NOTES TO THE INDIVIDUAL INTERIM FINANCIAL STATEMENTS:

1. BACKGROUND INFORMATION ON THE COMPANY

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

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

1.1. Ownership and management

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

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

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

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

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

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

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

1.2. Principal activities

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

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

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the individual financial statements

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

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

As at the date of approval of these financial statements there have been issued but are not yet effective for annual periods beginning on 1 January 2014, several new standards and interpretations, as well as revised standards and interpretations, which have not been approved for early adoption by the Company. Of these, the Management has concluded that the following would have a potential impact in the future changes in accounting policy and classification and the values of reporting items in the financial statements of the Company for future periods, namely:

- *IAS 27 (as revised in 2011) "Individual Financial Statements" (effective for annual periods beginning on or after 1 January 2013 – endorsed by EC, mandatory application within the European Union for annual periods beginning on or after 1 January 2014 the latest).* The standard was reissued with a changed title, with the part of it, containing the framework regarding the content, criteria and technology for the preparation of the consolidated financial statements, being entirely separated into a new standard – IFRS 10 "Consolidated Financial *Statements*". Thus the standard now includes mainly the rules on accounting and valuation of investments in subsidiaries, associates and joint ventures at the level of individual financial statements of investors in their capacity of parent companies, investors with significant influence and controlling shareholders in joint ventures, as well as disclosures, specific for this type of statements;

- *IAS 28 (amended in 2011) "Investments in Associated companies and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013 – endorsed by EC, mandatory application within the EU for annual periods beginning on or after 1 January 2014).* The title and scope of the standard have been changed and the standard sets out the framework for application of the equity method in the consolidated financial statements when accounting for investments in associated companies as well as in joint ventures, which were previously included in the scope of IAS 31 "Interests in Joint Ventures", and as of 1 January 2013 in line with the new IFRS 11;

- *IAS 32 (revised) "Financial Instruments: Presentation" (effective for annual periods beginning on or after 1 January 2014 –endorsed by EC)* – regarding the offsetting of financial assets and financial liabilities. These amendments relate to a clarification as to the application of the rules on offsetting financial instruments. They are mainly in four directions: (a) clarification of the meaning of 'current legally enforceable right of set-off'; (b) the application of the simultaneous realization and settlement criterion; (c) offsetting of cash provided as collateral; (d) the unit of account for the application of the offsetting requirements.

- *IFRS 7 (revised) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (effective for annual periods beginning on or after 1 January 2015 – not endorsed by EC).* The change is related to the introduction of relief regarding the need for restatement of comparative financial statements and the ability to provide the modified disclosures on transition from IAS 39 to IFRS 9 (when it happens) by the date of application of the standard by the company and whether it chooses the option to restate prior periods;

- *IFRS 9 "Financial Instruments: Classification and Measurement" (effective for annual periods beginning on or after 1 January 2015 – not endorsed by EC).* This standard is a new standard for financial instruments and it aims at completely replacing IAS 39. The project for replacement with the new standard includes three phases: phase 1) Classification and valuation of financial assets and liabilities; phase 2) Methodology for assessing of impairment; and phase 3) Hedge accounting. Currently, IFRS 9 has been issued three times: in November 2009, October 2010, and November 2013. Phase 1 Classification and valuation of the financial assets and liabilities – with the first issues it replaces these parts of IAS 39, relating to classification and valuation of financial instruments. It establishes principles, rules and criteria for the classification, measurement and writing-off 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 the contractual cash flow characteristics of the respective assets. It sets only two primary measurement categories for financial assets: amortized cost and fair value. The new rules will lead to possible changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated as at fair value through current profit or loss (for credit risk); Phase 2 Methodology for assessing impairment - it is at the level of revised exposure draft, which proposes the application of the model of "expected loss", according to which all expected losses are recognized over the life of a depreciable financial instrument, and not at the recording of a particular event, as in the current model under IAS 39. Phase 3 Hedge accounting - for this purpose was adopted a new chapter 6 in IFRS 9 issued in November 2013, which introduces a new model for hedge accounting, which, on the one hand, allows consistent and complete coverage of all financial and non-financial risk exposures, subject to hedging operations, and on the other hand - better presentation of the risk management in the financial statements, particularly their relation to hedging transactions and the scope and type of documentation to be used. There have also been made improvements in the requirements for the structure, content and approach of presenting the hedge disclosures. Additionally, the option is introduced the accounting for changes in fair value of own debt, valuated at fair through profit or loss, but in part due to changes in the quality of the company's own creditworthiness, to be presented in the other comprehensive income instead of in profit or loss. This option is valid also for companies applying IAS 39. With the changes in IFRS 9 from November 2013 was again postponed the date of entering into effect;

- *IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013 – endorsed by EC, mandatory application within the EU for annual periods beginning on or after 1 January 2014 the latest). Transitional provisions (effective for annual periods beginning on or after 1 January 2013 - endorsed by the EC) regarding the application of the standard for the first time.* This standard replaces a significant part of the old IAS 27 ("Consolidated and Individual Financial Statements") and SIC-12 ("Consolidation - Special Purpose Entities"). Its main objective is to establish improved principles and methods for the preparation and presentation of financial statements when an entity controls one or more other entities. It gives a new definition of control that contains three elements and establishes control as the *sole* basis for consolidation and provides more detailed rules and directives for assessing the existence of relations of control. The standard also sets out the main mandatory rules for the technology for preparation of consolidated financial statements;

- *IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013 – endorsed by EC, mandatory application within the EU for annual periods beginning on or after 1 January 2014). Transitional provisions (effective for annual periods beginning on or after 1 January 2013 - endorsed by the EC) regarding the application of the standard for the first time.* This standard replaces IAS 31 "Interests in Joint Ventures", including SIC-13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers". It introduces only two types of joint arrangements – joint operations and joint ventures – whereas the classification criterion used is not the legal form but rather the essence of the rights and obligations of each party in an arrangement, i.e. whether they represent rights to the assets and liabilities and respectively, to the expenses and revenue from the joint arrangement (joint operation) or rights to the net assets of the joint arrangement (joint venture). The standard removes the option for proportionate consolidation and requires application of the equity method for consolidation of jointly controlled entities;

- *IFRS 12 "Disclosing of Interest in Other Entities" (effective for annual periods beginning on or after 1 January 2013 – endorsed by EC, mandatory application within the EU for annual periods beginning on or after 1 January 2014). Transitional provisions (effective for annual periods beginning on or after 1 January 2013 - endorsed by the EC) regarding the application of the standard for the first time* This standard introduces a new framework of requirements for the scope of the disclosures in the consolidated financial statements about the participation of the entity in other companies and entities that are subsidiaries, jointly associated, or unconsolidated structured entities, incl. for the content of information, in order to provide a reasonable estimate of the effects and the risks of those interests;

- *IAS 36 (revised) Impairment of assets (effective for annual periods beginning on or after 1 January 2014 – endorsed by the EC) – regarding disclosures related to the recoverable part of non-financial assets.* This change is related to the necessity for limiting certain disclosures regarding the recoverable value under IAS 36 in connection with the requirements of IFRS 13, when applying the methodology for calculating the recoverable part of financial assets at fair value less selling costs;

- *IFRS improvements, 2010 – 2012 (December 2013) – improvements in IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38 (effective for annual periods beginning on or after 1 July 2014 – not endorsed by the EC)* These improvements introduce partial amendments and changes in the respective standards primarily with a view to remove existing inconsistency in the application rules and requirements of individual standards as well as to set up more precise. The changes are mainly aimed at the following objects or operations: a) a change in the definition of "period of (unconditional) acquisition of rights" and "market condition" and addition of "execution condition" and "service condition" (IFRS 2); b) clarifications regarding the treatment of contingent fees in business combinations that meet the definition of a financial instrument (such as financial liabilities or equity instruments) and their evaluation at the end of each reporting period - at fair value, including presentation of its effects in the statement of comprehensive income (IFRS 3, IFRS 9, IAS 39 and IAS 37); c) requirement for the disclosure of the criteria in determining the aggregate operating segments for the purposes of segment reporting (IFRS 8); d) additional clarification on the adjustment technique of book value and accumulated depreciation in the cases of an revaluated assets, requiring it to be in a consistent approach with regard to the revaluation of the carrying amount of the asset (IAS 16, IAS 38); e) a clarification that a company offering key management personnel as a service to another company is also a related party (IAS 24). ;
- *IFRS improvements, 2011 – 2013 (December 2013) – improvements in IFRS 1, IFRS 3, IFRS 13, IAS 40 (effective for annual periods beginning on or after 1 July 2014 – not endorsed by the EC).* These improvements introduce partial changes and revisions in the relevant standards, primarily to remove existing inconsistencies or ambiguities in the rules and requirements of the individual standards as well as to introduce a more precise terminology. The main changes are aimed at the following objects or operations: a) a right for a company in transition to IFRS to apply standards that are not yet in force for the first time, if the standards permit early adoption (IFRS 1); b) clarification for the right not to apply IFRS 3 to reporting of formation of joint agreements in the financial statements of the actual joint agreements; c) clarification on the scope of the contracts that are within the scope of the exception for a group of financial assets and liabilities with netting positions against market and credit risk (IFRS 13); d) clarification for the treatment of a transaction that meets both of the criteria of IFRS 3 and applies to investment properties under IAS 40, that there should be separate application of both standards independently (IAS 40).

Additionally, with regard to the listed below new standards, amended/revised standards and new interpretations that have been issued, the management has estimated that they are unlikely to have potential impact resulting in changes in the accounting policies and classification and value of the accounting subjects in the financial statements of the Company, namely:

- *IFRIC 21 Obligations for taxes and charges (effective for annual periods beginning on or after 1 January 2014 - not endorsed by the EC)* – related to government taxes. This Interpretation provides guidance on the criteria for the recognition of liabilities for government fees, taxes and other similar sums imposed by the State in connection with laws and regulations;

- *IAS 19 (revised - 2011) "Employee Benefits" (in force for annual periods beginning on or after 1 July 2014 – not endorsed by EC).* This change is related to a clarification on the treatment of contributions made by employees or third parties to defined benefit plans in compliance with the formal requirements of the plan. The change specifies that these contributions should be treated as a reduction of cost of service or effect in subsequent valuations of the net liability(asset) of the plan, depending on whether the contributions are tied to the years of service or not.;
- *IAS 39 (revised) Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2014 – endorsed by the EC)* – regarding the transfer of derivatives and preserving the possibility of applying hedge accounting). This change is related to changes in certain jurisdictions, which require entities using derivative instruments not traded on an exchange, to transfer them to a centralized body (clearing organization/agency) to maintain the possibility of using hedging for financial and accounting purposes;

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

The Company keeps its accounting books in Bulgarian Lev (BGN), which is accepted as being its presentation currency. The data in the individual financial statement 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 № 14, Note № 16, and Note № 19.

2.2. Consolidated financial statements of the Company

The Company started the process of preparation of its preliminary consolidated annual financial statements for 2014 in compliance with IFRS effective for 2014, which will include the present individual interim financial statements. In accordance with the planned dates, the management expects that the preliminary consolidated annual financial statements will be approved for issuing not later than 28 February 2013 by the Board of Directors of the Company, after which date the financial statements will be made publicly available to third parties.

2.3. Comparatives

The accompanying financial statements of the Company include comparative information for one prior year.

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

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 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. As at 31 December, these amounts are presented in BGN at the closing exchange rate of the Bulgarian National Bank.

The non-monetary items in the statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently 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 and to the extent and in the way the economic benefits will 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, commercial receivables and payables, denominated in 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 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 guarantee, foreign exchange net loss from loans in foreign currencies, expenses/losses from investments 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 reduced by 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 moment of their acquisition.

Subsequent valuation

The chosen by the Company approach for Subsequent valuation 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.

It is adopted that the revaluation of property, plant and equipment shall 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 expenses 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;
- motor vehicles – 7 - 10 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 of their period of use, the latter is adjusted prospectively.

Impairment of assets

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might significantly 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 whereas in such a case 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 the ‘revaluation reserve’ component attributable to the sold asset is directly transferred to the ‘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 from 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 from their use or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' in 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 associated companies

Long-term investments representing shares in subsidiaries and associated 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.

The investments of the Company in subsidiaries and associated companies 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 associated comapanies 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

Available-for-sale investments (financial assets) are non-derivative financial assets representing shares in other companies (minority interest).

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 valuation

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

The effects of subsequent valuation of securities to fair value are presented in a separate component in the statement of comprehensive income (other components of comprehensive income) and 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 to long-term investments (financial assets) representing shares in other companies (minority interest) are recognized as current income and presented in the statement of comprehensive income (profit or loss) under "financial income".

