TCHAIKAPHARMA HIGH QUALITY MEDICINES INC

NOTES TO
THE INTERIM FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

TABLE OF CONTENTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

I. CORPORATE INFORMATION

1. Corporate name

Tchaikapharma High Quality Medicines Inc. is a company, incorporated and developing its activity in compliance with provisions of the Commercial Act. The company was registered by Decision dated 14 March 2000 of the Varna District Court issued on company file 1096.
By Decision of the Supreme District Court No. 8866 of 10 October 2007 and Ruling of the Sofia City Court of 09 November 2007, the head office and registered address was changed - from Varna, Primorski Region, Tchaika Residential District, 1 Nikola Vaptsarov Str., to Sofia, Izgrev District, 1 G. M. Dimitrov Blvd.
The company is entered into the Commercial Register of the Sofia City Court as a joint-stock company under company file No. 16559/2007.
Commencing 21 May 2015, Tchaikapharma High Quality Medicines Inc. is a public company according to Public Offering of Securities Act.

2. Date of incorporation and duration of the existence

Tchaikapharma High Quality Medicines Inc. was incorporated in 2000. The existence of the Company is of unlimited duration.

3. Country of establishment, head office and registered address, telephone number, fax number, e-mail address and website

Country:	Bulgaria
Head office:	Sofia, 1 G.M.Dimitrov Blvd.
Correspondence address:	Sofia, 1 G.M.Dimitrov Blvd.
Telephone number:	02 / 960 37 14
Fax number:	02 / 962 50 59
E-mail address:	tchaika@tchaikapharma.com
Website:	http://tchaikapharma.com

4. Scope of activity

The scope of activity of the company is the production and sale of medicinal products in finished or processed form.

5. Capital

The capital of the company amounts to BGN 64 300 000 (sixty four million three hundred thousand), split into 64 300 000 ordinary registered shares with nominal value of BGN 1 each.

6. Members of the management and supervisory bodies, key management staff and employees

TCHAIKAPHARMA HIGH QUALITY MEDICINES INC. has a one-tier system of management - Board of Directors, as follows:

Biser Rosenov Georgiev – Executive Director and Member of the Board of Directors
Krasimir Petrov Videlov – Chairman of the Board of Directors

Ivan Boichev Nikolov – Member of the Board of Directors

For the fourth quarter of 2017 the members of the Board of Directors received remuneration according to their contracts. There is no contingent or deferred remuneration over the year. The Company owes no pensions, retirement benefits or other similar compensations to members of the Board of Directors.

The average number of staff of TCHAIKAPHARMA HIGH QUALITY MEDICINES INC as of 31 December 2017 was 133 (as of 31 December 2016: 126 employees). The key personnel have higher education and are highly qualified. The support staff have secondary education.

7. Management's responsibility for the preparation of the financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, deviations and discrepancies, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

II. SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

Herein below are presented the significant accounting policies applied in the preparation of the financial statements. The policies have been applied consistently for all years presented, unless expressly stated otherwise.

1. Basis of preparation of the financial statements

These financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS), as adopted by the European Union.

The Company has prepared these separate financial statements for the purposes of their presentation to shareholders, tax authorities and the Commercial Register in compliance with the requirements of the Bulgarian legislation.

The financial statements have been prepared on a historical cost basis, which is limited in cases of revaluation of certain items of property, plant and equipment, investment property, financial assets held for sale, and financial assets and liabilities carried at fair value through profit or loss.

The preparation of the financial statements in accordance with IFRS requires the use of accounting estimates. When applying the accounting policies of the Company, management relied on own judgment. The components of the financial statements involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements as a whole are disclosed separately.

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

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
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	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint arrangements
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 32	Financial Instruments: Presentation
IAS 33	Earnings per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Properties
IAS 41	Agriculture
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts

IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosure
IFRS 8	Operating Segments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4	Determining whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
IFRIC 21	Levies
SIC 7	Introduction of the Euro
SIC 10	Government Assistance – No Specific Relation to Operating Activities
SIC 15	Operating Leases – Incentives
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
SIC 27	Evaluating the Substance of Transactions in the Legal Form of a Lease

SIC 29 Disclosure – Service Concession Arrangements

SIC 31 Revenue – Barter Transactions Involving Advertising Services

SIC 32 Intangible Assets – Website Costs

The company applies the amendments to International Accounting Standards effective for annual periods beginning on or after 1 of January 2016. The amendments were adopted by way of the following acts:

1. Commission Regulation (EU) 2015/2113 of 23 November 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards 16 and 41
2. Commission Regulation (EU) 2015/2173 of 24 November 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 11
3. Commission Regulation (EU) 2015/2231 of 2 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards 16 and 38
4. Commission Regulation (EU) 2015/2343 of 15 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards 5 and 7 and International Accounting Standards 19 and 34
5. Commission Regulation (EU) 2015/2406 of 18 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 1

2. Investments in subsidiaries and associates

The requirements of IFRS 12 *Disclosure of Interests in Other Entities* are complied with when reporting shares held in subsidiaries, joint arrangements, associated companies and unconsolidated structured entities. Information about the significant judgments and assumptions determining the control, joint control, significant influence and the type of joint venture is disclosed.

For interests in subsidiaries, information about the composition of the group, the interests of non-controlling shareholdings, the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, the nature of, and changes in, the risks associated with its interests in consolidated structured entities, and other requirements, is disclosed. For a subsidiary, the name of the subsidiary, the principal place of business, the proportion of ownership interests held by non-controlling interests, the profit or loss allocated to non-controlling interests, accumulated non-controlling interests of the subsidiary at the end of the reporting period, and summarised financial information are disclosed. The nature and extent of significant restrictions are disclosed as well.

For interests in joint arrangements and associates, information about the nature, extent and financial effects, and the nature of the risks, is disclosed. For a joint venture and associate that is material to the entity, the name, the nature of the relationship, the principal place of business, whether the investment in the joint venture or associate is measured using the equity method or at fair value, and summarised financial information are disclosed. The nature and extent of significant restrictions are disclosed as well.

For interests in unconsolidated structured entities, information about the nature and scope, and the nature of risks is disclosed. Qualitative and quantitative information about the nature of interests is disclosed. With respect to the nature of the risks, additional information is disclosed.

Investments are reported using the cost model of accounting. According to that method, share participations are carried at cost less accumulated impairment losses. Investment income is recognised on the statement of comprehensive income only in so far as a share is received from the accumulated profits of the investee in the form of dividends.

3. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment reflects the provision of products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. It is not required to disclose segment reporting in the separate financial statements of the companies that are not members of a group.

4. Foreign currency transactions

(1) Functional currency and presentation currency

The separate components of the Company's financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Bulgarian lev (BGN), which is the functional currency. According to the currency board regime introduced in Bulgaria, since 1 January 1999 the exchange rate of the Bulgarian lev has been anchored to the Euro.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Major exchange rates:	**31 December 2017**
	BGN
USD 1 is equal to	1.63081
EUR 1 is equal to	1.95583
GBP 1	2.20442
CHF 1	1.67136

Changes in the fair value of monetary securities denominated in foreign currencies and classified as available-for-sale financial assets are analysed and split into a result from changes in their amortised cost and from other changes in their carrying amount. Any foreign exchange differences relating to changes in the amortised cost are recognised in profit or loss, while other changes in the carrying amount are recognised in the equity.

Foreign exchange differences from restatement of non-monetary assets and liabilities, such as shares carried at fair value through profit or loss, are recognised in profit or loss as part of the profit or loss relating to their restatement at fair value. Foreign exchange differences on investments held to maturity are recognised in the statement of comprehensive income.

5. Property, plant and equipment (PPE)

Land and buildings (except for investment property) are measured at fair value. When fair values are used, the requirements and rules of IFRS 13 *Fair Value Measurement* are observed. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the most advantageous market for the asset or liability, including transportation costs and excluding other transaction costs.

Management applies the fair value hierarchy, and if possible the assessment is at Level 1 according to market prices in active markets. If Level 1 cannot be used, it is proceeded to Level 2 - directly or indirectly observable prices. The last option is Level 3, at which hypotheses are developed. All assets and liabilities are categorised within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement.

The most appropriate valuation technique is used in the fair value measurement. The market approach uses current market prices, recent market prices or adjusted market prices of a similar item. It is applied to investment properties, debt or equity instruments on a stock exchange /shares and bonds/, investments outside the stock exchange and biological assets. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset with a new asset; the age and condition of the asset, and its economic obsolescence. It is applicable to fixed tangible assets and non-current intangible assets. The income approach employs direct methods for calculating cost savings, premium pricing, exemption from licensing fees, excessive profits, or indirect methods of return on assets, residual profit, to align the assumptions for cash flows and discount rate. It is applicable to impairment of non-financial liabilities, financial instruments and cash-generating units.

