SOPHARMA AD

INTERIM INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 MARCH 2015

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 March 2015 was as follows:

	%
Donev Investment Holding AD	24.74
Telecomplect Invest AD	19.99
Rompharm Company OOD	18.04
Sopharma AD (treasury shares)	3.83
Other legal persons	30.09
Physical persons	3.31

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

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

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

The total number of Company's personnel was 2,084 workers and employees as at 31 March 2015 (2014: 1,825).

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.

On 9 January 2015 the Extraordinary General Meeting of Shareholders of the Company took decisions related to the ongoing procedure of the merger of Bulgarian Rose Sevtopolis AD in Sopharma AD under the conditions of full succession. On 26 February 2015 in the Trade Register at the Registry Agency is entered the merger (Note № 3) of Bulgarian Rose Sevtopolis AD ("transferring company") in Sopharma AD within the meaning of art. 262 and following of the Commercial Act. The transferring company is terminated without liquidation and its assets are transferred into the patrimony of Sopharma AD ("acquiring company"). Under the decision of the Extraordinary General Meeting of Shareholders from 9 January 2015 and after the procedures laid down in the Commercial Code were completed, the share capital of the Company was increased in accordance with the provisions of art. 262 of the Commercial Code from 132,000 thousand BGN to 134,798 thousand by issuing 2,797,899 ordinary shares as a result of the completed merger and pursuant to the terms of the Contract for Merger concluded between the companies in compliance with the Commercial Act (Note № 3 and Note № 4). The terms of the Contract for Merger do not provision additional monetary payments for achieving an equivalent exchange ratio in accordance with the requirements of the Commercial Act. For accounting date of the merger has been accepted 1 January 2015.

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 2015 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 2015, 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.

At the date of issuing of these financial statements, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2015, 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: amortized cost and fair value. The new rules will lead to changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated at fair value through current profit or loss (for credit risk). A specific feature of the classification and measurement model for financial assets at fair value is the addition of a new category – fair value through other comprehensive income (for certain debt and capital instruments). Phase 2: Hedge accounting – a new chapter to IFRS 9 has been added for this purpose whereby a new hedge accounting model is introduced that permits consistent and complete reflection of all financial and non-financial risk exposures, subject to hedge transactions, and also, better presentation of risk management activities in the financial statements and especially, their relation to hedge transactions, and the scope and type of documentation to be used. In addition, the requirements to the structure, contents and presentation approach for hedge disclosures have been improved. Furthermore, an option is introduced fair value changes of own debts, measured at fair value through profit or loss, in the part thereof due to changes in the entity's own credit quality, to be presented in other comprehensive income rather than in profit or loss. The entities that apply IAS 39 will be able to apply this option but they will also be able to continue applying the requirements for fair value hedge accounting of an interest rate exposure under IAS 39 even when IFRS becomes effective. Phase 3: Impairment methodology – the amendment introduces the 'expected loss' impairment model where under all expected credit losses shall be recognized over the lifetime of an amortizable financial instrument and not only if a trigger event has occurred as per the current model under IAS 39. With the 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 recognized partially to the extent attributable to other equity holders, while in transactions, representing in substance a sale or contribution of assets but constituting a business within the meaning of IFRS 3 – gains or losses are recognized in full;

- *IFRS 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 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 derecognized 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 2015, 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 recognize and continue the presentation in their IFRS financial statements regulatory deferral account balances (assets or liabilities) but only if these balances have already been recognized 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 recognized deferral account balances;
- *IAS 16 (amended) "Property, Plant and Equipment" and IAS 38 (amended) "Intangible Assets" – regarding the acceptable methods of depreciation and amortization (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 amortization 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);

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 financial statements for the first quarter of 2015 in accordance with IFRS that are in force for year 2015 whereas these separate annual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated financial statements will be approved for issue by the Board of Directors of the Company not later than 30 May 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.

The company usually presents comparative information in the financial statements for the prior year (period). Where necessary, comparative data is reclassified (and recalculated) to achieve comparability with changes in the presentation in the current year.

To accommodate the merger of Bulgarian Rose – Sevtopolis AD in Sopharma AD the comparative data for 2014, respectively as at 31 December 2014, of the two companies are united by applying appropriate adjustments for eliminating of internal estimates, transactions and payments for the comparable period. (Note № 4).

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 recognized in the statement of comprehensive income (within profit or loss for the year) in the period in which they arise and are treated as ‘other operating income/(losses)’ (within profit or loss for the year) and presented net.

2.5. Revenue

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

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

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

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

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

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

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

Finance income is presented separately on the face of the statement of comprehensive income (within profit or loss for the year) and is comprised of interest income on granted loans and term deposits, 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 recognized as they are incurred, following the accrual and matching concepts, to the extent that this would not cause recognition of assets and liabilities that do not satisfy the relevant definitions under IFRS.

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

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

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

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

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

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

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- installations – 5-25 years;
- machinery and equipment – 7-25 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 recognized in the statement of comprehensive income (within profit or loss for the year) unless a revaluation reserve has been set aside for the respective asset. Then the impairment is at the expense of this reserve and is presented in the statement of comprehensive income (within other comprehensive income) unless it exceeds the reserve amount and the surplus is included as expense in the statement of comprehensive income (within profit or loss for the year).

Gains and losses on disposal (sale)

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

2.8. Biological assets

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

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

2.9. Intangible assets

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

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

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

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

2.10. Investment 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 recognized in the statement of comprehensive income (within profit or loss for the year) as ‘other operating income/(losses), net’ for the period in which they arise. The income gained on investment property is presented in the same item.

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

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

2.11. Investments in subsidiaries and associates

Long-term investments representing shares in subsidiary and associate 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 recognized in the statement of comprehensive income (within profit or loss for the year).

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

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

2.12. Available-for-sale investments

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

Initial measurement

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

Subsequent measurement

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

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

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

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

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

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

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

2.13. Inventories

Inventories are valued in the financial statements as follows:

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

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

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

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

2.14. Trade and other receivables

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

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

2.15. Interest-bearing loans and other financial resources granted

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

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

2.16. Cash and cash equivalents

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

For the purposes of the statement of cash flows:

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

2.17. Trade and other payables

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

2.18. Interest-bearing loans and other borrowings

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

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

2.19. Capitalization of borrowing costs

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

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

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

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

2.20. Leases

Finance lease

Lessee

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

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

Lessor

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

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

Operating lease

Lessee

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

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

Lessor

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

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

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

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

Short-term benefits

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

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

Tantieme and bonus schemes

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

Long-term retirement benefits

Defined contribution plans

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

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

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

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

Defined benefit plans

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

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

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

Termination benefits

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

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

2.22. Share capital and reserves

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

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

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

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

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

The premium reserve is formed from the positive difference between the issue price and the nominal value of the shares issued in the merger of the subsidiary

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

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

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

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

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

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

2.23. Financial instruments

2.23.1. Financial assets

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

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

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

Loans and receivables

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

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

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

Available-for-sale financial assets

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

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

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

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

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

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

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

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

2.23.2. Financial liabilities and equity instruments

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

Financial liabilities

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

2.24. Income taxes

Company's *current income taxes* are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate in Bulgaria for 2015 was 10 % (2014: 10%).

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

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

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

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

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

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

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

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

2.25. Government grants

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

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

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

2.26. Earnings per share

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

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

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

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

2.27. Segment reporting

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

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

Information by operating segments

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

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

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

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

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

2.28. Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Inventories

Normal capacity

Company's normal production capacity is determined on the basis of management assessments (made after relevant analyses) for optimum load of the production facilities and return on the investments made therein, with structure of the manufactured finished products accepted as being common for the Company. In 2015, the actual achieved volume of production exceeded the volume set as normal production capacity (2014: 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 realized at their current carrying amount in the following reporting periods, the Company impairs these inventories to net realizable value.

As a result of the reviews and analyses made in 2015, no impairment of inventories was recorded (2014: none).

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 31).*

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 recognized in the statement of comprehensive income (within profit or loss for the year) as impairment loss *(Note 11).*

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

Deferred tax assets

The Company has not recognized deferred taxes at the amount of BGN 1,510 thousand (31 December 2014: BGN 1,510 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference, on which no tax asset is recognized, amounts to BGN 15,098 thousand (31 December 2014: BGN 15,098 thousand).

The Company has not recognized deferred taxes at the amount of BGN 1,423 thousand (31 December 2014: BGN 1,423 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 recognized, amounts to BGN 14,226 thousand (31 December 2014: BGN 14,226 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 March 2015.

3. EFFECTS FROM TRANSFORMATION (MERGER)

On 1 January 2015 under a contract for merger from 19 June 2014 between Bulgarian Rose - Sevtopolis AD and Sopharma AD was conducted a transformation of the company through the merger of Bulgarian Rose – Sevtopolis AD (art. 262 of the Commercial Act) into it. The operation resulted in the transferring of the all assets of Bulgarian Rose – Sevtopolis AD to Sopharma AD and Bulgarian Rose – Sevtopolis AD was terminated without liquidation. As a result of the merger, the share capital of Sopharma AD was increased by 2,797,899 new shares with a nominal value of 1 BGN and an issue price of 4,14 BGN equal to the fair value of one share of Sopharma AD, in connection with the merger of Bulgarian Rose – Sevtopolis AD into Sopharma AD. For this purpose has been established a ratio, calculated based on the fair value of the net value of the assets of both companies. To examine the exchange ratio was appointed an independent examiner who issued a report on 12 June 2014 acc. art. 262 of the CA. The contract for merger and the examiner's report were approved by the General Meeting of the acquiring company on 9 January 2015.