Delisting of shares due to selling is conducted by the method of weighted average price, determined at the end of the month of delisting.

All purchases and sales of available-for-sale investments (financial assets) are recognized on the "trade date" of the transaction, i.e. the date on which the Company commits to purchase or sell the asset.

The available-for-sale investments (financial assets) of the Company are reviewed for impairment 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 (in components of comprehensive income).

2.13. Inventories

Inventories are valued at the lower of acquisition cost (cost) and net realizable value.

Expenses, incurred at bringing certain product to its current condition and location, are included in the acquisition cost (cost) as follows:

- raw materials, materials in finished form 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 and work in progress – cost of direct materials and labor and the attributable proportion of the manufacturing overheads, based on normal operating capacity of production facilities, but excluding administrative expenses, exchange rate gains and losses and borrowing costs.

The inclusion of fixed production overheads in the cost of finished and semi-finished products is based on normal production capacity. The Company has chosen to allocate the fixed production overheads to produced items by using direct labor, based on set labor standards.

Upon putting into production (sale) of inventories, the Company applies the weighted average cost method.

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

2.14. Trade and other receivables

Commercial 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 rate method (Note 2.23).

An estimate of allowances for doubtful and bad debts is made when significant uncertainty exists as to the collection of the full amount or a part of it. Bad debts are written-off when the legal grounds for this are available. Impairment of commercial 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 consideration received on the transaction, net of the direct costs related to these loans and granted resources. After the initial recognition, the interest-bearing loans and other granted resources are subsequently measured at amortized cost by applying the effective interest rate 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 working capital loans related to 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).
- Cash blocked for longer than 3 months is 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 rate 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, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured at amortized cost by applying the effective interest rate method. The 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 at least a 12-month period of time 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 property, plant and equipment, are recognized as assets in the statement of financial position of the lessee and are presented as leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the 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 financial 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 beginning of the lease term (when the asset is delivered) as sales income.

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

Operating lease

Lessee

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

Operating lease payments are 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.

Lease 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 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 employee benefits in the form of remuneration, bonuses and social payments and benefits (required for settlement within 12 months after the end of the period when the employees have rendered the service or have met the required terms and requirements) are recognized as an expense in the statement of comprehensive income (within profit or loss for the year), unless a particular IFRS does not require the amount in question to be capitalized in the prime cost of a particular asset, for the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount.

At the end of the 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 the employee’s remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Profit-based bonuses

According to the Articles of Association and after a decision by the Annual General Meeting of Shareholders the Executive Director is entitled to receive a one-time remuneration (bonus) amounting to up to 1% of the net profit of the Company, as well as to determine the group of employees, among which to be distributed as a bonus an amount of up to 2% of the net profit of the Company for each calendar year. When it is required that a particular part be differed for a period longer than 12 months, this part is valuated based on its present value as at the date of the financial statement and is stated under non-current liabilities of category “Liabilities to personnel” in the statement of financial position.

Long-term retirement benefits

Defined contribution retirement plans

A major obligation 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. Social security and health insurance contributions are defined annually under 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 social security retirement plans, applied by the Company in its capacity of an employer, are defined contributions 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 assets 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 Company's contributions on defined contribution plans for social and health insurance are recognized as a current expense in the statement of comprehensive income (profit or loss), except if IFRS requires this amount to be capitalized in the prime cost of an asset and as a current obligation at an undiscounted amount together with and within period of the labor and of the accrual of the income of employees with which income the contributions are linked.

Defined benefit plans

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

The calculation of the amount of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they are presented in the statement of financial position, and respectively the change in their value is presented in the statement of comprehensive income as: a) the cost of current and past service, interest cost and the effects of layoffs and settlement are recognized immediately in the period in which they occur and are presented in the current profit or loss under "personnel cost", and b) the effects of subsequent valuations of liabilities which are in essence actuarial gains and losses are recognized immediately, in the period, in which they occur, and are presented in other components of comprehensive income under "subsequent revaluation of defined benefit retirement plans". Actuarial gains and losses arising from changes in actuarial assumptions and experience.

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

Termination benefits

In accordance with the local provisions of the labor and social security legislation 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 a binding commitment is demonstrated, based on a publicly announced plan, incl. for restructuring, to terminate 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 for 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. The shareholders are liable for the obligations of the Company up to the amount of the share of the capital held by each of them and may claim refunding of this share only in case of 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 sources:

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

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

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

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

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

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

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

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

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

2.23. Financial instruments

2.23.1. Financial assets

The Company classifies its financial assets in the following categories: "loans and receivables" and "available-for-sale financial assets". The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management determines the classification of the financial assets of the Company 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 the Company's statement of financial position when the rights to receive cash from these assets have expired or have been transferred, and the Company has transferred substantially all the risks and rewards of ownership of the asset 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, commercial 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 (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 date of each statement of financial position, 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 interests 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 measured at acquisition cost which is the fair value of the price paid, including the acquisition costs, included in the investment.

Revaluation of available-for-sale financial assets is at fair value, except for shares of companies, not traded on a stock exchange (Note №12.2).

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 investment 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 date of the statement of financial position for events or circumstances indicating the existence of objective evidence for impairment of a particular financial asset or group of assets. Financial assets 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 in accordance with the substance of the contractual arrangements with the respective counterparty 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 (Notes №2.17, № 2.18, and № 2.20).

2.24. Income taxes

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 2014 is 10 % (2013: 10%).

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

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) as at the date of the transaction.

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 the date of each statement of financial position and reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, whereby they can be deducted or set-off.

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

Deferred tax assets and liabilities are measured at the tax rates and bases that are expected to be applied to the period and type of operation when the asset will be realized or the liability will be settled (paid), based on the tax laws that are in force or are very likely to be in force and at the tax rates of the country's (Republic of Bulgaria), jurisdiction under which the deferred asset or liability is expected to be realized.

Deferred tax assets of the Company are presented net against its deferred tax liabilities when and as far as it relates to them as the tax payer in the relevant jurisdiction (Republic of Bulgaria), and then only when the Company has a legal right to make or receive a net payment of current tax liabilities or receivable on profit taxes.

As at 31 December 2014, the deferred income taxes of the Company were computed at a tax rate, which is valid for 2015, amounting to 10 %.

2.25. Government financing

Grants from public institutions (government, municipal and international, incl. pursuant to the use of EU funds and programs) are initially recognized as deferred income (finance) when there is a reasonable assurance that it will be received by the Company and that the latter has complied and complies with the conditions and requirements of the donation.

Government funding related to compensation for incurred expenses are recognized in profit and loss on a systematic basis in the same period in which the expenses are recognized.

Government funding that compensates investment costs for acquisition of an asset is recognized in profit and loss on a systematic basis over the useful life of the asset in proportion to 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, additional 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 main 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 expenses (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, commercial 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

Certain assets and liabilities are measured and presented and/or announced only at fair value for financial reporting purposes. These include: a) at recurring basis – *available-for-sale financial assets, investment properties, granted and received bank loans and loans from third parties, certain commercial and other receivables and liabilities, finance lease receivables and liabilities*; and other b) at non-recurring basis - *non-financial assets such as property, plant and equipment*.

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between independent market participants at the measurement date. Fair value is the output price and is based on the assumption that the operation of the sale will be realized either on the principal market for the asset or liability or, in the absence of a main market - on the most profitable market for the asset or liability. The identified as the main market, as well as most profitable market are such markets to which the Company must have access.

Fair value measurement is made from the position of assumptions and estimates, which would make potential market participants when they determine the price of the asset or liability, assuming that they would act for derive the best economic benefits from it for them.

In measuring the fair value of financial assets the starting point is always the assumption what it would be for the market players the best and most efficient possible use of the particular asset.

The Company applies various valuation techniques that would be appropriate for the specifics of the relevant conditions and for which it has sufficient input data, aiming to fully utilize information, that is available and publicly observable and respectively to minimize the use of unobservable information. It uses the three acceptable approaches, *the market, income and expense approach,* the most commonly used valuation techniques being direct and/or adjusted quoted market prices, market comparables and discounted cash flows, incl. based on capitalized rental income.

The fair value of all assets and liabilities that are measured and/or disclosed in the financial statements at fair value are categorized under the following fair value hierarchy, namely:

- Level 1 – Quoted (unadjusted) market prices on the active market for identical assets or liabilities;
- Level 2 – Valuation techniques utilizing input data, which are different from directly quoted prices, but are directly or indirectly observable, incl. when the quoted prices are subject to significant adjustments; and
- Level 3 – Valuation techniques utilizing input data, which are mostly unobservable.

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

For those assets and liabilities that are measured at fair value in the financial statements on repetitive basis, the Company reassesses at the date of each financial statement whether a transfer in the hierarchy levels of in the fair value of an asset or liability is required, depending on the available and used as at that date input.

The company has developed internal rules and procedures for fair value measurement of different types of assets and liabilities. For this purpose has been appointed a special person responsible for assessments, reporting to the financial director, who organizes the whole evaluation process and also coordinates and monitors the work of the external auditors.

The Company uses the expertise of external licensed appraisers to determine the fair values of the following assets and liabilities: available-for-sale financial assets, investment properties, property, plant and equipment. The election of the appraisers is made on an annual basis using the following criteria: applicable professional standards, professional experience and knowledge; reputation and market status. Periodically, the Company assess the need for rotation of the external appraises - every three to five years. The application of the valuation approaches and techniques and inputs used in case of measuring fair value are subject to mandatory discussion and coordination between the external experts-assessors and the dedicated person on assessments, as well as the adoption of the issued valuation reports – especially with respect to the significant assumptions and the final conclusions and proposals for the amount of the fair value. The final fair value estimates are subject to approval by the CFO, the CEO and the Board of Directors.

On the date of each financial statement in accordance with the accounting policy of the company the specially appointed person on appraisals conducts a general analysis of previously collected information about the movement in the value of the assets and liabilities subject be appraisal or disclosure at fair value, of the type of available data and the potential factors for the observed changes, and proposes for approval to the financial director the approach for measuring the fair values of the assets and liabilities at that date. If necessary the used external auditors are explicitly consulted.

The results of the evaluation process of measuring fair value are presented to the Audit Committee and the independent auditors of the Company.

For the purposes of disclosure of fair value, the Company has divided the assets and liabilities based on their nature, features and risks, as well as the hierarchical level of the fair value.

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

Inventories

Normal capacity

The normal production capacity of the Company is determined on the grounds of the monthly weighted average man-hours worked-out in three consecutive reporting periods (years) individually for each type of production and each workshop.

Allowance for impairment

At the end of each financial year, the Company reviews the state, useful life and usability of the existing inventories. Where inventories are identified that are potentially likely to not be realized at their current carrying amount in the following reporting periods, the Company impairs the inventories to net realizable value.

As a result of the reviews and analysis in 2014 the reported impairment of inventories amounts to 2,560 thousand BGN (2013: 1,136 thousand BGN) (Note № 5 and Note № 8).

Actuarial calculations

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

Operating lease

The Company has classified a building, leased to a related party 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 each balance sheet date on 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 is recognized in the statement of comprehensive income (within profit or loss for the year) as impairment (Note 9).

After 180 days of delay it is already considered that indicators for impairment may exist. In the judgment of collectability of receivables, the management performs analysis of the total exposure of each counterparty in order to establish the actual possibility for their collection and not only at the level of past due individual receivables of a counterparty, including the possibilities of collecting interest for 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.

In 2014 the recognized impairment of receivables (net of the reversals) amount to 470 thousand BGN (2013: 1,653 thousand BGN).

Deferred tax assets

The Company has not recognized deferred tax assets at the amount of 1,462 thousand BGN (31 December 2013: 1,332 thousand BGN) related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has judged 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 14,622 thousand BGN (31 December 2013: 13,316 thousand BGN).

Litigation provisions

With regard to the pending litigations against the Company (as a defendant), 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 a provisions for litigation payables in the statement of financial position as at 31 December 2014.