Management discloses reporting items whose fair value is reported in the balance sheet. When necessary and materially, the fair value of reporting items that are not included in the balance sheet is disclosed as well. The fair value is assessed based on regular assessments by an independent external valuer, less any subsequent depreciation of buildings. The depreciation accumulated at the date of revaluation is eliminated against the asset’s book value and the resulting net amount is adjusted by the asset’s revalued amount. Any other plant and equipment are stated at historical cost, less any accumulated depreciation and impairment. The historical cost includes all expenses directly related to the acquisition of the asset.

The materiality level set by the Company with respect to items of property, plant and equipment is BGN 700.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Any other repair and maintenance costs are recognised in the income statement in the period in which they were incurred.

Increases in the carrying amounts resulting from revaluation of land and buildings are taken to the revaluation reserve. A decrease reversing a previous increase for the same asset is charged against the revaluation reserve, any other decrease in value is taken to the statement of comprehensive income. When revalued assets are derecognised, the accumulated revaluation reserve is transferred into retained earnings carried forward.

Land is not depreciated. Depreciation of items of property, plant and equipment is charged using the straight-line depreciation method so as to allocate the difference between the carrying amount and the residual value over the estimated useful life of the assets. The following depreciation rates (in percentage) are applied:

Buildings and constructions	4%
Plant and equipment	30%
Hardware and peripherals	50%
Fixture and fittings	15%

The residual value and useful lives of the assets are and are adjusted as at each date of financial statements, as necessary.

The asset's residual value is reduced immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount (Note 2.8).

Gains and losses on disposal of PPE are determined by comparing the sale proceeds with the carrying amount, and are included in the operating result.

Borrowings costs for PPE are expensed as current expenses in the period to which they relate.

6. Investment property

Investment properties are most frequently associated with buildings or parts of buildings that are not used, but are held by the Company to earn rentals under operating leases. Investment properties are measured at fair value, which is the market price determined by independent valuers annually or at longer periods, if there is a significant change in their fair values. Any changes in fair values are recognised in the statement of comprehensive income as part of other income. The company held no investment property at the end of the current year.

7. Intangible assets

Costs of acquisition of patents, licences, software and trademarks are reported as an asset and measured at historical cost, less any accumulated amortisation and impairment. They are amortised under the straight-line method over their useful lives of not more than 20 years. Intangible assets are not subject to revaluation. Management carries out annual reviews of assets subject to impairment and if the asset's carrying amount exceeds its recoverable amount, the asset is written down to its recoverable amount.

The following amortisation rates, in percentage, are applied:

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

8. Impairment of assets

Depreciable / amortisable assets, as well as investments in subsidiaries and associates, are tested for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. The excess of the carrying amount over the recoverable amount is recognised as an impairment loss. The recoverable amount is the higher of the fair value less the costs to make the sale and the value in use. In estimating the value in use, assets are grouped in the smallest possible identifiable cash generating units.

9. Financial assets

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

(a) Financial assets carried at fair value through profit or loss
Financial assets carried at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired for the purpose of selling it in the near 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 determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company’s loans and receivables are recognised in the balance sheet under the heading of Trade and other receivables and Cash and cash equivalents (Notes 2.10 and 2.11).

(c) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Company’s management intends and is able to hold to maturity.

(d) Available-for-sale financial assets
Available-for-sale financial assets are non-derivative assets designated in this category or not classified in any other category. They are included as part of fixed assets, unless management intends to dispose of its investments within 12 months.

Purchases and sales of financial assets are accounted for on the trade date, i.e. the date on which the Company has committed to purchase or sell the asset.

Investments are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are recognised in the income statement. Investments are derecognised when the right to receive the cash flows from the investment have expired or have been transferred and the Company has transferred significantly all risks and rewards from the ownership over the asset.

Available-for-sale financial assets and financial assets carried at fair value through profit or loss are measured at fair value in the next reporting periods. Loans, receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Gains and losses from changes in the fair value of financial assets carried at fair value through profit or loss are recognised in the income statement, under the heading of 'net finance income', in the period in which they were incurred. Dividend income from financial assets carried at fair value through profit or loss is recognised in the income statement under the heading of 'net finance income' when the Company is vested the right to receive payment.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between foreign currency differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on nonmonetary securities are recognised in equity. Changes in the fair of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

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

Dividends on equity instruments available for sale are recognised in the income statement as part of net finance income when the Company's right to receive payment is established.

