR	70	24.03.2017	27.50%	69	5	-	-
BYR	23	28.04.2017	27.50%	23	2	-	-
Total:				20,913	92	21,545	215

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

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

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

	30.09.2016	31.12.2015
	BGN'000	BGN'000
up to 30 days	128	2,265
from 31 to 90 days	1,615	1,925
from 91 to 180 days	-	380

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Total	1,743	4,570
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Age structure of overdue trade receivables from related parties is as follows:

	30.09.2016	31.12.2015
	BGN'000	BGN'000
from 31 to 90 days	665	907
from 91 to 180 days	739	32
from 181 to 365 days	162	145
from 1 to 2 years	-	259
Total	1,566	1,343

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

	30.09.2016	31.12.2015
	BGN'000	BGN'000
Over 1 year	112	
Impairment	(24)	(24)
Total	88	(24)

Movement in the allowance for impairment

	30.09.2016	31.12.2015
	BGN'000	BGN'000
Balance at 1 January	24	141
Impairment amount	-	-
Reversed impairment	-	-
Impairment of uncollectable receivables written-off	-	(117)
Balance at 30 September/ 31 December	24	24

Special pledges have been established as at 30 September 2016 on receivables from related parties at the amount of BGN 18,229 thousand as collateral under bank loans received (31 December 2015: BGN 18,229 thousand) (*Note 27 and 31*).

24. OTHER SHORT-TERM RECEIVABLES AND ASSETS

Other receivables and prepayments of the Group include:

	30.09.2016	31.12.2015
	BGN'000	BGN'000
<i>Court and awarded receivables</i>	4,592	4,308
<i>Impairment of court receivables</i>	(2,321)	(2,379)
Court and awarded receivables, net	2,271	1,929

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Taxes refundable	5,734	5,418
Receivables from the Central Depository for dividend payouts	4,305	-
Loans granted to third parties	2,497	2,940
Prepayments	1,571	1,978
Receivables on transactions with investments	1,399	-
Receivables on deposits placed as guarantees	566	440
Amounts granted to investment intermediaries	489	554
Receivables on deposits provided as guarantees	316	314
Financial assets at fair value through profit	1,323	932
Other	20,471	14,505
Total	13,574	14,505

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

The receivables on transactions with investments amounting to BGN 1,399 thousand are in relation to the increase of share of the Group through its company SOOO Brititrade, Belarus in the capital of ODO Salus Line, Belarus. The expectations are for the share to increase to 40% by year-end.

As at 30 September 2016, the Group holds 210,958.41 shares in the trust fund Raiffeisen (Bulgaria) Liquidity Fund (31 December 2015: 210,958.41 shares).

The financial assets at fair value through profit, held by the Group, are classified as Level 1 in the fair value hierarchy (*Note 2.14.2*).

<i>Taxes refundable</i> include:	30.09.2016	31.12.2015
	BGN'000	BGN'000
Excise duties	3,259	2,692
VAT	1,847	1,839
Income tax	621	882
Local taxes and charges	7	5
Total	5,734	5,418

<i>Prepayments</i> include:	30.09.2016	31.12.2015
	BGN'000	BGN'000
Insurance	426	777
Subscriptions	398	518
Advertisements	383	18
Vouchers	72	52
Rentals	52	44
Licence and patent fees	18	43
Other	222	526
Total	1,571	1,978

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The loans granted to third parties amounted to BGN 2,497 thousand (31 December 2015: BGN 2,940 thousand) and were granted to six entities (2015: nine entities) – counterparts for working capital. The annual interest agreed for these loans for 2016 was between 5.05% and 7% (2015: 5.05% and 7%).

25. CASH AND CASH EQUIVALENTS

	30.09.2016	31.12.2015
	BGN'000	BGN'000
Cash at current bank accounts	13,651	23,773
Impairment of cash in current bank accounts (<i>Note 11</i>)	(169)	(6,438)
Short-term deposits	3,051	4,300
Cash in hand	837	1,393
Short-term blocked funds	108	86
Cash and cash equivalents presented in the consolidated statement of cash flows	17,478	23,114
Blocked cash under court cases and issued bank guarantees	135	372
Cash and cash equivalents presented in the consolidated statement of financial position	17,613	23,486

The available cash and cash equivalents of the Group are mainly denominated in BGN, UAH and in EUR (31 December 2015: BGN, UAH, and EUR).

The average level of the annual interest on current accounts in BGN and foreign currency is within the range from 0.01% to 1% (2015: from 0.01% to 1%) and that on deposit accounts in BGN and foreign currency is mainly within the range from 0.3% to 17% (2015: from 0.3% to 17%).

The short-term blocked funds as at 30 September 2016 amounting to BGN 108 thousand (31 December 2015: BGN 86 thousand), represent mainly blocked funds under performance guarantees.