3. REVENUE

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

	2014	***2013***
	BGN '000	***BGN '000***
Export	138 281	153 066
Domestic market	63 490	62 988
Total	**201 771**	**216 054**

Sales of products - export	*2014*	*2013*
	BGN '000	*BGN '000*
Tablet dosage forms	102 668	116 128
Ampoule dosage forms	16 850	16 606
Syrup dosage forms	7 791	11 514
Ointments	7 157	5 968
Lyophilic products	3 050	2 165
Suppositories	550	437
Drops	215	248
Total	**138 281**	**153 066**

Sales by product– domestic market	*2014*	*2013*
	BGN '000	*BGN '000*
Tablet dosage forms	37 747	35 134
Ampoule dosage forms	17 211	18 079
Lyophilic products	3 650	4 206
Syrup dosage forms	1 940	1 629
Ointments	1 922	1 591
Drops	610	649
Suppositories	385	390
Other	25	1 310
Total	**63 490**	**62 988**

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

	2014 BGN '000	***Relative share***	***2013 BGN '000***	***Relative share***
Europe	119 790	59%	130 332	60%
Bulgaria	63 490	31%	62 988	29%
Other countries	18 491	9%	22 734	11%
Total	**201 771**	**100%**	**216 054**	**100%**

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

	2014 BGN '000	***% of revenue***	***2013 BGN '000***	***% of revenue***
Client 1	67 181	33%	63 237	29%
Client 2	63 485	31%	61 491	28%
Client 3	24 409	12%	44 966	21%

4. OTHER OPERATING INCOME AND LOSSES

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

	2014 BGN '000	***2013 BGN '000***
Services rendered	3 576	2 814
Sales of materials	*18 388*	*16 801*
Cost of materials sold	*(18 220)*	*(16 629)*
Gain on sales of materials	168	172
Sales of long-term assets	*258*	*254*
Book value of sold long-term assets	*(504)*	*(303)*
Gain on sales of long-term assets	(246)	(49)
Sales of goods	*1 598*	*1 545*
Cost of goods sold	*(993)*	*(871)*
Gain on sales of goods	605	674
Financing from European projects	177	75
Fines and forfeits	109	-
Losses from revaluation of investment properties to fair value	(188)	(200)
Surplus of assets		
Received insurance indemnities		
Net loss from exchange differences under commercial receivables and payables and current accounts	(304)	(538)
Other income	108	131
Total	**4 005**	**3 079**

Income from sales of materials comprises mainly: sales of substances and packaging materials - aluminum foil, vials, tubes etc.

Services rendered include:

	2014	*2013*
	BGN '000	***BGN '000***
Rents	1 670	1 726
Manufacturing	675	177
Social activities	604	416
Gamma irradiation	163	119
Organization of transport	122	46
Laboratory analysis	120	110
Regulatory services	114	110
Other	108	110
Total	**3 576**	**2 814**

Sales of goods include:

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

The *cost of goods sold* by type is as follows:

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

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables* used include:

	2014	***2013***
	BGN '000	***BGN '000***
Basic materials	44 744	40 118
Spare parts, laboratory and technical materials	5 643	5 290
Electric energy	3 614	3 496
Heat power	3 390	3 235
Fuels and lubricating materials	1 020	1 254
Working clothes	707	593
Water	663	733
Scrapping of materials	365	10
Impairment of materials	98	203
Total	**60 244**	**54 932**

Expenses on *basic materials* include:

	2014	***2013***
	BGN '000	***BGN '000***
Substances	23 320	22 581
Packaging materials	9 315	6 599
Liquid and solid chemicals	5 448	3 071
Aluminum and PVC foil, vials, tubes	3 117	4 737
Ampoules	2 874	2 360
Herbs	670	770
Total	**44 744**	**40 118**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2014	*2013*
	BGN '000	*BGN '000*
Manufacturing of medicines	27 571	25 337
Consulting services	12 140	9 522
Advertising	9 576	7 559
Transport	3 285	2 264
Buildings and equipment maintenance	2 789	1 433
Rentals	2 411	2 454
Logistic services – domestic market	1 892	1 528
Services on registration of medicines	1 278	747
Logistic services on export	1 135	379
Local taxes and charges	1 104	667
Security	867	904
Civil contracts	806	775
Insurance	804	475
State and regulatory fees	769	809
Medical service	744	659
Subscription fees	694	721
Taxes on expenses	530	534
Vehicles repair and maintenance	435	313
Communications	428	351
Clinical trials	300	105
Documentation translation	252	303
Commission fees	229	169
Fees for servicing of current bank accounts	200	281
License fees and charges	207	149
Medicines destruction costs	192	356
Courier services	113	140
Other expenses	1 441	725
Total	**72 192**	**59 659**

7. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense include:

	2014 *BGN '000*	*2013* *BGN '000*
Current wages and salaries	25 916	23 925
Social security/health insurance contributions	4 843	4 267
Social benefits and payments	1 952	2 179
Performance-based bonuses	801	1 105
Accruals for unused paid leaves	509	514
Accruals for long-term liabilities to personnel upon retirement	275	256
Social security/health insurance contributions on leaves	86	82
Total	**34 382**	**32 328**

8. OTHER OPERATING EXPENSES

Other operating expenses include:

	2014 *BGN '000*	*2013* *BGN '000*
Accrued impairment of finished goods and work in progress (Note № 9)	2 462	933
Entertainment events	2 363	2 560
Business trips	804	696
Scrapping and losses of materials	378	128
Accrued impairment of commercial receivables, net (Note № 9)	408	1 646
Donations	192	311
Scrapping of finished goods and work in progress	183	437
Written off receivables	-	155
Trainings	136	106
Unrecognized tax credit on VAT	115	38
Accrued impairment of provided commercial loans, net (Note № 9)	62	7
Other taxes and payments to fiscal authorities	51	776
Other	383	266
Total	**7 537**	**8 059**

9. IMPAIRMENT OF CURRENT ASSETS

Impairment losses on current assets include:

	2014	*2013*
	BGN '000	*BGN '000*
Impairment of finished products	2 432	835
Impairment of receivables	*470*	*2 309*
Reversed impairment of receivables	*(62)*	*(663)*
Net change of impairment of commercial receivables	408	1 646
Impairment of materials	98	203
Impairment of receivables from provided commercial loans	62	7
Impairment of unfinished products	30	98
Total	**2 872**	**2 789**

	2014	*2013*
	BGN '000	*BGN '000*
Impairment of receivables	*167*	*952*
Reversed impairment of receivables	*(129)*	*(242)*
Net change of impairment of receivables	**38**	**710**

10. IMPAIRMENT OF NON-CURRENT ASSETS

Impairment of non-current assets includes:

	2014	*2013*
	BGN '000	*BGN '000*
Impairment of investments in subsidiaries	1 306	-
Impairment of long-term tangible assets	363	193
	1 669	**193**

11. FINANCE INCOME

Finance income includes:

	2014	*2013*
	BGN'000	*BGN'000*
Income from participations	6 361	5 889
Net grain from operations with securities	3 373	-
Interest income on granted loans	3 127	3 989
Income from liquidation shares in subsidiaries	-	109
Total	**12 861**	**9 987**

12. FINANCE COSTS

Finance costs include:

	2014	*2013*
	BGN'000	*BGN'000*
Interest expense on loans received	4 325	5 676
Bank fees and charges on loans and guarantees	223	289
Depreciation of available-for-sale investments	88	6 746
Interest expense on finance lease	18	49
Net loss from operations with securities	-	4 510
Net loss from exchange rate differences on loans	-	68
Total	**4 654**	**17 338**

13. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2014 ***BGN '000***	***2013*** ***BGN '000***
Net change in the fair value of available-for-sale financial assets		
Profit throughout the year	248	470
Reduced by: Reclassification adjustments of (profit) / losses included in the profit or loss for the year	-	-
(Losses)/profit on revaluation of property, plant and equipment	(6)	(353)
Subsequent valuations of defined benefit retirement plans	(299)	(80)
	(57)	**37**
Tax on income, related to components of other comprehensive income	1	35
Total comprehensive income for the year	**(56)**	**72**

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		***Property, plant and equipment***		***Other***		***In process of acquisition***		***Total***	
	2014	***2013***	***2014***	***2013***	***2014***	***2013***	***2014***	***2013***	***2014***	***2013***
	BGN'000	***BGN'000***	***BGN '000***	***BGN'000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Book value										
Balance at 1 January	**115 866**	**69 913**	**140 110**	**88 057**	**23 773**	**23 276**	**983**	**78 617**	**28 0732**	**259 863**
Additions	242	2 637	1 255	1 196	275	910	8 880	19 558	10 652	24 301
Transfer to property, plant and equipment	158	43 758	1 882	51 856	686	1 510	(2 726)	(97 124)	-	-
Transfer to investment property	-	-	-	-	-	-	-	-	-	-
Effect from revaluation to fair value					9				9	-
Allowance for impairment		(277)	(274)	(74)	(98)	(2)	-	-	(372)	(353)
Disposals	(18)	(165)	(831)	(925)	(2 436)	(1 921)		(68)	(3 285)	(3 079)
Balance at 31 December	**116 248**	**115 866**	**142 142**	**140 110**	**22 209**	**23 773**	**7 137**	**983**	**28 7736**	**280 732**
Accumulated depreciation										
Balance at 1 January	**9 245**	**6 654**	**59 873**	**54 557**	**13 456**	**11 791**	**-**	**-**	**82 574**	**73 002**
Depreciation charge for the year	3 551	2 418	8 066	6 158	3 624	2 449	-	-	15 241	11 025
Depreciation written-off	(5)	(8)	(818)	(854)	(1 918)	(784)	-	-	(2 741)	(1 646)
Impairment		181	6	12	-	-	-	-	6	193
Balance at 31 December	**12 791**	**9 245**	**67 127**	**59 873**	**15 162**	**13 456**	**-**	**-**	**95 080**	**82 574**
Carrying amount at 31 December	**103 457**	**106 621**	**75 015**	**80 237**	**7 047**	**10 317**	**7 137**	**983**	**192 656**	**198 158**

Carrying amount at 1 January	**106 621**	**6 3259**	**80 237**	**33 500**	**10 317**	**11 485**	**983**	**78 617**	**198 158**	**186 861**

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

Expenses on acquisition of tangible fixed assets as at 31 December include:

- advance payments - 4,303 thousand BGN (31 December 2013: none);
- expenses on construction of new production buildings – 2,733 thousand BGN (31 December 2013: 36 thousand BGN);
- buildings reconstruction – 101 thousand BGN (31 December 2013: 210 thousand BGN);
- supply of equipment – none (31 December 2013: 734 thousand BGN)
- other – none (31 December 2013: 3 thousand BGN).

As at 31 December 2014 in the book value of property, plant and equipment are included machines and equipment for new tablet production at a total value of 7,052 thousand BGN, purchased under a contract for financing under Operational Program "Development of the Competitiveness of the Bulgarian Economy 2007 – 2013 (31 December 2013: 7,410 thousand BGN).

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

Operating lease

The Company leased tangible fixed assets with carrying amount of 7,106 thousand BGN as at 31 December 2014 to related parties (31 December 2013: 7,277 thousand BGN). In addition, tangible fixed assets at zero book value were leased to third parties as at 31 December 2014 (31 December 2013: 45 thousand BGN).

Finance lease

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

Other data

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

- machinery and equipment – 31,237 thousand BGN (31 December 2013: 24,585 thousand BGN);
- transportation vehicles – 3,200 thousand BGN (31 December 2013: 907 thousand BGN);
- furniture and fixtures – 4,940 thousand BGN (31 December 2013: 4,481 thousand BGN).

As at 31 December 2014, there were pledges on long-term fixed assets of the Company in connection with loans as follows:

- Land and buildings with a carrying value respectively 14,870 thousand BGN and 61,149 thousand BGN (31 December 2013: respectively 12,311 thousand BGN and 64,410 thousand BGN) (Note № 28 and Note № 33);

- Pledges on equipment – 26,087 thousand BGN (31 December 2013: 35,967 thousand BGN) (Note № 28 and Note № 33).

As at 31 December 2014 there are no interest expenses and fees capitalized to the cost of acquisition, related to assets, meeting the requirements for capitalization (2013: 1,091 thousand BGN).

Revaluation of property, plant and equipment

As at 31 December 2011 there has been an overall review and assessment of the price changes of tangible fixed assets with the assistance of independent certified appraisers. As a result of this review was made the last revaluation of property, plant and equipment, the results of which are accounted.

In this revaluation are applied the following two basic approaches and valuation methods for determining the fair value of the different types of fixed assets:

- "Market approach" trough "Method of market analogues" – for land and buildings, for which there is a real market, analog properties and transactions with them could be observed and there is a basis for comparison – their market price has been accepted as their fair value.
- "Approach based on the prime value of assets" through "Method of depreciated replacement cost" – for specialized buildings, for which there is no real market and comparable sales of analog assets – their fair value is their depreciated replacement cost under current supply prices and under the hypothesis for their usual exploitation in a technologically related production process /incl. term/ and by considering: physical amortization, functional and economic impairment.

Based on the assessment there is a recognized revaluation reserve of 2,706 thousand BGN.

15. INTANGIBLE ASSETS

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

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

Expenses for the acquisition of intangible assets as at 31 December include:

- expenses on permits for use of medicinal products – 131 thousand BGN (31 December 2013: 353 thousand BGN);

- other – none (31 December 2013: 3 thousand BGN).

