TCHAIKAPHARMA HIGH QUALITY MEDICINES INC
ACCOUNTING POLICIES AND EXPLANATORY NOTES TO THE ANNUAL FINANCIAL REPORT AS OF THE 31st OF DECEMBER 2016

APPENDICES TO THE ANNUAL FINANCIAL REPORT

I. INFORMATION ABOUT THE COMPANY

1. Company name

Tchaikapharma High Quality Medicines Inc. is a commercial corporation, founded and engaged in activities, according to the Orders of the Commercial law and was registered under the judgement of the District court of Varna, passed on the company case № 1096 from the 14.03.2000.
With the decision of the Supreme District Court № 8866 from the 10.10.2007 and the Decision of the Sofia City Court from the 09.11.2007 the headquarters and the address of the head administration changed - from Varna, Primosrski Region, residential District Tchaika, 1 Nikola Vapcarov Str., to Sofia, District Izgrev, 1 G. M. Dimitrov Blvd.
The company is listed in the Registry of the commercial corporations as a joint-stock company under company case № 16559/2007 From the Sofia City Court.

2. Foundation date and duration in time:

Tchaikapharma High Quality Medicines Inc. was founded in 2000. The duration of the Company is not limited in time.

3. Country of Company foundation, headquarters, address of the head administration, telephone, fax, e-mail and web page:

Country:	Bulgaria
Headquarters address:	Sofia, 1 G.M.Dimitrov Blvd.
Correspondence address:	Sofia, 1 G.M.Dimitrov Blvd.
Telephone:	02 / 960 36 34
Fax:	02 / 962 50 59
E-mail:	tchaika@tchaikapharma.com
Web page:	http://tchaikapharma.com

4. Object of activity

The object of activity of the company is the manufacturing and sales of pharmaceuticals in a in a processed form.

5. Capital

The capital of the company is BGN 56 600 000 (fifty-six million and six hundred thousand Leva), distributed in 56 600 000 ordinary registered shares with a nominal value of BGN 1..

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

Bellow are described the accounting policies applied in the preparation of financial statements. These policies have been consistently applied to all years presented, unless otherwise stated.

1. Basis for preparation of the financial statement

The Company has prepared this unconsolidated financial statement for presentation to shareholders, tax authorities and Trade Register in accordance with the requirements of the Bulgarian legislation.
The financial statement has been prepared in accordance with the historical cost principle, which is limited in cases of revaluation of certain property, plant and equipment, investment property, financial assets held for sale and financial assets and liabilities reported at fair value in profit or loss.

The preparation of the financial statements in conformity with IFRS requires the use of certain approximate accounting estimates. When applying the accounting policies of the Company, the management used its own judgment. The elements of the financial statement, the presentation of which includes a high degree of judgment or subjectiveness, as well as those elements where assumptions and estimates are significant to the financial statement as a whole, are disclosed separately.

The Company has prepared this unconsolidated financial statement for presentation to shareholders, tax authorities and Trade Register in accordance with the requirements of the Bulgarian legislation.

The management of the Company applies IFRS/IAS as the basis for ongoing reporting and the preparation of annual financial statements. In preparing the annual financial statements for the current year management has complied with the following standards:

IAS 1 Presentation of financial statements
IAS 2 Inventories
IAS 7 Cash flow reports
IAS 8 Accounting Policies, changes in accounting estimates and errors
IAS 10 Events after the balance sheet date
IAS 11 Construction contracts
IAS 12 Income taxes
IAS 16 Property, plant and equipment
IAS 17 Leasing
IAS 18 Income
IAS 19 Employee income
IAS 20 Accounting for grants from the state, and disclosure of government assistance
IAS 21 Effects of changes in currency rates
IAS 23 Loan costs
IAS 24 Related parties disclosures
IAS 26 Accounting and reporting of retirement benefit plans
IAS 27 Consolidated and separate financial statements
IAS 28 Investments in associated companies
IAS 29 Financial reporting in hyperinflationary economies

IAS 32 Financial instruments: presentation
IAS 33 Net profit per share
IAS 34 Interim financial reporting
IAS 36 Assets revaluation
IAS 37 Provisions, contingent liabilities and contingent assets
IAS 38 Intangible assets
IAS 39 Financial instruments: recognition and evaluation
IAS 40 Investment properties
IAS 41 Agriculture
IFRS 1 First time application of the international Financial Reporting Standards
IFRS 2 Share-based payments
IFRS 3 Business combinations
IFRS 4 Insurance contracts
IFRS 5 Non-current assets held for sale and discontinued operations
IFRS 6 Examining and assessing of mineral resources
IFRS 7 Financial instruments: publication
IFRS 8 Operational segments
IFRS 10 Consolidated financial statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair value measurement
IFRIC Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments
IFRIC Interpretation 4: Determining whether an Arrangement contains a Lease
IFRIC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC Interpretation 6: Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment
IFRIC Interpretation 7: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC Interpretation 8: Scope of IFSR 2
IFRIC Interpretation 9: Reassessment of Embedded Derivatives
IFRIC Interpretation 10: Interim Financial Reporting and Impairment
IFRIC Interpretation 11: IFSR 2 Group Cash-settled Share-based Payment Transactions
IFRIC Interpretation 12: Service Concession Arrangements
IFRIC Interpretation 13: Customer Loyalty Programmes
IFRIC Interpretation 14: IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC Interpretation 15: Agreements for the Construction of Real Estate
IFRIC Interpretation 16: Hedges of a Net Investment in a Foreign Operation
IFRIC Interpretation 17: Distributions of Non-cash Assets to Owners
IFRIC Interpretation 18: Transfers of Assets from Customers
IFRIC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments
IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine
SIC Interpretation 7: Introduction of Euro
SIC Interpretation 10: Government Assistance-No Specific Relation to Operating Activities
SIC Interpretation 15: Operating Leases-Incentives
SIC Interpretation 25: Income Taxes-Changes in the Tax Status of an Enterprise or its Shareholders
SIC Interpretation 27: Evaluating the Substance of Transactions Involving the Legal Form of a

Lease
SIC Interpretation 29: Disclosure-Service Concession Arrangements
SIC Interpretation 31: Revenue-Barter Transactions Involving Advertising Services
SIC Interpretation 32: Intangible Assets-Web Site Costs

The Company applies adopted with Regulation (EC) No. 1254 of 11.12.2012 new reporting standards IFRS 10 - Consolidated financial statements, IFRS 11 - Joint Arrangements, IFRS 12 - Disclosure of Interests in Other Entities, IAS 27 - Separate financial statements and IAS 28 - Investments in associated companies. Applied are the amendments in effect from 01.01.2013 in IFRS 1, IFRS 2, IFRS 3, IFRS 7, IAS 1, IAS 7, IAS 21, IAS 24, IAS 27, IAS 32, IAS 33, IAS 36, IAS 38, IAS 39, IFRIC 5 and IFRIC 17.

2. Investments in subsidiaries and associated companies

For shares held in subsidiaries, joint ventures, associated enterprises and unconsolidated structured entities the requirements of IFRS 12 Disclosure of interests in other entities are followed. The information about the significant assessments and assumptions determining the control, joint control, significant influence and the type of joint venture is disclosed.