26. EQUITY

Share capital

As at 30 September 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.

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

The share capital of Sopharma AD WAS increased by 2,797,899 new shares with nominal value of BGN 1 each and issue value of BGN 4.14 equal to the fair price of 1 share of Sopharma AD in relation to the merger of Bulgarian Rose Sevtopolis AD into Sopharma AD (takeover). Exchange ratio was set for the purpose, which was calculated on bases of the net assets fair value of both companies.

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The *treasury shares* were 5,924,875 at the amount of BGN 19,798 thousand (31 December 2015: 5,481,145 shares at the amount of BGN 18,613 thousand).

The number of shares purchased through an investment intermediary in the current year was 1,700 (2015: 105,166 shares) and no shares were sold (2015: no shares sold).

As at 30 September 2016 the company has shares, held by its subsidiaries and associates, as follows:

- by Unipharm AD – 151,166 shares (31 December 2015: 191,166 shares);
- by Medica AD – 27,573 shares (31 December 2015: 27,573 shares);
- by Sopharma Trading AD – 141,050 shares (31 December 2015: 43,110 shares).

Statutory reserves at the amount of BGN 47,841 thousand (31 December 2015: BGN 45,256 thousand) were set aside from allocation of profit of the parent company and included all amounts for the Reserve Fund.

The *revaluation reserve – for property, plant and equipment*, amounting to BGN 23,217 thousand (31 December 2015: BGN 23,445 thousand), was set aside from excess of the carrying amount of property, plant and equipment of the Group companies over their fair values at the dates of the respective regular revaluation. The effect of deferred taxes on the revaluation reserve is stated directly through other components of comprehensive income for the year.

The *available-for-sale financial assets reserve*, amounting to BGN 1,266 thousand – a positive figure (31 December 2015: BGN 1,330 thousand – a positive figure), was set aside from the effects of subsequent measurement of available-for-sale investments to fair value (including the consolidated share of the change in this reserve in associates on their valuation under the equity method).

The *translation of foreign operations reserve*, amounting to BGN 829 thousand – a negative figure (31 December 2015: BGN 2,563 thousand – a negative figure), was set aside from exchange differences arising as a result of translation of the currency in the financial statements of foreign companies to the presentation currency of the Group.

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

Retained earnings, amounting to BGN 241,533 thousand at 30 September (31 December 2015: BGN 222,238 thousand), include also the recognised accumulated actuarial loss at the amount of BGN 1,601 thousand (31 December 2015: BGN 1,601 thousand), stated upon remeasurements of defined benefit pension plans in relation with the amendment to IAS 19 *Employee Benefits*.

27. LONG-TERM BANK LOANS

<i>Contracted loan amount in original currency</i>	<i>Maturity</i>		<i>30.09.2016</i>			<i>31.12.2015</i>	
		<i>Non-current portion</i>	<i>Current portion</i>	<i>Total</i>	<i>Non-current portion</i>	<i>Current portion</i>	<i>Total</i>
'000		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000

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Credit lines and working capital loans

		31.10.201						
EUR	2,600	6	-	1,384	1,384	-	4,946	4,946
		16.04.202						
BGN	4,250	3	1,304	50	1,354	1,304	210	1,514
		31.12.201						
EUR	1,452	7	63	567	630	488	578	1,066
		17.06.201						
EUR	2,050	8	-	-	-	4,052	-	4,052
		28.02.202						
EUR	172	1	230	67	297	-	-	-
		31.12.201						
EUR	450	7	30	176	206	162	173	335
		25.08.202						
BGN	120	0	88	6	94	88	24	112
		27.09.201						
BYR	100	7	-	-	-	-	92	92
		27.09.201						
BYR	50	7	-	-	-	-	49	49
		29.09.201						
BYR	10	6	-	-	-	-	10	10
		04.01.201						
EUR	-	6	-	-	-	-	72	72

Investment-purpose loans

		15.04.202						
EUR	32,000	1	25,640	7,153	32,793	30,819	7,380	38,199
		30.06.201						
EUR	2,000	8	733	974	1,707	1,467	974	2,441
		25.10.201						
EUR	479	8	289	276	565	496	276	772
Total								
I			28,377	10,653	39,030	38,876	14,784	53,660

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

Part of the long-term during 2015 are not included in the liabilities of the Group as of 30 September 2016 due to sale of the controlling share in two of its subsidiaries.

The bank loans obtained in Euro are contracted mainly at interest rate, determined on the basis of EURIBOR plus a mark-up of up to 4.9%, or fixed to 12%, or BELIBOR of up to 2%; for loans in BGN – interest is based on SOFIBOR plus a mark-up of up to 3.5%; and for loans in BYR – up to 36% (2015: in EUR – EURIBOR plus a mark-up of up to 4.9% or fixed at 12.5% or BELIBOR with a mark-up of 2%; for loans in BGN – interest is based on SOFIBOR plus a mark-up of up to 3.5%; and in BYR – a fixed rate of up to 36%). Loans are intended for providing working capital.