16. INVESTMENT PROPERTIES

	31.12.2014 *BGN '000*	*31.12.2013* *BGN '000*
Balance at 1 January	**22 555**	**19 391**
Net loss from revaluation to fair value, incl. in profit or loss	(187)	(200)
Acquired	-	3 265
Capitalized costs	-	99
Balance at 31 March / December	**22 368**	**22 555**

Investment properties consist of buildings and adjacent land, parts of a buildings, provisioned for independent operation and for long-term lease to subsidiaries and third parties. By asset groups are as follows:

Asset group	*31.12.2014* *BGN '000*	*31.12.2013* *BGN '000*
Storage areas and equipment	18 498	18 622
Offices	2 310	2 329
Industrial buildings	1 140	1 170
Social sites	420	434
Total	**22 368**	**22 555**

As at 31 December 2014 there are encumbrances on investment properties as follows:

- mortgage on storage areas – 8,085 thousand BGN (31 December 2013: 7,988 thousand BGN) (Note № 33);
- pledges on associated equipment – 6,138 thousand BGN (31 December 2013: 7,592 thousand BGN) (Note № 33);

Fair value valuation

Fair value hierarchy

The fair value valuations of the investment property groups are categorized as fair values of Level 2 based on the input data used in the valuation technique.

The revaluation to fair value made on the investment properties is repeatable and is due to the application of the fair value model in IAS 40. It is performed regularly at the date of each annual financial statement. The fair value valuation as at 31 December 2014 is conducted 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***

Balance at 1 January 2013	**18 810**	**-**	**144**	**437**	**19 391**
Purchases and capitalized costs		2 332	1 032	-	3 364
Revaluation to fair value through profit or loss – unrealized *(Note №4)*	(188)	(3)	(6)	(3)	(200)
Balance at 31 December 2013	**18 622**	**2 329**	**1 170**	**434**	**22 555**
Revaluation to fair value through profit or loss – unrealized (Note №4)	(124)	(19)	(30)	(14)	(187)
Balance at 31 December 2014	**18 498**	**2 310**	**1 140**	**420**	**22 368**

Valuation technique and significant input data

The table below present a description of the valuation techniques, used in determining the fair value of all groups of investment properties Level 2, as well as the used significant unobservable input data:

Asset groups (Level 2)	**Approached and valuation technique**	**Significant unobservable input data**
Storage areas	*a. Income approach* Valuation technique: Method of capitalized rental income as a scheme for applying the discounted cash flow (main valuation techniques)	a. Weighted rate of return b. Term of use of rental transactions
	b. Expense approach Valuation technique: Method based on costs for building or replacement - depreciated replacement cost (as secondary evaluation)	Adjusted prices of identical construction sites and delivery prices of analogs of machinery and equipment
Offices Industrial buildings Social sites	*Income approach* Valuation technique: Method of capitalized rental income as a scheme for applying the discounted cash flow (main valuation techniques)	a. Weighted rate of return b. Term of use of rental transactions

17. INVESTMENTS IN SUBSIDIARIES

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

		31.12.2014 BGN '000	*Share %*	*31.12.2013 BGN '000*	*Share %*
Sopharma Trading AD	Bulgaria	28 529	71.89	30 126	75.92
Briz OOD	Latvia	22 270	66.13	9 172	53.14
Unipharm AD	Bulgaria	19 448	49.99	19 448	49.99
Bulgarian Rose Sevtopolis AD	Bulgaria	8 729	49.99	8 729	49.99
Biopharm Engineering AD	Bulgaria	8 384	97.15	8 384	97.15
Ivanchich and sons	Serbia	5 739	51.00	5 739	51.00
Vitamina AD	Ukraine	5 154	99.56	6 187	99.56
Momina Krepost AD	Bulgaria	2 665	52.98	2 701	52.97
Pharmalogistica AD	Bulgaria	1 911	76.54	1 911	76.54
Sopharma Buildings REIT	Bulgaria	595	40.75	643	42.89
Sopharma Kazakhstan EOOD	Kazakhstan	502	100.00	-	-
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
Sopharma Ukraine EOOD	Ukraine	9	100.00	230	100.00
		104 642		**93 977**	
Paid unregistered capital increase	Latvia	-		7 230	
Total		**104 642**		**101 207**	

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

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

- Pharmalogistica AD – Scope of activities: secondary packaging and real estate leases. Date of acquisition – 15 August 2002.
- Bulgarian Rose-Sevtopolis AD – Scope of activities: manufacture of finished medicine forms. Date of acquisition – 22 April 2004.
- Electroncommerce EOOD – Scope of activities: trade, transportation and packaging of radioactive materials and nuclear equipment, household electronics and electrical equipment. Date of acquisition – 9 August 2005.
- Sopharma Poland OOD – in liquidation – Scope of activities: market and public opinion research. Date of acquisition – 16 October 2003. The company is in a procedure of liquidation.
- Sopharma USA – Scope of activities: trade in pharmaceuticals and food supplements. Date of acquisition – 25 April 1997.
- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Sopharma Zdrovit AD – Scope of activity: research and development in medicine and pharmacy, wholesale of pharmaceutical product. Data of acquisition – 27 September 2007. On 25 February 2013 completed the liquidation of Sopharma Zdrovit AD, Poland, and the company was erased

from the National Court Register of Poland.

- Sopharma AD has direct or indirect control on the above-mentioned companies.
- 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 – 07 August 2012.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of establishment – 30 September 2014.

The movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
Acquisition cost (cost)	***31.12.2014 BGN '000***	***31.12.2013 BGN '000***
Balance at 1 January	**107 293**	**106 248**
Capital issue	13 098	-
Newly acquired subsidiaries	502	-
Acquired additional participations	3	3 070
Sold participations without loss of control	(1 632)	(2 025)
Balance at 31 December	**119 264**	**107 293**
Accrued impairment		
Balance at 1 January	**13 316**	**13 316**
Accrued impairment	1 306	-
Balance at 31 December	**14 622**	**13 316**
Carrying amount at 31 December	**104 642**	**93 977**
Carrying amount at 1 January	**93 977**	**92 932**

On 19 June 2014 between Sopharma AD and Bulgarian Rose Sevtopolis AD was signed contract for transformation through merger, which governs the manner of the transformation through merger of Bulgarian Rose Sevtopolis AD in Sopharma AD. The Financial Supervision Commission approved the

Contract for transformation through merger of Bulgarian Rose Sevtopolis AD (acquiree) in Sopharma AD (acquirer) from 1 January 2015
In 2014 the newly acquired subsidiary is TOO Sopharma Kazakhstan (2013: none).

Impairment of investments in subsidiaries
As at the date of every quarterly financial statement the management makes an assessment about whether indicators for impairment exist in respect to 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 three- to five-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 calculation of the recoverable amount are:

- growth rate – between 0% to 31.5%;
- growth rate during the post-forecast period in the calculation of the terminal value – from 1.5% to 5%;
- interest rate /price of borrowing/ – from 3.70% to 10.30%;
- discount rate (based on WACC) – from 7.6% to 27.7%.

The key assumptions used in the calculations are defined specifically for each company, treated as a separate unit, generating cash flows, and according to its specific operations, 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.
Substantial goodwill upon acquisition has been recognized in two investments in subsidiaries. In these investments the analysis of the reasonably possible changes in the key assumptions used in calculating the value in use shows that the carrying amount of the investment would be higher than the recoverable value when there is: a) a change (an increase) in the discount rate in the range: 0.03% to 5%; and) a change (a decrease) in the growth rate during the post-forecast period - from 0.1 to 0.6%.
Based on the calculations made in 2014 there has been established the need for recognition of impairment of certain investments in subsidiaries at the amount of 1,306 thousand BGN (2013: none) (Note №10).

18. INVESTMENTS IN ASSOCIATED COMPANIES

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

		31.12.2014 BGN '000	***Share %***	***31.12.2013 BGN '000***	***Share %***
Medika AD	Bulgaria	7 015	24.38	-	-

The core business of Medica AD is the manufacturing of bandages and sanitary materials and finished medicines. The company was acquired on 4 November 2014.

The movement of investments in associated companies has been presented below:

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

As at the date of every quarterly financial statement the management makes an assessment about whether indicators for impairment exist in respect to its investments in associated companies. 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 three- to five-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 calculation of the recoverable amount are:

- growth rate – 2.2;
- growth rate during the post-forecast period in the calculation of the terminal value – 2%;
- interest rate /price of borrowing/ – 7%;
- discount rate (based on WACC) – 9.5%.

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.

Based on the calculations made in 2014 there has been established no need for recognition of impairment of investments in associated companies.

19. AVAILABLE-FOR-SALE INVESTMENTS

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

	31.12.2014	*Interest*	*31.12.2013*	*Interest*
	BGN '000	*%*	*BGN '000*	*%*
Doverie United Holding AD	1 836	9.90	1 532	9.90
Olainfarm AD - Latvia	1 256	0.77	1 313	0.77
Lavena AD	1 007	8.49	982	8.37
Hydroizomat AD	202	10.63	270	10.02
Elana Agrocredit AD	102	1.95	101	1.95
Todorov AD	26	4.70	39	4.50

Ecobulpack AD	7	1.48	7	1.48
UniCredit Bulbank AD	3	0.001	3	0.001
Medica AD	-	-	2 539	10.21
Vratitza AD	-	0.27	1	0.21
Sopharma Properties AD	-	-	75	0.20
Total	**4 439**		**6 862**	

All aforementioned 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	*Shares*	*31.12.2014 Fair share price*	*Fair value in the statement of financial position*	*Shares*	*31.12.2013 Fair share price*	*Fair value in the statement of financial position*
		BGN	*BGN*		*BGN*	*BGN*
Doverie United Holding AD	1 854 352	0.99	1 836	1 855 552	0.83	1 532
Olainfarm AD - Latvia	108 500	11.58	1 256	108 500	12.10	1 313
Lavena AD	22 641	44.48	1 007	22 322	44.01	982
Hydroizomat AD	317 901	0.64	202	299 499	0.90	270
Elana Agrocredit AD	100 000	1.02	102	100 000	1.01	101
Todorov AD	159 919	0.16	26	152 919	0.25	39
Vratitza AD	1 015	0.00	-	780	0.21	1
Maritzatex AD	58 476	0.00	-	58 201	0.00	-
Sopharma Properties AD	-	-	-	30 656	2.46	75
Medica AD	-	-	-	1 027 561	2.47	2 539
			4 429			**4 313**

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

The following table presents the available-for-sale investments of the Company, which are valued on regular basis at fair value in the statement of financial position:

Fair value hierarchy

Available-for-sale participations (shares)	*Fair value 31.12.2014*	*(Level 1)*	*(Level 2)*	*(Level 3)*
	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	-	-
Vratitza AD	-	-	-	-
Total	**4 429**	**1 384**	**1 209**	**1 836**

Available-for-sale participations (shares)	*Fair value 31.12.2013*	*(Level 1)*	*(Level 2)*	*(Level 3)*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Doverie United Holding AD	1 532	-	-	1 532
Medica AD	2 539	-	-	2 539
Olainfarm AD - Latvia	1 313	1 313	-	-
Lavena AD	982	-	982	-
Hydroizomat AD	270	-	270	-
Elana Agrocredit AD	101	101	-	-
Sopharma Properties AD	75	-	75	-
Todorov AD	39	39	-	-
Vratitza AD	1	1	-	-
Total	**6 852**	**1 454**	**1 327**	**4 071**

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

Available-for-sale participations (shares)	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Balance as at 1 January 2013	**1078**	**844**	**17 540**	**19 462**
Acquisitions	110	674	8	792
Issuing	-	174	-	174
Sales	(9)	(232)	(1 380)	(1 621)
Profit/(loss), included in current profit and loss for the year under Finance income - *Net profit from operations with shares*	1	(13)	(5 666)	(5 678)
Transfer to Level 1	-	(29)	-	(29)
Transfer to Level 2	29	-	-	29
Unrealized loss, included in other comprehensive income	-	(316)	(6 431)	(6 747)
Unrealized profit, included in other comprehensive income	245	225	-	470
Balance as at 31 December 2013	**1 454**	**1 327**	**4 071**	**6 852**

Acquisitions	2	75	1347	1 424
Sales	-	(121)	(10)	(131)
Transfer to available-for-sale investments	-	-	(3 878)	-
Profit/(loss), included in current profit and loss for the year under *Net loss from operations with shares*	-	(2)	2	-
Unrealized profit, included in the current profit and loss for the year	(8)	(80)	-	(88)
Unrealized profit, included in other comprehensive income	(64)	10	304	250
Balance as at 31 December 2014	**1 384**	**1 209**	**1 836**	**4 429**

Valuation technique and significant input data

The table below shows the valuation techniques as at 31 December 2014, used in determining the fair value of Level 2 and Level 3, as well as the used significant unobservable input data:

Available-for-sale participations (shares)	***Approaches and valuation techniques***	***Significant unobservable input data, significantly corrected observable data, and average values***
Level 2	*Approach of the market comparisons* Valuation technique: Method of market factors	-
Level 3	*a. Income approach* Valuation technique: Method of discounted cash flows	* projected annual rate of income increase * post-projected rate of income increase * projected annual rate of expense increase * discount norm (based on WACC)
	b. Expense approach Valuation technique: Method of market factors (secondary assessment)	-

20. LONG-TERM RECEIVABLES FROM RELATED PARTIES

As at 31 December the l*ong-term receivables from related parties* include:

	31.12.2014 BGN '000	***31.12.2013 BGN '000***
Granted long-term loans	32 857	25 214
Receivables on long-term deposits on rentals	293	435
Total	**33 150**	**25 649**

The long-term loans are granted to related parties through key management personnel.