For shareholdings in subsidiaries the information about the composition of the group, the participation of non-controlling shareholdings, the significant restrictions on the ability to access assets and settlement of liabilities, the nature of risks with holdings in consolidated structured entities and other requirements is disclosed. For each subsidiary the name, principal place of business, the share of participation of non-controlling shareholdings, profit or loss for the non-controlling shareholdings accumulated non-controlling shareholdings and summarized financial information are disclosed. The nature and extent of significant restrictions is disclosed.

For shareholdings in joint ventures and associated enterprises the information about the nature, extent and financial impact and nature of the risks is disclosed. For each essential joint and associated enterprise the name, nature of the relationship, principal place of business, equity assessment under the equity method or at fair value, aggregated financial information are disclosed. The nature and extent of significant restrictions is disclosed.

For shareholdings in unconsolidated structured entities the information about the nature and scope and nature of the risks is disclosed. For the nature of shareholdings the qualitative and quantitative information is disclosed. For the nature of the risks additional information is disclosed.

Investments are accounted for using the cost method whereby participatory stakes are stated at cost less accumulated impairment losses. In the statement of comprehensive income the investment income is reported only to the extent of the share received of the accumulated profits of the company, which is invested in, in the form of dividends.

3. Segments reporting

The business segment is a group of assets and a business operation engaged in providing products or services and is subject to risks and benefits different from those of other business segments. The geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and benefits different from those in other economic environments. The segment reporting is not required for presentation in the unconsolidated financial statements of the company that is not part of the group.

4. Foreign currency transactions

(1)) Functional currency and и presentation currency

The separate items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in BGN, which is the functional currency. BGN was pegged to the Euro on 1 January 1999 under the arrangements the Currency Board introduced in Bulgaria.

(2) Transactions and balances

The transactions in foreign currencies are converted into functional currency using the exchange rates prevailing on the respective day. Profits and losses from changes in the exchange rates arising from the settlement of foreign currency transactions and from the translation at the closing exchange rate of foreign currency denominated assets and liabilities are recognized in the comprehensive income statement.

Important exchange rates:	**31 December 2016**
	Лева
1 US dollar equals	1.85545
1 Euro equals	1.95583
1 British Pound	2.28437
1 Swiss franc	1.82124

Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets available for sale are analyzed and divided into changes resulting in amortized cost and other changes in the carrying value. Exchange differences related to the changes in the amortized cost are recognized in the profit or loss, while the other changes in the carrying amount are recognized in the equity.

Differences from the adjustments of non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognized in the profit or loss as part of the profit or loss relating to the translation of their fair value. Differences from the adjustments of investments held to maturity are recognized in the statement of comprehensive income.

5. Property, plant and equipment (PPE)

Land and buildings (except for the investment properties) are presented at fair value. When fair values are used, the requirements and rules of IFRS 13 Fair value measurement are followed. Proceeding from transactions of sales of the asset or transfers of the liability carried out on the principal market or most advantageous market, including transportation costs and excluding other transaction costs.

The management uses the fair value hierarchy, and if possible the assessment is at level 1 according to the prices in the active markets. If the level 1cannot be used, we proceed to level 2, direct or indirect monitoring of the prices. The last option is a level 3, developing of hypotheses. The overall assessment of fair value is categorized by the level of the fair value hierarchy, where is located the lowest level hypothesis relevant to the overall assessment.

For fair value assessment the most appropriate method is used. The approach of market comparisons is based on the current market price, recently achieved market price or market price adjusted for similar item. It is applied to investment properties, debt or equity instruments on the exchange /shares and bonds/, investments outside the stock exchange and biological assets. The approach based on costs is based on estimates of the cost of replacement with a new asset, age and condition of the asset and the economic level of depreciation. It is applied to fixed tangible assets and fixed intangible assets. The approach based on income is based on direct methods for calculating cost savings, pricing with a premium, exemption from legacy license fees, excess profits or indirect methods of return on assets, residual profit, to align the assumptions for cash flows and discount rate. It is applied for impairment of non-financial liabilities, financial instruments and units generating cash flow.

The management discloses the reported items whose fair value is in the balance sheet. When necessary and materially, the fair value of the reported items that are not included in the balance sheet is disclosed. The fair value is assessed based on the regular assessment by an independent external valuer, decreased by the subsequent depreciation of buildings. The accumulated depreciation at the date of revaluation is eliminated against the book value of the asset and the resulting net amount is corrected by the reevaluated amount of the asset. All other machinery and equipment are stated at historical cost decreased by the accumulated amortization and impairment. The historical cost includes the expenditure that is directly attributable to the acquisition of the asset.

The value materiality thresholds for property, plant and equipment approved by the Company is BGN 700.

The subsequent costs are added to the balance amount of the asset or are reported as separate asset only when it is probable that the Company will generate future economic benefits associated with the use of the asset and when their carrying amount can be measured reliably. All other expenses for repairs and maintenance are recognized in the income statement for the period in which they are incurred..

The increases in the balance amount arising from the revaluation of land and buildings are related to the revaluation reserve. Reductions that offset previous increases on the same asset are related to the revaluation reserve, all other decreases are related to the statement of comprehensive income. Upon disposal of revalued assets accumulated for them revaluation reserve is transferred to retained earnings from previous periods.

The land is not depreciated. Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate the difference between the carrying value and the redemption value over their estimated useful lives, using the following depreciation rates (in percentages):

Buildings and equipment	4%
Machinery and installations	30%
Computers and peripherals	50%
Furniture, fixtures and fittings	15%

The residual value and useful live of assets are reviewed, and if necessary, the appropriate adjustments are made to any date of the financial statements preparation.

The balance amount of the asset is reduced immediately to its recoverable amount in cases where the balance amount of the asset is greater than its estimated recoverable amount (Appendix 2.8).

Profits and losses from sales of PPE are determined by comparing the proceeds from sales with the carrying amount and they are included in the profit or loss.

The loan costs for PPE are reported as current expenses in the period to which they relate.

6. Investment properties

The investment properties are most often the buildings or parts of the buildings which are not used, but are owned by the Company to be given in the form of operating lease. The investment properties are measured at fair value, which is their market value determined by independent valuers annually or at a greater period of time when there is a substantial change in fair values. Changes in fair value are recognized in the comprehensive income statement as part of the other income. As of the end of the current year the company has no investment properties available.

7. Intangible assets

The acquisition costs of patents, licenses, software and trade marks are recognized as an asset at historical value decreased by the accumulated depreciation and impairment losses. They are depreciated on a straight-line basis over their useful lives, but not more than 20 years. Intangible assets are not revalued. The management performs annual reviews for impairment and where the carrying amount of the asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.
The value materiality thresholds for property, plant and equipment approved by the Company is BGN 700.
For intangible assets the following rates of depreciation in percents are used:

Intellectual property rights	15%
Software	50%
Other intangible assets	15%

Assets impairment

Assets that are amortized and investments in subsidiaries and associates companies are reviewed for impairment when the events or changes in the circumstances indicate that the carrying amount is not recoverable. An impairment loss is recognized for the amount by which the carrying value exceeds the recoverable amount. The recoverable amount is the higher than the net selling price and the value in use. To determine the value in use, the assets are grouped at the lowest identifiable unit level generating cash flows.

