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1. BACKGROUND CORPORATE INFORMATION

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

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

1.1. Ownership and management

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

The structure of Company's joint-stock capital as at 31 December 2014 was as follows:

	%
Donev Investment Holding AD	25.27
Telecomplect Invest AD	20.42
Rompharm Company OOD	18.42
Sopharma AD (treasury shares)	3.87
Other legal persons	28.93
Physical persons	3.09

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

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

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

The total number of Company's personnel was 1,825 workers and employees as at 31 December 2014 (31 December 2013: 1,793).

1.2. Principal activities

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

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

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Company's activities throughout the period 2012 – 2014, are presented in the table below:

Indicator	2012	2013	2014
GDP in million levs *	80,044	80,282	82,029
Actual growth of GDP **	0.5	1.1	1.9
Year-end inflation *	2.8	-0.9	-2.0
Average exchange rate of USD for the year	1.52	1.47	1.47
Exchange rate of the USD at year-end	1.48	1.42	1.61
Basic interest rate at year-end	0.03	0.02	0.02
Unemployment rate at year-end *	11.4	11.8	10.7

* preliminary data for 2014;

** preliminary data as at 30 September 2014

Source: BNB, NSI

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY**2.1. Basis for preparation of the separate financial statements**

The separate financial statements of Sopharma AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2014 and have been accepted by the Commission of the European Union.

The adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2014, has not caused changes in Company's accounting policies, except for some new disclosures and the expansion of those already adopted, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

These standards and interpretations include:

- *IFRS 10 "Consolidated Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC as of 1 January 2014) – regarding the first-time application of this standard. This standard replaces a significant part of the old IAS 27 ("Consolidated and Separate Financial Statements") and SIC-12 ("Consolidation - Special Purpose Entities"). Its main objective is to establish improved principles and methods for the preparation and presentation of financial statements when an entity controls one or more other entities. It gives*

a new definition for the term 'control' as comprising three elements, establishes control as the only basis for consolidation and provides more detailed rules and guidance for identifying existing relationships of control. The standard also sets out the main mandatory rules for the technology to prepare consolidated financial statements;

- *IFRS 11 "Joint Arrangements"* (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014); *Transitional guidance* (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC as of 1 January 2014) – regarding the first-time application of this standard. This standard replaces IAS 31 "Interests in Joint Ventures", including SIC-13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers". It introduces only two types of joint arrangements – joint operations and joint ventures – whereas the classification criterion used is not the legal form but rather the rights and obligations of each party to an arrangement, i.e. whether they represent rights to the assets and liabilities and respectively, to the expenses and revenue from the joint arrangement (joint operation) or rights to the net assets of the joint arrangement (joint venture). The standard removes the option for proportionate consolidation and requires application of the equity method for consolidation of jointly controlled entities;
- *IFRS 12 "Disclosing of Interests in Other Entities"* (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014). *Transitional guidance* (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC as of 1 January 2014) – regarding the first-time application of this standard. This standard introduces a new frame of requirements to the scope of the disclosures in the consolidated financial statements regarding the interest of the reporting entity in other companies and entities, which are subsidiaries, associates, joint ventures or unconsolidated structured entities, including to the content of the information in order to ensure an option for a reasonable evaluation of the effects and the risks of those interests;
- *IAS 27 (as revised in 2011) "Separate Financial Statements"* (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014). The standard was reissued with a changed title as the part of it outlining the composition of, criteria about and technology for preparation of consolidated financial statements was entirely separated in a new standard – IFRS 10 "Consolidated Financial Statements". Thus, remaining in the standard are basically the accounting and measurement rules regarding investments in subsidiaries, associates and *joint ventures* at the level of separate financial statements of investors in their capacity as parent companies, investors with significant influence and venturers in joint ventures as well as the disclosures specific for this type of financial statements;
- *IAS 28 (as revised in 2011) "Investments in Associates and Joint Ventures"* (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014). The standard has a changed title and scope and outlines the application of the equity method in consolidated financial

statements both for investments in associates and in *joint* ventures, which were previously included in the scope of IAS 31 "Interests in Joint Ventures", and starting from 1 January 2013 – in line with the new IFRS 11;

- *IAS 32 (amended) "Financial Instruments: Presentation" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding the offsetting of financial assets and financial liabilities.* These amendments relate to a clarification as to the application of the rules on offsetting financial instruments. They are mainly in four directions: (a) clarification of the meaning of 'current legally enforceable right of set-off'; (b) the application of the simultaneous realisation and settlement criterion; (c) offsetting of cash provided as collateral; (d) the unit to account for the application of the offsetting requirements;
- *IAS 36 (amended) "Impairment of Assets" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding recoverable amount disclosures for non-financial assets.* This amendment relates to the necessity to decrease particular disclosures regarding recoverable amount under IAS 36 in connection with the requirements of IFRS 13 when applying methods for calculating the recoverable amount of non-financial assets at fair value less costs of disposal;
- *IFRIC 21 "Levies" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding levies imposed by a government.* This interpretation provides guidance about the criteria for recognising a liability to pay a levy (charge, tax or other similar amount) imposed by the government in accordance with laws and regulations that are outside the scope of IAS 12.

With regard to the standard, stated below, the management has assessed its possible effect and has concluded that it would not have an impact on the accounting policies and respectively, on Company's 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:

- *IAS 39 (amended) "Financial Instruments: Recognition and Measurement" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding novation of derivatives and continuation of hedge accounting.* This amendment has been introduced in response to legislative changes across certain jurisdictions whereby entities that use over-the-counter derivatives are required to novate them to a central counterparty (a clearing organisation/agency) in order that continuing designation to hedge accounting is allowed.

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 2014, which have not been adopted by the Company for early application. The management has judged that out of them the following are likely to have a potential impact in the future for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements for subsequent periods, namely:

- *IFRS 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 entity's own credit quality, to be presented in other comprehensive income rather than in profit or loss. The entities that apply IAS 39 will be able to apply this option but they will also be able to continue applying the requirements for fair value hedge accounting of an interest rate exposure under IAS 39 even when IFRS becomes effective. Phase 3: Impairment methodology – the amendment introduces the 'expected loss' impairment model whereunder 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 amendments to IFRS 9 of July 2014 the standard is deemed to be final and the date of its coming into force has been set to 1 January 2018;
- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).* The amendment is related to a relief from the requirement to restate the comparative financial statements and the option to present modified disclosures on the transition from IAS 39 to IFRS 9

(when this happens) depending on the date of the standard application by the Company and whether it chooses the option to restate prior periods;

- *IFRS 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 – not endorsed by EC). 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 11 (amended) "Joint Arrangements"* – regarding acquisitions of interests in joint operations (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC). This amendment clarifies mainly that when an investor acquires interest in a joint operation, which in substance constitutes a business, this requires the application of the requirements and rules of IFRS 3 for business combinations;
- *IFRS 15 "Revenue from Contracts with Customers"* (in force for annual periods beginning on or after 1 January 2017 – not endorsed by EC). This is an entirely new standard. It introduces a single complex of principles, rules and approaches for recognition, accounting for and disclosure of information about the nature, amount, timing and uncertainties related to revenue and cash flows arising from contracts with counterparts. The standard will supersede the effective to date standards related to revenue recognition, mainly IAS 18 and IAS 11. The main principle of the new standard is to provide a stepwise model whereby revenue amount and timing reflect the obligation characteristics and performance of each of the parties to the transaction. The key components include: (a) contracts with customers that are commercial in their substance and assessment of the probability for collecting contractual amounts by the entity in line with the terms and conditions of the particular contract; (b) identification of the separate performance obligations under the contract for providing of a good or service, that is distinct from the other assumed contractual commitments/promises, from which the customer would obtain benefits; (c) transaction price determination – the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer – special attention is paid to the variable component of price, the financing component, as well as the non-cash consideration; (d) allocation of the transaction price to separate performance obligations under the contract – usually on a stand-alone selling price of each component; and (e) the point of time or the period of revenue recognition – when an entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur at a point in time or over time. The standard allows a full retrospective approach or a modified retrospective approach from the beginning of the current reporting period with particular disclosures for prior periods;

- *IAS 1 (amended) "Presentation of Financial Statements" – regarding disclosure initiative (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This amendment is an important clarification of the standard itself with a focus on preparers of financial statements when they need to exercise judgment for the materiality of particular information and its presentation in the preparation of financial statements, i.e. the including or not of specific information, presentation approach for the statement of financial position and the statement of comprehensive income – aggregation or separate presentation, approach in the arrangement of notes as well as the presentation of some particular items in the financial statements;
- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 41 (amended) "Agriculture" – regarding bearer plants (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This amendment introduces a measurement and accounting approach for fruit-bearing plants (bearer plants) that applies the principle for property, plant and equipment (PPE) used in IAS 16 rather than the approach prescribed by IAS 41 (i.e. applying the cost model with an option to choose the revaluation model after reaching maturity) because their involvement in agricultural produce is similar to that of PPE in the industrial production process;
- *IAS 27 (amended) "Separate Financial Statements" – regarding the equity method in separate financial statements (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This amendment restores the option of IAS 27 that allows entities to use the equity method to account for and measure the investments in subsidiaries, associates and joint ventures in their separate financial statements;
- *Annual Improvements to IFRSs 2010-2012 Cycle (December 2013) – improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38 (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) change in the definition of 'vesting conditions' and 'market conditions' and add of separate definitions for 'performance condition' and 'service condition' (IFRS 2); (b) clarification on the accounting for a contingent consideration in a business combination that meets the definition for 'financial instrument' (as a financial liability or equity instrument) and its measurement at fair value at the end of each reporting period, including the effects of that in the statement of comprehensive income (IFRS 3, IFRS 9, IAS 39 and IAS 37); (c) requirement for disclosure on the criteria applied in the aggregation of operating segments for segment reporting purposes (IFRS 8); (d) additional clarification on the adjustment technique regarding the gross carrying amount and accumulated depreciation in cases of revalued assets whereas setting a requirement for consistency with the revaluation approach of the carrying amount of the respective asset (IAS 16, IAS 38); (e) clarification that an entity providing key management personnel services to another entity it is also a related party thereto (IAS 24);

- *Annual Improvements to IFRSs 2012-2014 Cycle (September 2014) – improvements to IFRS 5, IFRS 7, IAS 19, IAS 34 (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (1) additional clarifications that an entity may reclassify an asset from ‘held for sale’ to ‘held for distribution to owners’ (and vice versa) and this does not change the initial plan of disposal and the date of classification as per IFRS 5; (2) additional guidance to clarify whether a servicing contract for a fully derecognised transferred financial asset constitutes in substance a continuing involvement in a transfer for the purposes of determining the scope of the disclosures required, as well as clarification on the applicability of the disclosure requirements regarding the offsetting of financial assets and financial liabilities in condensed interim financial statements (IFRS 7); (3) clarification regarding the requirement of the standard that high quality corporate bonds, used to estimate the discount rate for post-employment benefits, should be issued in the same currency as the benefits to be paid to the respective employees, i.e. the depth of the market should be assessed at currency level (IAS 19); and (4) clarification on the disclosure requirement ‘elsewhere in the interim report’, i.e. that this means the presentation of information in any place in the interim financial statements but also presentation elsewhere in the greater interim report, including interim report of the management, provided that a cross-reference exists between the interim financial statement and wherever the disclosures are included (IAS 34).

In addition, with regard to the stated below new standards, amended/revised standards and new interpretations, issued but not yet in force for annual periods beginning on 1 January 2014, the management has judged that they are unlikely to have a potential impact for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements, namely:

- *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 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 14 "Regulatory Deferral Accounts" (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC).* This is a new standard with status of an interim standard, applicable only for entities, which will adopt IFRS for the first time as a reporting framework, and it is effective until the completion of the project for a new comprehensive standard intended to

address such type of rate-regulated activities. It is not applied by entities that already apply IFRS. The basic rules of the standard set out that the entities: (a) may recognise and continue the presentation in their IFRS financial statements regulatory deferral account balances (assets or liabilities) but only if these balances have already been recognised under the previously applied accounting standards and adopted accounting policies; (b) the regulatory deferral accounts should be presented separately in the statement of financial position while their movements should be presented as separate line items in the statement of comprehensive income; and (c) specific disclosures are required in relation with the nature, risks and effects of rate-regulated activities and the recognised deferral account balances;

- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 38 (amended) "Intangible Assets" – regarding the acceptable methods of depreciation and amortisation (in force for annual periods beginning on or after 1 January 2016 – not endorsed by EC);* This clarification specifies that the method for calculating the depreciation or amortisation of an asset, based on a ratio to expected revenue, in the generation of which it is involved, is not regarded an appropriate method for measuring the economic benefits consumed as a result of the use of this asset (allowed only in very rare cases as an exception);
- *IAS 19 (as revised in 2011) "Employee Benefits" (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC).* This amendment relates to clarification regarding the treatment of contributions from employees or third parties to defined benefit plans in accordance with the formal terms of the respective plan. The change sets out that these contributions shall be treated as either a reduction in service costs or an effect in the remeasurements of the net liability (asset) of the plan depending on whether the contributions are related to the service or not;
- *Annual Improvements to IFRSs 2011-2013 Cycle (December 2013) – improvements to IFRS 1, IFRS 3, IFRS 13, IAS 40 (in force for annual periods beginning on or after 1 July 2014 – endorsed by EC as of the same date).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) clarification that a first-time adopter of IFRS may apply standards that are not yet effective provided that the standards themselves permit early application (IFRS 1); (b) clarification that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself (IFRS 3); (c) clarification regarding the scope of contracts that fall within the scope of the exception for a group of financial assets and financial liabilities with offsetting positions in market and credit risk (IFRS 13); (d) clarification that in the treatment of a transaction, which simultaneously meets the criteria of IFRS 3 and refers to investment properties under IAS 40, requires the separate application of both standards independently of each other (IAS 40).

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

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

The presentation of financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in *Note 2.29, Note 16, Note 18 and Note 21*.

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated annual financial statements for year 2014 in accordance with IFRS that are in force for year 2014 whereas these separate annual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated annual financial statements will be approved for issue by the Board of Directors of the Company not later than 30 April 2015 and after this date the financial statements will be publicly made available to third parties.