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

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

The long-term loans granted to related parties are not secured by collateral.
The receivable on long-term deposit is from a company under common indirect control on a rental contract for an administrative office with an end date 1 August 2022.

21. OTHER LONG-TERM RECEIVABLES

Other long-term receivables of the Company are a loan granted to a third with a maturity date 2 August 2016 and annual interest rate of 8.08% amounting to 6 thousand BGN as at 31 December 2014 (31 December 2013: 17 thousand BGN).

22. INVENTORIES

Company's *inventories* include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Materials	24 414	28 045
Finished products	19 668	16 606
Semi-finished products	3 212	2 392
Work-in-progress	2 355	4 001
Goods	213	205
Total	**49 862**	**51 249**

Materials by type are as follows:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Basic materials	22 357	26 698
Materials in the process of delivery	1 315	455
Technical materials	424	325
Auxiliary materials	236	296
Spare parts	35	57
Other	47	214
Total	**24 414**	**28 045**

Basic materials by type are as follows:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Substances	12 594	17 042
Chemicals	4 253	4 041
Vials, tubes and ampoules	2 615	1 740
PVC and aluminum foil	1 269	1 668
Packaging materials	1 097	1 623
Herbs	529	584
Total	**22 357**	**26 698**

Finished products existing as at 31 December include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Tablet dosage forms	11 987	9 670
Ampoule dosage forms	3 891	3 435
Syrups	1 833	1 130
Other	1 957	2 371
Total	**19 668**	**16 606**

As at 31 December 2014 there are pledges on Company's inventories amounting to 31,051 thousand BGN as collateral for received bank loans (31 December 2013: 25,106 thousand BGN) (Note № 33 and № 39).

23. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Receivables from subsidiaries	*79 580*	*78 319*
Impairment of uncollectible receivables	*(258)*	*(178)*
	79 322	78 141
Receivables from companies under a common control through key managing personnel	14 476	17 732
Receivables from Companies under common indirect control	7 632	7 477
Total	**101 430**	**103 350**

The receivables from related parties by type are as follows:

	31.12.2014	*31.12.2013*
	BGN '000	***BGN '000***
Receivables on sales of finished products and materials	69 395	69 135
Impairment of uncollectable receivables	*(251)*	*(171)*
	69 144	68 964
Granted commercial loans	32 293	34 393
Impairment of uncollectable receivables	*(7)*	*(7)*
	32 286	34 386
Total	**101 430**	**103 350**

The receivables from sales are interest-free and 26,819 thousand BGN of them are denominated in BGN (31 December 2013: 29,469 thousand BGN), in EUR – 42,325 thousand BGN (31 December 2013: 39,466 thousand BGN), and in Ukrainian hryvnia – none (31 December 2013: 29 thousand BGN).

The most significant receivables are the ones from a subsidiary with principal activities in the field of trade in pharmaceuticals. They amounted to 30,547 thousand BGN as at 31 December 2014 or 44,18% of all receivables on sales of finished products and materials to related parties (31 December 2013: 31,466 thousand BGN – 45,60%).

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

The Company determined a period of up to 270 days in total for which no interest was 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 circumstances related to delay in order that impairment is charged.

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

	31.12.2014	*31.12.2013*
	BGN '000	***BGN '000***
up to 30 days	14 419	23 320
from 31 to 90 days	18 332	20 469
from 91 to 180 days	4 747	10 089
from 181 to 240 days	1 707	1 446
Over 241 days	1 238	-
Total	**40 443**	**55 324**

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

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
from 31 to 90 days	572	2 433
from 91 to 180 days	4 224	8 717
from 180 to 365 days	23 905	2 490
Total	**28 701**	**13 640**

The past due but not impaired receivables are mainly from subsidiaries, which are in a process of implementing the purposes of the Group for expanding its market share in the territory in which they operate. The collection methods and schemes under monitoring at company and group levels and are consistent with the implementation of the market objectives of the group.

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

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
over 1 year	251	171
Allowance for impairment	(251)	(171)
	-	**-**

The movement of the allowance for impairment related to receivables from the sale of products and materials from related parties is as follows:

	2014	*2013*
	BGN '000	*BGN '000*
Balance at the beginning of the year	**171**	**501**
Reported impairment	80	95
Recovered impairment	-	(225)
Amounts written off as uncollectible		(200)
Balance at the end of the year	**251**	**171**

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

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Receivables from companies related through key managing personnel	14 475	17 726
Subsidiaries	10 186	9 190
Impairment of commercial loans	*(7)*	*(7)*
	10 179	9 183
Companies under common indirect control	7 632	7 477
Total	**32 286**	**34 386**

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

	2014 BGN '000	2013 BGN '000
Balance at the beginning of the year	**7**	**2 358**
Reported impairment	-	7
Amounts written off as uncollectible	-	(2 358)
Balance at the end of the year	**7**	**7**

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

Currency	Contracted amount '000	Maturity	Interest %	31.12.2014 BGN'000	31.12.2014 BGN'000 including interest	31.12.2013 BGN'000	31.12.2013 BGN'000 including interest
to companies related through key managing personnel							
EUR	10 824	31.12.2015	4.50%	9 537	*18*	11 346	*16*
BGN	34 020	31.12.2015	5.50%	3 097	*9*	5 662	*14*
BGN	6 000	22.07.2015	5.50%	1 236	*26*	-	-
BGN	1 300	31.12.2015	5.50%	477	*17*	551	*50*
BGN	190	31.12.2015	5.50%	128	*1*	167	-
to companies under common indirect control							
EUR	7 661	31.12.2015	4.50%	7 632	*155*	7 477	-
to subsidiaries							
EUR	2 770	31.12.2015	6.10%	6 687	*1 269*	6 381	*963*
BGN	2 460	31.12.2015	5.50%	2 903	*158*	2 026	*26*
USD	205	31.12.2015	3.50%	355	*26*	303	*13*
BGN	600	31.12.2015	5.50%	151	-	402	*2*
USD	25	31.12.2015	3.50%	46	*5*	39	*4*
USD	20	31.12.2015	3.50%	37	*5*	32	*3*
				32 286	***1 689***	**34 386**	***1 091***

As at 31 December 2014 there are pledges on receivables from related parties amounting to 16,229 thousand BGN (31 December 2013: 16,229 thousand BGN) as collateral for received bank loans (Note № 33).

24. COMMERCIAL RECEIVABLES

Commercial receivables include:

	31.12.2014 BGN '000	31.12.2013 BGN '000
Receivables from clients	23 789	21 652
Impairment of uncollectible receivables	(627)	(580)
	23 162	21 072
Advances granted	1 105	1 083
Total	**24 267**	**22 155**

The *receivables from clients* are interest-free and of them – 184 thousand are denominated in BGN (31 December 2013: 324 thousand BGN), in EUR — 20,090 thousand BGN (31 December 2013: 19,090 thousand BGN), in PLN – 1,947 thousand BGN (31 December 2013: 1,484 thousand BGN), and in USD – 941 thousand BGN (31 December 2013: 174 thousand BGN).

Three main contracting parties of the Company form around 74,78% of receivables from clients (2013: 72.69%).

Generally, the Company agrees with its clients a term from 60 to 180 days for the payment of receivables from sales, except for transactions on new markets and during the acquisition of new trading partners.

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 the possibilities for repayment and takes a decision as to whether to charge impairment.

As at 31 December 2014 there are pledges on commercial receivables amounting to 23,162 thousand BGN (31 December 2013: 21,072 thousand BGN) as collateral for received bank loans (Note №33 and №39).

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

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
up to 30 days	2 202	2 084
from 31 to 90 days	12 668	14 333
from 91 to 180 days	418	106
from 181 to 365 days	-	2 628
Total	**15 288**	**19 151**

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

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
from 31 to 90 days	7 164	567
from 91 to 180 days	664	1 272
from 181 to 365 days	46	82
Total	**7 874**	**1 921**

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

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
over 1 year	627	580
Allowance for impairment	(627)	(580)
	-	**-**

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

	2014	***2013***
	BGN '000	***BGN '000***
Balance at the beginning of the year	**580**	**583**
Reported impairment	263	378
Amounts written-off as uncollectable	(198)	(354)
Reversal of impairment	(18)	(27)
Balance at the end of the year	**627**	**580**

The *advances granted* are for the purchase of:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Inventories	694	843
Services	411	240
Total	**1 105**	**1 083**

The *advances granted* are current. They include: in BGN – 1,007 thousand BGN (31 December 2013: 583 thousand BGN), in EUR – 96 thousand BGN (31 December 2013: 163 thousand BGN), in USD – none (31 December 2013: 323 thousand BGN), and in other currencies – 2 thousand BGN (31 December 2013: 14 thousand BGN).

25. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Taxes refundable	6 079	4 165
Prepayments	2 642	1 331
Loans granted to third parties	1 069	881
Impairment of uncollectable receivables	(37)	-
	1 032	881
Collaterals in lawsuits (Note №38)	286	253
Receivables on deposits placed as guarantees	246	258
Amounts granted to an investment intermediary	125	327
Receivables on returns	59	-
Court and awarded receivables	2 099	2 211
Impairment of court receivables	*(2 099)*	*(2 211)*
	-	-
Other	18	26
Total	**10 487**	**7 241**

Refundable taxes include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Excise duties	3 959	3 819
Corporate tax	1 496	42
VAT	565	304
Withholding taxes	59	-
Total	**6 079**	**4 165**

Prepayments include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Rents	1 660	49
Insurance	400	415
Subscriptions	294	249
Advertising	134	541
Licensing and patent taxes	36	35
Vouchers	1	20
Other	117	22
Total	**2 642**	**1 331**

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

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

Deposits provided as guarantees include:

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

26. CASH AND CASH EQUIVALENTS

Cash includes:

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Cash at current bank accounts	2 173	7 604
Cash in hand	143	67
Blocked cash on issued bank guarantees	27	-
Cash and cash equivalents for cash flows	**2 343**	**7 671**
Block cash on litigation	598	527
Total	**2 941**	**8 198**

The cash at current bank accounts is denominated as follows: in BGN – 399 thousand BGN (31 December 2013: 749 thousand BGN), in EUR – 993 thousand BGN (31 December 2013: 5,720 thousand BGN), in

USD – 658 thousand BGN (31 December 2013: 1,135 thousand BGN), and in other currencies – 123 thousand BGN (31 December 2013: none).
Cash in hand is mainly denominated in BGN.
There is active sequestration related to a law suit on current bank accounts in foreign currency amounting to 598 thousand BGN (372 thousand USD) (31 December 2013: 578 thousand BGN (Note № 38).

27. EQUITY

Share capital

As at 31 December 2014 the registered share capital of Sopharma AD amounted to BGN 132,000 thousand distributed in 132,000,000 shares of nominal value BGN 1 each.

The shares are ordinary, nominal, dematerialized 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 2013	**128 513 769**	**119 844**
Treasury shares	(1 975 445)	(5 923)
Sold treasury shares	1 000	3
Expense on treasury shares	-	(29)
Balance at 31 December 2013	**126 539 324**	**113 895**
Balance at 1 January 2014	**126 539 324**	**113 895**
Sold treasury shares	650 577	2 165
Treasury shares	(304 031)	(1 257)
Expense on treasury shares	-	(6)
Balance at 31 December 2014	**126 885 870**	**114 797**

The treasury shares as at 31 December 2014 were 5,114,130 at the amount of 17,203 thousand BGN (31 December 2013: 5,460,676 at the amount of 18,105 thousand BGN). In the current year the Company purchased 304,031 shares (2013: 1,975,445) and sold 650,577 shares (2013: 1000 shares) through an investment intermediary.
As at 31 December 2014 the Company has shares held by subsidiaries as follows:

- by Sopharma Trading AD – 23,857 shares (31 December 2013: 23,500 shares);
- by Unipharm AD – 191,166 shares (31 December 2013: 191,166 shares).