8. Financial assets

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and financial assets available for sale. The classification depends on the purpose for which the investments were acquired. The management determines the classification of its investments at the time of purchase.

(a) Financial asset reported at fair value through profit and loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for sales purposes in the short term. Assets in this category are classified as current assets.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current. Company loans and receivables are included in the balance sheet under the category of "trade and other

receivables" and cash and cash equivalents (Appendices 2.10 and 2.11).

(c) Investments held to maturity
The investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Management of the Company has the intent and ability to hold to maturity..

(d) Financial assets available for sale
The financial assets available for sale are non-derivative assets that are intended for that category or are not specified in other categories. They are included in non-current assets unless the management intends to dispose of its investments within a period of up to 12 months.

The purchase and sale of investments are recorded taking into account the trade date, i.e. the date when the Company commits to purchase or sell the asset.
The investments are initially recognized at fair value plus the transaction costs for all financial assets not carried at fair value through profit or loss. The financial assets at fair value through profit or loss are initially recognized at fair value and transaction costs are recognized in the income statement. The investments are written off when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The financial assets available for sale and financial assets at fair value through profit or loss are reported in the next reporting period at fair value. Loans and receivables and investments held to maturity are assessed at amortized cost using the effective interest rate method.

The profits and losses arising from changes in fair value of financial assets at fair value through profit or loss are included in the comprehensive income statement under the heading “Net financial income” for the period in which they arise. Dividend income from financial assets at fair value through profit or loss are stated in the income statement as part of the “Net financial income” when the Company gets the right to receive payment.

The changes in the fair value of monetary securities denominated in foreign currency and classified as “available for sale” are divided into exchange differences arising from the changes in the amortized cost of the securities and the other changes in the carrying value of the securities. Foreign currency translation differences on monetary securities are recognized in profit or loss, while foreign exchange differences on translation of non-monetary securities are recognized in equity. The changes in the fair value of monetary and non-monetary securities classified as “available for sale” are recognized in the equity.

When securities classified as held for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as profits or losses from investment securities.

The dividends on equity instruments available for sale are recognized in the income statement as part of net financial income when the Company obtains the right to receive a payment.

The fair value of the quoted investments is based on the current market price. If the market financial asset is not active (for unlisted securities as well), the Company establishes the fair value by using valuation techniques that include the use of the recent market transactions in similar instruments, analysis of discounted cash flow valuation models and options, reflecting the market conditions at their maximum and the specific company information as little as possible.

At the balance sheet date the Company assesses whether there is objective evidence that a

financial asset or group of financial assets is impaired. When the classified as available for sale equity securities are tested for impairment a significant or prolonged decline in fair value below the carrying is taken into account.
If there is evidence of impairment of financial assets available for sale, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, minus any impairment loss recognized in a previous period in the income statement) is written off from the equity and recognized in the statement of comprehensive income. Impairment losses on equity instruments are recognized in the income statement and can not be reversed through the statement of comprehensive income as a manifestation of the adverse effects of impairment. The testing for impairment of trade receivables is described in Appendix 2.10.

9. Inventories

Inventories are valued at the lower of cost and net realizable value. The costs incurred in order to ready the product for sale in a certain condition and location are included in the cost (cost of acquisition). These costs include::
a) materials and goods - all delivery costs, including import duties and taxes, transport costs, non-refundable taxes and other expenses that contribute to bringing the materials and goods in ready to use form;
b) goods and work in progress - cost of direct materials and labor and the deductible portion of manufacturing overheads based on normal operating capacity of production facilities. Basis for allocation of fixed production overheads by products is the amount of output.
The writen-off for use and sale inventories are evaluated by the method of standard cost. Standard costs take into account normal levels of materials and supplies, labor, efficiency and capacity utilization. They are regularly reviewed and if necessary revised in the light of current conditions. Deviations from the standard costs to actual costs are written off for the sold goods and merchandise, and also at the end of each reporting period.
Net realizable value represents the estimated selling price of an asset in the ordinary course of business, less the estimated selling expenses. It is based on input data from external or internal sources and is consistent with the specifics of different types of inventories.
When inventories are sold, their carrying value is recognized as an expense in the period in which the related revenue is recognized. The amount of any impairment of inventories to net realizable value and all losses of inventories are recognized as an expense in the period or loss. The amount of any reversal of any write-down of the value of inventories arising from an increase in net realizable value is recognized as a reduction of the amount of eligible costs for inventories during the period in which the reversal occurs

10. Trade receivables

The trade receivables are recognized initially at fair value and subsequently at amortized cost (by using the effective interest rate method), minus the provision for the impairment. The provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The significant financial difficulties of the debtor, probability of bankruptcy and financial reorganization or the inability to pay the debt (by more than 30 days) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying value of receivable and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement as an expense for the activity. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited reduction in the operating expenses in the current result.

11. Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash in banks, other short-term highly liquid investments with maturities within three months and bank overdrafts. In the balance sheet the overdrafts are included as a current liability in the category of short term loans.

12. Equity

The ordinary shares are classified as equity. The issuance costs of new shares, which are directly related to it, are shown in the equity as a deduction from the proceeds by eliminating the effect of the income taxes.

When the Company purchases its own shares, the amount paid, including any directly attributable incremental costs (the net of the effect of income taxes) is deducted from the possessed by the owners of the Company equity until the shares are canceled, sold or reissued. When such shares are subsequently reissued, any income, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

13. Trade liabilities

The trade liabilities are recognized initially at fair value and subsequently at amortized cost using the effective interest rate.
Trade liabiliies are classified as current liabilities unless the Company has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

14. Loans

The loans are recognized initially at the fair value, decreased by the costs incurred in the transaction. The loans are subsequently stated at amortized cost, any difference between due payments (the net of the transaction cost) and the loan amount is recognized in the income statement over the period of the loan using the effective interest method.

The loans are classified as current liabilities unless the Company has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

15. Current and deferred taxes

The current income tax is calculated based on the tax laws enacted at the balance sheet date in the country where the Company generates taxable income. The management periodically reassesses its positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the amounts expected to be paid to the tax.

The deferred tax is accrued using the balance method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if temporary tax differences arise from the initial recognition of an asset or liability where neither the accounting nor the taxable profit (loss) is affected during the transaction, this difference is not accounted for. In the calculation of deferred taxes are used tax rates (and regulations) current at the date of the balance sheet relating to the periods of expected reversal of the deferred income tax.

A deferred tax asset is recognized only when it is probable that there are sufficient amounts of future taxable profits against which these assets can be used.

16. Employees' income

Under a defined contribution plan the Company pays installments to state-run pension plans and social security on mandatory basis. Once the installments have been paid, the Company has no further payment obligations. Installments are recognized as an expense for the staff when they become due. Prepaid installments are recognized as an expense in a future period to the extent that the amounts will be deducted from future payments or refunded.

From 2015 Tchaikapharma High Quality Medicines Inc. allocates provisions for retirement compensations of personnel as required under Article 222 of the Labor Code. The International Accounting Standard (IAS) 19 - Employee income treats this requirement as long-term liability of the employer for defined benefit severance and requires the application of actuarial methods for calculating the duty on the employer. The standard requires the present value of future obligations of the employer for defined benefit to be determined by applying the credit method of projected units.