Bulgarian Rose – Sevtopolis AD has been a subsidiary of Sopharma AD. The Company's management has made a careful analysis of the structure of the two companies before the operation and respectively of the structure and the capital after the operation, as well as all effects from it. As a result of this analysis, it was decided that the operation be treated and reported as “restructuring of operations” and not as a business combination under IFRS 3. The merger was accounted for by applying the method of "uniting of participations" in which the items in the financial reports of the two merging companies are presented as if they were united from the beginning of the earliest period in the financial statements (1 January 2014). The consequences of all economic transactions between the acquiring and the merging companies has been eliminated, including estimates between them, regardless if they have occurred before or after the date of the merger. Any differences from the merger operation are recognized in “Equity” under component “Retained earnings”.

The aim of the merger operation of the two companies is:

- restructuring of the companies in the Sopharma Group to eliminate duplicate activities;
- focusing of efforts towards production and trade, respectively until optimization of administrative costs;
- increasing of efficiency and achieving of synergies for both the management and execution of the industrial and commercial operations and the optimization of costs.

4. REVALUATIONS AS A RESULT OF A MERGER

The assets and liabilities of the two companies merged at the date of the merger 1 January 2015, their structure and size are as follows:

STATEMENT OF FINANCIAL POSITION	Sopharma AD	Bulgarian Rose Sevtopolis AD	Adjustments upon merger	United statement of financial position

	31 December 2014 BGN'000	31 December 2014 BGN'000		31 December 2014 BGN'000
ASSETS				
Non-current assets				
Property, plant and equipment	192 728	18 205	123	211 056
Intangible assets	2 442	-	768	3 210
Investment properties	22 368	-		22 368
Investments in subsidiaries	103 068	95	(8 729)	94 434
Investments in associated companies	7 015	-		7 015
Available-for-sale investments	4 439	-		4 439
Long-term receivables from related parties	33 150	-		33 150
Other long-term receivables	6	-		6
	365 216	**18 300**	**(7 838)**	**375 678**
Current assets				
Inventories	54 047	3 740	(427)	57 360
Receivables from related persons	99 505	3 868	(3 868)	99 505
Commercial receivables	23 268	36	93	23 397
Other receivables and prepayments	11 024	877		11 901
Cash and cash equivalents	2 935	1 141		4 076
	190 779	**9 662**	**(4 202)**	**196 239**
TOTAL ASSETS	**555 995**	**27 962**	**(12 040)**	**571 917**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	132 000	12 066	(9 268)	134 798
Premium reserve	-	-	8 785	8 785
Treasury shares	(17 203)	-	-	(17 203)
Reserves	246 243	3 795	(3 795)	246 243
Retained earnings	28 666	9 219	(3 959)	33 926
	389 706	**25 080**	**(8 237)**	**406 549**
LIABILITIES				
Non-current liabilities				
Long-term bank loans	37 972	-	-	37 972
Deferred taxes	3 988		(30)	4 099

		141		
Long-term payables to personnel	2 219	168	-	2 387
Government financing	3 358	610	-	3 968
Financial leasing liabilities	34	-	-	34
	47 571	**919**	**(30)**	**48 460**
Current liabilities				
Short-term bank loans	90 761	-	-	90 761
Short-term part of long-term bank loans	7 391	40	-	7 431
Payables to related parties	7 929	-	(3 775)	4 154
Commercial payables	6 553	1 356	-	7 909
Tax payables	902	36	-	938
Payables to employees and social insurance	4 213	351	-	4 564
Other current liabilities	969	180	2	1 151
	118 718	**1 963**	**(3 773)**	**116 908**
TOTAL LIABILITIES	**166 289**	**2 882**	**(3 803)**	**165 368**
TOTAL EQUITY AND LIABILITIES	**555 995**	**27 962**	**(12 040)**	**571 917**

Data for the comparable period

The financial statements for 2015 of the acquiring company contain a restatement of the comparative data in the statement of comprehensive income and statement of cash flows as if the acquiree and acquiring company have always been united, including in 2014. As far as the accounting date of the merger is 1 January 2015 the data in the statement of financial position at that date correspond to the data for the comparable period as at 31 December 2014.

Adjustments made for the comparable period in the statement of comprehensive income are as follows:

STATEMENT OF COMPREHENSIVE INCOME	**Sopharma AD**	**Bulgarian Rose Sevtopolis AD**	**Adjustments upon merger**	**United statement of comprehensive income**
	2014 BGN'000	**2014 BGN'000**	**2014 BGN'000**	**2014 BGN'000**
Sales revenues	201 456	19 052	(19 047)	201 461

Other operating revenue/(loss), net	4 013	196	(275)	3 934
Change of available stock of finished goods and work in progress	10 296	1 063	(152)	11 207
Materials	(60 600)	(13 944)	1 676	(72 868)
External services	(71 347)	(761)	16 408	(55 700)
Employees	(34 403)	(3 202)		(37 605)
Amortization	(15 866)	(1 119)	123	(16 862)
Other operating expenses	(9 717)	(202)	2	(9 917)
Operating profit	**23 832**	**1 083**	**(1 265)**	**23 650**
				-
Impairment of non-current assets	(3 252)	-	-	(3 252)
Financial income	12 997	4	-	13 001
Financial expenses	(4 672)	(18)	-	(4 690)
Financial income/(expenses) net	**8 325**	**(14)**	**-**	**8 311**
				-
Profit before tax	**28 905**	**1 069**	**(304)**	**28 709**
Profit tax	(2 374)	(108)	30	(2 452)
Net profit for the year	**26 531**	**961**	**(274)**	**26 257**
Other components of the total income:				
Components that will not be reclassified in the profit or loss:				
				-
Loss on revaluation of property, plant and equipment	(6)	-	-	(6)
Subsequent valuation of pension plans with defined benefit	(299)	(11)	-	(310)
Tax on expenses, related to other comprehensive income, which will not be reclassified	1	-	-	1
	(304)	**(11)**	**-**	**(315)**
Components that may be reclassified in the profit or loss:				
Net change in fair value of available-for-sale financial assets	113	-	-	113
	113	**-**	**-**	**113**
Other comprehensive income for the period net of tax	**(191)**	**(11)**	**-**	**(202)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**26 340**	**950**	**(274)**	**27 016**

Adjustments made for the comparable period in the statement of cash flows are as follows:

STATEMENT OF CASH FLOWS	Sopharma AD	Bulgarian Rose Sevtopolis AD	Adjustments upon merger	United statement of cash flows
	2014	2014	2014	2014
	BGN'000	BGN'000	BGN'000	BGN'000
Cash flows from operating activities				
Sales proceeds	217 314	9 101	(8 865)	217 550
Payments to suppliers	(143 724)	(3 806)	8 865	(138 665)
Payments for wages and social insurance	(32 695)	(2 888)		(35 583)
Taxes paid (profit tax excluded)	(5 227)	(1 083)		(6 310)
Taxes refunded (profit tax excluded)	3 412	203		3 615
Profit tax paid	(4 842)	(96)		(4 938)
Paid interest and bank fees on working capital loans	(3 011)	(4)		(3 015)
Exchange rate differences, net	(145)	13		(132)
Other proceeds/(payments), net	(931)	(58)		(989)
Net cash flows from/(used in) operating activities	**30 151**	**1 382**	**-**	**31 533**
Cash flows from investing activities				
Purchase of property, plant and equipment	(7 996)	(770)		(8 766)
Proceeds from sale of property, plant and equipment	335	-		335
Purchase of intangible assets	(50)	-		(50)
Purchase of investment properties	(1 005)	-		(1 005)
Purchase of shares in associated companies	(3 136)	-		(3 136)
Purchase of available-for-sale investments	(1 425)	-		(1 425)
Proceeds from sale of available-for-sale investments	133	-		133
Purchase of shares in subsidiaries	(5 988)	-		(5 988)
Proceeds from sale of shares in subsidiaries	5 046	-		5 046

Proceeds from liquidation shares in subsidiaries	-	-	-	-
Proceeds from dividends from investments in subsidiaries and available-for-sale investments	6 332	-		6 332
Loans granted to related parties	(19 480)	-		(19 480)
Repaid loans, granted to related parties	12 555	-		12 555
Loans granted to third parties	(518)	-		(518)
Repaid loans, granted to third parties	362	-		362
Interest from granted loans and investment purpose deposits	3 583	4		3 587
Net cash flows used in investing activities	**(11 252)**	**(766)**	**-**	**(12 018)**
Cash flows from finance activities				
Settlement of long-term bank loans	(7 186)	(497)		(7 683)
Proceeds from short-term bank loans (overdraft), net	5 327			5 327
Settlement of short-term bank loans (overdraft), net	(13 328)			(13 328)
Paid interest and bank fees on investment purpose loans	(1 661)			(1 661)
Proceeds from sales of treasury shares	2 784			2 784
Treasury shares	(1 263)			(1 263)
Dividends paid	(8 811)			(8 811)
Finance lease payments	(95)			(95)
Received government grants	-	-	-	-
Net financial cash flows	**(24 233)**	**(497)**	**-**	**(24 730)**
Net increase/(decrease) in cash and cash equivalents	**(5 334)**	**119**	**-**	**(5 215)**
Cash and cash equivalents at 1 January	7 671	1 022		8 693
Cash and cash equivalents at 30 December	**2 337**	**1 141**	**-**	**3 478**

5. REVENUE

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

	2015	*2014*
	BGN '000	*BGN '000*
Export	24 261	37 566
Domestic market	16 237	13 558
Total	**40 498**	**51 124**

Sales by product - export	*2015*	*2014*
	BGN '000	*BGN '000*
Tablet dosage forms	17 989	29 818
Ampoule dosage forms	3 438	3 720
Ointments	1 295	923
Syrup dosage forms	978	1 566
Lyophilic products	377	1 371
Suppositories	111	112
Drops	73	55
Total	**24 261**	**37 565**

Sales by product – domestic market	*2015*	*2014*
	BGN '000	*BGN '000*
Tablet dosage forms	7 500	7 687
Ampoule dosage forms	4 870	3 533
Lyophilic products	1 471	431
Inhalators	1 118	741
Syrup dosage forms	596	549
Ointments	353	353
Drops	174	167
Suppositories	146	97
Other	9	0
Total	**16 237**	**13 558**