2.3. Comparatives

In these financial statements the Company 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.

Retrospective restatements and reclassifications of the comparative information for 2013 were made in 2014 with regard to the following items: inventories, deferred tax liabilities, changes in inventories of finished goods and work in progress, income tax expense and accumulated profits and losses (*Note 3*). The reason for these restatements and reclassifications is the adoption of a new approach for calculating the cost of work in progress. The effects of changing the valuation method for work in progress have been stated as a change in the accounting policy by applying the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" for retrospective restatement and presentation.

The management has assessed the materiality of these changes for the overall presentation of information and has concluded that it is not necessary to prepare and present a third statement of financial position.

2.4. Functional currency and recognition of exchange differences

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

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

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

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

2.5. Revenue

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

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

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

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

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

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

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

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

2.6. Expenses

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

Deferred expenses are put off and 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 statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses)'.

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

2.7. Property, plant and equipment

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

Initial acquisition

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

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

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

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

The useful life per group of assets is as follows:

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

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

Impairment of assets

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might permanently differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying

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

Gains and losses on disposal (sale)

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

2.8. Biological assets

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

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

2.9. Intangible assets

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

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

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

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

2.10. Investment property

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

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

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

2.11. Investments in subsidiaries and associates

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

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

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

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

2.12. Available-for-sale investments

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

Initial measurement

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

Subsequent measurement

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

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

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

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

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

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

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

2.13. Inventories

Inventories are valued in the financial statements as follows:

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

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

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

Starting from the beginning of 2014, the Company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard purchase cost' for basic raw materials and other production materials. At the end of each reporting period the management performs analysis of factors leading to variances on: (a) the supply of raw materials and other production materials – by comparing the actual and standard purchase costs, and (b) the production of finished products, semi-finished products and work in progress – by comparing the actual and standard production costs. Where necessary, the value of inventories, included in the financial statements, is adjusted.

On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the

existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the financial statements (Note 2.29).

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

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

2.14. Trade and other receivables

Trade receivables are recognised 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 2.23).

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

2.15. Interest-bearing loans and other financial resources granted

All loans and other financial resources granted are initially recognised at cost (nominal amount), which is accepted to be the fair value of the amount given in the transaction, net of the direct costs related to these loans and granted resources. After the initial recognition, the interest-bearing loans and other granted resources are subsequently measured at amortised cost by applying the effective interest 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 statement of comprehensive income (within profit or loss for the year) as finance income (interest) or costs throughout the amortisation period, or when the receivables are settled, derecognised or reduced.

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

2.16. Cash and cash equivalents

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

For the purposes of the statement of cash flows:

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

2.17. Trade and other payables

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

2.18. Interest-bearing loans and other borrowings

All loans and other borrowings are initially 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 borrowings. After the initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost by applying the effective interest 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 statement of comprehensive income (within profit or loss for the year) as finance costs (interest) or income throughout the amortisation period, or when the liabilities are derecognised or reduced (*Note 2.23*).

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

2.19. Capitalisation of borrowing costs

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

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

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

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

2.20. Leases

Finance lease

Lessee

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

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

Lessor

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

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

Operating lease***Lessee***

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

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

Lessor

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

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

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

Short-term benefits

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

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

Tantieme and bonus schemes

In accordance with Company's Articles of Association and upon a decision of the General Meeting of Shareholders, the Executive Director is entitled to one-off remuneration (tantieme) at the amount of up to 1% of Company's net profit and is empowered to determine the circle of employees among whom to distribute up to 2% of Company's profit for the year as a bonus for each calendar year. When a certain

portion is required to be deferred for a period of more than 12 months, this portion is measured at present value at the reporting date and is stated within non-current liabilities in the statement of financial position in the item 'payables to personnel'.

Long-term retirement benefits

Defined contribution plans

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

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

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

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

Defined benefit plans

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

The calculation of the amount of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they shall be presented in the statement of financial position, and respectively, the change in their value – in the statement of comprehensive income as follows: (a) current and past service costs, interest costs and the gains/losses on a curtailment and settlements are recognised immediately when incurred and are presented in current profit or

loss under 'employee benefits expense'; and (b) effects from remeasurement of obligations that in substance represent actuarial gains and losses are recognised immediately when occurred and are presented to other comprehensive income in the item 'remeasurements of defined benefit pension plans'. Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments.

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

Termination benefits

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

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

2.22. Share capital and reserves

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

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

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

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

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

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

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

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

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

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

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

2.23. Financial instruments

2.23.1. Financial assets

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

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

Financial assets are derecognised from Company's statement of financial position when the rights to receive cash (flows) from these assets have expired or have been transferred, and the Company has transferred substantially all the risks and rewards of the asset ownership to another entity (person). If the Company retains substantially all risks and rewards associated with the ownership of a particular

transferred financial asset, it continues to recognise the transferred asset in its statement of financial position but also recognises a secured liability (a loan) for the consideration received.

Loans and receivables

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

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

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

Available-for-sale financial assets

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

Available-for-sale financial assets are initially 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 2.12*).

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

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

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

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

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

2.23.2. Financial liabilities and equity instruments

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

Financial liabilities

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

2.24. Income taxes

Company's *current income taxes* are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate in Bulgaria for year 2014 was 10 % (2013: 10%).

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

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

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

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

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

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

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

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

The deferred income tax liabilities of the Company as at 31 December 2014 were assessed at a rate, valid also for 2015, at the amount of 10% (31 December 2013: 10%).

2.25. Government grants

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

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

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

2.26. Earnings per share

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

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought

back or issued during the period multiplied by a time-weighting factor. This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

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

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

2.27. Segment reporting

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

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

Information by operating segments

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

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

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

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

and investments, investments in other companies, trade and other receivables, trade payables and loans received, tax accounts, general-purpose production and administrative equipment.

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

2.28. Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Inventories

Normal capacity

Company's normal production capacity is determined on the basis of management assessments (made after relevant analyses) for optimum load of the production facilities and return on the investments made therein,

with structure of the manufactured finished products accepted as being common for the Company. In 2014, the actual achieved volume of production exceeded the volume set as normal production capacity (2013: the same).

Allowance for impairment

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

As a result of the reviews and analyses made in 2014, impairment of inventories was stated at the amount of BGN 3,003 thousand (2013: BGN 1,136 thousand) (*Notes 6 and 9*).

Actuarial calculations

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

Operating lease

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

Impairment of receivables

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

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

The recognised impairment losses for 2014 (net of the reversed ones) amount to BGN 2,688 thousand (2013: BGN 1,653 thousand) (*Note 10*).

Deferred tax assets

The Company has not recognised deferred taxes at the amount of BGN 1,510 thousand (31 December 2013: BGN 1,222 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference, on which no tax asset is recognised, amounts to BGN 15,098 thousand (31 December 2013: BGN 12,218 thousand).

The Company has not recognised deferred taxes at the amount of BGN 1,423 thousand (31 December 2013: BGN 1,414 thousand) related with impairment of available-for-sale investments as the shares of these companies were traded in a regulated market. The temporary difference, on which no tax asset is recognised, amounts to BGN 14,226 thousand (31 December 2013: BGN 14,138 thousand).

Litigation provisions

With regard to the pending litigations against the Company, the management together with Company's lawyers has judged that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, it has not included provisions for litigation payables in the statement of financial position as at 31 December 2014 (*Note 41*).

3. EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting policy on the scope of expenses for the calculation of the cost of work in progress (*Note 2.3*) are as follows:

(a) in the statement of financial position as at 1 January 2013:

	<i>originally stated</i>	<i>change in the accounting policies</i>	<i>restated</i>
	01.01.2013		01.01.2013
	BGN'000	BGN'000	BGN'000
Retained earnings	41,060	1,170	42,230
Inventories	54,482	1,300	55,782
Deferred tax liabilities	3,815	130	3,945

(b) in the statement of financial position as at 31 December 2013:

	<i>originally stated</i>	<i>change in the accounting policies</i>	<i>restated</i>
	31.12.2013		31.12.2013
	BGN'000	BGN'000	BGN'000
Retained earnings	34,856	1,049	35,905
Inventories	50,083	1,166	51,249
Deferred tax liabilities	3,826	117	3,943

(c) in the statement of comprehensive income for 2013:

	<i>originally stated</i>	<i>change in the accounting policies</i>	<i>restated</i>
	2013		2013
	BGN'000	BGN'000	BGN'000
Changes in inventories of finished goods and work in progress	(6,872)	(134)	(7,006)
Income tax expense	(4,362)	13	(4,349)
Net profit for the year	33,661	(121)	33,540

The analysis of the effects from the transition to applying 'standard cost' as current measurement of a significant part of inventories in 2014 shows that data comparability is retained against 2013 while those for 2014 are presented at an amount, which approximates, in the context of materiality, the actual cost.

4. REVENUE

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

	<i>2014</i> <i>BGN '000</i>	<i>2013</i> <i>BGN '000</i>
Export	137,955	153,066
Domestic market	63,501	62,988
Total	201,456	216,054

<i>Sales by product - export</i>	<i>2014</i> <i>BGN '000</i>	<i>2013</i> <i>BGN '000</i>
Tablet dosage forms	102,093	116,128
Ampoule dosage forms	17,195	16,606
Syrup dosage forms	7,741	11,514
Ointments	7,111	5,968
Lyophilic products	3,050	2,165
Suppositories	550	437
Drops	215	248
Total	137,955	153,066

<i>Sales by product – domestic market</i>	<i>2014</i> <i>BGN '000</i>	<i>2013</i> <i>BGN '000</i>
Tablet dosage forms	34,607	31,680
Ampoule dosage forms	17,210	18,079
Lyophilic products	3,650	4,206
Inhalation products	3,155	3,454
Ointments	1,918	1,591
Syrup dosage forms	1,941	1,629
Drops	610	649
Suppositories	385	390
Other	25	1,310
Total	63,501	62,988

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

	<i>2014</i> <i>BGN '000</i>	<i>Relative</i> <i>share</i>	<i>2013</i> <i>BGN '000</i>	<i>Relative</i> <i>share</i>
Europe	119,464	59%	130,332	60%
Bulgaria	63,501	32%	62,988	29%
Other countries	18,491	9%	22,734	11%
Total	201,456	100%	216,054	100%

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

	<i>2014</i> <i>BGN '000</i>	<i>% of</i> <i>revenue</i>	<i>2013</i> <i>BGN '000</i>	<i>% of</i> <i>revenue</i>
Client 1	67,181	33%	63,237	29%
Client 2	63,497	32%	61,491	28%
Client 3	24,409	12%	44,966	21%

5. OTHER OPERATING INCOME AND LOSSES

Company's *other operating income and losses* include:

	<i>2014</i> <i>BGN '000</i>	<i>2013</i> <i>BGN '000</i>
Services rendered	3,576	2,814
<i>Sales of goods</i>	1,598	1,545
<i>Cost of goods sold</i>	(993)	(871)
Gain on sales of goods	605	674
Grants under European projects	177	75
<i>Sales of materials</i>	18,388	16,801
<i>Cost of materials sold</i>	(18,220)	(16,629)
Gain on sales of materials	168	172
Fines and penalties income	109	-
Net loss from exchange differences under trade receivables and payables and current accounts	(305)	(538)
<i>Sales of non-current assets</i>	258	254
<i>Carrying amount of non-current assets sold</i>	(504)	(303)
Loss on sales of non-current assets	(246)	(49)
Losses on revaluation on investment property to fair value	(187)	(200)
Other income	116	131
Total	4,013	3,079

The *sales of materials* comprise mainly: sales of substances and packaging materials – aluminium foil, vials, tubes etc.

Services rendered include:

	2014	2013
	BGN '000	BGN '000
Rentals	1,670	1,726
Manufacturing services	675	177
Social activities	604	416
Gamma irradiation	163	119
Laboratory analyses	120	110
Regulatory services	114	110
Transport organisation	122	46
Other	108	110
Total	3,576	2,814

Sales of goods include:

	2014	2013
	BGN '000	BGN '000
Foodstuffs	852	815
Goods with technical designation	444	483
Food supplements	210	139
Cosmetics	92	108
Total	1,598	1,545

The *cost of goods sold* is as follows:

	2014	2013
	BGN '000	BGN '000
Foodstuffs	800	675
Cosmetics	82	96
Food supplements	80	67
Goods with technical designation	31	33
Total	993	871

6. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	<i>2014</i>	<i>2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Basic materials	44,417	40,118
Spare parts, laboratory and technical materials	5,709	5,290
Electric energy	3,615	3,496
Heat power	3,395	3,235
Fuels and lubricating materials	1,007	1,254
Impairment of materials (<i>Note 10</i>)	737	203
Working clothes	692	593
Water	665	733
Scrap of materials	363	10
Total	60,600	54,932

Expenses on basic materials include:

	<i>2014</i>	<i>2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Substances	23,347	22,581
Packaging materials	9,102	6,599
Liquid and solid chemicals	5,405	3,071
Aluminium and PVC foil, vials, tubes	3,054	4,737
Ampoules	2,816	2,360
Herbs	693	770
Total	44,417	40,118

7. HIRED SERVICES EXPENSE*Hired services expense* includes:

	2014	2013
	BGN '000	BGN '000
Manufacturing of medicinal products	27,571	25,337
Consulting services	12,140	9,522
Advertising	9,275	7,559
Transport	3,100	2,264
Buildings and equipment maintenance	2,800	1,433
Rentals	2,411	2,454
Logistic services – domestic market	1,892	1,528
Logistic services – export	1,366	379
Services on medicinal products registration	1,281	747
Local taxes and charges	1,106	667
Security	867	904
Services under civil contracts	806	775
State and regulatory charges	774	809
Subscription fees	749	721
Medical service	744	659
Insurance	617	475
Taxes on expenses	548	534
Announcements and communications	443	351
Vehicles repair and maintenance	436	313
Clinical trials	300	105
Documentation translation	252	303
Commission fees	229	169
Licence fees and charges	207	149
Destruction of pharmaceuticals	192	356
Fees for servicing of current bank accounts	183	281
Courier services	114	140
Other	944	725
Total	71,347	59,659