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

	31.12.2014 ***BGN '000***	***31.12.2013*** ***BGN '000***
Statutory reserves	33 555	30 051
Property, plant and equipment revaluation reserve	22 453	23 392
Available-for-sale financial assets reserve	1 232	984
Additional reserves	189 157	166 508
Total	**246 397**	**220 935**

The ***statutory reserves*** amounting to 33,555 thousand BGN (31 December 2013: 30,051 thousand BGN) were set aside from allocation of profit and included all amounts for the Reserve Fund.

The movements of statutory reserves are as follows:

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

The ***Property, plant and equipment*** **revaluation reserve** amounting to 22,453 thousand BGN (31 December 2013: 23,392 thousand BGN), 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 is directly carried to this reserve.

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

	2014 ***BGN '000***	***2012*** ***BGN '000***
Balance at 1 January	**23 392**	**25 093**
Transfer to retained earnings	(934)	(1 383)
Impairment of property, plant and equipment	(6)	(353)
Deferred tax liability arising on revaluation	1	35
Balance at 31 December	**22 453**	**23 392**

The ***available-for-sale financial assets reserve*** amounts to 1,232 thousand BGN (31 December 2013: 984 thousand BGN) and was set aside from the effects of subsequent valuation of available-for-sale investments to fair value.

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

	2014 ***BGN '000***	***2012*** ***BGN '000***

Balance at 1 January	**984**	**514**
Net gain arising on revaluation of available-for-sale financial assets	248	470
Balance at 31 December	**1 232**	**984**

The ***additional reserves*** amounting to 189,157 thousand BGN (31 December 2013: 166,508 thousand BGN) 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 are as follows:

	2014	*2013*
	BGN '000	***BGN '000***
Balance at 1 January	**166 508**	**138 387**
Distributed profit in the year	22 649	28 121
Balance at 31 December	**189 157**	**166 508**

As at 31 December 2014 retained earnings amounts to 27,397 thousand BGN (31 December 2013: 36,022 thousand BGN).

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

	2014	***2012***
	BGN '000	***BGN '000***
Balance at 1 January (originally reported)	**34 856**	**41 060**
Effect from change in the accounting policy	1 166	**-**
Balance at 1 January (recalculated)	**36 022**	**41 060**
Net profit for the year	25 164	33 661
Transfer from property, plant and equipment revaluation reserve	934	1 383
Effect from sale of treasury shares	619	**-**
Distribution of profit for reserves	(26 153)	(32 238)
Payment of dividend	(8 890)	(8 930)
Actuarial (gains)/losses from subsequent revaluations	(299)	(80)
Balance at 31 December	**27 397**	**34 856**

Basic earnings per share

	31.12.2014	***30.09.2013***
Weighted average number of common shares outstanding	126 913 907	127 422 985
Net income for the year (BGN '000)	25 164	33 661
Basic earnings per share (BGN)	**0.20**	**0.26**

28. LONG-TERM BANK LOANS

			31.12.2014			*31.12.2013*		
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	37 972	7 391	**45 363**	48 723	3 822	**52 545**
			37 972	**7 391**	**45 363**	**48 723**	**3 822**	**52 545**

The received investment loan in EUR has been agreed at interest rate based on 3-month EURIBOR plus a mark-up of up to 2.8 points (2013: 3-month EURIBOR plus a mark-up of up to 2.8 points).

The following collateral have been established in favor of the creditor bank for the aforementioned loan:

- Real estate mortgages: 45,850 thousand BGN (31 December 2013: 47,690 thousand BGN) (Note №14);
- Special pledges on:
    - property, plant and equipment: 21,354 thousand BGN (31 December 2013: 29,960 thousand BGN) (Note №14).

29. DEFERRED TAXES LIABILITIES

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

	temporary difference	*tax*	*temporary difference*	*tax*
	31.12.2014	***31.12.2014***	***31.12.2013***	***31.12.2013***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	52 016	5 202	46 576	4 658
incl. Revaluation reserve	*21 111*	*2 111*	*22 341*	*2 234*
Investment properties	*3 719*	372	*3 092*	309
incl. Revaluation reserve	*187*	*19*	*187*	*19*
Total deferred taxes liabilities	**55 735**	**5 574**	**49 668**	**4 967**
Receivables	(3 150)	(315)	(2 860)	(286)
Personnel liabilities	(4 246)	(425)	(3 945)	(395)
Intangible assets	(2 751)	(275)	(3 048)	(305)
Inventories	(2 800)	(280)	(1 484)	(149)
Accrued payables	(148)	(15)	(53)	(5)
Biological assets	(3)	-	(12)	(1)
Total deferred taxes liabilities	**(13 098)**	**(1 310)**	**(11 402)**	**(1 141)**
Net liabilities from deferred profit taxes	**42 637**	**4 264**	**38 266**	**3 826**

The recognition of deferred tax assets has taken into account the likelihood that individual differences reverse in the future and the Company's capacity to generate sufficient tax profit.

Deferred tax assets in the amount of 1,462 thousand BGN (31 December 2013: 1,332 thousand BGN) related to the impairment of investments in subsidiaries totaling 14,622 thousand EUR (31 December 2013: 13,316 thousand EUR) have not been recognized.

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

Deferred tax (liabilities)/assets	*Balance at 1 January 2014*	*Recognized in the statement of comprehensive income*	*Recognized in the equity capital*	*Recognized in the statement of equity capital and the current tax statement*	*Balance at 31 December 2014*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(4 658)	(570)	1	25	(5 202)
Investment properties	(309)	(63)			(372)
Receivables	286	29	-	-	315
Personnel liabilities	395	30	-	-	425
Intangible assets	305	(30)	-	-	275
Inventories	149	131	-	-	280
Accrued payables	5	10	-	-	15
Biological assets	1	(1)	-	-	-
Total	**(3 826)**	**(464)**	**1**	**25**	**(4 264)**

Change in the balance of deferred taxes for 2013 is as follows:

Deferred tax (liabilities)/assets	*Balance at 1 January 2013*	*Recognized in the statement of comprehensive income*	*Recognized in the equity capital*	*Recognized in the statement of equity capital and the current tax statement*	*Balance at 30 June 2013*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(4 801)	81	35	27	(4 658)
Investment properties	(248)	(61)			(309)
Receivables	411	(125)	-	-	286
Personnel liabilities	371	24	-	-	395
Intangible assets	314	(9)	-	-	305
Inventories	129	20	-	-	149
Accrued payables	8	(3)	-	-	5
Biological assets	1	-	-	-	1
Total	**(3 815)**	**(73)**	**35**	**27**	**(3 826)**

30. RETIREMENT BENEFIT LIABILITIES

Long-term payables to personnel include:

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Long-term payables to personnel upon retirement	2 027	1 710
Liabilities on long-term income from performance-based bonuses	192	145
Total	**2 219**	**1 855**

Long-term payables to personnel upon retirement

Long-term retirement benefit liabilities include the present value of the Company's liability at the date of the statement of financial position to pay benefits to its employees upon retirement.

In accordance with the Labor Code of 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 for the same employer – six gross monthly salaries at the time of retirement. This is a defined-benefit plan (Note № 2.21).

For the purpose of determining the amount of these liabilities, the Company has made an actuarial valuation as at 31 December 2014 by using the services of a certified actuary.

The movements in the present value of the liabilities for defined benefit plans during the year are as follows:

	2014	*2013*
	BGN '000	*BGN '000*
Present value of the liability as at 1 January	**1 710**	**1 479**
Current service costs	192	185
Interest expenses	72	72
Payments made during the reporting period	(257)	(106)
Actuarial losses from subsequent valuations, incl:	310	80
Losses based on changes in the financial assumptions	*27*	*58*
Losses based on changes in the demographic assumptions	*2*	*2*
Losses due to adjustments based on experience	*281*	*20*
Present value of the liability as at 31 December	**2 027**	**1 710**

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

	2014 BGN '000	*2013 BGN '000*
Current service costs	204	184
Interest expenses, net	71	72
Components on expenses for defined benefit plans, recognized in profit or loss (Note №7)	**275**	**256**
Effects of subsequent valuations of payables to personnel upon retirement, incl.:		
Losses due to changes in financial assumptions	25	53
Losses due to changes in demographic assumptions	2	1
Losses due to corrections due to experience	272	26
Components on expenses for defined benefit plans, recognized in other components of comprehensive income (Note №13)	**299**	**80**
Total	**574**	**336**

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

- The discount factor is calculated by using 3.8% annual interest rate as basis (2013: 4.5%). The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of the salaries is based on the information provided by the Company's management and amounts to 5% annual growth compared to the prior reporting period (2013: 5%);
- Mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2011 - 2013 (2013: 2010 - 2012);
- Staff turnover rate – from 0 % to 16 % for the five age groups formed (2013: from 0% to 16%).

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

- for the investment risk - as far as this is an unfounded plan, the Company shall monitor and record upcoming payments on it with the provision of a sufficient cash resources. Historical experience, as well as the structure of the debt, show that the required yearly resource is not significant compared to the usual levels of liquidity.
- for the risk related to the interest rate – any reduction in the yield on government securities of similar maturity increases the obligation of the plan.
- for the risk related to longevity - present value of the liability upon retirement is calculated using the best estimate and updated information on the mortality of plan participants. The increase in life expectancy would result in possible increase in the liability. In recent years there has been relative stability of this indicator; and

- the risk related to wage increases - the present value of the liability upon retirement is calculated using the best estimate of future wage increases of the plan participants. Such an increase would increase the liability of the plan.

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

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

a. salary growth,
b. discount rate,
c. staff turnover rate

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

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

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

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

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

The weighted average duration of the defined benefit obligation to personnel is 7,4 years (31 December 2013: 7,4 years).

The projected payment obligations to personnel as at 31 December 2014 are as follows:

Projected payment obligations	***Retirement due to age and experience***	***Retirement due to illness***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Payment obligations in 2015	403	8	411
Payment obligations in 2016	198	8	206
Payment obligations in 2017	208	8	216
Payment obligations in 2018	203	8	211
Payment obligations in 2019	186	8	194
	1 198	**40**	**1 238**

The projected payment obligations to personnel as at 31 December 2013 are as follows:

Projected payment obligations	*Retirement due to age and experience*	*Retirement due to illness*	*Total*
	BGN '000	*BGN '000*	*BGN '000*
Payment obligations in 2014	393	7	400
Payment obligations in 2015	90	7	97
Payment obligations in 2016	158	7	165
Payment obligations in 2017	211	7	218
Payment obligations in 2018	164	7	171
	1 016	**35**	**1 051**

Liabilities on long-term income from performance-based bonuses

As at 31 December 2014 long-term liabilities to personnel include 145 thousand BGN (31 December 2013: 192 thousand BGN), representing liabilities to personnel, related to the payment of performance-based bonuses for a period longer than 12 months (until 2016 and 2017).

31. FINANCE LEASE LIABILITIES

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

Term	***31.12.2014***	***31.12.2013***
	BGN '000	***BGN '000***
Up to one year	60	56
Over one year	34	49
Total	**94**	**105**

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

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

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

32. GOVERNMENT FINANCING

Long-term government financing in the amount of 3,358 thousand BGN (31 December 2013: 3,534 thousand BGN) is under a contract for financial assistance under Operational Program "Development of the Competitiveness of the Bulgarian Economy 2007-2013" for the acquisition of machinery and equipment for a new tablet plant (Note № 14).

The short-term part of the financing in the amount of 177 thousand BGN (31 December 2013: 178 thousand BGN) will be recognized as current revenue over the next 12 months from the date of the individual statement of financial position and is presented as "other current liabilities" (Note № 38).

33. SHORT-TERM BANK LOANS

Currency	*Contracted amount*	*Maturity*	*31.12.2014*	*31.12.2013*
	'000		*BGN'000*	*BGN'000*
Bank loans (overdrafts)				
EUR	20 000	31.08.2015	38 847	38 522
EUR	10 000	14.01.2015	13 477	8 472
BGN	10 000	31.08.2015	9 990	10 002
EUR	5 000	15.06.2015	9 786	9 788
EUR	5 000	15.06.2015	1 083	5 090
			73 183	**71 874**
Extended credit lines				
BGN	18 000	30.10.2015	9 965	13 041
BGN	15 000	31.01.2015	4 494	7 335
EUR	5 000	31.08.2015	3 119	6 628
			17 578	**27 004**
Total			**90 761**	**98 878**

The loans received in EUR are contracted at an interest rate based on 3-month EURIBOR plus a mark-up of up to 2.45 points and 1-month EURIBOR plus a mark-up of up to 3 points, and the loans in BGN – 1-month SOFIBOR plus a mark-up of up to 2.1 points, 1-month SOFIBOR plus a mark-up of up to 2 points, 1-month SOFIBOR plus a mark-up of up to 3 points and 2-week SOFIBOR plus a mark-up of up to 3.25 points. (2013: loans in EUR - 3-month EURIBOR plus a mark-up of up to 3.2 points and 1-month EURIBOR plus a mark-up of up to 3 25 points, and for those in BGN – 3-month SOFIBOR plus a mark-up of up to 2.1 points, 1-month SOFIBOR plus 2 points, 1-month SOFIBOR plus 3 points and 2-week SOFIBOR plus 3.25 points). Loans are intended for the provision of working capital.