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

	2015 ***BGN '000***	***Relative share***	***2013*** ***BGN '000***	***Relative share***
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:

	2015 ***BGN '000***	***% of revenue***	***2014*** ***BGN '000***	***% of revenue***
Client 1	14 728	36%	67 181	33%
Client 2	16 228	40%	63 497	32%
Client 3	-	-	24 409	12%

6. OTHER OPERATING INCOME AND LOSSES

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

	2015 ***BGN '000***	***2014*** ***BGN '000***
Services rendered	774	950
Fines and penalties income	204	-
Sales of goods	*558*	*354*
Cost of goods sold	*(365)*	*(209)*
Gain on sales of goods	193	145
Grants under European projects	85	45
Sales of non-current assets	*25*	*10*
Carrying amount of non-current assets sold	*(3)*	*(32)*
Gain from sale of long-term assets	22	(22)
Sales of materials	*1 909*	*1 733*
Cost of materials sold	*(1 889)*	*(1 712)*
Gain on sales of materials	20	21
Net loss from exchange differences under trade receivables and payables and current accounts	(794)	(20)
Other income	17	4
Total	**521**	**1 123**

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

Services rendered include:

	2015	***2014***
	BGN '000	***BGN '000***
Rentals	423	426
Manufacturing services	123	314
Social activities	92	88
Laboratory analyses	52	30
Regulatory services	34	25
Gamma irradiation	26	37
Transport organization	7	1
Other	17	29
Total	**774**	**950**

Sales of goods include:

	2015	***2014***
	BGN '000	***BGN '000***
Foodstuffs	193	152
Food supplements	125	45
Cosmetics	124	66
Goods with technical designation	116	91
Total	**558**	**354**

The *cost of goods sold* is as follows:

	2015	***2014***
	BGN '000	***BGN '000***
Foodstuffs	167	124
Cosmetics	105	47
Food supplements	74	24
Goods with technical designation	19	14
Total	**365**	**209**

7. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	2015	*2014*
	BGN '000	*BGN '000*
Basic materials	11 189	14 180
Spare parts, laboratory and technical materials	1 443	1 405
Heat power	1 166	1 412
Electric energy	1 041	977
Fuels and lubricating materials	463	322
Water	129	267
Working clothes	117	148
Scrap of materials	-	15
Other	26	15
Total	**15 574**	**18 741**

Expenses on basic materials include:

	2015	*2014*
	BGN '000	*BGN '000*
Substances	4 675	7 664
Packaging materials	2 470	2 458
Liquid and solid chemicals	2 290	1 676
Ampoules	934	734
Aluminum and PVC foil, vials, tubes	809	1 428
Herbs	11	220
Total	**11 189**	**14 180**

8. HIRED SERVICES EXPENSE

Hired services expense includes:

	2015	*2014*
	BGN '000	*BGN '000*
Manufacturing of medicinal products	2 659	2 706
Advertising	2 237	2 290
Consulting services	1 086	3 934
Rentals	632	592
Transport	553	752
Clinical trials	541	11
Logistic services – domestic market	538	445
Buildings and equipment maintenance	352	344
Local taxes and charges	315	317
Security	235	227
Logistic services – export	195	112
State and regulatory charges	186	308
Medical service	184	184
Subscription fees	173	152
Services under civil contracts	168	182
Insurance	164	223
Announcements and communications	96	76
Taxes on expenses	95	103
Services on medicinal products registration	94	299
Vehicles repair and maintenance	83	135
License fees and charges	63	53
Commission fees	59	4
Documentation translation	54	78
Destruction of pharmaceuticals	50	28
Fees for servicing of current bank accounts	43	56
Courier services	26	22
Other	235	9
Total	**11 116**	**13 642**

9. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2015	*2014*
	BGN '000	*BGN '000*
Current wages and salaries	6 992	6 785
Social security/health insurance contributions	1 296	1 308
Social security/health insurance contributions on leaves	579	503
Social benefits and payments	499	447
Accruals for insurance contributions on paid leaves	103	91
Accruals for long-term retirement benefit obligations	70	27
Total	**9 539**	**9 161**

Accruals for long-term liabilities to personnel upon retirement include:

	2015	*2014*
	BGN '000	*BGN '000*
Current service costs	68	27
Interest costs	1	-
Net actuarial losses recognized during the period	1	-
Total	**70**	**27**

10. OTHER OPERATING INCOME (EXPENSES)

Other expenses include:

	2015	*2014*
	BGN '000	*BGN '000*
Entertainment allowances	352	366
Business trip costs	120	144
Donations	117	23
Scrapped finished products and work in progress	101	3
Training	89	18
Unrecognized excise duties	12	-
Unrecognized input tax under VATA	10	5
Fines and penalties to suppliers	10	-
Other taxes and payments to the state budget	9	20
Accrued impairment of receivables, net	(2 138)	-
Other	42	-
Total	**(1 276)**	**579**

11. IMPAIRMENT OF CURRENT ASSETS

Impairment losses on current assets include:

	2015	*2014*
	BGN '000	*BGN '000*
Impairment of commercial receivables	*18*	-
Reversed impairment of receivables	*(2 157)*	-
Net change in the impairment of receivables	(2 139)	-
Impairment of receivables under trade loans granted	*1*	-
Total	**(2 138)**	**-**

12. FINANCE INCOME

Finance income includes:

	2015	*2014*
	BGN'000	*BGN'000*
Interest income on loans granted	793	713
Net gain on transactions with securities	68	2 772
Total	**861**	**3 485**

13. FINANCE COSTS

Finance costs include:

	2015	*2014*
	BGN'000	*BGN'000*
Interest expense on loans received	765	1 023
Bank fees and charges on loans and guarantees	59	36
Interest expense on finance lease	4	5
Total	**828**	**1 064**

14. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2015	*2014*
	BGN '000	*BGN '000*
Net change in fair value of available-for-sale financial assets:	37	-
Remeasurements of defined benefit pension plans	(14)	
Total comprehensive income for the year	**23**	**-**

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Machinery and equipment*		*Other*		*Assets in progress*		*Total*	
	2015 BGN'000	***2014 BGN'000***	***2015 BGN'000***	***2014 BGN '000***	***2015 BGN'000***	***2014 BGN'000***	***2015 BGN'000***	***2014 BGN'000***	***2015 BGN '000***	***2014 BGN'000***
Book value										
Balance at 1 January	**131 399**	**130 870**	**149 912**	**147 680**	**24 144**	**25 371**	**7 440**	**1 120**	**312 748**	**305 041**
Additions	-	242	118	1 446	13	657	1 427	9 149	1 558	11 494
Transfer to property, plant and equipment	-	305	87	2 001	7	721	(94)	(3 027)	-	-
Effect from remeasurement to fair value	-	-	-	-		9	-	-	-	9
Allowance for impairment	-	-		(274)		(98)	-	-	-	(372)
Disposals		(18)	(5)	(871)	(226)	(2 481)	-	(56)	(231)	(3 426)
Balance at 31 March / 31 December	**131 399**	**131 399**	**150 182**	**149 982**	**23 973**	**24 179**	**8 521**	**7 188**	**314 075**	**312 748**
Accumulated depreciation										
Balance at 1 January	**14 807**	**10 995**	**70 830**	**63 038**	**16 055**	**14 209**	**-**	**-**	**101 692**	**88 242**
Depreciation charge for the year	958	3 817	2 097	8 635	603	3 808	-	-	3 658	16 260
Depreciation written-off		(5)		(849)	(222)	(1 962)	-	-	(222)	(2 816)
Allowance for impairment	-	-		6	-	-	-	-	-	6
Balance at 31 March / 31 December	**15 765**	**14 807**	**72 927**	**70 830**	**16 436**	**16 055**	**-**	**-**	**105 128**	**101 692**
Carrying amount at 31 March / 31 December	**115 634**	**116 592**	**77 255**	**79 152**	**7 537**	**8 124**	**8 521**	**7 188**	**208 947**	**211 056**
Carrying amount at 1 January	**116 592**	**119 875**	**79 152**	**84 642**	**8 124**	**11 162**	**7 188**	**1 122**	**211 056**	**216 801**

As at 31 March 2015, Company's tangible fixed assets included: land amounting to BGN 32,747 thousand (31 December 2014: BGN 32,747 thousand) and buildings of carrying amount BGN 82,887 thousand (31 December 2014: BGN 83,845 thousand).

Tangible fixed assets in progress as at 31 March include:

- advances granted for:
  - purchase of machinery and equipment – BGN 3,406 thousand (31 December 2014: BGN 3,431 thousand);
  - construction and assembly works – BGN 900 thousand (31 December 2014: BGN 841 thousand);
- expenses on construction of a new warehouse unit – BGN 4,064 thousand (31 December 2014: BGN 2,787 thousand);
- buildings reconstruction – BGN 119 thousand (31 December 2014: BGN 100 thousand);
- other – BGN 32 thousand (31 December 2014: BGN 29 thousand).

As at 31 March 2015, the carrying amount of property, plant and equipment includes machinery and

equipment for a new tablet production facility at the amount of BGN 8,436 thousand (31 December 2014: BGN 8,589 thousand) purchased using grants under Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 *(Note 30).*
The amount of other assets as at 31 March 2015 includes also biological assets – Golden Chain (Laburnum anagyroides) plantation at the amount of BGN 128 thousand (31 December 2014: BGN 128 thousand).

Operating lease

The Company has leased tangible fixed assets with carrying amount of BGN 6,467 thousand as at 31 March 2015 to related parties (31 December 2014: BGN 7,074 thousand). In addition, tangible fixed assets at carrying amount of BGN 238 thousand were leased to third parties as at 31 March 2015 (31 December 2014: BGN 257 thousand).