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

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

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

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As at 30 September 2016, there were no established special pledges on receivables from related parties, subject to consolidation, eliminated for the purpose of the consolidated financial statements (31 December 2015: none), as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 31 and 38*).

28. RETIREMENT BENEFIT OBLIGATIONS

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

	<i>30.09.2016</i>	<i>31.12.2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Long-term retirement benefit obligations	4,133	4,022
Long-term benefit obligations for tantieme	193	177
Total	<u><u>4,326</u></u>	<u><u>4,199</u></u>

Long-term retirement benefit obligations

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

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

- *Serbia* – the employer is obliged to pay 3 average salaries;
- *Ukraine* – the employer is obliged to pay between BGN 7 and BGN 14 depending on the length of service as well as a social pension, which the company accrues after employees' retirement due to specific work conditions;
- *Latvia and Belarus* – the employer does not have a legal obligation to personnel upon retirement;
- *Kazakhstan* – according to the Kazakhstan legislation, the employer does not have a legal obligation to personnel upon retirement.

Long-term benefit obligations for tantieme

As at 30 September 2016, the long-term benefit obligations to personnel include also the amount of BGN 195 thousand (31 December 2015: BGN 177 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months – until 2019 (2015: until 2018).

29. FINANCE LEASE LIABILITIES

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

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<i>Term</i>	<i>30.09.2016</i> <i>BGN'000</i>	<i>31.12.2015</i> <i>BGN'000</i>
Up to one year (<i>Note 37</i>)	1,028	1,068
Over one year	<u>1,654</u>	<u>1,957</u>
Total	<u>2,682</u>	<u>3,025</u>

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

<i>Term</i>	<i>30.06.2016</i> <i>BGN'000</i>	<i>31.12.2015</i> <i>BGN'000</i>
Up to one year	1,083	1,226
From one to three years	<u>1,774</u>	<u>2,143</u>
	<u>2,857</u>	<u>3,369</u>
Future finance costs under finance leases	<u>(175)</u>	<u>(344)</u>
Total	<u>2,682</u>	<u>3,025</u>

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

30. GOVERNMENT GRANTS

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

	<i>30.09.2016</i> <i>BGN'000</i>	<i>31.12.2015</i> <i>BGN'000</i>
Government grants, non-current portion	8,823	9,343
Government grants, current portion (<i>Note 37</i>)	<u>918</u>	<u>1376</u>
Total	<u>9,741</u>	<u>10,719</u>

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

	<i>30.09.2016</i> <i>BGN'000</i>	<i>31.12.2015</i> <i>BGN'000</i>
Sopharma AD	6,490	6,868
Biopharm Engineering AD	2,152	2,604
Unipharm AD	966	1,238
Medica AD	131	-

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Sopharma Trading AD	2	9
Total	9,741	10,719

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

The current portion of the grants, amounting to BGN 918 thousand (31 December 2015: BGN 1,376 thousand), will be recognised as current income over the following 12 months from the date of the consolidated statement of financial position and is presented as 'other current liabilities' (*Note 37*).

31. SHORT-TERM BANK LOANS

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

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>30.09.2016</i>	<i>31.12.2015</i>
	<i>'000</i>		<i>BGN'000</i>	<i>BGN'000</i>
<i>Bank loans (overdrafts)</i>				
EUR	19,000	31.10.2016	31,408	28,003
EUR	10,000	01.11.2016	17,882	30,491
EUR	10,000	20.03.2017	12,562	2,193
EUR	8,000	12.12.2016	10,763	11,184
EUR	7,500	25.04.2017	10,731	10,742
BGN	10,000	30.10.2016	10,000	10,001
EUR	5,000	25.04.2017	9,750	9,757
EUR	3,000	25.04.2017	5,857	5,861
EUR	3,500	02.09.2017	5,736	5,744
EUR	2,600	31.10.2016	5,126	-
EUR	2,500	04.09.2017	4,401	976
EUR	1,500	29.09.2017	2,957	-
EUR	2,050	31.10.2016	1,818	3,904
EUR	600	27.03.2017	1,173	-
BYR	500	21.10.2018	452	-
BYR	300	30.01.2018	272	-
BYR	200	19.10.2016	78	-
EUR	5,000	15.08.2016	-	9,787
EUR	10,000	31.01.2016	-	19,553
EUR	5,000	15.08.2016	-	4
BGN	293	30.04.2016	-	180
BGN	500	20.09.2017	-	70
			130,966	148,450
<i>Credit lines</i>				
EUR	16,495	30.09.2016	15,896	15,872
BGN	18,000	30.10.2016	9,995	10,006
BGN	10,000	30.09.2016	9,993	9,978