Calculations are performed individually for all employees hired under an employment contract with the employer on the basis of their worked out and upcoming service. The general obligation is distributed throughout the expected length of service of the employee for the employer and the amount of the obligation at the time of the assessment is a proportionate part relating to the years of service. Each unit - year of service is measured separately to determine the final amount of the liability. Based on the structure of employees by gender and age statistical probabilities persons not live to the age required to acquire a right to a pension or leave the employer for other reasons before they become eligible for retirement and age were applied.

The calculation of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements on which they are presented in the statement of financial status and the respective change in their value is presented in the statement of comprehensive income: a) the costs of current and past service, interest rates and the effects of redundancies and settlement are recognized immediately in the period in which they arise and presented in profit or loss under item “personnel costs” and b) the effects of subsequent evaluations of obligations which essentially represent the actuarial gains and losses are recognized immediately in the period in which they arise and are presented under other comprehensive income in the article “subsequent valuations of pension plans with defined benefit”. Actuarial gains and losses arise from changes in actuarial assumptions and experience.

At the date of each annual financial statement, the Company appoints actuaries who provide their report with calculations regarding the long-term employee obligations for retirement benefits. For this purpose they apply the credit method of projected units. The present value of the defined benefit obligation is calculated by discounting the future cash flows expected to be paid within the maturity of that debt and using the interest rates on long-term government bonds with similar duration quoted in Bulgaria, where the company itself functions.

Since the provisions for personnel compensation have long-term nature of commitment they are reflected in the non-current liabilities in the Statement of the financial status of Tchaikapharma High Quality Medicines Inc.

The demographic assumptions reflect the probability persons appointed under an employment contract to stay with the employer at the time of pension entitlement for pensionable service and age, and an obligation to pay them a compensation to arise. Individuals may drop out before retirement for various reasons: retirement, staff cuts, disease, death and others. The demographic assumptions reflect specific probabilities that are based on statistical information on the population and are relating to the structure of the staff by gender and age at the time of the assessment.

Mortality tables reflect the probability persons to live to a specified age for entitlement to a pension. It is calculated individually for each person based on his/her gender and age at the time of the assessment. The table for mortality and average life expectancy of the population in Bulgaria for the period 2010 - 2012 of the National Statistical Institute is used.

Based on the information provided for the staff fluctuation in the last four years and the expected restructuring of the company over the next two years, the probability of retirements or impending personel reduction is reflected. This probability is attached to the existing structure of staff according to the persons sex and age at the time of the assessment.

Financial assumptions are applied to the development of cash flow over time and affect the size of future commitment and determination of its present value. The agreed interest rates are a very important part of the evaluation process as they are used for discounting the expected future cash flows, as a result of which the capitalized value of future payments is obtaioned. The financial assumptions reflect real expectations for the development and future size of some basic parameters such as return on investment, wage growth, inflation and others. In determining the financial parameters the long-term nature of the obligation to the majority of employees should be borne in mind, according to the time when the liability to pay compensation will arise.

The applied rate of wage growth is essential for determining the amount of the obligation at the time of its occurrence. The size of this rate is determined on the basis of statistics on wage growth in the company over the past five years and the forecasted expectations for the coming years, according to the expected level of inflation. Given the statistics on income and employer’s inflation expectations the projected wage growth is defiened. The projected wage growth is 2 percent a year.

According to the standard requirement, the at rate which the obligation will be discounted should correspond to the market yields at the balance sheet date that of the high quality corporate bonds. Provided that there is no developed capital market the market yeilds of government bonds should be used. Also it is convenient as a discounting rate to use the future rate of return on assets. Due to the long-term nature of the debt and the lack of such financial instruments covering fixed income for a longer period it is estimated that as a discount rate the expected rate of return on instruments with longer maturities may be used following the requirements of IAS 19. The discount rate, which was used in calculating the liability of TCHAIKAPHARMA HIGH QUALITY MEDICINES INC. as of 31.12.2015 amounted to 4 per cent per year over the duration of the liability and as of 31.12.2016 amounted to 3 per cent per year over the duration of the liability.

In determining the time of retirement for all persons working under an employment contract with the company it is presumed that they will retire according to the requirement for a retirement age for workers under the third category of labor.

As of 31.12.2016 TCHAIKAPHARMA HIGH QUALITY MEDICINES INC. had set aside provisions for the emergence of retirement benefits of staff and they were reflected in the interim report.

17. Provisions

Provisions for legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events; more likely to occur (rather than not to occur) cash outflows to settle the obligation and when the amount of the debt itself can be determined reliably. Provisions for future operating losses are not recognized.

When there are several similar obligations, the probability of cash outflows arising for their coverage is estimated taking into account the whole class of obligations. The provision is recognized even in cases where the probability of cash outflow arising for this obligation of the class is minimal.

18. Lease contracts

Operating leases - the Company is lessor

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Revenue under the operating leases (offset by rebates from the lessor) is recognised as revenue in the income statement in equal installments over the period of the lease contract. Payments made under operating leases (offset by rebates from the lessor) are recognised as expenses in the income statement in equal installments over the period of the lease in accordance with the principle of accrual.

Financial leases – the Company lessee and lessor

Leases of property, machinery and equipment where the company actually bears all the risks and rewards arising from ownership are classified as finance leases. At their commencement, finance leases are capitalized at a lower than the fair value of the leased equipment and the present value of the minimum lease payments. Each lease payment is distributed between the liability and the finance costs so that the lease obligation declines steadily. Concomitant obligations for rent, reduced by financing costs are included in other long-term liabilities. The part of the interest in the financial cost is recognized in the income statement, so that over the lease period its size relative to the remaining lease obligation remains constant. Property, machinery and equipment acquired under finance leases are depreciated over the shorter of the useful lives of the asset and the lease term.

Leases of property, plant and equipment where the company actually has transferred all the risks and rewards arising from ownership are classified as finance leases with resulting receivables. At their commencement, finance leases are capitalized at the lower of fair value of leased equipment and the present value of the minimum lease payments. Each lease payment is distributed between the liability and the finance costs so that the lease obligation declines steadily. Accompanying lease obligations, less financial revenues are included in other long-term receivables. The portion of interest in the financial cost is recognized in the income statement so that during the period of the lease its size relative to the remaining lease obligation remains constant.

19. Recognition of revenue and expenditure

The revenue includes the fair value of goods and services, the net of value added taxes, rebates and discounts. The revenue is recognized as follows:

(a) Sales of products and goods

The revenues from sales of products and goods is recognized when all significant risks and rewards of ownership pass to the buyer. Assessment of income is carried at fair value of sold goods and merchandise, net of indirect taxes (value added tax) and any discounts and rebates.

In particular, the revenue from the sale of goods is recognized when all the following conditions are met:

a) the company has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) the company retains neither continuing management involvement with the goods, as this is usually associated with ownership nor effective control over goods sold;

c) the amount of revenue can be measured reliably;

d) the likely economic benefits associated with the transaction are received by the company; and

e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(b) Sales of services
The revenue from the rendered services is recognized for the period when they were made, based on the execution level, defined as the percentage of the rendered services to date out of all the services to be provided.