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

- Real estate mortgages - 30,169 thousand BGN (31 December 2013: 37,019 thousand BGN) (Note № 14 and № 16);
- Special pledges on:
  - machinery and equipment 10,871 thousand BGN (31 December 2013: 13,599 thousand BGN) (Note № 14 and № 16);

- inventories - 35,525 thousand BGN (31 December 2013: 35,525 thousand BGN) (Note № 22);
- receivables from related parties – 16,229 thousand BGN (31 December 2013: 16,229 thousand BGN) (Note № 23);
- commercial receivables – 22,763 thousand BGN (31 December 2013: 22,763 thousand BGN) (Note № 24);

34. PAYABLES TO RELATED PARTIES

The *payables to related parties* include:

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Payables to subsidiaries	6 995	4 717
Payables to companies under common indirect control	760	793
Payables to companies under a common control through key management personnel	115	2 304
Payables to companies – main shareholders	1	22
Total	**7 871**	**7 836**

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

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Services	3 892	6 099
Payables for the supply of materials	3 529	152
Unpaid share capital of a newly established company	404	-
Supply of long-term assets	46	1 585
Total	**7 871**	**7 836**

The commercial payables to related parties are current and are not additionally secured by the Company. The payables in BGN amounted to 5,762 thousand BGN (31 December 2013: 7,550 thousand BGN), in PLN – 552 thousand BGN (31 December 2013: 264 thousand BGN), in EUR – 1,153 thousand BGN (31 December 2013: 22 thousand BGN), and in other currencies – 404 thousand BGN (31 December 2013: none).

35. COMMERCIAL PAYABLES

Commercial payables include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Payables to suppliers	6 956	4 568
Advances received	190	405
Total	**7 146**	**4 973**

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Payables to foreign suppliers	5 598	2 871
Payables to local suppliers	1 358	1 697
Total	**6 956**	**4 568**

The payables to suppliers are current, interest-free and refer to supplies of materials and services. The payables in foreign currency amount to 5,598 thousand BGN (31 December 2013: 2,871 thousand BGN). They include: in EUR - 4,040 thousand BGN (31 December 2013: 2,507 thousand BGN), in USD – 1,237 thousand BGN (31 December 2013: 285 thousand BGN), in PLN – 321 (31 December 2013: 53 thousand BGN) and in other currencies – none (31 December 2013: 26 thousand BGN).

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

The Company has deposits (Notes № 20 and № 25) as collateral for payables to suppliers for transactions in the amount of 539 thousand BGN (31 December 2013: 693 thousand BGN).

36. TAX PAYABLES

Tax payables include:

	31.12.2014	***31.12.2013***
	BGN '000	***BGN '000***
Withholding taxes	595	341
Individual income taxes payable	187	193
VAT	153	-
Corporate tax	-	709
Total	**935**	**1 243**

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

- under VAT – covering the period until 31 December 2011;
- full-scope tax audit – covering the period till 31 December 2011;
- National Social Security Institute – until 31 December 2013.

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

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Payables to personnel, including:	3 446	3 037
performance-based bonuses	*1 810*	*1 537*
current liabilities	*918*	*805*
accruals on unused leaves subject to compensations	*718*	*695*
Payables for social security/health insurance, including:	753	699
current liabilities	*640*	*591*
accruals on unused leaves subject to compensations	*113*	*108*
Total	**4 199**	**3 736**

38. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.12.2014	*31.12.2013*
	BGN '000	*BGN '000*
Awards on litigations	300	253
Dividend liabilities	250	279
Government grants (Note № 30)	177	178
Deductions from salaries	176	189
Finance lease liabilities (Note № 29)	60	56
Other	1	20
Total	**964**	**975**

39. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

In 2012 by decision from 23 October 2012 of International Court of Arbitration in Paris a claim by Sopharma AD against a client related to unpaid deliveries of goods in the amount of 1,034 thousand EUR (2,022 thousand BGN) has been satisfied.

In 2013 the International Court of Arbitration in Paris grants Sopharma the right to file an additional claim, as follows:

- for compensation for loss of business, suffered as a result of damage to the image of the Company, amounting to 1,240 thousand EUR (2,425 thousand BGN).
- for compensation of litigation and other expenses amounting to 75 thousand USD (121 thousand BGN) and 153 thousand EUR (298 thousand BGN).

According to appellate decision by the Appellate Court of Sofia from 8 November 2012 Sopharma AD was convicted jointly with its subsidiary for unpaid liabilities to a supplier of the subsidiary amounting to 153 thousand BGN (95 thousand USD) incl. principal and forfeits, as well the legal interest on that amount from 22 December 2005 until the date of final payment of the liabilities and 12 thousand BGN – trial expenses. The Company has blocked cash amounting to 598 thousand BGN (372 thousand USD) (Note № 26). This obligation has been fully included in the statement of financial position as at 31 March 2014 of the subsidiary. All parties in the case have filed cassation complaints against the decision.

Significant irrevocable contracts and obligations

In 2013, the company has committed itself to an excess of 3,000 thousand EUR under contract for funding under the Operational Program "Development of the Competitiveness the Bulgarian Economy" 2007 – 2013. The expected duration of the execution of the contract is 18 months and is mainly related to the financing of deployment of innovative products in the ampoule production.

In 2013 the company received government financing in the amount of 3,787 thousand BGN under contract for financing and Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007 - 2013 (Note 30 and Note № 36), related to the technological upgrading and modernization of the tablet plant (Note № 13). The Company has taken a commitment for a period of five years after the completion of the project, from 11 November 2013, and under the contract, the project must not undergo significant changes affecting its essence, the conditions for its execution or creating unjustified benefits for the Company, as well as changes resulting from a change in the nature of ownership of the assets subject to financing. The provided funding is subject to repayment in the event of failure to comply with these requirements. As at the date of the report all contract requirements are met.

Issued guarantees

The Company is a co-debtor under received bank loans and lease contracts and a guarantor for the following pharmaceutical trading companies before banks:

	Maturity	Currency	Amount		Status of the debt
			Original currency	BGN'000	31.12.2014 BGN'000
Sopharma Trading AD	31.08.2015	EUR	20 500	40 095	34 782
Sopharma Trading AD	31.08.2015	EUR	10 000	19 558	19 558
Sopharma Trading AD	31.08.2015	EUR	8 434	16 495	16 495
Vitamini OAO	22.06.2016	EUR	7 000	13 691	13 691
Sopharma Trading AD	25.06.2017	EUR	7 500	14 669	11 684
Sopharma Trading AD	31.08.2015	BGN	10 000	10 000	10 000
Sopharma Trading AD	25.04.2015	EUR	5 000	9 779	9 779
Sopharma Trading AD	25.04.2015	EUR	3 000	5 867	5 867
Biopharm Engineering AD	16.04.2023	BGN	4 250	4 250	4 250

	Maturity	Currency	Amount		Status of the debt
			Original currency	BGN'000	31.12.2014 BGN'000
Sopharma Trading AD	30.10.2015	EUR	2 050	4 009	3 912
Sopharma Trading AD	31.08.2015	BGN	4 732	4 732	3 791
Sopharma Trading AD	30.07.2018	EUR	2 000	3 912	3 423
Sopharma Trading AD	31.12.2019	EUR	3 000	5 867	2 202
Telecomplect AD	05.09.2015	BGN	5 009	5 009	1 252
Pharmaplant AD	20.12.2019	BGN	1 083	1 083	1054
Veta Pharma AD	19.11.2015	BGN	1 000	1 000	993
Sopharma Trading AD	15.11.2018	EUR	521	1 005	828
Energoinvestment AD	28.08.2015	BGN	2 018	2 018	518
Sopharma Trading AD	25.10.2016	EUR	432	846	358
Momina Krepost AD	20.09.2015	BGN	500	500	263
Pharmaplant AD	20.12.2015	BGN	246	246	214
Mineralcommerce AD	27.03.2015	BGN	175	175	175
Sopharma Trading AD	15.08.2019	EUR	78	153	153
Sopharma Trading AD	15.08.2019	EUR	74	145	145
Sopharma Trading AD	15.08.2019	EUR	74	145	145
Sopharma Trading AD	15.09.2019	EUR	72	141	134
Sopharma Trading AD	31.08.2015	EUR	66	129	129
Sopharma Trading AD	25.11.2017	EUR	87	170	108
Mineralcommerce AD	20.09.2017	EUR	100	196	108
Sopharma Trading AD	15.08.2019	EUR	58	114	107
Mineralcommerce AD	20.12.2015	EUR	50	98	97
Sopharma Trading AD	15.09.2019	EUR	35		69
Sopharma Trading AD	25.05.2016	EUR	89	174	60
Sopharma Trading AD	25.07.2016	EUR	63	124	47
Bulgarian Rose Sevtopolis AD	31.01.2015	EUR	1 617	3 163	40
Sopharma Trading AD	15.07.2019	EUR	20	39	39
Sopharma Trading AD	25.05.2016	EUR	41	80	33
Sopharma Trading AD	25.09.2016	EUR	22	42	21
Sopharma Trading AD	25.06.2016	EUR	23	45	16
Sopharma Trading AD	25.09.2016	EUR	15	29	12
Sopharma Trading AD	25.06.2016	EUR	22	43	10
					146 562

The following collateral have been established by the Company in favor of the creditor banks for loans to subsidiaries:

- Real estate mortgages - none (31 December 2013: 8,598 thousand BGN) (Note № 14);
- Special pledges on:
  - machinery and equipment: none (31 December 2013: 2,221 thousand BGN) (Note № 14);
  - facilities: none (31 December 2013: 233 thousand BGN) (Note № 14);

- inventories – 17,623 thousand BGN (31 December 2013: 17,623 thousand BGN) (Note № 22);
- commercial receivables – 12,000 thousand BGN (31 December 2013: 19,705 thousand BGN) (Note № 24).

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 As at 31 March 2014 regardless of the fact that the official document evidencing that Ecobulpack (the organization in which the Company 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 the 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 separate specific types of risk such as currency, price, interest, credit and liquidity risk and the risk of use of non-derivative instruments.

Categories of financial instruments:

Financial assets	*31.12.2014* *BGN '000*	*31.12.2013* *BGN '000*
Available-for-sale financial assets	***4 439***	***6 862***
Available-for-sale investments (in shares)	*4 439*	*6 862*
Loans and receivables	***159 312***	***151 535***
Long-term receivables from related parties	*33 150*	*25 649*
Other long-term receivables	*6*	*17*
Short-term receivables from related parties	*101 430*	*103 350*
Commercial receivables	*23 162*	*21 072*

Other receivables	*1 564*	*1 447*
Cash and cash equivalents	2 941	8 198
Total financial assets	***166 692***	***166 595***

Financial liabilities	***31.12.2014***	***31.12.2013***
	BGN '000	***BGN '000***
Bank loads	***136 124***	***151 423***
Long-term bank loans	37 972	48 723
Short-term bank loans	*90 761*	*98 878*
Short-term part of long-term bank loans	*7 391*	*3 822*
Other liabilities	***15 471***	***13 054***
Commercial payables to related parties	*7 871*	*7 836*
Commercial payables	*6 956*	*4 568*
Financial lease liabilities	*94*	*105*
Other liabilities	*550*	*545*
Total financial liabilities at amortized cost	***151 595***	***164 477***

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 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 operations are usually denominated in BGN and/or EUR.