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EUR	5,000	31.08.2016	8,382	6,479
			44,266	42,335
Total			169,461	190,785

The bank loans obtained in Euro are contracted at interest rate determined on the basis of EURIBOR plus a mark-up of up to 3% or fixed rate of up to 25.5%, or EONIA plus a mark-up of up to 2.1%; for loans in BGN – interest is based on SOFIBOR plus a mark-up of up to 3.26%; and in BYR – a fixed rate of 36.8% (2015: for loans in EUR – EURIBOR plus a mark-up of up to 3% or a fixed rate of 25.5% or EONIA plus a mark-up of up to 2.1%, for loans in BGN – SOFIBOR plus a mark-up of up to 3.26%; for loans in USD – a fixed rate of up to 10% and for BYR – a fixed rate of 27%). Loans are intended for providing working capital.

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

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

As at 30 September 2016, there were special pledges on receivables from related parties, subject to consolidation, eliminated for the purpose of the consolidated financial statements at the amount of BGN 18,229 thousand (31 December 2015: BGN 18,229 thousand). They were established as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 31 and 38*).

32. TRADE PAYABLES

<i>Trade payables</i> include:	30.09.2016	31.12.2015
	BGN'000	BGN'000
Payables to suppliers	89,691	87,046
Advances from clients	817	394
Total	90,508	87,440

The <i>payables to suppliers</i> refer to:	30.06.2016	31.12.2015
	BGN'000	BGN'000
Suppliers outside Bulgaria	69,064	63,786
Suppliers from Bulgaria	20,627	23,260
Total	89,691	87,046

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

33. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	30.09.2016	31.12.2015
	BGN'000	BGN'000
Payables to companies related through a main shareholder	264	411
Payables to companies under a common indirect control	264	151
Payables to companies related through a main shareholder	247	1,702
Payables to companies – main shareholders	129	102
Total	904	2,366

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

	30.09.2016	31.12.2015
	BGN'000	BGN'000
Payables on supply of goods and materials	537	2,348
Other	367	18
Total	904	2,366

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

34. PAYABLES ON FACTORING CONTRACTS

A Group company has entered into a factoring contract with Societe General Factoring EOOD (Factor) from 19 January 2016 on the transfer of existing undue receivables from debtors. The factor has a right of recourse (regress right) for all pre-paid amounts, whether or not they are included in the approved credit limit. The approved credit limit is BGN 20,000 thousand. The transferred invoices will be paid in advance up to 90% (ninety percent) of their value including VAT. The unfunded percentage of the transferred receivables should not be less than the existing and unresolved trade disputes between the client and the debtors.

The interest for transferred amounts in advance is 1M SOFIBOR + 1.80% on an annual basis and is deducted a one-month period at the end of each calendar month.

As of 30 September 2016, the payable under the contract for factoring amounts to BGN 17,705 thousand.

35. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security include:

30.09.2016	31.12.2015
BGN'000	BGN'000

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Payables to personnel, including:	7,979	7,310
<i>current wages and salaries</i>	3,293	3,342
<i>tantieme</i>	2,979	2,486
<i>accruals on unused compensated leaves</i>	1,707	1,482
Payables for social security/health insurance, including:	1,745	1,584
<i>current payables under contributions for social security</i>	1,481	1,375
<i>accruals on unused compensated leaves</i>	264	209
Total	9,724	8,894

36. TAX PAYABLES

Tax payables include:

	30.09.2016	31.12.2015
	BGN'000	BGN'000
VAT	5,894	4,976
Profit tax	671	378
Withholding taxes	482	518
Individual income taxes	412	427
Other	119	69
Total	7,578	6,368

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

Company	Full-scope tax audit	VAT inspection	Inspection under the social security legislation
Sopharma AD	31.12.2011	30.11.2011	30.09.2013
Sopharma Trading AD	31.12.2011	31.12.2011	31.12.2004
Biopharm Engineering AD	31.12.2014	28.02.2015	30.04.2009
Momina Krepost AD	31.12.2005	31.10.2006	31.10.2006
Pharmalogistica AD	31.12.2005	31.03.2007	none
Sopharma Buildings REIT	none	30.09.2016	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none
Unipharm AD	31.12.2011	31.12.2011	31.08.2013
Ivančić and Sinovi d.o.o.	31.12.2013	31.12.2013	01.04.2014
PAO Vitamini	31.12.2014	31.12.2013	31.03.2016
OOO Sopharma Ukraine	31.12.2010	28.02.2014	31.12.2014
SIA Briz	31.12.2011	31.12.2011	31.12.2011
SOOO Brititrade	31.12.2010	31.12.2010	31.12.2006
OOO Tabina	28.02.2011	28.02.2011	28.02.2010
ODO Alean	31.12.2012	31.12.2012	none
SOOO Brizpharm	30.04.2005	30.04.2005	31.03.2004
ODO Vestpharm	28.02.2003	28.02.2003	30.05.2005
ODO BelAgroMed	29.02.2012	29.02.2012	29.02.2012