Finance lease

As at 31 March 2015, assets at the carrying amount of BGN 152 thousand were acquired under finance lease contracts (31 December 2014: BGN 166 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 150 thousand (31 December 2014: BGN 150 thousand);
- Machinery and equipment – BGN 31,089 thousand (31 December 2014: BGN 30,172 thousand);
- Motor vehicles – BGN 3,595 thousand (31 December 2014: BGN 3,568 thousand);
- Furniture and fixtures – BGN 5,259 thousand (31 December 2014: BGN 5,125 thousand);
- Other – BGN 41 thousand (31 December 2014: BGN 41 thousand).

The following encumbrances were constituted on Company's tangible fixed assets as at 31 March 2015 in relation with received loans:

- Land and buildings with carrying amount of BGN 22,009 thousand and BGN 64,816 thousand, respectively (31 December 2014: BGN 23,706 thousand and BGN 69,237 thousand, respectively) *(Notes 30, 35 and 41);*
- Pledges on equipment – BGN 40,412 thousand (31 December 2014: BGN 26,273 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 amortized recoverable amount' – for special-purpose buildings for which neither actual market nor comparable sales of analogous assets existed – their amortized recoverable amount at current purchase prices was accepted as their fair value and under the hypothesis of their common use in technologically-related production business process (including the term) and taking into account: physical ware, functional and economic impairment.

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

The Company's management again analyzed its key assets price changes occurred as at 31 March 2015 and as at 31 December 2015 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.

16. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Assets in progress*		*Total*	
Book value	*2015 BGN '000*	*2014 BGN '000*	*2015 BGN '000*	*2014 BGN'000*	*2015 BG '000*	*2014 BGN'000*	*2015 BGN'000*	*2014 BGN'000*	*2015 BGN'000*	*2014 BGN'000*
Balance at 1 January	**768**	**768**	**1 869**	**2 329**	**4 154**	**4 124**	**131**	**353**	**6 922**	**7 574**
Additions			49			30		65	49	95
Disposals				(747)			-	-	-	(747)
Transfer				287			-	(287)	-	-
Balance at 31 March / 31 December	**768**	**768**	**1 918**	**1 869**	**4 154**	**4 154**	**131**	**131**	**6 971**	**6 922**
Accumulated amortization										
Balance at 1 January	-	-	**1 216**	**1 186**	**2 496**	**1 959**	-	-	**3 712**	**3 145**
Amortization charge for the year			59	429	124	537	-	-	183	966
Amortization written-off				(399)		-	-	-	-	(399)
Balance at 31 March / 31 December	-	-	**1 275**	**1 216**	**2 620**	**2 496**	-	-	**3 895**	**3 712**
Carrying amount at 31 March / 31 December	**768**	**768**	**643**	**653**	**1 534**	**1 658**	**131**	**131**	**3 076**	**3 210**
Carrying amount at 1 January	**768**	**768**	**653**	**1 143**	**1 658**	**2 165**	**131**	**353**	**3 210**	**4 429**

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

Intangible assets in progress as at 31 March include expenses on permits for use of medicinal products – BGN 131 thousand (31 December 2014: BGN 131 thousand);

17. INVESTMENT PROPERTY

	31.03.2015	*31.12.2014*
	BGN '000	*BGN '000*
Balance at 1 January	**22 368**	**22 555**
Net loss on fair value adjustment, included in profit or loss	-	(187)
Balance at 31 March / 31 December	**22 368**	**22 368**

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

Group of assets	*31.03.2015*	*31.12.2014*
	BGN '000	*BGN '000*
Warehouse premises	18 498	18 498
Offices	2 310	2 310
Production buildings	1 140	1 140
Social objects	420	420
Total	**22 368**	**22 368**

There are established encumbrances as at 31 March 2015 on investment property as follows:

- mortgages of warehouse premises – BGN 8,095 thousand (31 December 2014: BGN 8,095 thousand);
- pledges on attached equipment – BGN 6,138 thousand (31 December 2014: BGN 6,138 thousand).

Fair value measurement

Fair value hierarchy

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

The investment property 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:

	Warehouse premises	*Offices*	*Production buildings*	*Social objects*	*Total*

	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance at 1 January 2014	**18 622**	**2 329**	**1 170**	**434**	**22 555**
Net change in fair value through profit or loss – unrealized	(124)	(19)	(30)	(14)	(187)
Balance at 31 December 2014	**18 498**	**2 310**	**1 140**	**420**	**22 368**
Net change in fair value through profit or loss – unrealized					
Balance at 31 March 2015	**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	*a. Income approach* Valuation technique: Method of capitalized rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term for entrance into rental deals
	b. Cost approach Valuation technique: Method of replacement costs – depreciated recoverable amount (supportive valuation technique)	Adjusted prices for construction of identical properties and purchase prices of machinery and equipment, similar to those attached
Offices, production buildings and social objects	*Income approach* Valuation technique: Method of capitalized rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term for entrance into rental deals

18. INVESTMENTS IN SUBSIDIARIES

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

	31.03.2015 BGN '000	***Interest %***	***31.12.2014 BGN '000***	***Interest %***

Sopharma Trading AD	Bulgaria	28 508	71.83	28 529	71.89
Sopharma Ukraine	Ukraine	24 335	100.00	9	100.00
Briz OOD	Latvia	22 270	66.13	22 270	66.13
Unipharm AD	Bulgaria	19 448	49.99	19 448	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
Momina Krepost AD	Bulgaria	4 086	80.09	2 701	52.98
Vitamina AD	Ukraine	3 544	99.56	3 544	99.56
Pharmalogistica AD	Bulgaria	1 911	76.54	1 911	76.54
Sopharma Buildings REIT	Bulgaria	595	40.75	595	40.75
Sopharma Kazakhstan EOOD	Kazakhstan	502	100.00	502	100.00
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
Phyto Palauzovo AD	Bulgaria	95	95.00	95	95.00
Total		**120 124**		**94 434**	

As at 31 March 2015, the investments in the subsidiaries Sopharma Poland OOD – in liquidation, Poland, Extab Corporation, USA and Sopharma USA were fully impaired (31 December 2014: 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.
- 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 (securitization of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale. Date of acquisition – 4 August 2008.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 2008.
- Briz OOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 10 November 2009.
- 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 movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
	31.03.2015	***31.12.2014***
Acquisition cost (cost)	***BGN '000***	***BGN '000***
Balance at 1 January	**110 630**	**98 659**
Acquired through capital increase	24 326	-
Additional interest acquired	1 385	13 101
Newly acquired subsidiaries	-	502
Interest sold without loss of control	(21)	(1 632)
Balance at 31 December	**136 320**	**110 630**
Accrued impairment		
Balance at 1 January	**16 196**	**13 316**
Accrued impairment	-	2 880
Balance at 31 December	**16 196**	**16 196**
Carrying amount at 31 December	**120 124**	**94 434**
Carrying amount at 1 January	**94 434**	**85 343**

In 2015 there are no newly established subsidiaries (2013: TOO Sopharma Kazakhstan).

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.

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 where under 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.

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 as at 31 December 2014 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.

Significant goodwill has been recognized on the acquisition of two investments in subsidiaries as at 31

December 2014. 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%.

19. INVESTMENTS IN ASSOCIATES

The carrying amount of the investments in associates is as follows:

		31.03.2015	***Share***	***31.12.2014***	***Share***
		BGN '000	**%**	***BGN '000***	**%**
Medica AD	Bulgaria	**9 908**	32.91	**7 015**	24.38

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:

	31.03.2015	*31.12.2014*
	BGN '000	*BGN '000*
Balance at 1 January	**7 015**	**-**
Acquisition of shares	2 895	3 152
Sale of shares	(2)	(15)
Transfer of available-for-sale investments (Level 3)	-	3 878
Balance at 31 March / 31 December	**9 908**	**7 015**

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 as at 31 December 2014 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.

20. AVAILABLE-FOR-SALE INVESTMENTS

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

	31.03.2015 BGN '000	*Interest %*	*31.12.2014 BGN '000*	*Interest %*
Doverie United Holding AD	1 836	9.90	1 836	9.90
Olainfarm AD - Latvia	1 293	0.77	1 256	0.77
Lavena AD	1 008	8.50	1 007	8.49
Hydroizomat AD	202	10.65	202	10.63
Elana Agrocredit AD	102	1.95	102	1.95
Todorov AD	26	4.71	26	4.70
Ecobulpack AD	7	1.48	7	1.48
UniCredit Bulbank AD	3	0.001	3	0.001
Medica AD	-	-	-	-
Vratitsa AD	-	0.27	-	0.27
Sopharma Properties AD	-	-	-	-
Total	**4 477**		**4 439**	

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

The fair value per share is as follows:

Available-for-sale investments	*31.03.2015*			*31.12.2014*		
	Number of shares	***Fair value per share***	***Fair value as per the statement of financial position***	***Number of shares***	***Fair value per share***	***Fair value as per the statement of financial position***
		BGN	***BGN***		***BGN***	***BGN***
Doverie United Holding AD	1 854 352	0.99	1 836	1 854 352	0.83	1 836
Olainfarm AD - Latvia	108 500	11.92	1 293	108 500	12.10	1 256
Lavena AD	22 661	44.48	1 008	22 641	44.01	1 007
Hydroizomat AD	318 251	0.63	202	317 901	0.90	202
Elana Agrocredit AD	100 000	1.02	102	100 000	1.01	102
Todorov AD	160 009	0.16	26	159 919	0.25	26
Vratitsa AD	1 015	0.00	-	1 015	0.00	-
Maritzatex AD	58 476	0.00	-	58 476	0.00	-
			4 467			**4 429**

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

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

Fair value hierarchy

Available-for-sale financial investments (shares)	*Fair value*	*Level 1*	*Level 2*	*Level 3*
	31.03.2015			
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Doverie United Holding AD	1 836	-	-	1 836
Olainfarm AD - Latvia	1 293	1 293	-	-
Lavena AD	1 008	-	1 008	-
Hydroizomat AD	202	-	202	-
Elana Agrocredit AD	102	102	-	-
Todorov AD	26	26	-	-
Total	**4 467**	**1 421**	**1 210**	**1 836**