8. EMPLOYEE BENEFITS EXPENSE*Employee benefits expense includes:*

	2014	2013
	BGN '000	BGN '000
Current wages and salaries	25,931	23,925
Social security/health insurance contributions	4,858	4,267
Social benefits and payments	1,952	2,179
Tantieme	801	1,105
Accruals for unused paid leaves	500	514
Accruals for long-term retirement benefit obligations (<i>Note 32</i>)	275	256
Social security/health insurance contributions on leaves	86	82
Total	34,403	32,328

9. OTHER OPERATING EXPENSES*Other expenses include:*

	2014	2013
	BGN '000	BGN '000
Accrued impairment of receivables, net (<i>Note 10</i>)	2,651	1,646
Entertainment allowances	2,363	2,560
Impairment of finished products and work in progress (<i>Note 10</i>)	2,266	933
Business trip costs	804	696
Scrapped and missing non-current assets	378	128
Donations	191	311
Scrapped finished products and work in progress	183	437
Receivables written-off	158	155
Training	136	106
Unrecognised input tax under VATA	115	38
Other taxes and payments to the state budget	51	776
Impairment charge on trade loans granted, net (<i>Note 10</i>)	37	7
Other	384	266
Total	9,717	8,059

10. IMPAIRMENT OF CURRENT ASSETS*Impairment losses on current assets include:*

	2014	2013
	BGN '000	BGN '000
<i>Impairment of receivables</i>	2,947	2,309
<i>Reversed impairment of receivables</i>	(296)	(663)
Net change in the impairment of receivables	<u>2,651</u>	<u>1,646</u>
Impairment of finished products	2,238	835
Impairment of materials (<i>Note 6</i>)	737	203
Impairment of receivables under trade loans granted	37	7
Impairment of work in progress	<u>28</u>	<u>98</u>
Total	<u>5,691</u>	<u>2,789</u>

11. IMPAIRMENT OF NON-CURRENT ASSETS*Impairment losses on non-current assets include:*

	2014	2013
	BGN '000	BGN '000
Impairment of investments in subsidiaries	2,880	-
Impairment of property, plant and equipment	<u>372</u>	<u>193</u>
	<u>3,252</u>	<u>193</u>

12. FINANCE INCOME*Finance income includes:*

	2014	2013
	BGN'000	BGN'000
Income from equity investments	6,361	5,889
Net gain on transactions with investments in securities	3,509	-
Interest income on loans granted	3,127	3,989
Income from liquidation shares in subsidiaries	<u>-</u>	<u>109</u>
Total	<u>12,997</u>	<u>9,987</u>

13. FINANCE COSTS

Finance costs include:

	2014	2013
	BGN'000	BGN'000
Interest expense on loans received	4,326	5,676
Bank fees and charges on loans and guarantees	240	289
Impairment of available-for-sale investments	88	6,746
Interest expense on finance lease	18	49
Net loss on transactions with investments in securities	-	4,510
Net loss from exchange differences on loans	-	68
Total	<u>4,672</u>	<u>17,338</u>

14. INCOME TAX EXPENSE

Statement of comprehensive income (profit or loss for the year)	2014	2013
	BGN '000	BGN '000
Taxable profit for the year under tax return	23,289	42,632*
Revaluation reserve included as an increase in the annual tax return	<u>(249)</u>	<u>(263)</u>
Taxable profit for the year	23,040	42,369
Current income tax expense for the year – 10% (2013: 10%)	2,304	4,237
Prior periods tax expense	-	39
<i>Deferred income taxes related to:</i>		
Occurrence and reversal of temporary differences	<u>70</u>	<u>73</u>
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	<u>2,374</u>	<u>4,349*</u>

**Reconciliation of income tax expense
applicable to the accounting profit or loss**

<i>Accounting profit for the year</i>	28,905	37,889*
Income tax – 10% (2013: 10%)	<u>2,891</u>	<u>3,789</u>
<i>From unrecognised amounts as per tax returns related to:</i>		
increases – BGN 3,841 thousand (2013: BGN 16,487 thousand)	384	1,649
decreases – BGN 9,228 thousand (2013: BGN 9,414 thousand).	(924)	(941)
Recognised deferred taxes originated in prior years	23	(187)
Prior periods tax expense	<u>-</u>	<u>39</u>
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	<u>2,374</u>	<u>4,349*</u>

* Restated

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

	2014			2013		
	Pre-tax amount	Tax effects recognised in equity	Amount net of tax	Pre-tax amount	Tax effects recognised in equity	Amount net of tax
Items that will not be reclassified to profit or loss						
(Losses)/gains on revaluation of property, plant and equipment	(6)	1	(5)	(353)	35	(318)
Remeasurements of defined benefit pension plans	(299)	-	(299)	(80)	-	(80)
Items that may be reclassified to profit or loss						
Net change in the fair value of available-for-sale financial assets	113	-	113	470	-	470
Total other comprehensive income for the year	(192)	1	(191)	37	35	72

15. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2014 BGN '000	2013 BGN '000
Net change in fair value of available-for-sale financial assets:		
<i>Gains arising during the year</i>	250	470
<i>Less: Reclassification adjustments for (gains)/losses included in profit or loss for the current year</i>	(137)	-
Losses on revaluation of property, plant and equipment	(6)	(353)
Remeasurements of defined benefit pension plans	(299)	(80)
	(192)	37
Income tax relating to items of other comprehensive income	1	35
Total comprehensive income for the year	(191)	72

16. PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i>		<i>Machinery and equipment</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</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>
Book value										
Balance at 1 January	115,866	69,913	140,110	88,057	23,773	23,276	983	78,617	280,732	259,863
Additions	242	2,637	1,258	1,196	275	910	8,949	19,558	10,724	24,301
Transfer to property, plant and equipment	158	43,758	1,929	51,856	686	1,510	(2,773)	(97,124)	-	-
Effect from remeasurement to fair value	-	-	-	-	9	-	-	-	9	-
Allowance for impairment	-	(277)	(274)	(74)	(98)	(2)	-	-	(372)	(353)
Disposals	(18)	(165)	(831)	(925)	(2,436)	(1,921)	-	(68)	(3,285)	(3,079)
Balance at 31 December	116,248	115,866	142,192	140,110	22,209	23,773	7,159	983	287,808	280,732
Accumulated depreciation										
Balance at 1 January	9,245	6,654	59,873	54,557	13,456	11,791	-	-	82,574	73,002
Depreciation charge for the year	3,551	2,418	8,066	6,158	3,624	2,449	-	-	15,241	11,025
Depreciation written-off	(5)	(8)	(818)	(854)	(1,918)	(784)	-	-	(2,741)	(1,646)
Allowance for impairment	-	181	6	12	-	-	-	-	6	193
Balance at 31 December	12,791	9,245	67,127	59,873	15,162	13,456	-	-	95,080	82,574
Carrying amount at 31 December	103,457	106,621	75,065	80,237	7,047	10,317	7,159	983	192,728	198,158
Carrying amount at 1 January	106,621	63,259	80,237	33,500	10,317	11,485	983	78,617	198,158	186,861

As at 31 December 2014, Company's tangible fixed assets included: land amounting to BGN 31,031 thousand (31 December 2013: BGN 30,865 thousand) and buildings of carrying amount BGN 72,426 thousand (31 December 2013: BGN 75,756 thousand).

Tangible fixed assets in progress as at 31 December include:

- advances granted for:
 - purchase of machinery and equipment – BGN 3,431 thousand (31 December 2013: BGN 734 thousand);
 - construction and assembly works – BGN 841 thousand (31 December 2013: none);
- expenses on construction of a new warehouse unit – BGN 2,787 thousand (31 December 2013: BGN 36 thousand);
- buildings reconstruction – BGN 100 thousand (31 December 2013: BGN 210 thousand);
- other – none (31 December 2013: BGN 3 thousand).

As at 31 December 2014, the carrying amount of property, plant and equipment includes machinery and equipment for a new tablet production facility at the amount of BGN 7,052 thousand (31 December 2013: BGN 7,410 thousand) purchased using a grant under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 (*Note 33*).

The amount of other assets as at 31 December 2014 includes also biological assets – Golden Chain (Laburnum anagyroides) plantation at the amount of BGN 128 thousand (31 December 2013: BGN 119 thousand).

Operating lease

The Company has leased tangible fixed assets with carrying amount of BGN 7,074 thousand as at 31 December 2014 to related parties (31 December 2013: BGN 7,277 thousand). In addition, tangible fixed assets at carrying amount of BGN 33 thousand were leased to third parties as at 31 December 2014 (31 December 2013: BGN 45 thousand).

Finance lease

As at 31 December 2014, assets at the carrying amount of BGN 166 were acquired under finance lease contracts (31 December 2013: BGN 221 thousand).

Other data

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

- Buildings – BGN 12 thousand (31 December 2013: none);
- Machinery and equipment – BGN 29,253 thousand (31 December 2013: BGN 24,585 thousand);
- Motor vehicles – BGN 3,399 thousand (31 December 2013: BGN 907 thousand);
- Furniture and fixtures – BGN 4,898 thousand (31 December 2013: BGN 4,481 thousand);
- Other – BGN 41 thousand (31 December 2013: none).

The following encumbrances were constituted on Company's tangible fixed assets as at 31 December 2014 in relation with received loans:

- Land and buildings with carrying amount of BGN 21,995 thousand and BGN 64,800 thousand, respectively (31 December 2013: BGN 12,311 thousand and BGN 64,410 thousand, respectively) (*Notes 30, 35 and 41*);
- Pledges on equipment – BGN 26,086 thousand (31 December 2013: BGN 35,967 thousand) (*Notes 30 and 35*).

In 2014, there were no capitalised to the acquisition cost expenses on interest and charges related to assets satisfying the conditions for capitalisation (2013: BGN 1,091 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 with the assistance of certified appraisers: As a result of this review it made the latest revaluation of property, plant and equipment the results of which were accounted for.

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

- 'Market-based approach' through the 'Market 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 market price determined under the comparative method was accepted as fair value;
- 'Assets (cost)-based approach' through the 'Method of amortised recoverable amount' – for special-purpose buildings for which neither actual market nor comparable sales of analogous assets existed – their amortised recoverable amount at current purchase prices was accepted as their fair value and under the hypothesis of their common use in technologically-related production business process (including the term) and taking into account: physical wear, functional and economic impairment.

Revaluation reserve at the amount of BGN 2,706 thousand was then recognised as a result of the revaluation net of impairment.

The Company's management again analysed its key assets price changes occurred as at 31 December 2014 and concluded that no conditions and grounds were available for a new revaluation of the assets before expiry of adopted usual term of five years (*Note 2.7*).

17. INTANGIBLE ASSETS

	<i>Intellectual property rights</i>		<i>Software</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
<i>Book value</i>	<i>BGN '000</i>	<i>BGN'000</i>	<i>BG '000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	2,329	1,941	4,124	2,277	353	2,105	6,806	6,323
Additions	-	13	30	11	65	460	95	484
Disposals	(747)	(1)	-	-	-	-	(747)	(1)
Transfer	287	376	-	1,836	(287)	(2,212)	-	-
Balance at 31 December	1,869	2,329	4,154	4,124	131	353	6,154	6,806
Accumulated amortisation								
Balance at 1 January	1,186	820	1,959	1,530	-	-	3,145	2,350
Amortisation charge for the year	429	367	537	429	-	-	966	796
Amortisation written-off	(399)	(1)	-	-	-	-	(399)	(1)
Balance at 31 December	1,216	1,186	2,496	1,959	-	-	3,712	3,145
Carrying amount at 31 December	653	1,143	1,658	2,165	131	353	2,442	3,661
Carrying amount at 1 January	1,143	1,121	2,165	747	353	2,105	3,661	3,973

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

Intangible assets in progress as at 31 December include:

- expenses on permits for use of medicinal products – BGN 131 thousand (31 December 2013: BGN 353 thousand);
- other – none (31 December 2013: BGN 3 thousand).

18. INVESTMENT PROPERTY

	<i>31.12.2014</i>	<i>31.12.2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	<u>22,555</u>	<u>19,391</u>
Net loss on fair value adjustment, included in profit or loss (<i>Note 5</i>)	(187)	(200)
Additions	-	3,265
Capitalised costs	-	99
Balance at 31 December	<u><u>22,368</u></u>	<u><u>22,555</u></u>

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

<i>Group of assets</i>	<i>31.12.2014</i>	<i>31.12.2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Warehouse premises	18,498	18,622
Offices	2,310	2,329
Production buildings	1,140	1,170
Social objects	420	434
Total	<u><u>22,368</u></u>	<u><u>22,555</u></u>

There are established encumbrances as at 31 December 2014 on investment property as follows:

- mortgages of warehouse premises – BGN 8,095 thousand (31 December 2013: BGN 7,988 thousand) (*Note 35*);
- pledges on attached equipment – BGN 6,138 thousand (31 December 2013: BGN 7,592 thousand) (*Note 35*).