(c) Interest revenue
The interest revenue is deferred using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, which is the estimated future cash flows discounted at the original effective interest rate. The interest revenue on impaired loans is recognized either on the recovery of the due interest or on the basis of the recognition of the related contingent guarantees.

(d) Dividend revenue
The dividend revenue is recognized when the right to receive payment is established.

Expenses are recognized when they occur on the basis of documentary support. The principles of accrual and matching revenue should be respected.
Expenses for future proids are deferred for recognition as current expenditure for the period during which the contracts to which they refer are implemented. The economic benefit of deferred costs shouold be linked to the following reporting period.

20. Dividend distribution

The distribution of dividends to shareholders is recognized as a liability in the financial statements in the period in which it is approved.

21. Critical accounting estimates and judgments

The estimates and judgments are based on gained experience and other factors, including expectations of future events under the specific circumstances. The reliability of estimates and judgments are reviewed regularly.

21.1. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the accounting and disclosure requirements, which may differ from actual results. Critical accounting estimates and assumptions that carry a significant risk of causing subsequent material adjustment to the carrying amounts of assets and liabilities are discussed below:

(a) Income taxes
The Company is subject to taxation within the jurisdiction of the tax authorities. Critical judgment is required to determine the tax provision. There are many transactions and calculations for which the finally determined tax is unspecified in the normal course of business. The Company recognizes liabilities for anticipated tax liabilities based on the discretion of management. Where the final tax outcome is different from the amounts initially recorded, such differences will have an impact on short-term tax and provisions for temporary differences between the tax revisions.

(b) Fair value of financial instruments
The fair value of the quoted investments in active markets is based on current market prices. If there is no active market for a financial instrument, the Company establishes fair prices, using the

valuation models. This includes the use of recent transactions at fair prices, discounted cash flows, valuation models for options and other models used by market participants. Valuation models reflect current market conditions at the valuation date, which may not be representative of market conditions before and after that date. The management reviews its models to the balance date to ensure they appropriately reflect current market conditions, including relative market liquidity and credit spread.
Because of the changes in financial markets in recent times the fair value of financial instruments can significantly change during the next financial period.

(c) Impairment of receivables
In carrying out the impairment of receivables, the Company's management estimates that the amount and timing of expected future cash flows relating to claims based on its experience of similar nature receivable, taking into account the current circumstances for claims reviewed for impairment.

III. EXPLANATORY NOTES ON THE REPORTS

The information on operations by segments is required by IFRS 8.
The company is public and within the scope of the disclosure requirements for segmental information.
An operating segment is a component of the enterprise:
a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
b) whose operating results are regularly reviewed by the entity's chief operating decision maker in making decisions about resources to be allocated to the segment and assessing its performance;
c) for which there is separate financial information.
Operating segment may undertake business activities that are not earning revenues, for example, the operations of setting up a business can be operating segments before earning revenues.
The Company reports separately information about each operating segment that: has been identified or is the result of combining two or more of these segments and exceeds the quantitative thresholds in paragraph 13 of IFRS 8.
Operating segments often exhibit similar long-term results of business if they have similar economic characteristics. For example, you would expect similar long-term average gross margins for two operating segments if their economic characteristics were similar. Two or more operating segments may be combined into a single operating segment if the merger is in line with the basic principle of this IFRS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:
a) the nature of products and services;
b) the nature of production processes;
c) the type or class of customer for their products and services;
d) the methods used to distribute their products or provide their services.
Business activities of the company from which it receives revenues and incur expenses should be treated as a single operating segment - production of formulations. Operating results are regularly reviewed by the entity's chief operating decision maker in making decisions about resources to be allocated to the segment and assessing its performance. For the dosage forms there is a separate financial information.
In this aspect the noted in the financial statements revenues, expenditures, financial results, assets and liabilities relate to a single operating segment - the production of formulations in Bulgaria. There is no possibility and necessity of distinction of other operating segments.

1. Propertyq plant and equipment

	Land and buildings	Machinery and equipment	Fixtures, fottings and means of transport	Total
	BGN thousand	BGN thousand	BGN thousand	BGN thousand
On January 1, 2015				
Book (revaluated) value	12 383	24 766	379	37 528
Accumulated depreciation	(998)	(9 851)	(199)	(11 048)
Balance value	**11 385**	**14 915**	**180**	**26 480**
As of December 31, 2015				
Balance value at the beginning of the period	11 385	14 915	180	26 480
Newly acquired		2 782	124	2 906
Written off at balance value		(2)		(2)
Revaluation	640			640
Depreciation expenses	(520)	(2 579)	(50)	(3 149)
Written off depreciation				
Balance value at the end of the period	**11 505**	**15 116**	**254**	**26 875**
On December 31, 2015				
Book (revaluated) value	11 539	27 546	504	39 589
Accumulated depreciation	(34)	(12 430)	(250)	(12 714)
Balance value	11 505	15 116	254	26 875
On January 1, 2016				
Book (revaluated) value	11 539	27 546	504	39 589
Accumulated depreciation	(34)	(12 430)	(250)	(12 714)
Balance value	11 505	15 116	254	26 875
As of December 31, 2016				
Balance value at the beginning of the period	11 505	15 116	254	26 875
Newly acquired		1 256	76	1 331
Written off at balance value		(3)	(1)	(5)
Revaluation	496			496
Depreciation expenses	(433)	(2 381)	(67)	(2 881)
Written off depreciation	(467)			(467)
Balance value at the end of the period	**11 568**	**13 988**	**261**	**25 817**
On December 31, 2016				
Book (revaluated) value	11 568	28 799	583	40 950
Accumulated depreciation	(0)	(14 811)	(322)	(15 133)
Balance value	**11 568**	**13 988**	**261**	**25 817**

The amounts of the expenses for acquisition of fixed tangible assets are not included.
The noted assets are BGN 491 thousand as of 31.12.2014, BGN 270 thousand as of 31.12.2015 and BGN 71 thousand as of 31.12.2016.
As of December 31 of the current year, property, plant and equipment included at book value land for BGN 778 thousand and buildings for BGN 10 790 thousand. At the end of the previous year the indicators were respectively BGN 716 thousand and BGN 10 789 thousand.
The company uses in its operations fully depreciated assets of the group Property, plant and equipment with a carrying value as of 31.12.2016 BGN 5 964 thousand.
In the business significant fixed assets that were foreign owned were used - premises as part of buildings and cars. For these assets an annual rent amounting to BGN 180 thousand was.
Property, plant and equipment are assessed with an annual assessment - cost less accumulated depreciation.According to the Management of the Company the carrying value of all of the assets is not less than their recoverable value and therefore there is no need for impairment.