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OOO Vivaton Plus	31.12.2010	31.12.2010	31.12.2007
OOO Med-dent	31.03.2014	31.03.2014	31.12.2007
BOOO SpetzApharmacia	01.04.2010	01.04.2010	none
OOO Bellerophon	31.12.2002	31.01.2013	31.01.2016
Medica AD	31.03.2010	31.03.2010	31.03.2006
OOO Mobil Line	30.04.2008	30.04.2008	30.11.2007
OOO Ivem and K	31.12.2011	31.12.2011	31.12.2010
OOO NPKF Ariens	31.04.2013	30.04.2013	31.12.2012
ODO Medjel			

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

The companies Phyto Palauzovo AD, OOO Farmacevt Plus, TOO Sopharma Kazakhstan, OOO Farmatea, UAB TBS Pharma, OOO Galenapharm, OOO Danapharm, Sopharma Warsaw SP. Z.O.O. have not been subject to full-scope tax audits, VAT audits and inspections under the social security regulations.

37. OTHER CURRENT LIABILITIES

<i>Other current liabilities</i> include:	30.09.2016	31.12.2015
	BGN'000	BGN'000
Dividends payable	5,341	749
<i>Liabilities related to a sale of share in a subsidiary</i>	3,343	-
Finance lease liabilities (<i>Note 29</i>)	1,028	1068
Government grants (<i>Note 30</i>)	918	1376
Trade loans received from third parties	452	570
Awarded amounts under litigations	347	359
Deductions from work salaries	209	178
Fines and penalties	189	-
Other	470	558
Total	12,297	4,858

The liabilities related to a sale of share in a subsidiary amounting to BGN 3,343 thousand are in relation represent an advance payment received for the sale of the controlling stake in OOO NPK Biotest, Belarus. The parties expect a regulatory permission to complete the transaction.

38. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

Sopharma AD

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In relation to the amount of EUR 1,034 thousand (BGN 2,022 thousand) awarded by the Court of Arbitration in Paris, Sopharma AD initiated cases in Poland against former members of the Management Board of the convicted company for caused damages and non-performance of the obligations regarding the bankruptcy of the said company. As at 30 September 2016, the cases are pending in the District Court and the Regional Court of Warsaw.

Biopharm Engineering AD

In 2015, the company was a subject of full-scope tax audit for the period 1 January 2010 – 31 December 2015, including under the application of VATA for periods from 1 November 2010 to 28 February 2015. In the issued Tax Assessment Notice, dated 26 November 2015, the tax authorities assessed additional tax liabilities at the amount of BGN 223 thousand, including BGN 194 thousand (principal and interest) under VATA and BGN 94 thousand (principal and interest) corporate tax.

The company appealed the issued Tax Assessment Notice and revenue authorities assigned a new tax revision, which has been completed as of the date of the current financial report. In the conclusion from the revision issued on 6 July 2016 no additional taxes have been imposed on the company, a BGN 2 thousand interest rate was required for payment due to a tax credit used by the company but not recognized by the tax authorities in 2011

Issued and granted guarantees

Sopharma AD

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

	Maturity	Currency	Amount		Debt status
			Original Currency	BGN'000	30.09.2016 BGN'000
Sopharma Properties REIT	2024	EUR	22,619	44,240	30,686
Veta Pharma AD	2016	BGN	1,000	1,000	510
Pharmaplant AD	2017	BGN	250	250	250
Mineralcommerce AD	2017	EUR	150	294	217
Mineralcommerce AD	2019	BGN	1,083	1,083	168
Farmaplant AD	2019	BGN	1,083	1,083	168
Total					31,831

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

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

- Mortgages of real estate – BGN 1,119 thousand (31 December 2015: BGN 1,119 thousand) (Note 14);

(b) under loans of third parties:

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- Special pledge on inventories – none (31 December 2015: BGN 2,623 thousand) (*Note 21*).

Bank guarantees

Sopharma Trading AD

The bank guarantees issued for the Company amount to BGN 12,547 thousand (31 December 2015: BGN 12,722 thousand) and are to guarantee payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medicinal products to hospitals under concluded contracts, customs office guarantees and tender participation.

The bank guarantees have been issued by:

	30.09.2016	31.12.2015
	BGN '000	BGN '000
Raiffeisenbank EAD	4,446	5,010
SG Expressbank AD	3,617	3,936
ING Bank NB	3,201	3,776
	11,264	12,722

The collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 11,264 thousand (31 December 2015: BGN 9,801 thousand) (*Note 21*);
- Special pledge on receivables from clients with a carrying amount of BGN 2,347 thousand (31 December 2015: BGN 2,347 thousand) (*Note 22*);
- As at 30 September 2016 there are no special pledges on PPE (motor vehicles) (31 December 2015: BGN 2 thousand) (*Note 14*).