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:

Currency risk

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	1 665	119 421	36 267	1 959	159 312
Cash and cash equivalents	1 256	1 020	534	131	2 941
Total financial assets	**2 921**	**121 697**	**39 984**	**2 090**	**166 692**
Bank loans	-	111 675	24 449	-	136 124

Other liabilities	1 523	5 193	7 384	1 371	15 471
Total financial liabilities	**1 523**	**116 868**	**31 833**	**1 371**	**151 595**

31 December 2013	**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	-	-	5 549	1 313	6 862
Receivables and loans granted	802	109 427	39 783	1 523	151 535
Cash and cash equivalents	1 662	5 720	814	2	8 198
Total financial assets	**2 464**	**115 147**	**46 146**	**2 838**	**166 595**
Bank loans	-	106 167	45 256	-	151 423
Other liabilities	538	2 529	9 539	448	13 054
Total financial liabilities	**538**	**108 696**	**54 795**	**448**	**164 477**

Foreign currency sensitivity analysis

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

		USD	
		31.12.2014	**31.12.2013**
		BGN '000	**BGN '000**
Financial result	+	126	173
Accumulated profits	+	126	173
Financial result	-	(126)	(173)
Accumulated profits	-	(126)	(173)

In case of a 10% increase in the rate of USD to BGN, the final effect on post-tax profit of the Company for 2014 would be an increase of 126 thousand BGN (0.41%). (for 2013: the net effect on the profit of the Company would be an increase of 173 thousand BGN (0.51%)). The effect in terms of value on Company's equity – through the component 'retained earnings' – would be the same.

In case of a 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 the post-tax profit of the Company in case of 10% increase in their exchange rates to BGN is insignificant. The final effect on the post-tax profit for 2014 would be a decrease of 842 thousand BGN (2.72%) (2013: an increase of 184 thousand BGN). The effect on equity is of the same amount and in a direction of increase / decrease and reflects on 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) a contingent increase of supplier prices of raw and other 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) the growing competition on the Bulgarian pharmaceutical market is also reflected in medicine 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 commercial 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, who work with 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 (commercial receivables and loans) as follows:

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

The Company has concentration of trade receivable from a single client not part of the related parties, at the amount of 68,39% of all commercial receivables (31 December 2013: 53.81%).

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

Collectability of receivables is controlled directly by the Executive Director, Finance Director and Commercial Director. Their responsibility is to provide operating control and regulate receivables in conformity with the actual market situation, the state and capabilities of the particular counterparty and, respectively, the market objectives and needs of the Company.

The Company has developed policy and procedures to assess the creditworthiness of its counterparts and to assign credit rating and credit limits by groups of clients.

The 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 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 end of the reporting period. The table is prepared on the basis of undiscounted cash flows and the earliest date on which the payable becomes due for payment. The amounts include principal and interest.

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	19 017	1 711	13 415	66 367	8 245	23 496	9 847	**142 098**
Other liabilities	12 673	1 769	22	984	32	5	-	**15 485**
Total liabilities	**31 690**	**3 480**	**13 437**	**67 351**	**8 277**	**23 501**	**9 847**	**157 583**

31 December 2013	**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	8 627	20 399	55 991	24 279	8 899	24 918	17 603	**160 716**
Other liabilities	6 622	5 806	15	575	46	8	-	**13 072**
Total liabilities	**15 249**	**26 205**	**56 006**	**24 854**	**8 945**	**24 926**	**17 603**	**173 788**

Risk of interest-bearing cash flows

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

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

(b) the combined structure of interest rates on loans, which consists of 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. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated. 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.

Interest rate analysis

31 December 2014	Interest-free *BGN '000*	With floating interest % *BGN '000*	With fixed interest % *BGN '000*	Total *BGN '000*
Available-for-sale financial assets	4 439	-	-	4 439
Loans and receivables	95 495	-	63 817	159 312
Cash and cash equivalents	147	2 794	-	2 941
Total financial assets	**100 081**	**2 794**	**63 817**	**166 692**
Bank loans	102	136 022	-	136 124
Other loans and liabilities	15 377	94	-	15 471
Total financial liabilities	**15 479**	**136 116**	**-**	**151 595**

31 December 2013	Interest-free *BGN '000*	With floating interest % *BGN '000*	With fixed interest % *BGN '000*	Total *BGN '000*
Available-for-sale financial assets	6 862	-	-	6 862
Receivables and loans granted	94 064	-	57 471	151 535
Cash and cash equivalents	67	8 131	-	8 198
Total financial assets	**100 993**	**8 131**	**57 471**	**166 595**
Bank loans	266	151 157	-	151 423
Other liabilities	12 949	105	-	13 054
Total financial liabilities	**13 215**	**151 262**	**-**	**164 477**

The table below shows the Company's sensitivity to possible changes in the 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.

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

2013	*Increase / decrease in interest rate*	*Impact on post-tax financial result – profit/(loss)*	*Impact on equity - increase/(decrease)*
EUR	increase	(478)	(478)
BGN	increase	(204)	(204)
EUR	decrease	478	478
BGN	decrease	204	204

Capital risk management

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

The Company currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital amount. Net debt is calculated as total borrowings (current and non-current ones) as presented in the balance sheet less cash and cash equivalents. Total employed capital is calculated as the sum of equity and net debt capital.

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

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

Capital risk management

	2014 *BGN '000*	*2013* *BGN '000*
Total borrowings, including:	**136 218**	**151 528**
Bank loans	*136 124*	*151 423*
Finance lease liabilities	*94*	*105*
Less: Cash and cash equivalents	**(2 941)**	**(8 198)**
Net debt	**133 277**	**143 330**
Total equity	**388 591**	**370 852**
Total capital	**521 868**	**514 182**
Gearing ratio	**0.26**	**0.28**

The liabilities included in the table above are disclosed in Notes №26, №28, №31, №33 and №38.

Fair value valuation

The concept of fair value assumes realization of financial instruments by sale, based on the position, assumptions and judgments of independent participants on the main market or the market most advantageous for an asset or a liability. For its financial assets and liabilities the company accepts as the main market the financial markets in Bulgaria - BSE, large commercial banks - dealers for certain specific instruments - direct transactions between parties. However, in most cases especially in regard of commercial 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 their amortized cost.

In addition, a large part of the financial assets and liabilities are short-term in their nature (commercial receivables and payables, short-term loans) or are presented in the statement of financial position at a certain market (by a certain valuation method) value (investments in securities, loans with a floating interest rate) and therefore, their fair value is almost equal to their carrying amount. An exception to this rule are part of the investments in other companies as minority interest for which there is no market and objective conditions for determining in a credible way their fair value, which is why it is accepted that they be presented at their cost of acquisition (prime cost).

As far as there is no sufficiently active market for financial instruments in Bulgaria, with stability, sufficiently high volume and liquidity in regard to purchases and sales of certain financial assets and liabilities, no adequate and reliable quotes of market prices are available for them, in which cases other alternative valuation methods are applied.

The Company's management believes 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*	*Relation period*
Telecomplect Invest AD	Company – main shareholder	2013 and 2014
Donev Investments AD	Company – main shareholder	2013 and 2014
Sopharma Trading AD	Subsidiary	2013 and 2014
Pharmalogistica AD	Subsidiary	2013 and 2014
Bulgarian Rose Sevtopolis AD	Subsidiary	2013 and 2014
Sopharma Poland OOD - liquidation	Subsidiary	2013 and 2014
Sopharma USA	Subsidiary	2013 and 2014
Electroncommerce EOOD	Subsidiary	2013 and 2014
Biopharm Engineering AD	Subsidiary	2013 and 2014
Vitamina AD	Subsidiary	2013 and 2014
Ivanchich and Sons OOD	Subsidiary	2013 and 2014
Sopharma Buildings REIT	Subsidiary	2013 and 2014
Momina Krepost AD	Subsidiary	2013 and 2014
Extab Corporation	Subsidiary	2013 and 2014
Extab Pharma Limited	Subsidiary through Extab Corporation	2013 and 2014
Briz OOD	Subsidiary	2013 and 2014
Unipharm AD	Subsidiary	2013 and 2014
Sopharma Warsaw	Subsidiary	2013 and 2014
Sopharma Ukraine EOOD	Subsidiary	2013 and 2014
Sopharma Zdrovit AD – in liquidation	Subsidiary	until 22.03.2013
Medika AD	Associated company	from 04.11.2014
Phyto Palauzovo AD	Subsidiary through Bulgarian Rose – Sevtopolis OOD	2013 and 2014
Brititrade SOOO	Subsidiary through Briz OOD	2013 and 2014
Tabina OOO	Subsidiary through Briz OOD	2013 and 2014
ZAO Interpharm	Joint venture through Briz OOD	2013 and 2014
Brizpharm SOOO	Subsidiary through Briz OOD	2013 and 2014
Vivaton Plus OOO	Joint venture through Briz OOD	2013 and 2014

Pharmaceft Plus OOO	Subsidiary through Briz OOD	from 01.06.2013 and 2014
Pharmaceft Plus OOO	Associate through Briz OOD	from 29.04. until 31.05.2013
UAB UBSPharma	Subsidiary through Briz OOD	from 01.03.2013 and 2014
Vestpharm ODO	Subsidiary through Briz OOD	from 04.07.2013 and 2014
Vestpharm ODO	Associate through Briz OOD	from 01.01.until 03.07. 2013
Alean ODO	Subsidiary through Briz OOD	from 07.02.2013 and 2014
Alean ODO	Associate through Briz OOD	from 01.01. until 06.02.2013
NPK Biotest OOO	Subsidiary through Briz OOD	from 02.09.2013 and 2014
NPK Biotest OOO	Associate through Briz OOD	from 18.01. until 01.09.2013
BelAgroMed	Subsidiary through Briz OOD	from 30.07.2013 and 2014
BelAgroMed	Associate through Briz OOD	from 18.01. until 29.07.2013
SpetzApharmacia BOOO	Subsidiary through Briz OOD	from 20.01.2014
SpetzApharmacia BOOO	Associate through Briz OOD	from 03.09.2013 until 19.01. 2014
Med-dent OOO	Join venture through Briz OOD	from 17.12.2013 and 2014
Med-dent OOO	Associate through Briz OOD	from 03.09.2013 until 16.12.2013
OOO Bellerophon	Joint venture through Briz OOD	From 27.11.2014
OOO Bellerophon	Associate through Briz OOD	from 28.08.2014 until 26.11.2014
Sopharma Properties REIT	Company under a common indirect control	2013 and 2014
Sofprint Group AD	Company under a common indirect control	2013 and 2014
Elpharma AD	Company under a common indirect control	2013 and 2014
Telso AD	Company related through key management personnel	2013 and 2014
Telecomplect AD	Company related through key management personnel	2013 and 2014
DOH Group	Company related through key management personnel	2013 and 2014

Supply from related parties:	***2014***	***2013***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies under common indirect control	9 742	7 826
Subsidiaries	3 695	4 171
Companies related through key managing personnel	290	657
Companies – main shareholders	35	-
	13 762	**12 654**
Supply of services from:		
Subsidiaries	37 552	32 801
Companies related through key managing personnel	4 040	2 777
Companies under common indirect control	2 082	2 160
Companies – main shareholders	250	291
	43 924	**38 029**
Supply of long-term fixed assets from:		
Companies related through key managing personnel	597	4 075
Companies under common indirect control	-	-
	597	**4 075**
Supplies for acquisition of non-current assets:		
Companies related through key managing personnel	2 932	11 760
	2 932	**11 760**
Total	**61 215**	**66 518**

Sales to related parties	*2014*	*2013*
	BGN '000	*BGN '000*
Sales of finished products to:		
Subsidiaries	103 998	117 446
Companies under common indirect control	-	187
	103 998	**117 633**
Sales of goods and materials to:		
Subsidiaries	17 555	16 136
Companies under common indirect control	1 002	874
Companies related through key management personnel	51	4
	18 608	**17 014**
Sales of services to:		
Subsidiaries	1 712	1 763
Companies under common indirect control	90	98
Companies related through key managing personnel	50	95
	1 852	**1 956**
Sales of long-term tangible assets to:		
Subsidiaries	-	38
	-	**38**
Interest on loans granted to:		
Companies related through key managing personnel	2 239	2 917
Companies under common indirect control	337	445
Subsidiaries	491	387
Companies – main shareholders	-	156
	3 067	**3 905**
Income from liquidation shares in:		
Subsidiaries	-	109
	-	**109**
Total	**127 525**	**140 655**

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 disclosed in Notes № 18, № 21 and № 32. The members of the key personnel are disclosed in Note № 1.

Salaries and other short-term remuneration of the key management personnel amount to 979 thousand BGN (2013: 1,174 thousand BGN), incl.:

- current salaries – 844 thousand BGN (2013: 762 thousand BGN);
- performance-based bonuses – 135 thousand BGN (2013: 412 thousand BGN).

42. EVENTS AFTER THE REPORTING PERIOD

The Extraordinary General Meeting of Shareholders, conducted on 9 January 2015, approved the contract for transformation through merger of Bulgarian Rose Sevtopolis AD in Sopharma AD.

A partial payment to the share capital of the subsidiary Sopharma Kazakhstan at the amount of 74 thousand BGN has been made on 26 January 2015. The final payment of the capital of the newly acquired company is due on 31 May 2015.