Available-for-sale financial investments (shares)	*Fair value*	*Level 1*	*Level 2*	*Level 3*
	31.12.2014			
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Doverie United 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**

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

Available-for-sale financial investments (shares)	***Level 1***	***Level 2***	***Level 3***	***Total***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
Balance at 1 January 2014	**1 454**	**1 327**	**4 071**	**6 852**
Purchases	2	75	1347	1 424
Sales	-	(121)	(10)	(131)
Transfer to investments in associates	-	-	(3 878)	(3 878)
Realized gain/(loss) included in the current profit and loss for the year in the item Finance costs – *Net loss on transactions with securities*	-	(2)	2	-
Unrealized loss included in the current profit and loss for the year	(8)	(80)	-	(88)
Unrealized gain/(loss), net, included in other comprehensive income	(64)	10	304	250
Balance at 31 March 2015	**1 384**	**1 209**	**1 836**	**4 429**
Purchases		1		1
Unrealized gain/(loss), net, included in other comprehensive income	37	-	-	37
	1 421	**1 210**	**1 836**	**4 467**

Valuation techniques and significant unobservable inputs

The table below shows the valuation techniques applied as at 31 March 2015 for fair value measurement at Level 2 and Level 3 as well as the used significant unobservable inputs:

Available-for-sale financial investments (shares)	***Valuation approaches and techniques***	***Significant unobservable inputs, considerably adjusted observable data and average values***
Level 2	*Market comparables approach:* Valuation technique: Market multiples method	-
Level 3	*a. Income approach* 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)
	b. Market approach Valuation technique: Market multiples method (supportive valuation technique)	-

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

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

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Long-term loans granted	33 254	32 857
Long-term rental deposit granted	293	293
Total	**33 547**	**33 150**

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 %*	*31.03.2015*		*31.12.2014*	
				BGN'000	*BGN'000 including interest*	*BGN'000*	*BGN'000 including interest*
EUR	11 831	01.12.2016	5.00%	26 356	*535*	26 038	*217*
EUR	3 272	01.12.2016	5.00%	6 898	*498*	6 819	*419*
				33 254	***1 033***	**32 857**	***636***

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.

22. 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 5 thousand as at 31 March 2015: (31 December 2014: BGN 6 thousand).

23. INVENTORIES

Company's *inventories* include:

	31.03.2015 BGN '000	***31.12.2014 BGN '000***	
Materials	26 486	25 754	
Finished products	26 048	22 282	
Work in progress	5 934	5 303	*
Semi-finished products	4 222	3 809	
Goods	276	212	
Total	**62 966**	**57 360**	

* Restated

Materials by type are as follows:

	31.03.2015 BGN '000	***31.12.2014 BGN '000***
Basic materials	25 587	23 384
Technical materials	512	536
Spare parts	203	211
Auxiliary materials	134	243
Other	50	57
Materials in transit	-	1 323
Total	**26 486**	**25 754**

Basic materials by type are as follows:

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Substances	16 712	13 380
Chemicals	3 629	4 346
Ampoules, vials and tubes	2 587	2 633
Packaging materials	1 279	1 158
PVC and aluminum foil	978	1 050
Herbs	402	817
Total	**25 587**	**23 384**

Finished products existing at 31 December include:

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Tablet dosage forms	16 946	14 939
Ampoule dosage forms	5 277	3 980
Syrups	1 929	1 723
Other	1 896	1 640
Total	**26 048**	**22 282**

Pledges were established on Company's inventories with a carrying amount of BGN 34,548 thousand as at 31 March 2015 as collateral to bank loans received (31 December 2014: BGN 30,388 thousand).

24. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Receivables from subsidiaries	*49 212*	*79 618*
Impairment of uncollectable receivables	*(129)*	*(2 286)*
	49 083	77 332
Receivables from companies related through key managing personnel	17 855	14 476
Receivables from companies under a common indirect control	7 715	7 697
Total	**74 653**	**99 505**

The receivables from related parties by type are as follows:

	31.03.2015 ***BGN '000***	***31.12.2014*** ***BGN '000***
Receivables on sales of finished products and materials	41 040	69 473
Impairment of uncollectable receivables	*(121)*	*(2 278)*
	40 919	67 195
Trade loans granted	33 742	32 318
Impairment of uncollectable receivables	*(8)*	*(8)*
	33 734	32 310
Total	**74 653**	**99 505**

The receivables on sales are interest-free and BGN 26,102 thousand of them are denominated in BGN (31 December 2014: BGN 26,776 thousand) and in EUR – BGN 14,817 thousand (31 December 2014: BGN 40,419 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 25,098 thousand as at 31 March 2015 or 61,34% of all receivables on sales of finished products and materials to related parties (31 December 2014: BGN 28,390 thousand – 42,25%).

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

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

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

	31.03.2015 ***BGN '000***	***31.12.2014*** ***BGN '000***
up to 30 days	9 578	14 888
from 31 to 90 days	15 464	18 332
from 91 to 180 days	6 667	4 747
from 181 to 240 days	734	1 708
over 241 days	2 562	1 238
Total	**35 005**	**40 913**

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

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
from 31 to 90 days	36	178
from 91 to 180 days	4 754	4 224
from 181 to 365 days	1 124	15 942
Total	**5 914**	**20 344**

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:

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
over 1 year	121	8 216
Allowance for impairment	(121)	(2 278)
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:

	2015	***2014***
	BGN '000	***BGN '000***
Balance at the beginning of the year	**2 278**	**171**
Stated impairment		2 183
Reversed impairment	(2 157)	(76)
Amounts written-off as uncollectable	-	-
Balance at the end of the year	**121**	**2 278**

Special pledges have been established as at 31 March 2015 on receivables from related parties at the amount of BGN 18,229 thousand (31 December 2014: BGN 16,229 thousand) as collateral under bank loans received.

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

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Receivables from companies related through key managing personnel	17 855	14 475
Subsidiaries	*8 172*	*10 211*
Impairment of trade loans	*(8)*	*(8)*
	8 164	10 203
Companies under a common indirect control	7 715	7 632
Total	**33 734**	**32 310**

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

Currency	***Contracted amount '000***	***Maturity***	***Interest %***	***31.03.2015 BGN'000***	***31.03.2015 BGN'000 including interest***	***31.12.2014 BGN'000***	***31.12.2014 BGN'000 including interest***
to companies related through key managing personnel							
EUR	11 999	31.12.2015	4.50%	11 448	*28*	9 537	*18*
BGN	34 020	31.12.2015	5.50%	3 139	*51*	3 097	*9*
BGN	6 000	22.07.2015	5.50%	2 655	*44*	1 236	*26*
BGN	1 300	31.12.2015	5.50%	483	*23*	477	*17*
BGN	190	31.12.2015	5.50%	130	*2*	128	*1*
to companies under a common indirect control							
EUR	7 661	31.12.2015	4.50%	7 715	*238*	7 632	*155*
to subsidiaries							
EUR	2 770	31.12.2015	6.10%	6 793	*1 375*	6 711	*1 294*
BGN	2 460	31.12.2015	5.50%	721	*1*	2 903	*158*
USD	205	31.12.2015	3.50%	405	*32*	355	*26*
BGN	600	31.12.2015	5.50%	151	*1*	151	-
USD	25	31.12.2015	3.50%	52	*6*	46	*5*
USD	20	31.12.2015	3.50%	42	*5*	37	*5*
				33 734	***1 806***	**32 310**	***1 714***

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

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

	2015	***2014***
	BGN '000	***BGN '000***
Balance at the beginning of the year		
Stated impairment	**8**	**7**
Amounts written-off as uncollectable		1

Balance at the end of the year	-	-

25. TRADE RECEIVABLES

Trade payables include:

	31.03.2015 ***BGN '000***	***31.12.2014*** ***BGN '000***
Receivables from clients	20 684	23 378
Impairment of uncollectable receivables	(1 021)	(1 003)
	19 663	22 375
Advances granted	637	1 022
Total	**20 300**	**23 397**

The *receivables from clients* are interest-free and BGN 295 thousand of them are denominated in BGN (31 December 2014: BGN 337 thousand), in EUR – BGN 18,446 thousand (31 December 2014: BGN 19,705 thousand), in USD – BGN 922 thousand (31 December 2014: BGN 950 thousand), and in PLN – none (31 December 2014: BGN 1,383 thousand)

About 82,67% of the receivables from clients are attributable to three main counterparts of the Company (for 2014: 83,41%).

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

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

Special pledges on trade receivables at the amount of BGN 19,663 thousand were established at 31 March 2015 as collateral to bank loans received (31 December 2014: BGN 22,246 thousand)..

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

	31.03.2015 ***BGN '000***	***31.12.2014*** ***BGN '000***
up to 30 days	11 969	1 330
from 31 to 90 days	6 420	13 108
from 91 to 180 days	149	868
from 181 to 365 days	-	-

Total	**18 538**	**15 306**

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

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
from 31 to 90 days	440	6 823
from 91 to 180 days	122	171
from 181 to 365 days	563	75
Total	**1 125**	**7 069**

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

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
up to 30 days	281	262
from 91 to 180 days	112	112
over 1 year	628	629
Allowance for impairment	(1 021)	(1 003)
	-	**-**

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

	2015	***2014***
	BGN '000	***BGN '000***
Balance at the beginning of the year	**1 003**	**582**
Stated impairment	18	637
Amounts written-off as uncollectable	-	(198)
Reversed impairment	-	(18)
Balance at the end of the year	**1 021**	**1 003**

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

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Inventories	484	693
Services	153	329
Total	**637**	**1 022**

The *advances granted* are regular. They include: in BGN – BGN 104 thousand (31 December 2014: BGN 864 thousand), in EUR – BGN 66 thousand (31 December 2014: BGN 95 thousand), and in USD – BGN 467 thousand (31 December 2014: BGN 63 thousand).

26. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Taxes refundable	7 416	6 515
Prepayments	1 924	2 989
Loans granted to third parties	*1 298*	*1 119*
Impairment of uncollectable receivables	*(37)*	*(37)*
	1 261	1 082
Litigation securities granted	577	863
Receivables on deposits placed as guarantees	253	250
Amounts granted to an investment intermediary	119	125
Court and awarded receivables	*2 115*	*2 099*
Impairment of court receivables	*(2 115)*	*(2 099)*
	-	-
Other	67	77
Total	**11 617**	**11 901**

Taxes refundable include:

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Excise duties	4 246	3 990
Corporate tax	2 101	1 923
Value added tax	1 069	602
Total	**7 416**	**6 515**

Prepayments include:

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Rentals	1 261	1 660
Insurance	311	416
Subscriptions	259	301
License and patent fees	36	36
Medical equipment	23	23
Vouchers	0	1
Advertising	1	435
Other	33	117
Total	**1 924**	**2 989**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***31.03.2015***		***31.12.2014***	
	'000			***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
					including interest		***including interest***
BGN	713	31.12.2015	7.00%	764	*50*	751	*38*
BGN	600	23.06.2015	5.50%	447	*2*	281	*1*
BGN	50	14.10.2015	5.50%	50	*1*	50	-
				1 261	***53***	**1 082**	***39***

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:

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Guarantees under construction contracts	110	110
Guarantees under contracts for fuel supply	88	88
Guarantees under communication service contracts	34	34
Other	21	18
Total	**253**	**250**

27. CASH AND CASH EQUIVALENTS

Cash includes:

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Cash at current bank accounts	2 920	3 301
Cash in hand	74	156
Blocked cash under issued bank guarantees	28	21
Cash and cash equivalents for cash flows	**3 022**	**3 478**
Blocked cash under litigations	675	598
Total	**3 697**	**4 076**

Cash at current bank accounts are as follows: in BGN: BGN 1,600 thousand (31 December 2014: BGN 1,402 thousand), in EUR – BGN 664 thousand (31 December 2014: BGN 998 thousand), in USD – BGN

452 thousand (31 December 2014: BGN 778 thousand) and in other currency – BGN 204 thousand (31 December 2014: BGN 123 thousand).

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 675 thousand (USD 372 thousand) (31 December 2014: BGN 598 thousand).

28. EQUITY

Share capital

As at 31 March 2015, the registered share capital of Sopharma AD amounted to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

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

Ordinary shares issued and fully paid	***Shares***	***Share capital net of treasury shares***
	number	***BGN '000***
Balance at 1 January 2014	**129 337 223**	**116 693**
Treasury shares purchased	650 577	2 165
Treasury shares sold	(304 031)	(1 257)
Expenses on treasury shares	-	(6)
Balance at 31 December 2014	**129 683 769**	**117 595**
Balance at 1 January 2015	**129 683 769**	**117 595**
Treasury shares purchased	(49 026)	(174)
Expenses on treasury shares	-	(1)
Balance at 31 March / 31 December	**129 634 743**	**117 420**

The ***treasury shares*** were 5,163,156 at the amount of BGN 17,203 thousand as at 31 March 2015 (31 December 2014: (31 December 2014: 5,114,130 at the amount of BGN 17,203 thousand). During the current year were purchased 49.026 shares (2014: 304.031 shares) and no shares were sold (2014: 650.577 shares) through a broker.

As at 31 March 2015, Company's ***shares held by its subsidiaries and associates*** were as follows:

- by Sopharma Trading AD – 23,857 shares (31 December 2014: 23,857 shares).
- by Unipharm AD – 191,166 shares (31 December 2014: 191,166 shares).
- by Medica AD – 27,573 shares (31 December 2014: 2,390 shares).

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

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Statutory reserves	33 555	33 555

Property, plant and equipment revaluation reserve	22 434	22 434
Premium reserve	8 785	8 785
Available-for-sale financial assets reserve	1 134	1 097
Additional reserves	189 157	189 157
Total	**255 065**	**255 028**

Statutory reserves at the amount of BGN 33,555 thousand (31 December 2014: BGN 33,555 thousand) were set aside from allocation of profit and included all amounts for the Reserve Fund.

The movements of statutory reserves were as follows:

	2015	***2014***
	BGN '000	***BGN '000***
Balance at 1 January	**33 555**	**30 051**
Distribution of profit	-	3 504
Balance at 31 March / 31 December	**33 555**	**33 555**

The ***property, plant and equipment revaluation reserve*** amounting to BGN 22,434 thousand (31 December 2014: BGN 22,434 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:

	2014	***2013***
	BGN '000	***BGN '000***
Balance at 1 January	**22 434**	**23 392**
Transfer to retained earnings	-	(953)
Impairment of property, plant and equipment	-	(6)
Deferred tax relating with revaluations	-	1
Balance at 31 March / 31 December	**22 434**	**22 434**

The premium reserve, amounting to BGN 8,785 thousand (31 December 2014: BGN 8,785 thousand) is formed by the positive difference between the issue price and the nominal value of the shares issued upon the merger of the subsidiary Bulgarian Rose – Sevtopolis AD in Sopharma AD.

The movement of the premium reserve is as follows:

	2015	***2014***
	BGN '000	***BGN '000***
Balance at 1 January	**8 785**	**8 785**
Positive difference between the issue price and the nominal value of the issued shares upon the merger of a subsidiary	-	-

Balance at 31 March / 31 December	**8 785**	**8 785**

The ***available-for-sale financial assets reserve***, amounting to BGN 1,134 thousand (31 December 2014: BGN 1,097 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:

	2014	***2013***
	BGN '000	***BGN '000***
Balance at 1 January	**1 097**	**984**
Net gain arising on revaluation of available-for-sale financial assets	37	250
Cumulative (gains)/losses reclassified to current profit or loss upon sale/realization of available-for-sale financial assets	-	(137)
Balance at 31 March / 31 December	**1 134**	**1 097**

Additional reserves at the amount of BGN 189,157 thousand (31 December 2014: BGN 189,157 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:

	2014	***2013***
	BGN '000	***BGN '000***
Balance at 1 January	**189 157**	**166 508**
Distributed profit in the year	-	22 649
Balance at 31 March / 31 December	**189 157**	**189 157**

Retained earnings, amounting to BGN 41,128 thousand as at 31 March 2015 (31 December 2014: BGN 33,926 thousand).

The movements of ***retained earnings*** were as follows:

	2015	***2014***
	BGN '000	***BGN '000***
Balance at 1 January	**33 926**	**41 450**
Net profit for the year	7 216	26 257
Actuarial losses from subsequent remeasurements	(14)	(310)
Transfer from property, plant and equipment revaluation reserve	-	953
Effect of treasury shares sold	-	619
Distribution of profit for reserves	-	(26 153)
Payment of dividend	-	(8 890)
Balance at 31 March / 31 December	**41 128**	**33 926**

Basic earnings per share

	31.03.2015	*31.12.2014*
Weighted average number of shares	129 653 956	129 604 136
Net profit for the year (BGN'000)	7 216	10 448
Basic earnings per share (BGN)	**0.06**	**0.08**

29. LONG-TERM BANK LOANS

			31.03.2015			*31.12.2014*		
Currency	*Contracted loan amount*	*Maturity*	*Non-current portion*	*Current portion*	*Total*	*Non-current portion*	*Current portion*	*Total*
	'000		*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Investment-purpose loans								
EUR	32 000	15.04.2021	36 175	7 330	**43 505**	37 972	7 391	**45 363**
EUR	1 617	31.01.2015	-	-	-		40	**40**
			36 175	**7 330**	**43 505**	**37 972**	**7 431**	**45 403**

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 (2014: 3-month EURIBOR plus a mark-up of 2.8 points and 1-month EURIBOR plus a mark-up of 5 points).

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

- Mortgages of real estate – BGN 45,554 thousand (31 December 2014: BGN 51,918 thousand)*;*
- Special pledges on:
  - machinery and equipment – BGN 21,022 thousand (31 December 2014: BGN 21,503 thousand).
  - receivables from related parties – none (31 December 2014: BGN 1,481thousand).

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.

30. GOVERNMENT GRANTS

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

- the acquisition of machinery and equipment for a new tablet production facility at the amount of BGN 3,313 thousand (31 December 2014: BGN 3,358 thousand) is under a concluded contract.
- the acquisition of machinery and equipment for the technological renovation and modernization of a tablet production facility at the amount of BGN 590 thousand (31 December 2014: BGN 610 thousand).

The current portion of the grant, amounting to BGN 297 thousand (31 December 2014: BGN 297 thousand) will be recognized as current income over the following 12 months from the date of the separate statement of financial position and is presented as 'other current liabilities' *(Note 40).*

31. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Long-term retirement benefit obligations	2 277	2 195
Long-term benefit obligations for tantieme	192	192
Total	**2 469**	**2 387**

Long-term retirement benefit obligations

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

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

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

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

	2015	***2014***
	BGN '000	***BGN '000***
Present value of the obligation at 1 January	**2 195**	**1 854**
Current service cost	68	211
Interest cost	1	79
Net actuarial loss recognized for the period	1	11
Payments for the year	(2)	(270)
Actuarial losses for the period, recognized in other components of comprehensive income	14	310
Present value of the obligation at 31 December	**2 277**	**2 195**

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

	2015	***2014***
	BGN '000	***BGN '000***
Current service cost	68	27
Interest cost	1	-
Net actuarial loss recognized for the period	1	-
Components of defined benefit plans cost recognized in profit or loss for the period	**70**	**27**

The following actuarial assumptions were used in calculating the present value of the liabilities as at 31 March 2015 and 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 17% for the five age groups formed (2013: from 0% to 17%).

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 weighted average duration of the defined benefit obligation to personnel is 7.4 years (31 December 2014: 7.4 years).