Unipharm AD

The following have been issued as at 30 September 2016: bank guarantees at the amount of BGN 92 thousand within the loan agreement limit, a bank guarantee for arranging discounts under Ordinance 10 for medicinal products to the NHIF at the amount of BGN 16 thousand and a bank guarantee at the amount of BGN 20 thousand secured in cash.

Under a contract for issuance of multiple bank guarantees, dated 23 February 2012 have been established pledges on assets of the company as follows:

- Pledge on current and future movables (materials, finished products, goods) with a carrying amount of BGN 200 thousand;
- Pledge on current and future payment accounts opened with DSK Bank EAD.

Electroncommerce AD

As at 30 September 2016 the issued bank guarantees to the companies amount to BGN 135 thousand.

Assets held under safe custody

Sopharma Trading AD

According to concluded pre-distribution contracts, the company has received goods for safe custody amounting to BGN 4,737 thousand as at 30 September 2016 (31 December 2015: BGN 2,892 thousand).

Significant irrevocable agreements and commitments

Sopharma AD

The Company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 (*Note 30 and Note 37*), related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section (*Note 14*). The Company undertook a commitment that for a period of 5 years after the completion of the respective projects they shall not be subject to significant modifications affecting the essence and the terms and conditions for their execution or giving rise to unjustified benefits to the company, neither modifications resulting from a change in the nature of ownership over the assets acquired in relation to the grants. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Unipharm AD

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

Biopharm Engineering AD

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

- (a) line for production of amino acid solution for parenteral nutrition, which includes components for inflation, filling and sealing in aseptic environment, and
- (b) clean rooms construction (omega profile ceilings, separation walls, doors, blocking devices, lighting, air conditioning, etc.) (*Note 14*). The term commenced on 27 April 2015 (the date on which the project was ultimately approved by the financing institution) and according to the contract the project should not suffer significant changes referring to its nature, the conditions of its performance or leading to unjustifiable benefits for the company as well as changes resultant from modification in the nature of ownership of infrastructural component or discontinuance of production activities. On non-compliance with these requirements, the financing shall be returned. At the date of approval for issue of the financial statements, all contractual requirements were being fulfilled.

Sopharma Trading AD

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The company is a beneficiary under a contract for government financing under Operational Programme “Development of the Competitiveness of the Bulgarian Economy” on a project for the development and implementation of a system for information security management according to ISO 27001:2007 in the amount of BGN 82 thousand (Note № 30 and № 37).

Other

Sopharma AD 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.

39. FINANCIAL RISK MANAGEMENT

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

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

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

Risk management is currently performed by the management of the parent company and respectively, the managing bodies of the subsidiaries, in line with the policy defined by the Board of Directors of the parent. The Board of Directors has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the separate specific types of risk such as currency, price, interest, credit and liquidity risk and the risk of use of non-derivative instruments.

The structure of financial assets and liabilities is as follows:

	30.09.2016	31.12.2015
	BGN '000	BGN '000
<i>Financial assets</i>	<u>286,552</u>	<u>292,729</u>
Loans and receivables, including:	279,205	284,991
Receivables and loans (Notes 19, 20, 22, 23 and 24)	261,727	261,877
Cash and cash equivalents (Note 25)	17,478	23,114
Available-for-sale financial assets	7,031	7,424

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Available-for-sale investments (Note 18)	7,031	7,424
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Financial assets at fair value through profit (Note 26)	316	314
Financial liabilities	328,979	339,389

Financial liabilities at amortised cost	328,979	339,389
Short-term and long-term bank loans (Notes 27 and 31)	207,877	244,445
Other loans and liabilities (Notes № 29, № 30, № 32, № 33 and № 37)	121,102	94,944

Foreign currency risk

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

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

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

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

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

	<i>in BGN</i>	<i>in EUR</i>	<i>in BYR</i>	<i>in UAH</i>	<i>in USD</i>	<i>in other currency</i>	<i>Total</i>
30.09.2016	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Available-for-sale financial assets	5,154	1,535	-	-	342	-	7,031
Financial assets at fair value through profit	316	-	-	-	-	-	316
Loans and receivables, including:	195,876	53,551	16,237	4,998	4,397	4,146	279,205

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<i>Receivables and loans</i>	183,613	51,753	15,450	3,782	3,654	3,475	261,727
<i>Cash and cash equivalents</i>	12,263	1,798	787	1,216	743	671	17,478
Total financial assets	201,346	55,086	16,237	4,998	4,739	4,146	286,552
Short-term and long-term bank loans	59,427	141,234	802	5,583	831	-	207,877
Other loans and liabilities	46,766	52,398	19,341	143	2,083	371	121,102
Total financial liabilities	106,193	193,632	20,143	5,726	2,914	371	328,979