2. Intangible assets

	Rights on industrial property	**Software**	**Others**	**Total**
	BGN thousand	BGN thousand	BGN thousand	BGN thousand
On January 1, 2015				
Book (revaluated) value	4 524	752	5	5 281
Accumulated depreciation	(2 652)	(752)	(5)	(3 409)
Balance value	**1 872**	**0**	**0**	**1 872**
As of December 31, 2015				
Balance value at the beginning of the period	1 872	0	0	1 872
Newly acquired	529	1		530
Written off at balance value				
Revaluation				
Depreciation expenses	(553)	(0)	0	(553)
Written off depreciation				
Balance value at the end of the period	**1 848**	**1**	**0**	**1 849**
On December 31, 2015				
Book (revaluated) value	5 098	753	5	5 856
Accumulated depreciation	(3 250)	(752)	(5)	(4 007)
Balance value	**1 848**	**1**	**0**	**1 849**
On January 1, 2016				
Book (revaluated) value	5 098	753	5	5 856
Accumulated depreciation	(3 250)	(752)	(5)	(4 007)
Balance value	**1 848**	**1**	**0**	**1 849**
As of December 31, 2016				
Balance value at the beginning of the period	1 848	1	0	1 849
Newly acquired	538	9		547
Written off at balance value				

Revaluation				
Depreciation expenses	(648)	(4)	0	(652)
Written off depreciation				
Balance value at the end of the period	**1 738**	**6**	**0**	**1 744**
On December 31, 2016				
Book (revaluated) value	5 636	762	5	6 403
Accumulated depreciation	(3 898)	(756)	(5)	(4 659)
Balance value	**1 738**	**6**	**0**	**1 744**

The amounts of the expenses for acquisition of long-term intangible assets are not included in the value. The noted assets are BGN 1 968 thousand as of 31.12.2014, BGN 2 113 thousand as of 31.12.2015 and BGN 1 900 thousand as of 31.12.2016.

The company uses in its operations fully depreciated assets of the group. The intangible assets had a book value as of 31.12.2016 of BGN 2 373 thousand. The intangible assets are assessed with an annual evaluation - cost less accumulated depreciation. According to the Management of the Company the carrying value of all of the assets is not less than their recoverable value and therefore there is no need for impairment.

3. Investments with minority participation

The Company holds minority interest in the following companies:

	2016 BGN thousand	2015 BGN thousand
Tchaikapharma High Quality Medicines Available For All Inc. (former name Care Pharmaceuticals)	1	1
Total	**1**	**1**

4. Non-current loans and non-current trade receivables

	As of December 31st	
	2016 BGN thousand	**2015 BGN thousand**
The maturity of long-term receivables is as follows:		
Up to one year	0	0
Between one and three years	6 025	6 100
Over three years		
Total	**6 025**	**6 100**

The balance value of the long-term receivables and loans is denominated in the following currencies:

	As of December 31st	
	2016 BGN thousand	**2015 BGN thousand**
Euro		
BGN	6 025	6 100
Total	**6 025**	**6 100**

The Management of the Company believes that the fair value of long-term receivables and loans granted approximates their carrying value.
Receivables in BGN are valued at cost incurred. Depreciation review is performed by the company's management at the end of each year and if there are indications of such depreciation the losses are charged to the income statement. The Company's management considers that the receivables are collectible and there is no need for depreciation accruals.

5. Inventories, trade and other receivables

	As of December 31st	
	2016 BGN thousand	**2015 BGN thousand**
Trade receivables from clients	49 072	36 596
Advances from suppliers	332	640
Loans granted	24	116
Court awarded receivables	938	912
Tax refunds	-	-
Other receivables	1	2
Deferred expenses	30	49
Total trade and other receivables	**50 397**	**38 315**

During the reporting period receivables amounting to BGN 30 thousand were written off due to the expiry of their period of limitation
Вземанията са отчетени като годишна оценка по първоначална цена на придобиване. The receivables are reported as annual evaluation at initial price of acquisition. The Company's management believes that the fair value of long-term receivables and loans approximates their carrying value.The Management of the Company believes that the presented receivables are collectable and there is no need of impairment of receivables from previous years that amount to BGN 6 025 thousand, and for which an agreement of payment ti the end of 2018 was concluded.

The balance amount of trade and other receivables of the Company is denominated in the following currencies:

	2016 BGN thousand	**2015 BGN thousand**
BGN	50 043	38 315
Euro and USD	354	-
Total	**50 397**	**38 315**

	As of December 31st	
	2016 BGN thousand	**2015 BGN thousand**
Materials	4 629	4 211
Production	138	152
Goods	192	95
Production in progress	123	253
Total inventories	**5 082**	**4 711**

The inventories are stated at standard cost, adjusted by variations to acquisition cost. There are no conditions for impairment of inventories to lower net realizable value.

6. Cash and cash equivalents

	As of December 31st	
	2016 BGN thousand	**2015 BGN thousand**
Cash on hand in BGN and foreign currencies	6	9
Bank accounts in BGN and foreign currencies	28	31
Blocked cash	16	-
Total	**50**	**40**

Company's balance value of cash and cash equivalents is denominated in the following currencies:

	2016 BGN thousand	**2015 BGN thousand**
BGN	49	38
Foreign currency	1	2
Total	**50**	**40**

The cash in BGN is measured at its nominal value and the cash in foreign currency – at the closing exchange rate of BNB on 31.12.2016. For the purposes of the statement of cash flows, cash and cash equivalents include all cash in funds and banks.

7. Share capital

	Shares in thousands	**Ordinary shares thousands BGN**
As of December 31st, 2014.	43 500	43 500
As of December 31st, 2015.	49 600	49 600
As of December 31st, 2016	56 600	56 600

The registered ordinary shares are 56 600 000 (in 2014 they were 43 500 000 and in 2015 they were. 49 600 000) with nominal value of BGN 1 /one/ per share (in 2014: BGN 1 /one/ per share). The shares issued are fully paid. All shares give equal rights to shareholders.

8. Revaluation and other reserves, undistributed profit

	Reserves from revaluation of PPE	**Statutory reserves**	**Revaluation reserves from pension funds**	**Total**
	BGN thousand	BGN thousand	BGN thousand	BGN thousand
Balance on January 1st , 2015	**2 190**	**3 200**	**0**	**5 390**
Changes from revaluation	588		(5)	583
Deferred taxes	(63)		1	(62)
Other comprehensive income	**525**		**(4)**	**521**
Distributed profit		681		681
Balance on December 31st, 2015	**2 715**	**3 881**	**(4)**	**6 592**

Balance on January 1st , 2016	**2 715**	**3 881**	**(4)**	**6 592**
Changes from revaluation	496		(9)	487
Deferred taxes	(50)		1	(49)
Other comprehensive income	**446**		**(8)**	**438**
Distributed profit		780		780
Balance on December 31st, 2016	**3 161**	**4 661**	**(12)**	**7 810**

The reserves from revaluation of land and buildings are formed as a result of comparison between the fair values and carrying amounts under previous report of a licensed appraiser.
Revalued were land and buildings in Plovdiv according to an assessment by a licensed appraiser Consulting House Ampuma by assessors Emiliya Stoyanova and Dilyana Ivanova (22.12.2016).
Revalued were the buildings in Varna according to the assessment by a licensed appraiser according to a report on the results of expert evaluation of assets from 28.11.2016. The to write off the accumulated depreciation was used, then the carrying value was adjusted to fair value.
The reserves from revaluation of land and buildings are non-distributable as dividends.