Long-term benefit obligations for tantieme

As at 31 March 2015, the long-term benefit obligations to personnel include also the amount of BGN 192 thousand (31 December 2014: BGN 192 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months (until 30 June 2016 and 2017).

32. FINANCE LEASE LIABILITIES

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

Term	***31.03.2015 BGN '000***	***31.12.2014 BGN '000***
Up to one year	62	60
Over one year	25	34
Total	**87**	**94**

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

Term	***31.03.2015 BGN '000***	***31.12.2014 BGN '000***
Up to one year	71	70
Over one year	27	38
	98	108
Future finance costs under finance leases	(11)	(14)
Present value of finance lease liabilities	**87**	**94**

The lease payments due within the next 12 months are presented in the statement of financial position as ‘other current liabilities’.

33. SHORT-TERM BANK LOANS

Currency	***Contracted amount '000***	***Maturity***	***31.03.2015 BGN'000***	***31.12.2014 BGN'000***
Bank loans (overdrafts)				
EUR	20 000	31.08.2015	36 724	38 847
EUR	10 000	20.03.2016	14 468	13 477
BGN	10 000	31.08.2015	9 990	9 990
EUR	5 000	15.06.2015	9 779	9 786

EUR	5 000	15.06.2015	3 746	1 083
			74 707	**73 183**
Extended credit lines				
BGN	18 000	30.10.2015	9 976	9 965
EUR	5 000	31.08.2015	4 091	3 119
BGN	8 000	29.02.2016	3 583	4 494
			17 650	**17 578**
Total			**92 357**	**90 761**

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 (2014: for bank loans in Euro – 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 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 favor of the creditor banks:

- Mortgages of real estate – BGN 49,366 thousand (31 December 2014: BGN 38,264 thousand));
- Special pledges on:
  - machinery and equipment – BGN 25,528 thousand (31 December 2014: BGN 10,871 thousand);
  - inventories – BGN 34,548 thousand (31 December 2014: BGN 35,525 thousand);
  - receivables from related parties – BGN 18,229 thousand (31 December 2014: BGN 16,229 thousand);
  - trade receivables – BGN 19,663 thousand (31 December 2014: BGN 22,763 thousand);
  - trade receivables from third parties – BGN 12,773 thousand (31 December 2014: BGN 12,773 thousand).

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

34. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.03.2015 *BGN '000*	*31.12.2014* *BGN '000*
Payables to subsidiaries	1 790	3 219
Payables to companies under a common indirect control	987	761
Payables to associates	165	2

Payables to companies under a common control through key managing personnel	139	171
Payables to main shareholding companies	27	1
Total	**3 108**	**4 154**

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

	31.03.2015 *BGN '000*	*31.12.2014* *BGN '000*
Supply of inventories	1 691	3 545
Supply of services	1 218	102
Unpaid share capital in newly established subsidiary	199	404
Supply of non-current assets	-	103
Total	**3 108**	**4 154**

The trade payables to related parties are regular and are not additionally secured by the Company. The payables in Bulgarian Levs amount to BGN 2,558 thousand (31 December 2014: BGN 2,045 thousand), in EUR – BGN 7 thousand (31 December 2014: BGN 1,153 thousand), in PLN – BGN 344 thousand (31 December 2014: BGN 552 thousand) and in KZT – BGN 199 thousand (31 December 2014: BGN 404 thousand).

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

35. TRADE PAYABLES

Trade payables include:

	31.03.2015 *BGN '000*	*31.12.2014* *BGN '000*
Payables to suppliers	5 303	7 720
Advances received	518	189
Total	**5 821**	**7 909**

	31.03.2015 *BGN '000*	*31.12.2014* *BGN '000*
Payables to foreign suppliers	3 904	6 372
Payables to local suppliers	1 399	1 348
Total	**5 303**	**7 720**

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in foreign currency amount to BGN 3,904 thousand (31 December 2014: BGN 6,450 thousand). They include: in EUR – BGN 2,710 thousand (31 December 2014: BGN 3,028 thousand), in USD – BGN

1,194 thousand (31 December 2014: BGN 3,165 thousand), in PLN – none (31 December 2014: BGN 244 thousand) and in other currencies – none (31 December 2014: BGN 13 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 for payables to suppliers under commercial transactions at the amount of BGN 830 thousand (31 December 2014: BGN 1,113 thousand).

36. TAX PAYABLES

Tax payables include:

	31.03.2015 ***BGN '000***	***31.12.2014*** ***BGN '000***
Local taxes and charges	281	-
Individual income taxes	200	212
Withholding taxes	97	572
Value added tax	-	154
Total	**578**	**938**

The following inspections and audits of Sopharma AD (acquiring company) 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.

The following inspections and audits of Bulgarian Rose – Sevtopolis AD (acquiree) were performed by the date of issue of these financial statements:

- under VAT Act – until 31 January 2010;
- full-scope tax audit – until 31 December 2009;
- National Social Security Institute – until 30 December 2008.

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

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.03.2015	***31.12.2014***

	BGN '000	BGN '000
Payables to personnel, including:	4 133	3 715
tantieme	*1 810*	*1 810*
current liabilities	*1 075*	*1 112*
accruals on unused compensated leaves	*1 248*	*793*
Payables for social security/health insurance, including:	883	849
current liabilities	*674*	*723*
accruals on unused compensated leaves	*209*	*126*
Total	**5 016**	**4 564**

38. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.03.2015 BGN '000	31.12.2014 BGN '000
Awarded amounts under litigations	337	299
Dividend liabilities	309	250
Government grants *(Note 30)*	297	297
Deductions from work salaries	203	175
Finance lease liabilities *(Note 32)*	62	60
Other	61	70
Total	**1 269**	**1 151**

39. 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.

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.

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.

Significant irrevocable agreements and commitments

The Company assumed a self-participation commitment at the amount of BGN 3,000 thousand under a grant contract under Operational Program "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.

The Company received government grants under Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007–2013, intended for technological renovation and modernization of tablet production facilities. The Company undertook a commitment that for a period of 5 years 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.

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 original	Amount of the guarantee as at 31.03.2015

			currency	BGN'000	BGN'000
Sopharma Trading AD	2015-2019.	EUR	63 305	123 799	111 669
Sopharma Trading AD	2015	BGN	14 732	14 732	14 581
Vitamini OAO	2016	EUR	7 000	13 691	13 691
Biopharm Engineering AD	2023	BGN	4 250	4 250	4 237
Pharmaplant AD	2015-2019	BGN	1 329	1 329	1 268
Telecomplect AD	2015	BGN	5 009	5 009	5 009
Veta Pharma AD	2015	BGN	1 000	1 000	709
Energoinvestment AD	2015	BGN	2 018	2 018	518
Momina Krepost AD	2015	BGN	500	500	249
Mineralcommerce AD	2015-2017	EUR	150	294	196
Mineralcommerce AD	2015	BGN	175	175	175
Sopharma Properties REIT	2024	EUR	22 619	44 240	38 531
					190 833

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

- Mortgages of real estate – BGN 11,839 thousand (31 December 2014: BGN 10,776 thousand)*;*
- Special pledges on:
  - machinery and equipment – BGN 12,117 thousand (31 December 2014: none);
  - inventories – BGN 17,623 thousand (31 December 2014: BGN 17,623 thousand);
  - trade receivables – BGN 12,000 thousand (31 December 2014: BGN 12,000 thousand).

Other

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

40. FINANCIAL RISK MANAGEMENT

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

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

Categories of financial instruments:

Financial assets	*31.03.2015* *BGN '000*	*31.12.2014* *BGN '000*
Available-for-sale financial assets	***4 477***	***4 439***
Available-for-sale investments (in shares)	*4 477*	*4 439*
Loans and receivables	***129 959***	***157 231***
Long-term receivables from related parties	*33 547*	*33 150*
Other long-term receivables	*5*	*6*
Short-term receivables from related parties	*74 653*	*99 505*
Trade receivables	*19 663*	*22 375*
Other receivables	*2 091*	*2 195*
Cash and cash equivalents	3 697	4 076
Total financial assets	***138 133***	***165 746***

Financial liabilities	*31.03.2015* *BGN '000*	*31.12.2014* *BGN '000*
Bank loans	***135 862***	***136 164***
Long-term bank loans	36 175	37 972
Short-term bank loans	*92 357*	*90 761*
Current portion of long-term bank loans	*7 330*	*7 431*
Other liabilities	***9 144***	***12 577***
Trade payables to related parties	*3 108*	*4 154*
Trade payables	*5 303*	*7 720*
Finance lease liabilities	*87*	*94*
Other liabilities	*646*	*609*
Total financial liabilities at amortized cost	***145 006***	***148 741***

Foreign currency risk

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

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

31 March 2015	in USD	in EUR	in BGN	in other currency	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	-	1 293	3 184	-	4 477
Receivables and loans granted	1 421	92 766	35 758	14	129 959
Cash and cash equivalents	1 127	692	1 667	211	3 697
Total financial assets	**2 548**	**94 751**	**40 609**	**225**	**138 133**
Bank loans	-	112 313	23 549	-	135 862
Other liabilities	1 517	2 717	4 280	630	9 144
Total financial liabilities	**1 517**	**115 030**	**27 829**	**630**	**145 006**

31 December 2014	in USD	in EUR	in BGN	in other currency	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	-	1 256	3 183		4 439
Receivables and loans granted	1 674	117 154	37 008	1 395	157 231
Cash and cash equivalents	1 379	1 019	1 543	135	4 076
Total financial assets	**3 053**	**119 429**	**41 734**	**1 530**	**165 746**
Bank loans	-	111 715	24 449	-	136 164
Other liabilities	3 450	4 181	3 639	1 307	12 577
Total financial liabilities	**3 450**	**115 896**	**28 088**	**1 307**	**148 741**

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	
		31.03.2015 BGN '000	31.12.2014 BGN '000
Financial result	+	93	30
Accumulated profits	+	93	30
Financial result	-	(93)	(30)
Accumulated profits	-	(93)	(30)

In case of 10 % increase in the rate of USD to BGN, the final effect on post-tax profit of the Company for 2015 would be an increase by BGN 93 thousand (1.29%) (2014: increase at the amount of BGN 30 thousand) (0.11%). 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 2015 is an increase by BGN 7 thousand (0.10%) (2014: increase at the amount of BGN 184 thousand (0.68%)). 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:

	31.03.2015	***31.12.2014***
	BGN '000	***BGN '000***
Client 1	23%	23%
Client 2	1%	24%
Client 3	31%	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 83,30% of all trade receivables (31 December 2014: 70,93%).