*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> BGN '000	<i>Offices</i> BGN '000	<i>Production buildings</i> BGN '000	<i>Social objects</i> BGN '000	<i>Total</i> BGN '000
Balance at 1 January 2012	18,810	-	144	437	19,391
Purchases and capitalised costs	-	2,332	1,032	-	3,364
Net change in fair value through profit or loss – unrealised (<i>Note 5</i>)	(188)	(3)	(6)	(3)	(200)
Balance at 31 December 2013	18,622	2,329	1,170	434	22,555
Net change in fair value through profit or loss – unrealised (<i>Note 5</i>)	(124)	(19)	(30)	(14)	(187)
Balance at 31 December 2014	18,498	2,310	1,140	420	22,368

Valuation techniques and significant unobservable inputs

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

Groups of assets (Level 2)	Valuation approaches and techniques	Significant unobservable inputs
Warehouse premises	<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 for entrance into rental deals
	<i>b. Cost approach</i> Valuation technique: Method of replacement costs – depreciated recoverable amount (supportive valuation technique)	Adjusted prices for construction of identical properties and purchase prices of machinery and equipment, similar to those attached
Offices, production buildings and social objects	<i>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 for entrance into rental deals

19. INVESTMENTS IN SUBSIDIARIES

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

		<i>31.12.2014</i>	<i>Interest</i>	<i>31.12.2013</i>	<i>Interest</i>
		<i>BGN '000</i>	<i>%</i>	<i>BGN '000</i>	<i>%</i>
Sopharma Trading AD	Bulgaria	28,529	71.89	30,126	75.92
Briz OOD	Latvia	22,270	66.13	9,172	53.14
Unipharm AD	Bulgaria	19,448	49.99	19,448	49.99
Bulgarian Rose Sevtopolis AD	Bulgaria	8,729	49.99	8,729	49.99
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Ivanchich and sons	Serbia	5,739	51.00	5,739	51.00
Vitamina AD	Ukraine	3,544	99.56	6,187	99.56
Momina Krepost AD	Bulgaria	2,701	52.98	2,701	52.97
Pharmalogistica AD	Bulgaria	1,911	76.54	1,911	76.54
Sopharma Buildings REIT	Bulgaria	595	40.75	643	42.89
Sopharma Kazakhstan EOOD	Kazakhstan	502	100.00	-	-
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
Sopharma Ukraine	Ukraine	9	100.00	230	100.00
		103,068		93,977	
Paid unregistered capital increase	Latvia	-		7,230	
Total		103,068		101,207	

As at 31 December 2014, the investments in the subsidiaries Sopharma Poland OOD – in liquidation, Poland, Extab Corporation, USA and Sopharma USA were fully impaired (31 December 2013: the investments in Sopharma Poland OOD – in liquidation, Poland and Extab Corporation, USA and Sopharma USA were fully impaired).

Sopharma AD has direct or indirect control on the above-mentioned companies.

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

- Pharmalogistica AD – Scope of activities: secondary packaging and real estate leases. Date of acquisition – 15 August 2002.
- Bulgarian Rose-Sevtopolis AD – Scope of activities: manufacture of finished drug forms. Date of acquisition – 22 April 2004.
- Electroncommerce EOOD – Scope of activities: trade, transportation and packaging of radioactive materials and nuclear equipment, household electronics and electrical equipment. Date of acquisition – 9 August 2005.
- Sopharma Poland OOD – in liquidation – Scope of activities: market and public opinion research. Date of acquisition – 16 October 2003. The company is in a procedure of liquidation.
- Sopharma USA – Scope of activities: trade in pharmaceuticals and food supplements. Date of acquisition – 25 April 1997.

- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Sopharma Zdrovit AD – Scope of activities: research and development activities in the field of medical science and pharmacy, wholesale in pharmaceuticals. Date of acquisition – 27 September 2007. On 25 February 2013 the liquidation procedure of Sopharma Zdrovit AD, Poland, was completed and the company was deleted from the National Court Register of Poland.
- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 18 January 2008.
- Ivanchich and sons OOD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 10 April 2008.
- Sopharma Buildings REIT – Scope of activities: investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale. Date of acquisition – 4 August 2008.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 2008.
- Briz OOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 10 November 2009.
- Extab Corporation – Scope of activities: management of financial assets and investment portfolios. Date of acquisition – 5 August 2009.
- Unipharm AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 27 October 2010.
- Sopharma Warsaw EOOD – Scope of activities: market and public opinion research. Date of acquisition – 23 November 2010.
- Sopharma Ukraine EOOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 7 August 2012.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of acquisition – 30 September 2014.

The shares of Bulgarian Rose Sevtopolis AD are traded on the stock exchange, the average monthly price of realized transactions for December 2014 being BGN 1.68 per share (December 2013: BGN 1.66). The earnings per share based on accounting net assets for 2014 are BGN 2.08 (2013: BGN 2.00).

The shares of Sopharma Trading AD are traded on the stock exchange, the average monthly price of realized transactions for December 2014 being BGN 5.53 per share (December 2013: BGN 3.13).

The earnings per share based on net assets for 2014 are BGN 1.90 (2013: BGN 1.80).

The shares of Momina Krepost AD are traded on the stock exchange, the average monthly price of realized transactions for December 2014 being BGN 3.28 per share (December 2013: BGN 2.91).

The earnings per share based on accounting net assets for 2014 are BGN 2.92 (2013: BGN 2.99).

The shares of Sopharma Buildings REIT are traded on the stock exchange at a limited volumes and no deals were realised in December 2014 (December 2013: no deals). The earnings per share based on accounting net assets for 2014 are BGN 2.24 (2013: BGN 2.26).

The shares of Unipharm AD are traded on the stock exchange, the average monthly price of realized transactions for December 2014 being BGN 3.21 per share (December 2013: BGN 2.78). The earnings per share based on accounting net assets for 2014 are BGN 3.01 (2013: BGN 2.80).

The movement of investments in subsidiaries is presented below:

	<i>Investments in subsidiaries</i>	
	<i>31.12.2014</i>	<i>31.12.2013</i>
<i>Acquisition cost (cost)</i>	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	107,293	106,248
Additional interest acquired	13,101	3,070
Newly acquired subsidiaries	502	-
Interest sold without loss of control	(1,632)	(2,025)
Balance at 31 December	119,264	107,293
 <i>Accrued impairment</i>		
Balance at 1 January	13,316	13,316
Accrued impairment	2,880	-
Balance at 31 December	16,196	13,316
Carrying amount at 31 December	103,068	93,977
Carrying amount at 1 January	93,977	92,932

In 2014, the newly established subsidiary is TOO Sopharma Kazakhstan (2013: none).

On 19 June 2014 Sopharma AD and Bulgarian Rose Sevtopolis AD concluded a contract for transformation through take-over regulating the transformation procedure for take-over of Bulgarian Rose Sevtopolis AD (transferring company) by Sopharma AD (receiving company). The approved effective date of the take-over for accounting purposes was 1 January 2015. The entry in the Commercial Registry was done on 26 February 2015 (Note 45).

Impairment of investments in subsidiaries

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in subsidiaries. The following are accepted as main indicators for impairment: significant volume reduction (over 25%) or termination of activities of the subsidiary where investments have been made; reporting of losses for a longer period of time (over three years) as well as reporting of negative net assets or assets below the registered share capital. The calculations were made by the

management with the assistance of independent certified appraisers. As a base for projected pre-tax cash flows, the Company uses financial budgets developed by the respective companies that cover a 3- to 5-year period, as well as other average-term and long-term plans and intents for their development, including projections for basic economic ratios at national level and at the level of EU/the Balkans. The key assumptions used in the calculations of recoverable amount are as follows:

- growth rate – from 0% to 31.5%;
- growth after the projected period upon calculation of terminal value – 1.5% to 5%;
- interest rate /cost of debt/ - from 3.5% to 16.1%;
- discount rate (based on WACC) – from 9.1% to 32.2%.

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

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

As a result of the calculations, made in 2014, the Company found necessity to recognise impairment of particular investments in subsidiaries at the amount of BGN 2,880 thousand was necessary (2013: none) (*Note 11*).

Significant goodwill has been recognised on the acquisition of two investments in subsidiaries. With regard to these investments, the analysis of the reasonably possible changes in the key assumptions, used for the calculation of value in use, shows that the carrying amount of the respective investment would be higher than its recoverable amount:

- a. in case of change (increase) in the discount rate within the range from 0.03% to 1.85%; and
- b. in case of change in the growth (decrease) after the projected period– from 0.1% to 2%.

20. INVESTMENTS IN ASSOCIATES

The carrying amount of the investments in associates is BGN 7,015 thousand and includes interest at the rate of 24.38% of the capital of Medica AD (31 December 2013: none).

Medica AD has a scope of activity covering the production of dressing materials, sanitary and hygiene articles and finished medicinal products.

The movement of investments in associates is presented below:

	<i>31.12.2014</i>	<i>31.12.2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	-	-
Transfer of available-for-sale investments	3,878	-
Acquisition of shares	3,152	-
Sale of shares	(15)	-
Balance at 31 December	7,015	-

Sopharma AD acquired significant influence on Medica AD through the purchase of a package of shares on 4 November 2014.

Impairment of investments in associates

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

- growth rate – 2%;
- growth after the projected period upon calculation of terminal value – 2%;
- interest rate /cost of debt/ – 7%;
- discount rate (based on WACC) – 8.9%.

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

As a result of the calculations made in 2014, no necessity was identified for recognition of impairment of the investments in the associate.

21. AVAILABLE-FOR-SALE INVESTMENTS

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

	<i>31.12.2014</i>	<i>Interest</i>	<i>31.12.2013</i>	<i>Interest</i>
	<i>BGN '000</i>	<i>%</i>	<i>BGN '000</i>	<i>%</i>
Doverie Obedinen Holding AD	1,836	9.90	1,532	9.90
Olainfarm AD - Latvia	1,256	0.77	1,313	0.77
Lavena AD	1,007	8.49	982	8.37
Hydroizomat AD	202	10.63	270	10.02
Elana Agrocredit AD	102	1.95	101	1.95
Todorov AD	26	4.70	39	4.50
Ecobulpack AD	7	1.48	7	1.48
UniCredit Bulbank AD	3	0.001	3	0.001
Medica AD	-	-	2,539	10.21
Vratitsa AD	-	0.27	1	0.21
Sopharma Properties AD	-	-	75	0.20
Total	4,439		6,862	

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

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

<i>Available-for-sale investments</i>	<i>31.12.2014</i>			<i>31.12.2013</i>		
	<i>Number of</i>	<i>Fair value</i>	<i>Fair value as per</i>	<i>Number of</i>	<i>Fair value</i>	<i>Fair value as per</i>
	<i>shares</i>	<i>per share</i>	<i>the statement of</i>	<i>shares</i>	<i>per share</i>	<i>the statement of</i>
		<i>BGN</i>	<i>BGN</i>		<i>BGN</i>	<i>BGN</i>
Doverie Obedinen Holding AD	1,854,352	0.99	1,836	1,855,552	0.83	1,532
Olainfarm AD - Latvia	108,500	11.58	1,256	108,500	12.10	1,313
Lavena AD	22,641	44.48	1,007	22,322	44.01	982
Hydroizomat AD	317,901	0.64	202	299,499	0.90	270
Elana Agrocredit AD	100,000	1.02	102	100,000	1.01	101
Todorov AD	159,919	0.16	26	152,919	0.25	39
Vratitsa AD	1,015	0.00	-	780	0.21	1
Maritzatex AD	58,476	0.00	-	58,201	0.00	-
Sopharma Properties AD	-	-	-	30,656	2.46	75
Medica AD	-	-	-	1,027,561	2.47	2,539
			4,429			6,852

The investments in Ecobulpack AD and UniCredit Bulbank AD are valued and presented at acquisition price (cost).

SOPHARMA AD**NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

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

Fair value hierarchy

<i>Available-for-sale financial investments (shares)</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	<i>31.12.2014</i>			
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Doverie Obedinen Holding AD	1,836	-	-	1,836
Olainfarm AD - Latvia	1,256	1,256	-	-
Lavena AD	1,007	-	1,007	-
Hydroizomat AD	202	-	202	-
Elana Agrocredit AD	102	102	-	-
Todorov AD	26	26	-	-
Total	4,429	1,384	1,209	1,836

<i>Available-for-sale financial investments (shares)</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	<i>31.12.2013</i>			
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Doverie Obedinen Holding AD	1,532	-	-	1,532
Medica AD	2,539	-	-	2,539
Olainfarm AD - Latvia	1,313	1,313	-	-
Lavena AD	982	-	982	-
Hydroizomat AD	270	-	270	-
Elana Agrocredit AD	101	101	-	-
Sopharma Properties AD	75	-	75	-
Todorov AD	39	39	-	-
Vratitsa AD	1	1	-	-
Total	6,852	1,454	1,327	4,071

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

<i>Available-for-sale financial investments (shares)</i>	<i>Level 1</i> <i>BGN'000</i>	<i>Level 2</i> <i>BGN'000</i>	<i>Level 3</i> <i>BGN'000</i>	<i>Total</i> <i>BGN'000</i>
Balance at 1 January 2013	1,078	844	17,540	19,462
Purchases	110	674	8	792
Emissions	-	174	-	174
Sales	(9)	(232)	(1,380)	(1,621)
Realised gain/(loss) included in the current profit and loss for the year in the item				
Finance income – <i>Net gain on transactions with securities</i>	1	(13)	(5,666)	(5,678)
Transfers to Level 1	-	(29)	-	(29)
Transfers from Level 2	29	-	-	29
Unrealised loss included in the current profit and loss for the year (<i>Note 13</i>)	-	(316)	(6,431)	(6,747)
Unrealised gain included in other comprehensive income (<i>Note 15</i>)	245	225	-	470
Balance at 31 December 2013	1,454	1,327	4,071	6,852
Purchases	2	75	1,347	1,424
Sales	-	(121)	(10)	(131)
Transfer to investments in associates (<i>Note 20</i>)	-	-	(3,878)	(3,878)
Realised gain/(loss) included in the current profit and loss for the year in the item				
Finance costs – <i>Net loss on transactions with securities</i>	-	(2)	2	-
Unrealised loss included in the current profit and loss for the year (<i>Note 13</i>)	(8)	(80)	-	(88)
Unrealised gain/(loss), net, included in other comprehensive income (<i>Note 15</i>)	(64)	10	304	250
Balance at 31 December 2014	1,384	1,209	1,836	4,429

Valuation techniques and significant unobservable inputs

The table below shows the valuation techniques applied as at 31 December 2014 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, considerably adjusted observable data and average values</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 cost 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 revenue growth rate 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 cost growth	* 0 % (weighted average 0%)	* the projected annual growth rate of expenses was lower (higher)
	* discount rate (based on WACC)	* 10.8 % (weighted average 10.8%)	* the discount rate was lower (higher)

Sensitivity analysis

The sensitivity analysis of the fair value of available-for-sale financial investments (shares) Level 3 to the significant unobservable inputs is based on the reasonably possible changes (increase or decrease) by 0.5% of each of the individual indicators presented:

- a. change in EBIDTA
- b. change in post-projection revenue growth
- c. discount rate (based on WACC)

while accepting that the others remain unchanged.