	<i>in BGN</i>	<i>in EUR</i>	<i>in BYR</i>	<i>in UAH</i>	<i>in USD</i>	<i>In oterh currency</i>	<i>Total</i>
31.12.2016	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Available-for-sale financial assets	5,529	1,553	-	-	342	-	7,424
Financial assets at fair value through profit	314	-	-	-	-	-	314
Loans and receivables, including:	185,120	66,247	11,759	7,471	6,214	8,180	284,991
<i>Receivables and loans</i>	170,093	64,738	10,753	5,784	4,805	5,704	261,877
<i>Cash and cash equivalents</i>	15,027	1,509	1,006	1,687	1,409	2,476	23,114
Total financial assets	190,963	67,800	11,759	7,471	6,556	8,180	292,729
Short-term and long-term bank loans	67,933	167,293	9,148	-	-	71	244,445
Other loans and liabilities	27,673	40,227	20,945	272	4,024	1,803	94,944
Total financial liabilities	95,606	207,520	30,093	272	4,024	1,874	339,389

Price risk

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

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

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

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

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

Credit risk

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

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

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

The cooperation with the state hospitals also requires the implementation of deferred payments policy. There is a concentration of significant credit risk in this type of counterparts that form 44% of Group's trade receivables (31 December 2015: 44%). It is mitigated through implemented procedures for selection and current monitoring of the liquidity and financial stability of these trade partners. On delay in payments of the receivables from these counterparts, the Group has set a period of 30 days after which it starts activities for collection of receivables. With regard to *clients – hospitals*, in case of 30 days of delay after the date on which the credit period expires, interest for delay is being charged and if delinquencies are not settled after further 30 days, a meeting with the management is arranged for the purpose of signing rescheduling agreement. If the agreement is not complied with, legal proceedings are initiated. With regard to *clients – pharmacies*, in case of a 5-day delay after the expiry of the credit period, the subsequent sales under deferred payment terms are suspended. If delinquencies are not settled up to the 45th day, all sales are ceased and negotiations are held for concluding an agreement. If the agreement is not complied with, legal proceedings are initiated.

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

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

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

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

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

Liquidity risk

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

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

Maturity analysis

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

<i>30 September 2016</i>	<i>up to 1 month BGN '000</i>	<i>1 to 3 months BGN '000</i>	<i>3 to 6 months BGN '000</i>	<i>6 to 12 months BGN '000</i>	<i>1 to 2 years BGN '000</i>	<i>2 to 5 years BGN '000</i>	<i>over 5 years BGN '000</i>	<i>Total BGN '000</i>
Short-term and long-term bank loans	80,372	31,030	27,812	43,538	9,173	20,405	-	212,330
Other loans and liabilities	56,989	52,731	8,925	1,155	631	846	-	121,277
Total liabilities	137,361	83,761	36,737	44,693	9,804	21,251	-	333,607
<i>31 December 2015</i>	<i>Up to 1</i>	<i>From 1 to</i>	<i>From 3 to</i>	<i>From 6 to</i>	<i>From 1 to</i>	<i>From 2 to</i>	<i>Over</i>	<i>Total</i>

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	<i>month</i>	<i>3 m.</i>	<i>6 m.</i>	<i>12 m.</i>	<i>2 years</i>	<i>5 years</i>	<i>5 years</i>	
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Short-term and long-term bank loans	27,768	20,866	31,504	131,994	13,479	24,367	2,409	252,387
Other loans and liabilities	<u>40,430</u>	<u>42,271</u>	<u>9,786</u>	<u>1,415</u>	<u>622</u>	<u>1,180</u>	<u>-</u>	<u>95,704</u>
Total liabilities	<u>68,198</u>	<u>63,137</u>	<u>41,290</u>	<u>133,409</u>	<u>14,101</u>	<u>25,547</u>	<u>2,409</u>	<u>348,091</u>

Risk of interest-bearing cash flows

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

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

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

<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating interest %</i>	<i>with fixed interest %</i>	<i>Total</i>
<i>30 September 2016</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	7,031	-	-	7,031
Loans and receivables, including:	224,601	4,108	50,812	279,521
<i>Receivables and loans</i>	<i>217,099</i>	<i>15</i>	<i>44,929</i>	<i>262,043</i>
<i>Cash and cash equivalents</i>	<i>7,502</i>	<i>4,093</i>	<i>5,883</i>	<i>17,478</i>