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

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

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

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

Liquidity risk

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

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

Maturity analysis

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

31 March 2015	**up to 1 month** *BGN'000*	**1 to 3 months** *BGN'000*	**3 to 6 months** *BGN'000*	**6 to 12 months** *BGN '000*	**1 to 2 years** *BGN '000*	**2 to 5 years** *BGN '000*	**over 5 years** *BGN '000*	**Total** *BGN '000*
Bank loans	907	15 241	63 215	22 289	8 224	23 457	8 023	**141 356**
Other loans and liabilities	1 420	3 845	3 824	42	27	0	-	**9 158**
Total liabilities	**2 327**	**19 086**	**67 039**	**22 331**	**8 251**	**23 457**	**8 023**	**150 514**

31 December 2014	**up to 1 month** *BGN'000*	**1 to 3 months** *BGN'000*	**3 to 6 months** *BGN'000*	**6 to 12 months** *BGN '000*	**1 to 2 years** *BGN '000*	**2 to 5 years** *BGN '000*	**over 5 years** *BGN '000*	**Total** *BGN '000*
Bank loans	19 057	1 711	13 415	66 367	8 245	23 496	9 847	**142 138**
Other loans and liabilities	8 295	2 241	1 438	580	32	5	-	**12 591**
Total liabilities	**27 352**	**3 952**	**14 853**	**66 947**	**8 277**	**23 501**	**9 847**	**154 729**

Risk of interest-bearing cash flows

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

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

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

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

31 March 2015	interest-free	with floating interest %	with fixed interest %	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	4 477	-	-	4 477
Loans and receivables	64 597	-	65 362	129 959
Cash and cash equivalents	102	3 595	-	3 697
Total financial assets	**69 176**	**3 595**	**65 362**	**138 133**
Bank loans	0	135 862	-	135 862
Other loans and liabilities	9 050	94	-	9 144
Total financial liabilities	**9 050**	**135 956**	**-**	**145 006**

31 December 2014	interest-free	with floating interest %	with fixed interest %	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	4 439	-	-	4 439
Loans and receivables	93 365	-	63 866	157 231
Cash and cash equivalents	181	3 895	-	4 076
Total financial assets	**97 985**	**3 895**	**63 866**	**165 746**
Bank loans	83	136 081	-	136 164
Other loans and liabilities	12 483	94	-	12 577
Total financial liabilities	**12 566**	**136 175**	**-**	**148 741**

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.

2015	*Increase/decrease in interest rate*	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	increase	(505)	(505)
BGN	increase	(106)	(106)
EUR	decrease	505	505
BGN	decrease	106	106

2014	*Increase/decrease in interest rate*	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	increase	(503)	(503)
BGN	increase	(110)	(110)
EUR	decrease	503	503
BGN	decrease	110	110

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 2015, the strategy of the Company management was to maintain the ratio within 25% – 30% (2014: 25% – 30%).

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

	2014	***2013***
	BGN '000	***BGN '000***
Total borrowings, including:	**135 949**	**136 258**
bank loans	*135 862*	*136 164*
finance lease liabilities	*87*	*94*
Less: Cash and cash equivalents	**(3 697)**	**(4 076)**
Net debt	**132 252**	**132 182**
Total equity	**413 613**	**406 549**
Total capital	**545 865**	**538 731**
Gearing ratio	**0.24**	**0.25**

The liabilities shown in the table are disclosed in *Notes 27, 29, 32, 33 and 38.*

Fair value measurement

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

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

As far as the Bulgarian market 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.

41. RELATED PARTY TRANSACTIONS

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2014 and 2015
Donev Investments Holding AD	Main shareholding company	2014 and 2015
Sopharma Trading AD	Subsidiary company	2014 and 2015
Pharmalogistica AD	Subsidiary company	2014 and 2015
Bulgarian Rose Sevtopolis AD	Subsidiary company	2014
Sopharma Poland OOD – in liquidation	Subsidiary company	2014 and 2015
Sopharma USA	Subsidiary company	2014 and 2015
Electroncommerce EOOD	Subsidiary company	2014 and 2015
Biopharm Engineering AD	Subsidiary company	2014 and 2015
Vitamina AD	Subsidiary company	2014 and 2015
Ivanchich and Sons OOD	Subsidiary company	2014 and 2015
Sopharma Buildings REIT	Subsidiary company	2014 and 2015
Momina Krepost AD	Subsidiary company	2014 and 2015
Extab Corporation	Subsidiary company	2014 and 2015

Extab Pharma Limited	Subsidiary company through Extab Corporation	2014 and 2015
Briz OOD	Subsidiary company	2014 and 2015
Unipharm AD	Subsidiary company	2014 and 2015
Sopharma Warsaw EOOD	Subsidiary company	2014 and 2015
Sopharma Ukraine EOOD	Subsidiary company	2014 and 2015
Sopharma Kazakhstan EOOD	Subsidiary company	from 30.09.2014 and 2015
Phyto Palauzovo AD	Subsidiary company through Bulgarian Rose – Sevtopolis AD	2014 and 2015
Medica AD	Associate company	from 04.11.2014 and 2015
Brititrade SOOO	Subsidiary company through Briz OOD	2014 and 2015
Tabina OOO	Subsidiary company through Briz OOD	2014 and 2015
ZAO Interpharm	Joint venture through Briz OOD	2014 and 2015
Brizpharm SOOO	Subsidiary company through Briz OOD	2014 and 2015
Vivaton Plus OOO	Subsidiary company through Briz OOD	2014 and 2015
OOO Farmacevt Plus	Subsidiary company through Briz OOD	2014 and 2015
UAB TBS Pharma ZAO	Subsidiary company through Briz OOD	2014 and 2015
Vestpharm ODO	Subsidiary company through Briz OOD	2014 and 2015
Alean ODO	Subsidiary company through Briz OOD	2014 and 2015
OOO NPK Biotest	Subsidiary company through Briz OOD	2014 and 2015
BelAgroMed	Subsidiary company through Briz OOD	2014 and 2015
SpetsAfarmacia BOOO	Joint venture through Briz OOD	2014 and 2015
Med-dent OOO	Joint venture through Briz OOD	2014 and 2015
OOO Bellerofon	Joint venture through Briz OOD	from 27.11.2014 and 2015
OOO Bellerofon	Associate company through Briz OOD	from 28.08.2014 until 26.11.2014
Alenfarm Plus	Associate company through Briz OOD	from 18.02.2015
Salus Line	Associate company through Briz OOD	from 19.02.2015
Mobil Line	Associate company through Briz OOD	from 20.02.2015
Medjel	Subsidiary company through Briz OOD	from 18.02.2015
GalenaFarm	Subsidiary company through Briz OOD	from 20.02.2015
Danafarm	Subsidiary company through Briz OOD	from 20.02.2015
Sopharma Properties REIT	Company under a common indirect control	2014 and 2015
Sofprint Group AD	Company under a common indirect control	2014 and 2015
Elpharma AD	Company under a common indirect control	2014 and 2015
Telso AD	Company related through key managing personnel	2014 and 2015
Telecomplect AD	Company related through key managing personnel	2014 and 2015
DOH Group	Company related through key managing personnel	2014 and 2015

Supplies from related parties:	***2015***	***2014***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies under a common indirect control	2 239	2 275
Associated companies	137	-
Companies related through key managing personnel	40	49
Subsidiaries	15	49
	2 431	**2 373**
Supply of services from:		
Subsidiaries	3 552	6 323
Companies related through key managing personnel	681	713
Companies under a common indirect control	63	492
Main shareholding companies	53	78

	4 349	**7 606**
Supply of long-term tangible assets:		
Companies related through key managing personnel	-	4
	-	**4**
Supplies for acquisition of non-current assets:		
Companies related through key managing personnel	1 277	150
	1 277	**150**
Total	**8 057**	**10 133**

Sales to related parties	***2015***	***2014***
	BGN '000	***BGN '000***
Sales of finished products to:		
Subsidiaries	21 225	23 559
	21 225	**23 559**
Sales of goods and materials to:		
Subsidiaries	1 901	1 503
Companies under a common indirect control	227	297
Companies related through key managing personnel	20	5
Associated companies	1	-
	2 149	**1 805**
Sales of services to:		
Subsidiaries	368	385
Companies under a common indirect control	23	16
Companies related through key managing personnel	13	13
Associated companies	1	-
	405	**414**
Interest on loans granted to:		
Companies related through key managing personnel	577	496
Subsidiaries	115	119
Companies under a common indirect control	83	83
	775	**698**
Total	**24 554**	**26 476**

The terms and conditions of these transactions do not deviate from the market ones for similar transactions.

The accounts and balances with related parties are presented in *Notes 21, 24, and 34.*

The members of the key personnel are disclosed in *Note 1*.

Salaries and other short-term benefits of key managing personnel are current and amount to BGN 216 thousand (2014: BGN 219 thousand), including.

42. EVENTS AFTER THE REPORTING PERIOD

As at 27 April 2015 the remainder of the share capital to be paid of the newly established in 2014 subsidiary Sopharma Kazakhstan amounted to BGN 92 thousand (EUR 47 thousand). The deadline for the final payment of the capital is 31 May 2015.