The effects of the change in the significant unobservable inputs Level 3 on: (a) the *fair value* of the measured assets (Level 3), (b) the *current profit for the year*, and (c) the equity component *Available-for-sale financial assets reserve as at 31 December 2014*, are presented in the table below:

<i>Significant unobservable inputs</i>	<i>Fair value of available-for-sale financial investments (shares) (Level 3)</i>		<i>Current profit for the year</i>		<i>Equity – component Available-for-sale financial assets reserve</i>	
	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>
<i>Effect in BGN'000</i>						
31 December 2014						
Change in EBIDTA	52	(5)	-	(5)	52	-
Change in post-projection revenue growth	143	(127)	-	(127)	143	-
Discount rate (based on WACC)	(182)	202	(182)	-	-	202

22. LONG-TERM RECEIVABLES FROM RELATED PARTIES

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

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Long-term loans granted	32,857	25,214
Long-term rental deposit granted	293	435
Total	33,150	25,649

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:

Currency	Contracted amount '000	Maturity	Interest %	31.12.2014		31.12.2013	
				BGN'000	BGN'000 including interest	BGN'000	BGN'000 including interest
EUR	11,831	01.12.2016	5.00%	26,038	217	22,554	1,750
EUR	3,272	01.12.2016	5.00%	6,819	419	2,660	160
				32,857	636	25,214	1,910

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

The long-term deposit receivable is from a company under a common indirect control under a concluded rental contract for administrative offices with validity term on 1 August 2022.

23. OTHER NON-CURRENT RECEIVABLES

Company's *other long-term receivables* represent a loan granted to a third party with maturity on 2 August 2016 and contracted annual interest rate of 8.08% at the total amount of BGN 6 thousand as at 31 December 2014: (31 December 2013: BGN 17 thousand).

24. INVENTORIES

Company's *inventories* include:

	31.12.2014 BGN '000	31.12.2013 BGN '000
Materials	24,793	28,045
Finished products	21,888	16,606
Semi-finished products	3,809	2,392
Work in progress	3,345	4,001 *
Goods	212	205
Total	54,047	51,249

* Restated

Materials by type are as follows:

	31.12.2014 BGN '000	31.12.2013 BGN '000
Basic materials	22,727	26,698
Materials in transit	1,323	455
Technical materials	424	325
Auxiliary materials	236	296
Spare parts	35	57
Other	48	214
Total	24,793	28,045

Basic materials by type are as follows:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Substances	13,264	18,837
Chemicals	4,176	1,693
Ampoules, vials and tubes	2,633	3,215
Packaging materials	1,104	1,427
PVC and aluminium foil	1,022	942
Herbs	528	584
Total	22,727	26,698

Finished products existing at 31 December include:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Tablet dosage forms	14,545	9,670
Ampoule dosage forms	3,980	3,435
Syrups	1,723	1,130
Other	1,640	2,371
Total	21,888	16,606

Pledges were established on Company's inventories with a carrying amount of BGN 30,388 thousand as at 31 December 2014 as collateral to bank loans received (31 December 2013: BGN 25,106 thousand) (Notes 35 and 41).

25. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Receivables from subsidiaries	79,618	78,319
<i>Impairment of doubtful and uncollectable receivables</i>	<i>(2,286)</i>	<i>(178)</i>
	<u>77,332</u>	<u>78,141</u>
Receivables from companies related through key managing personnel	14,476	17,732
Receivables from companies under a common indirect control	7,697	7,477
Total	99,505	103,350

The receivables from related parties by type are as follows:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Receivables on sales of finished products and materials	69,473	69,135
<i>Impairment of doubtful and uncollectable receivables</i>	<u>(2,278)</u>	<u>(171)</u>
	67,195	68,964
Trade loans granted	32,318	34,393
<i>Impairment of doubtful and uncollectable receivables</i>	<u>(8)</u>	<u>(7)</u>
	32,310	34,386
Total	<u>99,505</u>	<u>103,350</u>

The receivables on sales are interest-free and BGN 26,776 thousand of them are denominated in BGN (31 December 2013: BGN 29,469 thousand), in EUR – BGN 40,419 thousand (31 December 2013: BGN 39,466 thousand) and in UAH – none (31 December 2013: BGN 29 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 28,390 thousand as at 31 December 2014 or 42.25 % of all receivables on sales of finished products and materials to related parties (31 December 2013: BGN 31,466 thousand – 45,60 %).

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

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

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

	31.12.2014	31.12.2013
	BGN '000	BGN '000
up to 30 days	14,888	23,320
from 31 to 90 days	18,332	20,469
from 91 to 180 days	4,747	10,089
from 181 to 240 days	1,708	1,446
over 241 days	<u>1,238</u>	<u>-</u>
Total	<u>40,913</u>	<u>55,324</u>

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

	31.12.2014	31.12.2013
	BGN '000	BGN '000
from 31 to 90 days	178	2,433
from 91 to 180 days	4,224	8,717
from 181 to 365 days	15,942	2,490
Total	20,344	13,640

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

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

	31.12.2014	31.12.2013
	BGN '000	BGN '000
over 1 year	8,216	171
Allowance for impairment	(2,278)	(171)
Total	5,938	-

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

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

	2014	2013
	BGN '000	BGN '000
Balance at the beginning of the year	171	501
Stated impairment	2,183	95
Reversed impairment	(76)	(225)
Amounts written-off as uncollectable	-	(200)
Balance at the end of the year	2,278	171

Special pledges have been established as at 31 December 2014 on receivables from related parties at the amount of BGN 16,229 thousand (31 December 2013: BGN 16,229 thousand) as collateral under bank loans received (Note 35).

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

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Receivables from companies related through key managing personnel	14,475	17,726
<i>Subsidiaries</i>	<i>10,211</i>	<i>9,190</i>
<i>Impairment of trade loans</i>	<i>(8)</i>	<i>(7)</i>
	<u>10,203</u>	<u>9,183</u>
Companies under a common indirect control	7,632	7,477
Total	<u>32,310</u>	<u>34,386</u>

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

	2014	2013
	BGN '000	BGN '000
Balance at the beginning of the year	<u>7</u>	<u>2,358</u>
Stated impairment	1	7
Amounts written-off as uncollectable	-	(2,358)
Balance at the end of the year	<u>8</u>	<u>7</u>

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

Currency	Contracted amount '000	Maturity	Interest %	31.12.2014		31.12.2013	
				BGN'000	BGN'000 including interest	BGN'000	BGN'000 including interest
<i>to companies related through key managing personnel</i>							
EUR	10,824	31.12.2015	4.50%	9,537	18	11,346	16
BGN	34,020	31.12.2015	5.50%	3,097	9	5,662	14
BGN	6,000	22.07.2015	5.50%	1,236	26	-	-
BGN	1,300	31.12.2015	5.50%	477	17	551	50
BGN	190	31.12.2015	5.50%	128	1	167	-
<i>to companies under a common indirect control</i>							
EUR	7,661	31.12.2015	4.50%	7,632	155	7,477	-
<i>to subsidiaries</i>							
EUR	2,770	31.12.2015	6.10%	6,711	1,294	6,381	963
BGN	2,460	31.12.2015	5.50%	2,903	158	2,026	26
USD	205	31.12.2015	3.50%	355	26	303	13
BGN	600	31.12.2015	5.50%	151	-	402	2
USD	25	31.12.2015	3.50%	46	5	39	4
USD	20	31.12.2015	3.50%	37	5	32	3
				<u>32,310</u>	<u>1,714</u>	<u>34,386</u>	<u>1,091</u>

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

26. TRADE RECEIVABLES

Trade payables include:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Receivables from clients	23,247	21,652
<i>Impairment of doubtful and uncollectable receivables</i>	(1,001)	(580)
	<u>22,246</u>	<u>21,072</u>
Advances granted	1,022	1,083
Total	<u>23,268</u>	<u>22,155</u>

The *receivables from clients* are interest-free and BGN 208 thousand of them are denominated in BGN (31 December 2013: BGN 324 thousand), in EUR – BGN 19,705 thousand (31 December 2013: BGN 19,090 thousand), in PLN – BGN 1,383 thousand (31 December 2013: BGN 1,484 thousand), and in USD – BGN 950 thousand (31 December 2013: BGN 174 thousand).

About 83.41 % of the receivables from clients are attributable to three main counterparts of the Company (for 2013: 72.69%).

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

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

Special pledges on trade receivables at the amount of BGN 22,246 thousand were established at 31 December 2014 as collateral to bank loans received (31 December 2013: BGN 21,072 thousand) (*Notes 35 and 41*).

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

	31.12.2014	31.12.2013
	BGN '000	BGN '000
up to 30 days	1,313	2,084
from 31 to 90 days	13,093	14,333
from 91 to 180 days	799	106
from 181 to 365 days	-	2,628
Total	<u>15,205</u>	<u>19,151</u>

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

	31.12.2014	31.12.2013
	BGN '000	BGN '000
from 31 to 90 days	6,823	567
from 91 to 180 days	171	1,272
from 181 to 365 days	47	82
Total	7,041	1,921

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

	31.12.2014	31.12.2013
	BGN '000	BGN '000
up to 30 days	262	-
from 91 to 180 days	112	-
over 1 year	627	580
Allowance for impairment	(1,001)	(580)
	<u>-</u>	<u>-</u>

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

	2014	2013
	BGN '000	BGN '000
Balance at the beginning of the year	<u>580</u>	<u>583</u>
Stated impairment	637	378
Amounts written-off as uncollectable	(198)	(354)
Reversed impairment	(18)	(27)
Balance at the end of the year	1,001	580

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

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Inventories	693	843
Services	329	240
Total	1,022	1,083

The *advances granted* are regular. They include: in BGN – BGN 864 thousand (31 December 2013: BGN 583 thousand), in EUR – BGN 95 thousand (31 December 2013: BGN 163 thousand), in USD – BGN 63 thousand (31 December 2013: BGN 323 thousand) and in other currency – none (31 December 2013: BGN 14 thousand).

27. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Taxes refundable	6,313	4,165
Prepayments	2,945	1,331
<i>Loans granted to third parties</i>	1,069	881
<i>Impairment of doubtful and uncollectable receivables</i>	(37)	-
	<u>1,032</u>	<u>881</u>
Litigation securities granted (<i>Note 41</i>)	286	253
Receivables on deposits placed as guarantees	246	258
Amounts granted to an investment intermediary	125	327
<i>Court and awarded receivables</i>	2,099	2,211
<i>Impairment of court receivables</i>	(2,099)	(2,211)
	<u>-</u>	<u>-</u>
Other	77	26
Total	<u>11,024</u>	<u>7,241</u>

Taxes refundable include:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Excise duties	3,859	3,819
Corporate tax	1,883	42
Value added tax	571	304
Total	<u>6,313</u>	<u>4,165</u>

Prepayments include:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Rentals	1,660	49
Advertising	435	541
Insurance	402	415
Subscriptions	294	249
Licence and patent fees	36	35
Vouchers	1	20
Other	117	22
Total	<u>2,945</u>	<u>1,331</u>

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

Currency	Contracted amount	Maturity	Interest %	31.12.2014		31.12.2013	
				BGN'000	BGN'000 including interest	BGN'000	BGN'000 including interest
BGN	713	31.12.2015	7.00%	751	38	503	20
BGN	102	23.06.2015	5.50%	281	1	-	-
BGN	1,800	31.12.2015	6.80%	-	-	336	-
BGN	31	31.12.2014	6.00%	-	-	35	4
BGN	350	31.12.2014	6.80%	-	-	7	-
				1,032	39	881	24

The loans granted to third parties are not secured. They are extended as a temporary support to finance the working capital of the respective entity – loan recipient.

Deposits placed as guarantees include:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Guarantees under construction contracts	110	110
Guarantees under contracts for fuel supply	86	86
Guarantees under communication service contracts	34	34
Guarantees for medicinal products supply	-	16
Other	16	12
Total	246	258

28. CASH AND CASH EQUIVALENTS

Cash includes:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Cash at current bank accounts	2,173	7,604
Cash in hand	143	67
Blocked cash under issued bank guarantees	21	-
Cash and cash equivalents for cash flows	2,337	7,671
Blocked cash under litigations	598	527
Total	2,935	8,198

Cash at current bank accounts are as follows: in BGN: BGN 399 thousand (31 December 2013: BGN 749 thousand), in EUR – BGN 993 thousand (31 December 2013: BGN 5,720 thousand), in USD – BGN 658 thousand (31 December 2013: BGN 1,135 thousand) and in other currency – BGN 123 thousand (31 December 2013: none).

The achieved average interest rate is from 0.01 % to 0.02 % (31 December 2013: from 0.01 % to 0.06%).

Cash in hand is mainly denominated in BGN.

With regard to the current accounts in foreign currencies there is an active distraint levied under a litigation at the amount of BGN 598 thousand (USD 372 thousand) (31 December 2013: BGN 527 thousand) (Note 41).

29. EQUITY

Share capital

As at 31 December 2014, the registered share capital of Sopharma AD amounted to BGN 132,000 thousand distributed in 132,000,000 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.

At an extraordinary General Meeting of the Shareholders, held on 9 January 2015, a decision was taken to increase the share capital of Sopharma AD in relation with the take-over of Bulgarian Rose Sevtopolis AD by Sopharma AD (Note 45).

<i>Ordinary shares issued and fully paid</i>	<i>Shares number</i>	<i>Share capital net of treasury shares BGN '000</i>
Balance at 1 January 2013	128,513,769	119,844
Treasury shares purchased	(1,975,445)	(5,923)
Treasury shares sold	1,000	3
Expenses on treasury shares	-	(29)
Balance at 31 December 2013	126,539,324	113,895
Balance at 1 January 2014	126,539,324	113,895
Treasury shares sold	650,577	2,165
Treasury shares purchased	(304,031)	(1,257)
Expenses on treasury shares	-	(6)
Balance at 31 December 2014	126,885,870	114,797

The *treasury shares* were 5,114,130 at the amount of BGN 17,203 thousand as at 31 December 2014 (31 December 2013: (31 December 2013: 5,460,676 at the amount of BGN 18,105 thousand). The number of shares purchased through an investment intermediary in the current year was 304,031 (2013: 1,975,445 shares) and the number of shares sold was 650,577 (2013: 1,000 shares).

As at 31 December 2014, Company's *shares held by its subsidiaries and associates* were as follows:

- by Sopharma Trading AD – 23,857 shares (31 December 2013: 23,500 shares).
- by Unipharm AD – 191,166 shares (31 December 2013: 191,166 shares).
- by Medica AD – 2,390 shares (31 December 2013: none).