The statutory reserve is formed in accordance with the Commerce Act and is not subject to distribution under current legislation.
Revaluation reserves from pension funds are formed as a result of the effects of subsequent evaluations of obligations which essentially represent the actuarial gains and losses according to a report of a certified actuary. The report, dated 28.01.2017, was prepared by Terziev, license No. 03-AO/19.04.2007.
The reserves of actuarial revaluations can not be allocated in the form of dividends.
The undistributed profit is formed by current operating results in previous years. In 2015 the capital was increased on the account of retained earnings by BGN 6 100 thousand, the reserves (Reserve fund) were increased by BGN 681 thousand and the distributed divident was BGN 35 thousand.. In 2016 the capital was increased on the account of retained earnings by BGN 7 000 thousand and the reserves (Reserve fund) were increased by BGN 780 thousand.

9. Loans

	2016 BGN thousand	2015 BGN thousand
Non-current finance lease liabilities	1 015	1 653
Current finance lease liabilities	869	1 790
Short-term loan	11 349	8 420
Total	**13 233**	**11 863**

The terms of the short-term bank loans as of 31.12.2016 were as follows:

Creditor bank:	CIBANK EAD
Contractual amount of the credit:	BGN 7 823 thousand (EUR 4 000 thousand)
Annual interest:	Three month EURIBOR+additions of 2 points
Maturity:	19.12.2017
Collateral:	Mortgages and pledges
Purpose of the credit:	Refinancing of existing credit and for working capital
Liability at the end of the current year:	BGN 7 823 thousand

Creditor bank:	CIBANK EAD
Contractual amount of the credit:	BGN 1 956 thousand (EUR 1 000 thousand)
Annual interest:	Three month EURIBOR+additions of 2 points

Maturity:	19.12.2017
Collateral:	Mortgages and pledges
Purpose of the credit:	Working capital
Liability at the end of the current year:	BGN 1 956 thousand

Creditor bank:	UNICREDIT BULBANK
Contractual amount of the credit:	BGN 2 347 thousand (EUR 1 200 thousand)
Annual interest:	between 3.5 and 4%
Maturity:	30.03.2018
Collateral:	Mortgages and pledges
Purpose of the credit:	Working capital
Creditor bank:	BGN 1 565 thousand

Liabilities under finance lease contracts are denominated in euros. The gross amount payable includes principal BGN 1884 thousand and interest accrued in accordance with the repayment schedules.

10. Deferred taxes

The deferred income taxes are reported for all temporary differences between the tax bases of assets and liabilities and their balance value for financial reporting purposes at a tax rate of 10% (for the previous year: 10%) applicable for the year in which they are expected to occur retroactively.
The movements of the deferred taxes are as follows:

	2016 BGN thousand	2015 BGN thousand
At the beginning of the year	(1 210)	(1 181)
(Income)/expenses in the Statement of comprehensive income	(23)	33
(Income)/expenses in the Statement of equity	(51)	(62)
At the end of the year	**(1 284)**	**(1 210)**

Deferred tax liabilities	**Land and buildings**	**Amortizations**	**Total**
	BGN thousand	BGN thousand	BGN thousand
As of January 1st, 2015	**(161)**	**(1 031)**	**(1 192)**
Debit/(credit) in equity due to changes in temporary differences	(63)		(63)
Expenses/(income) in the statement of comprehensive income due to changes in temporary differences		32	32
As of December 31st, 2015	**(224)**	**(999)**	**(1 223)**
Debit/(credit) in equity due to changes in temporary differences	(51)		(51)
Expenses/(income) in the statement of comprehensive income due to changes in temporary differences		(26)	(26)
As of December 31st, 2016	**(275)**	**(1 025)**	**(1 300)**

Deferred tax assets	Leaves and retirement benefits	Income of Natural Persons	Total
As of January 1st, 2015	**10**	**1**	**11**
(Expenses)/income) in the statement of comprehensive income	2		2
As of December 31st, 2015	**12**	**1**	**13**
(Expenses)/income) in the statement of comprehensive income	1	2	3
As of December 31st, 2016	**13**	**3**	**16**

The total amount of deferred tax assets and liabilities is a liability in the amount of BGN 1 284 thousand (2015: liability of BGN 1 210 thousand).
The deferred tax assets and liabilities are offset as they relate to the same tax authority.

Long-term liabilities to employees

	As of December 31st	
	2016 BGN thousand	**2015 BGN thousand**
Long-term liabilities for retirement	67	49
Total	67	49

The Company has appointed certified actuaries who provide their report with calculations regarding the long-term employee obligations for retirement benefits. For this purpose they apply the credit method of projected units. The present value of the defined benefit obligation is calculated by discounting the future cash flows expected to be paid within the maturity of that debt and using the interest rates on long-term government bonds with similar duration quoted in Bulgaria, where the company itself is operating.

11. Trade and other liabilities

	As of December 31st	
	2016 BGN thousand	**2015 BGN thousand**
Liabilities to suppliers	2 566	2 277
Liabilities to personnel	257	204
Taxes and social security	620	572
Current corporate tax	55	121
Other liabilities	10	6
Unpaid dividents	-	131
Provisions	-	-
Total	**3 508**	**3 180**

Trade and other liabilities are denominated in:		
BGN	1 666	1 349
EUR	1 561	1 561
USD	281	270
	3 508	**3 180**

The liabilities in BGN are valued at the value of their occurrence, and those in foreign currency at the rate of BNB on 31.12.2016.
Trade payables are carried at original cost at nominal value of the BGN and the equivalent of foreign currency at the exchange rate of BNB.
All trade and other payables are denominated and valued at the BGN nominal value lev. The Company's management believes that there is no need to charge provisions in relation to claims or commitments to interest, penalties and other payment obligations.

12. Income

	2016 BGN thousand	2015 BGN thousand
Sales of produce	25 708	25 501
Sales of goods	7 280	4 445
Sales of services	88	42
Changes in inventories of finished goods and work in progress	-	-
Other income	11	41
Total	**33 087**	**30 029**

The sales of goods and products are related to dosage forms. They take place throughout the country.
The revenue is evaluated at the fair value of the consideration received or receivable payment or remuneration, as measured by the BGN nominal value.

13. Operating expenses

	2016 BGN thousand	2015 BGN thousand
Balance value of assets sold	(3 379)	(1 986)
Changes in inventories of finished goods and work in progress	(107)	(200)
Materials	(8 275)	(7 878)
External services	(4 022)	(2 891)
Expenditure on salaries	(2 731)	(3 088)
Social security expenditure	(520)	(561)
Depreciation costs (Appendices 5,6)	(3 532)	(3 652)
Others	(545)	(536)
Total	**(23 111)**	**(20 792)**

The operating costs are related to production and sales of dosage forms.
The costs are measured at the fair value of consideration paid or payable, and are measured in the BGN nominal value or equivalent of foreign currency at the exchange rate on the day of the transaction.
A significant share of the cost of materials falls on tablets (BGN 6 518 thousand) and substances (BGN 2 868 thousand).
A major share of the costs for external services falls on the marketing of products – BGN 3 012 thousand.
Depreciation costs are formed mainly of depreciation of machinery and equipment – BGN 2 380 thousand.
Slaries under employment contracts are an essential part of the labour costs – BGN 2 397 thousand.