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Total financial assets	231,632	4,108	50,812	286,552
Short-term and long-term bank loans	-	180,707	27,170	207,877
Other loans and liabilities	100,560	20,056	486	121,102
Total financial liabilities	100,560	200,763	27,656	328,979
Interest analysis	interest-free	with floating interest %	with fixed interest %	Total
31 December 2015	BGN '000	BGN '000	BGN '000	BGN '000
Available-for-sale financial assets	7,424	-	-	7,424
Loans and receivables, including:	201,117	7,568	76,620	285,305
<i>Receivables and loans</i>	<i>191,267</i>	<i>15</i>	<i>70,909</i>	<i>262,191</i>
<i>Cash and cash equivalents</i>	<i>9,850</i>	<i>7,553</i>	<i>5,711</i>	<i>23,114</i>
Total financial assets	208,541	7,568	76,620	292,729
Short-term and long-term bank loans	988	233,288	10,169	244,445
Other loans and liabilities	91,716	2,729	499	94,944
Total financial liabilities	92,704	236,017	10,668	339,389

Capital risk management

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

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

It is a characteristic feature for both presented periods that the Group finances its operations both through its own generated profit and by maintaining a certain level of trade and other current payables and loans (bank, commercial ones). In 2016, the strategy of the parent company management was to maintain the ratio within 30-45 % at a Group level (2015: 35-45%). The table below shows the gearing ratios based on capital structure as at 30 September:

2016	2015
BGN'000	BGN'000

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Total borrowings, including:	210,559	247,470
<i>Bank loans</i>	207,877	244,445
<i>Loans and finance lease liabilities</i>	2,682	3,025
Less: Cash and cash equivalents	(17,478)	(23,114)
Net debt	193,081	224,356
Total equity of the Group	462,436	457,640
Total capital of the Group	655,517	681,996
Gearing ratio	0.29	0.33

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

Fair values

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

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

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

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

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

40. RELATED PARTY TRANSACTIONS

<i>Related parties</i>	<i>Relation type</i>	<i>Relation period</i>	
Telecompect Invest AD	Main shareholding company	2016	2015
Donev Investments AD	Main shareholding company	2016	2015
Sopharma Properties REIT	Company related through a main shareholder	2016	2015
Sofprint Group AD	Company related through a main shareholder	2016	2015
Elpharma AD	Company related through key managing personnel	2016	2015
Telso AD	Company related through key managing personnel	2016	2015

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Telecomlect AD	Company related through key managing personnel	2016	2015
DOH Group	Company related through key managing personnel	2016	2015

Related party transactions are as follows:

	<i>1 January - 30 September 2016 BGN '000</i>	<i>1 January - 30 September 201 5 BGN '000</i>
<i>Supplies from related parties:</i>		
<i>Supply of inventories from:</i>		
Companies related through a main shareholder	4,933	6,472
Associates	545	4,477
Companies under a common indirect control through key managing personnel	38	87
	5,516	11,036
<i>Supply of services from:</i>		
Companies under a common indirect control through key managing personnel	2,439	2,338
Companies related through a main shareholder	2,140	2,106
Main shareholding companies	199	152
	4,778	4,596
<i>Supply of property, plant and equipment from:</i>		
Companies under a common indirect control through key managing personnel	15	19
	15	19
<i>Supplies for acquisition of non-current assets:</i>		
Companies under a common indirect control through key managing personnel	3,563	3,971
	3,563	3,971
<i>Dividends:</i>		
Companies main shareholders	4,227	-
Companies under a common indirect control through key managing personnel	475	-
	4,702	-

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	18,574	19,622
	<i>1 January - 30 September 2016</i>	<i>1 January - 30 September 2015</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<i>Sales to related parties</i>		
Sales of inventories to:		
Joint ventures	4,822	3,205
Associates	849	3,653
Companies related through a main shareholder	417	603
Companies under a common indirect control through key managing personnel	376	686
	6,464	8,147
Sales of services to:		
Companies under a common indirect control through key managing personnel	259	268
Companies related through a main shareholder	147	127
Associates	-	60
	406	455
Other sales to:		
Companies under a common indirect control through key managing personnel	197	2
Companies related through a main shareholder	12	-
	209	2
Interest on loans granted:		
Companies under a common indirect control through key managing personnel	928	2,014
	928	2,014
	8,007	10,618

The accounts and balances with related parties are disclosed in *Notes 19, 23 and 33*.

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

Salaries and other benefits of key managing personnel amount to BGN 2,918 thousand (2015: BGN 2,776 thousand) and are as follows:

- current wages and salaries – BGN 2,419 thousand (2015: BGN 2,305 thousand);
- tantieme – BGN 499 thousand (2015: BGN 471 thousand).

Related parties transactions are detailed in *Notes № 19, № 23 and № 33*.

41. EVENTS AFTER THE REPORTING PERIOD

On 10 November 2016 Sopharma AD acquires a share of 68.05% of the capital of Veta Pharma AD and as a result the latter becomes a subsidiary in the Group.

On 11 November 2016 the remaining 46% of the capital of OOO NPK Biotest have been sold in accordance with the provisions of the framework agreement.