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

	<i>31.12.2014</i> <i>BGN '000</i>	<i>31.12.2013</i> <i>BGN '000</i>
Statutory reserves	33,555	30,051
Property, plant and equipment revaluation reserve	22,434	23,392
Available-for-sale financial assets reserve	1,097	984
Additional reserves	189,157	166,508
Total	246,243	220,935

Statutory reserves at the amount of BGN 33,555 thousand (31 December 2013: BGN 30,051 thousand) were set aside from allocation of profit and included all amounts for the Reserve Fund.

The movements of statutory reserves were as follows:

	<i>2014</i> <i>BGN '000</i>	<i>2013</i> <i>BGN '000</i>
Balance at 1 January	30,051	25,934
Distribution of profit	3,504	4,117
Balance at 31 December	33,555	30,051

The *property, plant and equipment revaluation reserve* amounting to BGN 22,434 thousand (31 December 2013: BGN 23,392 thousand), was set aside from the positive difference between the carrying amount of property, plant and equipment and their fair value at the date of the respective revaluation. The deferred tax effect on the revaluation reserve was directly carried to this reserve.

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

	<i>2014</i> <i>BGN '000</i>	<i>2013</i> <i>BGN '000</i>
Balance at 1 January	23,392	25,093
Transfer to retained earnings	(953)	(1,383)
Impairment of property, plant and equipment	(6)	(353)
Deferred tax relating with revaluations	1	35
Balance at 31 December	22,434	23,392

The *available-for-sale financial assets reserve*, amounting to BGN 1,097 thousand (31 December 2013: BGN 984 thousand) was set aside from the effects of subsequent revaluation of available-for-sale investments to fair value.

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

	<i>2014</i> <i>BGN '000</i>	<i>2013</i> <i>BGN '000</i>
Balance at 1 January	<u>984</u>	<u>514</u>
Net gain arising on revaluation of available-for-sale financial assets	250	470
Cumulative (gains)/losses reclassified to current profit or loss upon sale/realisation of available-for-sale financial assets	(137)	-
Balance at 31 December	<u><u>1,097</u></u>	<u><u>984</u></u>

Additional reserves at the amount of BGN 189,157 thousand (31 December 2013: BGN 166,508 thousand) were set aside from distribution of profits under a decision of shareholders and could be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additional reserves were as follows:

	<i>2014</i> <i>BGN '000</i>	<i>2013</i> <i>BGN '000</i>
Balance at 1 January	<u>166,508</u>	<u>138,387</u>
Distributed profit in the year	22,649	28,121
Balance at 31 December	<u><u>189,157</u></u>	<u><u>166,508</u></u>

Retained earnings, amounting to BGN 28,666 thousand as at 31 December 2014 (31 December 2013: BGN 35,905 thousand).

The movements of *retained earnings* were as follows:

	<i>2014</i> <i>BGN '000</i>	<i>2013</i> <i>BGN '000</i>
Balance at 1 January	<u>35,905</u>	<u>42,230*</u>
Net profit for the year	26,531	33,540*
Transfer from property, plant and equipment revaluation reserve	953	1,383
Effect of treasury shares sold	619	-
Distribution of profit for reserves	(26,153)	(32,238)
Payment of dividend	(8,890)	(8,930)
Actuarial losses from remeasurements	(299)	(80)
Balance at 31 December	<u><u>28,666</u></u>	<u><u>35,905</u></u>

Basic earnings per share

	<i>31.12.2014</i>	<i>31.12.2013</i>
Weighted average number of shares	126,913,907	127,422,985
Net profit for the year (BGN'000)	<u>26,531</u>	<u>33,540*</u>
Basic earnings per share (BGN)	<u><u>0.21</u></u>	<u><u>0.26*</u></u>

* Restated

30. LONG-TERM BANK LOANS

Currency	Contracted loan amount	Maturity	31.12.2014			31.12.2013		
			Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
	'000		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Investment-purpose loans								
EUR	32,000	15.04.2021	37,972	7,391	45,363	48,723	3,822	52,545

The investment-purpose loan received in Euro was agreed at interest rate based on three-month EURIBOR plus a mark-up of 2.8 points (2013: 3-month EURIBOR plus a mark-up of 2.8 points).

The following collateral was established in favour of the creditor bank:

- Mortgages of real estate – BGN 45,850 thousand (31 December 2013: BGN 47,690 thousand) (Note 16);
- Special pledges on:
 - machinery and equipment – BGN 21,354 thousand (31 December 2013: BGN 29,960 thousand) (Note 16).

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

31. DEFERRED TAX LIABILITIES

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

	<u>temporary difference</u>	<u>tax</u>	<u>temporary difference</u>	<u>tax</u>
	<u>31.12.2014</u>	<u>31.12.2014</u>	<u>31.12.2013</u>	<u>31.12.2013</u>
	<u>BGN '000</u>	<u>BGN '000</u>	<u>BGN '000</u>	<u>BGN '000</u>
Property, plant and equipment	52,018	5,202	46,576	4,658
including Revaluation reserve	21,090	2,109	22,341	2,234
Investment property	3,787	379	3,092	309
including Revaluation reserve	187	19	187	19
Total deferred tax liabilities	55,805	5,581	49,668	4,967
Receivables	(5,548)	(555)	(2,860)	(286)
Payables to personnel	(4,246)	(425)	(3,945)	(395)
Inventories	(3,240)	(324)	(318) *	(32) *
Intangible assets	(2,751)	(275)	(3,048)	(305)
Accrued liabilities	(135)	(14)	(53)	(5)
Biological assets	(3)	-	(12)	(1)
Total deferred tax assets	(15,923)	(1,593)	(10,236)	(1,024)
Deferred income tax liabilities, net	39,882	3,988	39,432	3,943

* Restated

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

The Company did not recognise deferred taxes at the amount of BGN 1,510 thousand (31 December 2013: BGN 1,222 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference on which no tax asset is recognised amounts to BGN 15,098 thousand (31 December 2013: BGN 12,218 thousand).

The change in the balance of deferred taxes for 2014 is as follows:

<i>Deferred tax (liabilities)/ assets</i>	<i>Balance at 1 January 2014</i>	<i>Recognised in the statement of comprehensive income</i>	<i>Recognised in equity</i>	<i>Recognised in the statement of changes in equity and the current tax return</i>	<i>Balance at 31 December 2014</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Property, plant and equipment	(4,658)	(570)	1	25	(5,202)
Investment property	(309)	(70)	-	-	(379)
Receivables	286	269	-	-	555
Payables to personnel	395	30	-	-	425
Intangible assets	305	(30)	-	-	275
Inventories	32*	292	-	-	324
Accrued liabilities	5	9	-	-	14
Biological assets	1	(1)	-	-	-
Total	(3,943)	(71)	1	25	(3,988)

The change in the balance of deferred taxes for 2013 was as follows:

<i>Deferred tax (liabilities)/ assets</i>	<i>Balance at 1 January 2013</i>	<i>Recognised in the statement of comprehensive income</i>	<i>Recognised in equity</i>	<i>Recognised in the statement of changes in equity and the current tax return</i>	<i>Balance at 31 December 2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Property, plant and equipment	(5,148)	-	35	27	(5,086)
Investment property	99	20	-	-	119
Receivables	411	(125)	-	-	286
Payables to personnel	371	24	-	-	395
Intangible assets	314	(9)	-	-	305
Inventories *	(1) *	33 *	-	-	32 *
Accrued liabilities	8	(3)	-	-	5
Biological assets	1	-	-	-	1
Total	(3,945)	(60)	35	27	(3,943)

32. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Long-term retirement benefit obligations	2,027	1,710
Long-term benefit obligations for tantieme	192	145
Total	2,219	1,855

Long-term retirement benefit obligations

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

In accordance with the 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 more than 10 years of its service for the same employer – six gross monthly salaries at the time of retirement. This is a defined benefits plan. (Note 2.21).

For the purpose of establishing the amount of these obligations to personnel, the Company has assigned an actuarial valuation as at 31 December 2014 by using the services of a certified actuary.

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

	2014	2013
	BGN '000	BGN '000
Present value of the obligation at 1 January	1,710	1,479
Current service cost	192	185
Interest cost	72	72
Net actuarial loss recognised for the period	11	-
Payments for the year	(257)	(106)
Remeasurement gains or losses for the year, including:	299	80
<i>Actuarial losses arising from changes in financial assumptions</i>	25	58
<i>Actuarial losses arising from changes in demographic assumptions</i>	2	2
<i>Actuarial losses arising from experience adjustments</i>	272	20
Present value of the obligation at 31 December	2,027	1,710

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

	<i>2014</i> <i>BGN '000</i>	<i>2013</i> <i>BGN '000</i>
Current service cost	192	184
Interest cost	72	72
Net actuarial loss recognised for the period	11	-
Components of defined benefit plans cost recognised in profit or loss (Note 8)	275	256
Remeasurement gains or losses on the retirement benefit obligations, including:		
<i>Actuarial losses arising from changes in financial assumptions</i>	25	53
<i>Actuarial losses arising from changes in demographic assumptions</i>	2	1
<i>Actuarial losses arising from experience adjustments</i>	272	26
Components of defined benefit plans cost recognised in other comprehensive income (Note 15)	299	80
Total	574	336

The following actuarial assumptions were used in calculating the present value of the liabilities as at 31 December 2014:

- The discount factor is calculated by using 3.8% annual interest rate as basis (2013: 4%). The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of the salaries is based on the information provided by the Company's management and amounts to 5 % annual growth compared to the prior reporting period (2013: 5 %);
- Mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2011 - 2013 (2013: 2010 - 2012);
- Staff turnover rate – from 0 % to 16 % for the five age groups formed (2013: from 0% to 16 %).

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

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

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

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

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

- salary growth*
- discount rate*
- staff turnover rate*

on the amount of the stated current service cost and interest cost for 2014 and respectively, on the present value of the obligation for payment of defined retirement benefits, are assessed as follows:

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

	2014		2013	
	Increase	Decrease	Increase	Decrease
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Change in salary growth	27	(24)	23	(20)
Change in discount rate	(3)	3	(5)	5
Change in staff turnover rate	(26)	24	(22)	21

Effects of changes in the basic assumptions on the amount of stated liability:

	2014		2013	
	Increase	Decrease	Increase	Decrease
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Change in salary growth	156	(138)	131	(115)
Change in discount rate	(138)	159	(115)	133
Change in staff turnover rate	(148)	142	(124)	121

The weighted average duration of the defined benefit obligation to personnel is 7.4 years (31 December 2013: 7.4 years).

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

<i>Forecasted payments</i>	<i>Old age and length of service retirement</i>	<i>Ill health retirement</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
<i>Payments in 2015</i>	403	8	411
<i>Payments in 2016</i>	198	8	206
<i>Payments in 2017</i>	208	8	216
<i>Payments in 2018</i>	203	8	211
<i>Payments in 2019</i>	186	8	194
	1,198	40	1,238

Long-term benefit obligations for tantieme

As at 31 December 2014, the long-term benefit obligations to personnel include also the amount of BGN 192 thousand (31 December 2013: BGN 145 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months (until 2016 and 2017).

33. GOVERNMENT GRANTS

The long-term government grant at the amount of BGN 3,358 thousand (31 December 2013: BGN 3,534 thousand) is under a concluded contract for gratuitous financial aid under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013 in relation with the acquisition of machinery and equipment for a new tablet production facility (*Note 16*).

The current portion of the grant, amounting to BGN 177 thousand (31 December 2013: BGN 178 thousand) will be recognised as current income over the following 12 months from the date of the separate statement of financial position and is presented as 'other current liabilities' (*Note 40*).

34. FINANCE LEASE LIABILITIES

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

<i>Term</i>	<i>31.12.2014</i>	<i>31.12.2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Up to one year	60	56
Over one year	34	49
Total	94	105

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

<i>Term</i>	31.12.2014	31.12.2013
	BGN '000	BGN '000
Up to one year	70	69
Over one year	38	54
	<u>108</u>	<u>123</u>
Future finance costs under finance leases	(14)	(18)
Present value of finance lease liabilities	<u>94</u>	<u>105</u>

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

35. SHORT-TERM BANK LOANS

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	31.12.2014	31.12.2013
	'000		BGN'000	BGN'000
Bank loans (overdrafts)				
EUR	20,000	31.08.2015	38,847	38,522
EUR	10,000	14.01.2015	13,477	8,472
BGN	10,000	31.08.2015	9,990	10,002
EUR	5,000	15.06.2015	9,786	9,806
EUR	5,000	15.06.2015	1,083	5,072
			<u>73,183</u>	<u>71,874</u>
Extended credit lines				
BGN	18,000	30.10.2015	9,965	13,041
BGN	15,000	31.01.2015	4,494	7,335
EUR	5,000	31.08.2015	3,119	6,628
			<u>17,578</u>	<u>27,004</u>
Total			<u>90,761</u>	<u>98,878</u>

The bank loans received in Euro have been agreed at interest rate based on 3-month EURIBOR plus a mark-up of up to 2.45 points and monthly EURIBOR plus a mark-up of up to 3 points while the loans received in BGN are based on 3-month SOFIBOR plus 2.1 points, monthly SOFIBOR plus 2 points, weekly SOFIBOR plus 3 points and 2-week SOFIBOR plus 3.25 points (2013: for bank loans in Euro – 3-month EURIBOR plus a mark-up of up to 3.2 points and monthly EURIBOR plus a mark-up of up to 3.25 points and for loans in BGN – 3-month SOFIBOR plus 2.1 points, monthly SOFIBOR plus 2 points, weekly SOFIBOR plus 3 points and 2-week SOFIBOR plus 3.25 points). Loans are intended for providing working capital.

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

- Mortgages of real estate – BGN 38,264 thousand (31 December 2013: BGN 37,019 thousand) (*Notes 16 and 18*);
- Special pledges on:
 - machinery and equipment – BGN 10,871 thousand (31 December 2013: BGN 13,599 thousand) (*Notes 16 and 18*);
 - inventories – BGN 35,525 thousand (31 December 2013: BGN 35,525 thousand) (*Note 24*);
 - receivables from related parties – BGN 16,229 thousand (31 December 2013: BGN 16,229 thousand) (*Note 25*);
 - trade receivables – BGN 22,763 thousand (31 December 2013: BGN 22,763 thousand) (*Note 26*);
 - trade receivables from third parties – BGN 12,773 thousand (31 December 2013: BGN 4,950 thousand).