14. Financial income and expenses

14.1 Financial income

	2016 BGN thousand	2015 BGN thousand
Interest income	139	10
Income from exchange rate differences	38	11
Other financial income		
Total	**177**	**21**

The revenues generated from the use by other entities assets yielding interest and other financial transactions are recognized when it is probable that future economic benefits associated with the transaction and the amount of revenue can be measured reliably.

14.2. Financial expenses

	2016 BGN thousand	2015 BGN thousand
Interest expenses	(425)	(586)
Expenses for exchange rate differences	(81)	(17)
Other financial expenses	(83)	(42)
Total	**(589)**	**(645)**

The costs generated by the use by the Company of assets yielding interest of other entities, as well as other financial operations are recognized when it is probable that the Company reduces the economic benefits associated with the transaction and the amount of the costs can be measured reliably.

15. Tax expenses and other comprehensive income for the period

	2016 BGN thousand	2015 BGN thousand
Current expense for income tax	(955)	(866)
Deferred taxes	(24)	33
Total	**(979)**	**(833)**

For 2016 the tax rate remained unchanged at 10% (2015 - 10%) in accordance with the Corporate Income Tax Act.

The tax on the Company's profit differs from the theoretical amount that would arise in applying the applicable tax rate to the accounting result before tax as follows:

	2016 BGN thousand	2015 BGN thousand
Profit before taxes	9 564	8 613
Tax calculated at the effective tax rate 10% (2015 : 10%)	(955)	(861)

Correction of unrecognized income and expense	(1)	(6)
Correction of assets and liabilities for deferred taxes	(23)	34
Tax expense in the income statement	**(979)**	**(833)**

	2016 BGN thousand	**2015 BGN thousand**
Other comprehensive income from revaluation of fixed assets	496	588
Other comprehensive income from deferred tax on revaluation of fixed assets	(50)	(63)
Other comprehensive income from the revaluation of pension funds with defined benefits	(9)	(5)
Other comprehensive income from deferred tax on revaluation of pension funds with defined benefits	1	1
Total amount of other comprehensive income	**438**	**521**

As a result of the revaluation of land and buildings other comprehensive income of BGN 496 thousand from higher fair values compared to the previous carrying amounts, according to the report of a certified actuary, was made. The tax effect of the revaluation of land and buildings is BGN - 50 thousand and it effects the deferred income tax.
As a result of the revaluation of pension funds with defined benefit comprehensive income of BGN - 9 thousand from actuarial assumptions, according to a report of a certified actuary, was made. The tax effect of the revaluation of the pension funds is BGN 1 thousand and it effects the deferred income tax.

16. Profit per share

Basic profit per share
The basic profit per share is calculated by dividing net income for distribution to major shareholders by the weighted average number of issued ordinary shares during the year, of which the average number of repurchased ordinary shares by the Company is subtracted.

Profit per diluted share
For the purposes of calculating profit per share with reduced value, weighted average number of issued ordinary shares is adjusted with all securities potentially convertible into ordinary shares. As of December 31 of the current year and the previous year the Company has not issued any convertible securities, which explains the equality of the two ratios.

	2016 BGN thousand	**2015 BGN thousand**
Profit attributable to shareholders (in BGN thousand)	8 585	7 780
Weighted average number of shares in circulation (in BGN thousand)	52 755	47 567
Basic profit per share (in BGN per share)	0.16	0.16

17. Dividends per share

The payable dividends are accounted only after they are voted at the Annual General Meeting of Shareholders. The General meeting of shareholders is expected to be held by the end of June 2017. . Therefore this financial statement does not reflect the dividend payment which will find reflection in the accounting as capital allocation results for the year ending December 31st , 2017.

At the General Meeting of Shareholders held in 2014 a distribution of dividend amounting to BGN 110 thousand and a capital increase of BGN 11 500 thousand was voted. In 2015 at the General Meeting of Shareholders a distribution of dividend amounting to BGN 35 thousand and a capital increase to of BGN 6100 thousand and an increase in reserves by BGN 681 thousand was voted. At the General Meeting of Shareholders held in June 2016 a decision was taken BGN 7 000 thousand from the profit for 2015 to be used for capital increase, BGN 780 thousand for increase in reserves.

18. Contingent liabilities

The Company is currently engaged in litigations and positive outcomes for the Company are expected. The Company has no other substantial contingent liabilities and commitments under contracts, litigations and other documents.

Данъчно облагане

The Tax authorities carried out a full audit of the Company until and including 2005. No significant violations or notices were detected.

The tax authorities may at any time inspect the books and records within five consecutive years starting from the 1st of January of the year following the year in which it was necessary to pay the tax, and impose additional tax liabilities or penalties. Company's management is not aware of any circumstances which could give rise to a potential material liability in this field.

19. Remuneration of key management personnel and audit costs

Accrued are short-term incomes of the Management for 2016 in avvordance with the contracts concluded. Accrued in accordance with the contract are the audit costs for 2015.

20. Financial risk management

By carrying out its activities, the Company is exposed to multiple financial risks. The programme of the Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the financial performance of the Company. The Company does not use derivative financial instruments to hedge certain risk exposures.

(a) Foreign exchange risk

The Company is not exposed to significant risks associated with foreign exchange rates, as most of its assets, liabilities and transactions are denominated in BGN or Euro and BGN is pegged to the euro, according to the rules of the Currency Board. Regular monitoring is carried out on the items of the balance sheet in order to minimize exposure to foreign exchange risk.

(**b) Price risk**

The Company is not exposed to risk from changes in the price of the equity securities due to the lack of such investments. The Company is exposed to the risk of changes in prices of goods and merchandise. For the purposes of managing price risk arising from sales of services, the Company systematically monitors market prices, optimizes costs and seeks appropriate key customers.

(c) Interest risk

Interest bearing assets of the Company can be with fixed and with floating interest rates. The loans with variable interest rates expose the Company to interest rate risk of changes in future cash flows and loans with fixed interest rate - the interest rate risk of changes in fair value. The Company's policy is to borrow and grant loans, while minimizing interest rate risk. As of the 31st of December of the current and the previous year the Company had interest bearing assets and liabilities measured at fair value and therefore is not exposed to risk of changes in cash flows and fair value.

(d) Credit risk

The Company has no significant concentration of credit risk. The Company has established policies in place to ensure sales to major customers with immediate payment or payment within a reasonable period of time in accordance with the agreements. The credit risk arises principally from cash and cash equivalents and deposits with banks and other financial institutions, as well as loans granted. For banks and other financial institutions are accepted only institutions with high credit ratings. The management does not expect losses due to default of their counterparties.

All financial assets are with counterparties that have no external credit rating and no unfulfilled obligations in previous periods.

(e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and other liquid assets. Due to the dynamic nature of the principal types of businesses, the Financial Department of the Company aims to achieve funding flexibility by keeping sufficient cash and trade receivables that can be used to cover liabilities within reasonable time.

Equity risk management

The Company's objectives when managing the capital are to safeguard the ability of the Company to continue as a going concern in order to provide returns for the shareholders and to maintain optimal capital structure.

In order to maintain or modify the capital structure, the Company may adjust the amount of dividends paid, return capital to shareholders, issue new shares or sell assets to pay off debts. In addition to this, managing liquidity and capital structure of its subsidiaries, the Company may increase its share capital or take loans.

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