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

36. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Payables to subsidiaries	6,994	4,717
Payables to companies under a common indirect control	761	793
Payables to companies under a common control through key managing personnel	171	2,304
Payables to associates	2	-
Payables to main shareholding companies	1	22
Total	7,929	7,836

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

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Supply of services	3,877	6,099
Supply of inventories	3,545	152
Unpaid share capital in newly established subsidiary	404	-
Supply of non-current assets	103	1,585
Total	7,929	7,836

The trade payables to related parties are regular and are not additionally secured by the Company. The payables in Bulgarian Levs amount to BGN 5,820 thousand (31 December 2013: BGN 7,550 thousand), in EUR – BGN 1,153 thousand (31 December 2013: BGN 22 thousand), in PLN – BGN 552 thousand (31 December 2013: BGN 264 thousand) and in KZT – BGN 404 thousand (31 December 2013: none).

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

37. TRADE PAYABLES

Trade payables include:

	<i>31.12.2014</i>	<i>31.12.2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Payables to suppliers	6,364	4,568
Advances received	189	405
Total	6,553	4,973
	<i>31.12.2014</i>	<i>31.12.2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Payables to foreign suppliers	5,039	2,871
Payables to local suppliers	1,325	1,697
Total	6,364	4,568

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in foreign currency amount to BGN 5,145 thousand (31 December 2013: BGN 2,871 thousand). They include: in EUR – BGN 2,972 thousand (31 December 2013: BGN 2,507 thousand), in USD – BGN 1,916 thousand (31 December 2013: BGN 285 thousand), in PLN – BGN 244 thousand (31 December 2013: BGN 53 thousand) and in other currencies – BGN 13 thousand (31 December 2013: BGN 26 thousand).

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

The Company has placed deposits as security (*Notes 22 and 27*) for payables to suppliers under commercial transactions at the amount of BGN 539 thousand (31 December 2013: BGN 693 thousand).

38. TAX PAYABLES

Tax payables include:

	<i>31.12.2014</i>	<i>31.12.2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Withholding taxes	554	341
Individual income taxes	194	193
Value added tax	154	-
Corporate tax	-	709
Total	902	1,243

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

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

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

39. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Payables to personnel, including:	3,445	3,037
<i>tantieme</i>	1,810	1,537
<i>current liabilities</i>	917	805
<i>accruals on unused compensated leaves</i>	718	695
Payables for social security/health insurance, including:	768	699
<i>current liabilities</i>	655	591
<i>accruals on unused compensated leaves</i>	113	108
Total	4,213	3,736

40. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Awarded amounts under litigations	299	253
Dividend liabilities	250	279
Government grants (<i>Note 33</i>)	177	178
Deductions from work salaries	175	189
Finance lease liabilities (<i>Note 34</i>)	60	56
Other	8	20
Total	969	975

41. CONTINGENT LIABILITIES AND COMMITMENTS***Litigations***

In 2012, the claim of Sopharma AD against a client in relation with unpaid supplies of goods at the amount of EUR 1,034 thousand (BGN 2,022 thousand) was satisfied by a ruling dated 23 October 2012 of the Court of Arbitration in Paris (*Note 45*).

In 2013 the Court of Arbitration in Paris entitled Sopharma AD to file a complementary claim as follows:

- to compensate the loss of business suffered as a result of a harm on Company's image – at the amount of EUR 1,240 thousand (BGN 2,425 thousand).
- to compensate court and other expenses at the amount of USD 75 thousand (BGN 121 thousand) and EUR 153 thousand (BGN 298 thousand).

By a ruling of the Polish bankruptcy court, dated 11 July 2014, the insolvency proceedings for the client-debtor were terminated because of insufficient availability of funds in the bankruptcy estate to satisfy the creditors with accepted receivables.

In accordance with a ruling of Sofia Court of Appeal, dated 8 November 2012, Sopharma AD was found guilty jointly with one of its subsidiaries for obligations not paid by this subsidiary to a supplier at the amount of BGN 153 thousand (USD 95 thousand), including principal and penalties, as well as for statutory interest on this amount as of 22 December 2005 to the date of ultimate payment of the obligation, and court expenses at the amount of BGN 12 thousand. The liability is included in full in the statement of financial position of the subsidiary as at 31 December 2014 (*Note 45*). Sopharma AD has blocked funds at the amount of BGN 598 thousand (USD 372 thousand) as collateral under the case (*Note 28*).

Significant irrevocable agreements and commitments

In 2013, the Company assumed a self-participation commitment at the amount of BGN 3,000 thousand under a grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013. The execution of the contract is envisaged to last 18 months and is related mainly with financing the implementation of innovative products in the ampoule production section.

In 2013, the Company received a government grant at the amount of BGN 3,787 thousand by virtue of a grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007–2013 (*Notes 34 and 40*) intended for technological renovation and modernisation of tablet production facilities (*Note 16*). The Company undertook a commitment that for a period of 5 years after the completion of the project, counted as of 11 March 2013 and in line with the contract, the project shall not be subject to significant modifications affecting its essence and the terms and conditions for its execution or giving rise to unjustified benefits to the Company, neither modifications resulting from change in the nature of ownership over the assets acquired in relation with the grant. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Issued and granted guarantees

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

Company	Maturity period	Currency	Contracted amount		Amount of the guarantee as at 31.12.2014
			original currency	BGN'000	BGN'000
Sopharma Trading AD	2015-2019.	EUR	64,145	125,441	111,713
Sopharma Trading AD	2015	BGN	14,732	14,732	13,384
Vitamins OAO	2016	EUR	7,000	13,691	13,691
Biopharm Engineering AD	2023	BGN	4,250	4,250	4,240
Pharmaplant AD	2015-2019	BGN	1,329	1,329	1,268
Telecomplect AD	2015	BGN	5,009	5,009	1,252
Veta Pharma AD	2015	BGN	1,000	1,000	993
Energoinvestment AD	2015	BGN	2,018	2,018	518
Momina Krepost AD	2015	BGN	500	500	263
Mineralcommerce AD	2015-2017	EUR	150	294	205
Mineralcommerce AD	2015	BGN	175	175	175
Bulgarian Rose Sevtopolis AD	2015	EUR	1,617	3,163	40
					147,742

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

- Mortgages of real estate – BGN 10,776 thousand (31 December 2013: BGN 8,598 thousand) (*Note 16*);
- Special pledges on:
 - machinery and equipment – none (31 December 2013: BGN 2,221 thousand) (*Note 16*);
 - installations – none (31 December 2013: BGN 233 thousand) (*Note 16*);
 - inventories – BGN 17,623 thousand (31 December 2013: BGN 17,623 thousand) (*Note 24*);
 - trade receivables – BGN 12,000 thousand (31 December 2013: BGN 19,705 thousand) (*Note 26*).

Other

The Company has met its obligations under the Waste Management Act (WMA) and therefore, has not included a product charge liability in the statement of financial position regardless of the fact that the official document evidencing that Ecobulpack (the organisation 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.

42. FINANCIAL RISK MANAGEMENT

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

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

Categories of financial instruments:

<i>Financial assets</i>	31.12.2014	31.12.2013
	BGN '000	BGN '000
Available-for-sale financial assets	4,439	6,862
<i>Available-for-sale investments (in shares)</i>	4,439	6,862
Loans and receivables	156,471	151,535
<i>Long-term receivables from related parties</i>	33,150	25,649
<i>Other long-term receivables</i>	6	17
<i>Short-term receivables from related parties</i>	99,505	103,350
<i>Trade receivables</i>	22,246	21,072
<i>Other receivables</i>	1,564	1,447
Cash and cash equivalents	2,935	8,198
Total financial assets	163,845	166,595
<i>Financial liabilities</i>	31.12.2014	31.12.2013
	BGN '000	BGN '000
Bank loans	136,124	151,423
<i>Long-term bank loans</i>	37,972	48,723
<i>Short-term bank loans</i>	90,761	98,878
<i>Current portion of long-term bank loans</i>	7,391	3,822
Other liabilities	14,936	13,054
<i>Trade payables to related parties</i>	7,929	7,836
<i>Trade payables</i>	6,364	4,568
<i>Finance lease liabilities</i>	94	105
<i>Other liabilities</i>	549	545
Total financial liabilities at amortised cost	151,060	164,477

Foreign currency risk

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

The remaining part of Company's operations is usually denominated in BGN and/or EUR. The Company sells part of its finished products in Russia in EUR and thus eliminated the currency risk, related with the

devaluation of the Russian Rouble in the recent months. The accounts and balances with the subsidiaries in Ukraine are also denominated in EUR. Nevertheless, in relation with the instability in the country and the continuing devaluation of the Ukrainian Hryvnia, for the purpose of mitigating the currency risk the Company, through its subsidiaries, exercises currency policy that includes the application of advance payments and decreasing the terms of deferred payment and immediate translation in EUR of proceeds in a local currency as well as using higher trade margins to compensate eventual future devaluation of the Hryvnia.

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

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

<i>31 December 2014</i>	in USD	in EUR	in BGN	in other currency	Total
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	-	1,256	3,183	-	4,439
Receivables and loans granted	1,674	117,154	36,248	1,395	156,471
Cash and cash equivalents	1,256	1,014	534	131	2,935
Total financial assets	2,930	119,424	39,965	1,526	163,845
Bank loans	-	111,675	24,449	-	136,124
Other liabilities	2,201	4,125	7,303	1,307	14,936
Total financial liabilities	2,201	115,800	31,752	1,307	151,060
<i>31 December 2013</i>	in USD	in EUR	in BGN	in other currency	Total
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	-	-	5,549	1,313	6,862
Receivables and loans granted	802	109,427	39,783	1,523	151,535
Cash and cash equivalents	1,662	5,720	814	2	8,198
Total financial assets	2,464	115,147	46,146	2,838	166,595
Bank loans	-	106,167	45,256	-	151,423
Other liabilities	538	2,529	9,539	448	13,054
Total financial liabilities	538	108,696	54,795	448	164,477

Foreign currency sensitivity analysis

The effect of Company's sensitivity to 10 % increase/decrease in current exchange rates of BGN to USD and to other currency exposures, based on the structure of foreign currency assets and liabilities at 31

December and on the assumption that the influence of all other variables is ignored, has been measured and presented as impact on the post-tax financial result and on the equity.

	USD	
	31.12.2014 BGN '000	31.12.2013 BGN '000
Financial result +	66	173
Accumulated profits +	66	173
Financial result -	(66)	(173)
Accumulated profits -	(66)	(173)

In case of 10 % increase in the rate of USD to BGN, the final effect on post-tax profit of the Company for 2014 would be an increase by BGN 66 thousand (0.25 %) (2013: increase at the amount of BGN 173 thousand) (0.52 %). The effect in terms of value on Company's equity – through the component 'retained earnings' – would be the same.

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

The impact of the remaining currencies (other than USD) on 10 % increase in their exchange rates to BGN on Company's (post-tax) profit is insignificant. The ultimate effect thereon for 2014 is an increase by BGN 96 thousand (0.36%) (2013: increase at the amount of BGN 184 thousand (0.55%)). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

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

Price risk

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

- a) contingent increase of supplier prices of raw and starting materials, since more than 80% of the raw and starting materials are imported and they represent 50% on the average of all production costs; and
- b) growing competition on the Bulgarian pharmaceutical market is also reflected in drug prices.

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

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

the purchased shares for longer periods with current monitoring of the reported by the respective issuer financial and business indicators as well as the development of the operations in the environment of crisis.

Credit risk

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

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

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

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

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Client 1	19%	23%
Client 2	21%	24%
Client 3	25%	20%

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

The Company has concentration of trade receivable from a single client, other than related parties, which is accountable for 71.32% of all trade receivables (31 December 2013: 53.81%).

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

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

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

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

Liquidity risk

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

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

Maturity analysis

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

<i>31 December 2014</i>	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	over 5 years	Total
	<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>
Bank loans	19,017	1,711	13,415	66,367	8,245	23,496	9,847	142,098
Other loans and liabilities	12,070	2,241	22	580	32	5	-	14,950
Total liabilities	31,087	3,952	13,437	66,947	8,277	23,501	9,847	157,048
<i>31 December 2013</i>	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	over 5 years	Total
	<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>
Bank loans	8,627	20,399	55,991	24,279	8,899	24,918	17,603	160,716
Other loans and liabilities	6,622	5,806	15	575	46	8	-	13,072
Total liabilities	15,249	26,205	56,006	24,854	8,945	24,926	17,603	173,788

Risk of interest-bearing cash flows

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

- optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and
- combined structure of interest rates on loans comprising two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and

maintained in a proportion favourable for the Company. The permanent component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

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

<i>31 December 2014</i>	interest-free	with floating	with fixed	Total
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	4,439	-	-	4,439
Loans and receivables	92,655	-	63,816	156,471
Cash and cash equivalents	143	2,792	-	2,935
Total financial assets	97,237	2,792	63,816	163,845
Bank loans	83	136,041	-	136,124
Other loans and liabilities	14,842	94	-	14,936
Total financial liabilities	14,925	136,135	-	151,060

<i>31 December 2013</i>	interest-free	with floating	with fixed	Total
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	6,862	-	-	6,862
Loans and receivables	94,064	-	57,471	151,535
Cash and cash equivalents	67	8,131	-	8,198
Total financial assets	100,993	8,131	57,471	166,595
Bank loans	266	151,157	-	151,423
Other loans and liabilities	12,949	105	-	13,054
Total financial liabilities	13,215	151,262	-	164,477

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

<i>2014</i>	<i>Increase/decrease in interest rate</i>	<i>Impact on post-tax financial result profit/(loss)</i>	<i>Impact on equity increase/(decrease)</i>
EUR	increase	(503)	(503)
BGN	increase	(110)	(110)
EUR	decrease	503	503
BGN	decrease	110	110
<i>2013</i>	<i>Increase/decrease in interest rate</i>	<i>Impact on post-tax financial result profit/(loss)</i>	<i>Impact on equity increase/(decrease)</i>
EUR	increase	(478)	(478)
BGN	increase	(204)	(204)
EUR	decrease	478	478
BGN	decrease	204	204

Capital risk management

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

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

In 2014, the strategy of the Company management was to maintain the ratio within 25% – 30% (2013: 25% – 30%).

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

	<i>2014</i>	<i>2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Total borrowings, including:	136,218	151,528
<i>bank loans</i>	<i>136,124</i>	<i>151,423</i>
<i>finance lease liabilities</i>	<i>94</i>	<i>105</i>
Less: Cash and cash equivalents	(2,935)	(8,198)
Net debt	133,283	143,330
Total equity	389,706	370,735*
Total capital	522,989	514,065
Gearing ratio	0.25	0.28

The liabilities shown in the table are disclosed in *Notes 28, 30, 33, 35 and 40*.

Fair value measurement

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

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

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

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

43. SEGMENT REPORTING

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

- Tablet dosage forms
- Ampoule dosage forms
- Other dosage forms.

The other dosage forms include mainly: lyophilic products, ointments, syrups, drops, suppositories, etc.

Segment revenue, expenses and results include:

	Tablet dosage forms		Ampoule dosage forms		Other dosage forms		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Segment revenue	136,700	147,808	34,405	34,685	30,351	33,561	201,456	216,054
Segment cost	(59,628)	(60,896)	(17,545)	(15,306)	(22,707)	(22,686)	(99,880)	(98,888)
Segment result	77,072	86,912	16,860	19,379	7,644	10,875	101,576	117,166
Non-allocated operating income							4,013	3,079
Non-allocated operating expenses							(81,757)	(74,812)
Profit from operations							23,832	45,433
Impairment of non-current assets							(3,252)	(193)
Finance income/(costs), net							8,325	(7,351)
Profit before income tax							28,905	37,889
Income tax expense							(2,374)	(4,349)
Net profit for the year							26,531	33,540

Segment assets and liabilities include:

Segment assets	Tablet dosage forms		Ampoule dosage forms		Other dosage forms		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Property, plant and equipment	81,137	83,262	17,326	18,330	11,928	15,067	110,391	116,659
Inventories	28,659	26,265	13,163	13,073	9,947	10,359	51,769	49,697
Segment assets	109,796	109,527	30,489	31,403	21,875	25,426	162,160	166,356
Non-allocated assets							393,835	383,946
Total assets							555,995	550,302
Segment liabilities	Tablet dosage forms		Ampoule dosage forms		Other dosage forms		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Payables to personnel	169	170	145	116	206	233	520	519
Social security payables	66	66	52	44	81	89	199	199
Segment liabilities	235	236	197	160	287	322	719	718
Non-allocated liabilities							165,570	178,849
Total liabilities							166,289	179,567

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

	Tablet dosage forms		Ampoule dosage forms		Other dosage forms		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Capital expenditures	919	13,827	3,773	-	197	461	4,889	14,288
Depreciation and amortisation	4,675	1,889	1,866	1,592	1,960	1,747	8,501	5,228
Non-monetary expenses, other than depreciation and amortisation	2,137	806	463	132	685	361	3,285	1,299

44. RELATED PARTY TRANSACTIONS

<i>Related parties</i>	<i>Relation type</i>	<i>Relation period</i>
Telecomplect Invest AD	Main shareholding company	2013 and 2014
Donev Investments Holding AD	Main shareholding company	2013 and 2014
Sopharma Trading AD	Subsidiary company	2013 and 2014
Pharmalogistica AD	Subsidiary company	2013 and 2014
Bulgarian Rose Sevtopolis AD	Subsidiary company	2013 and 2014
Sopharma Poland OOD – in liquidation	Subsidiary company	2013 and 2014
Sopharma USA	Subsidiary company	2013 and 2014
Electroncommerce EOOD	Subsidiary company	2013 and 2014
Biopharm Engineering AD	Subsidiary company	2013 and 2014
Vitamina AD	Subsidiary company	2013 and 2014
Ivanchich and Sons OOD	Subsidiary company	2013 and 2014
Sopharma Buildings REIT	Subsidiary company	2013 and 2014
Momina Krepost AD	Subsidiary company	2013 and 2014
Extab Corporation	Subsidiary company	2013 and 2014
Extab Pharma Limited	Subsidiary company through Extab Corporation	2013 and 2014
Briz OOD	Subsidiary company	2013 and 2014
Unipharm AD	Subsidiary company	2013 and 2014
Sopharma Warsaw EOOD	Subsidiary company	2013 and 2014
Sopharma Ukraine EOOD	Subsidiary company	2013 and 2014
Sopharma Kazakhstan EOOD	Subsidiary company	as from 30/09/2014
Sopharma Zdrovit AD – in liquidation	Subsidiary company	until 22/03/2013
Medica AD	Associate company	as from 04/11/2014
Phyto Palauzovo AD	Subsidiary company through Bulgarian Rose – Sevtopolis AD	2013 and 2014
Brititrade SOOD	Subsidiary company through Briz OOD	2013 and 2014
Tabina OOO	Subsidiary company through Briz OOD	2013 and 2014
ZAO Interpharm	Joint venture through Briz OOD	2013 and 2014
Brizpharm SOOO	Subsidiary company through Briz OOD	2013 and 2014
Vivaton Plus OOO	Subsidiary company through Briz OOD	2013 and 2014
OOO Farmacevt Plus	Subsidiary company through Briz OOD	as from 01/06/2013 and 2014
OOO Farmacevt Plus	Associate company through Briz OOD	from 29/04/2013 to 31/05/2013
UAB TBS Pharma ZAO	Subsidiary company through Briz OOD	as from 01/03/2013 and 2014
Vestpharm ODO	Subsidiary company through Briz OOD	as from 04/07/2013 and 2014
Vestpharm ODO	Associate company through Briz OOD	from 01/01/2013 to 03/07/2013
Alean ODO	Subsidiary company through Briz OOD	as from 07/02/2013 and 2014
Alean ODO	Associate company through Briz OOD	from 01/01/2013 to 06/02/2013
OOO NPK Biotest	Subsidiary company through Briz OOD	as from 02/09/2013 and 2014
OOO NPK Biotest	Associate company through Briz OOD	from 18/01/2013 to 01/09/2013
BelAgroMed	Subsidiary company through Briz OOD	as from 30/07/2013 and 2014
BelAgroMed	Associate company through Briz OOD	from 18/01/2013 to 29/07/2013
SpetsAFarmacia BOOO	Joint venture through Briz OOD	as from 20/01/2014
SpetsAFarmacia BOOO	Associate company through Briz OOD	from 03/09/2013 to 19/01/2014
Med-dent OOO	Joint venture through Briz OOD	as from 17/12/2013 and 2014
Med-dent OOO	Associate company through Briz OOD	from 03/09/2013 to 16/12/2013
OOO Bellerofon	Joint venture through Briz OOD	as from 27/11/2014
OOO Bellerofon	Associate company through Briz OOD	from 28/08/2014 to 26/11/2014
Sopharma Properties REIT	Company under a common indirect control	2013 and 2014
Sofprint Group AD	Company under a common indirect control	2013 and 2014
Elpharma AD	Company under a common indirect control	2013 and 2014
Pharmachim Holding EAD	Company under a common indirect control	2013
Kaliman RT AD	Company under a common indirect control	2013
Ceiba Pharmacies and Drugstores AD	Company under a common indirect control	2013

SCS Franchise AD	Company under a common indirect control	2013
Mineralcommerce AD	Company under a common indirect control	2013
Sofia Inform AD	Company under a common indirect control	2013
Sofconsult Group AD	Company under a common indirect control	2013
Sanita Franchising AD	Company under a common indirect control	2013
Telso AD	Company related through key managing personnel	2013 and 2014
Telecomplect AD	Company related through key managing personnel	2013 and 2014
DOH Group	Company related through key managing personnel	2013 and 2014
Riton P	Company related through key managing personnel	2013
Media Group Bulgaria Holding	Company related through key managing personnel	until 25/04/2013

Supplies from related parties:

	2014	2013
	BGN '000	BGN '000
Supply of inventories from:		
Companies under a common indirect control	9,748	7,826
Subsidiaries	3,695	4,171
Companies related through key managing personnel	290	657
	13,733	12,654
Supply of services from:		
Subsidiaries	38,706	32,801
Companies related through key managing personnel	4,042	2,777
Companies under a common indirect control	2,091	2,160
Main shareholding companies	250	291
	45,089	38,029
Supply of property, plant and equipment from:		
Companies related through key managing personnel	390	4,075
	390	4,075
Supplies for acquisition of non-current assets:		
Companies related through key managing personnel	3,099	11,760
Subsidiaries	38	-
	3,137	11,760
Prepayments		
Companies under a common indirect control	1,613	-
Subsidiaries	301	1,154
	1,914	1,154
Accrued dividends to:		
Main shareholding companies	4,222	4,268
Companies related through key managing personnel	464	464
Subsidiaries	15	17
	4,701	4,749
Total	68,964	72,421

<i>Sales to related parties</i>	<i>2014</i>	<i>2013</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<i>Sales of finished products to:</i>		
Subsidiaries	104,010	117,446
Companies under a common indirect control	-	187
	104,010	117,633
<i>Sales of goods and materials to:</i>		
Subsidiaries	17,555	16,136
Companies under a common indirect control	1,002	874
Companies related through key managing personnel	51	4
	18,608	17,014
<i>Sales of services to:</i>		
Subsidiaries	1,712	1,763
Companies under a common indirect control	90	98
Companies related through key managing personnel	50	95
	1,852	1,956
<i>Sales of property, plant and equipment to:</i>		
Subsidiaries	-	38
	-	38
<i>Interest on loans granted to:</i>		
Companies related through key managing personnel	2,239	2,917
Subsidiaries	491	387
Companies under a common indirect control	336	445
Main shareholding companies	-	156
	3,066	3,905
<i>Income from liquidation shares in:</i>		
Subsidiaries	-	109
	-	109
<i>Dividend income from:</i>		
Subsidiaries	6,302	5,689
Companies under a common indirect control	3	46
Companies related through key managing personnel	-	154
	6,305	5,889
Total	133,841	146,544

The terms and conditions of these transactions do not deviate from the market ones for similar transactions. The accounts and balances with related parties are presented in *Notes 22, 25 and 36*. The members of the key personnel are disclosed in *Note 1*.

Salaries and other short-term benefits of key managing personnel amount to BGN 979 thousand (2013: BGN 1,174 thousand), including:

- current wages and salaries – BGN 844 thousand (2013: BGN 762 thousand);
- tantieme – BGN 135 thousand (2013: BGN 412 thousand).

45. EVENTS AFTER THE REPORTING PERIOD

Extraordinary General Meeting of Shareholders was held on 9 January 2015, which approved the contract for transformation through a take-over of Bulgarian Rose Sevtopolis AD by Sopharma AD and took a decision for increasing the share capital of Sopharma AD from BGN 132,000,000 to BGN 134,798,527 through the issue of 2,798,527 new shares with nominal value of BGN 1 each and issue value of BGN 4.14, equal to the fair value of one share of Sopharma AD, in relation with the take-over of Bulgarian Rose Sevtopolis AD. The entry in the Commercial Registry was done on 26 February 2015.

The exact amount of the increase in the share capital of Sopharma AD in relation with the take-over of Bulgarian Rose Sevtopolis AD was determined by a decision of the Board of Directors of 10 February 2015 as follows: increase from BGN 132,000,000 to BGN 134,797,899 through the issue of 2,797,899 new shares with nominal value of BGN 1 each. The monetary payments to the shareholders of the transferring company Bulgarian Rose Sevtopolis AD were set at the amount of BGN 2,597 in accordance with Art. 261b, para 2 of the Commercial Act.

In the period 26 January – 19 March 2015, the Company paid partially the share capital contributions for the newly established in 2014 subsidiary Sopharma Kazakhstan at the amount of BGN 258 thousand (EUR 132 thousand). The deadline for the final payment of the capital is 31 May 2015.

On 28 January 2015 a hearing was held before the court in Poland on a case filed by Sopharma AD for recognition and enforcement of a ruling by the Court of Arbitration in Paris (Note 41). The defendant under the case filed a refusal to accept and fulfil the arbitrary decision. The court in Poland ruled on 25 February 2015 that the arbitrary decision shall be executed. This court ruling has not come into force due to a pending appeal procedure against it.

On 17 March 2015 an out-of-court agreement was concluded between Sopharma AD (as a guarantor under a contract for supply and universal successor of Bulgarian Rose – Sevtopolis AD, which was wound-up because of its take-over by Sopharma AD) and the company – supplier of the transferring company, which arranges the relations under all disputes between the parties, including the related thereto interim cases (Note 41). On the same date (17 March 2015) in line with the agreement between the parties, Sopharma AD paid to the company – supplier of Bulgarian Rose – Sevtopolis AD the amount of BGN 1,246 thousand (USD 673 thousand and EUR 4 thousand), representing the amount outstanding after the mutual offsetting between the parties. On 19 March 2015 each of the parties withdrew its appeals against the court rulings under the cases and requested annulment of the imposed thereby securities and return of the guarantees given in relation with these securities (Note 28).

On 19 March 2015, a contract was concluded between Sopharma AD and PAO Vitamini based on which the trade receivables of Sopharma AD, amounting to EUR 12,774 thousand, were transformed to their equivalent in Hryvnia - UAH 316,532 thousand. This right of receivable, in accordance with a Decision of the Board of Directors of Sopharma AD, dated 20 March 2015, will be used as an additional contribution to the increase in the share capital of Sopharma Ukraine OOD. The capital increase process is expected to be finalised not later than 10 April 2015.

On 23 March 2015 the Board of Directors took a decision to start a procedure under the Public Offering of Securities Act (POSA) for making a tender offering in accordance with Art. 149, para 6 of POSA whereunder all shares of Momina Krepost AD held by other shareholders to be purchased by Sopharma AD. On 24 March 2015 an application for a tender offering was submitted to the Financial Supervision Commission, which has not yet taken up a position thereon.