The fair value of quoted investments is determined by reference to the price data available at the market. Where there is not active market for the financial assets (and for securities that are not quoted), the Company estimates the fair value using valuation techniques. These include using recent market transactions with similar instruments, analyses of discounted cash flows and option pricing models, which reflect to a maximum the market conditions and as little company specific information as possible.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Where equity securities classified as available for sale are tested for impairment, the existence of a significant or prolonged decline in the fair value of the security below its cost is considered an indication of impairment.

If there is evidence that available-for-sale financial assets are impaired, the cumulative loss (measured as the difference between the asset's cost and the current fair value, less any impairment loss previously recognised in the income statement) is derecognised from equity and recognised in the statement of comprehensive income**.** An impairment loss on equity instruments recognised in the income statement cannot be reversed through the statement of comprehensive income in the event of reversal of the impairment. Impairment testing of trade receivables is described in Note 2.10.

10. Inventories

Inventories are measured at the lower of cost and net realisable value. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition are included in the price (acquisition cost). These costs include:

a) Materials and goods – all delivery costs, including import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials ready for usage;
b) Finished products and work in progress – direct costs of materials and labour and the associated proportion of the manufacturing overheads, based on normal operating capacity of production facilities. A basis of allocation of fixed manufacturing overheads by products is the quantity of finished products manufactured.

Upon write off for consumption and sale, cost of inventories is measured under the method of standard cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. Any deviation of the standard cost from the actual cost is expensed currently with respect to the products and goods sold, as also at the end of each reporting period.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. It is determined on the basis of information from external or internal sources, taking account of the specificities of various types of inventories.

When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

11. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost (using the effective interest method). An impairment provision is created when there is objective evidence that the Company will not be able to collect the entire amount of the receivable in accordance with the original terms and conditions. Indications that a trade receivable has been impaired include significant financial difficulties of the debtor, probability of insolvency and liquidation, financial restructuring or inability to pay the debt (for more than 30 days). The amount of the impairment provision is measured as the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. The asset’s carrying amount is adjusted by using an allowance account while the sum of the impairment loss is recognised as an expense in the income statement. If a trade receivable is uncollectable, it is derecognised from the allowance account of trade receivables. Any subsequent recovery of an amount, which has been derecognised, is stated against a decrease in the operating expenses in the current result.

12. Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in bank accounts, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are recognised in the balance sheet as a short-term liability under the heading of short-term loans.

13. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

When the Company redeems its treasury shares, the amount paid, including any relevant, directly related additional costs (net of income tax effects), is deducted from the capital held by the Company's owners until the shares redeemed are cancelled, sold or re-issued. When these shares are sold or re-issued on a later stage, income, net of any relevant, directly related additional transaction costs and the corresponding tax effects, is added to the capital held by the Company's owners.

14. Trade payables

Trade payables are measured initially at fair value; subsequently trade payables are measured at amortised cost using the effective interest method.

15. Loans

On initial recognition, loans are recognised at fair value, less the transaction costs. Subsequently, loans are measured at amortised cost; any difference between the due payments (net of the transactions costs) and the loan value is recognised in the income statement over the loan term based on the effective interest method.

Loans are classified as short-term liabilities, except when the Company holds the unconditional right to delay the debt pay-off for at least 12-month period after the balance sheet date.

16. Current and deferred taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date, which relate to the periods when it is expected that the related temporary tax differences will reverse.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary tax differences can be utilised.

17. Employee benefits

According to a defined contribution plan, the Company pays instalments to State-run pension and social insurance plans on mandatory basis. Once the instalments have been paid, the Company has no further payment obligations. Instalments are recognised as personnel expenses when they become due. Prepaid instalments are recognised as an expense in a future period to the extent that the amounts will be deducted from future payments or refunded.

Since 2015 Tchaikapharma High Quality Medicines Inc. has been setting aside provisions for retirement benefits of personnel in compliance with the requirements of Article 222 of the Labour Code. International Accounting Standard (IAS) 19 - Employee Benefits treats this requirement as an employer's long-term liability for defined severance pay and requires the application of actuarial methods for calculating the employer's liability. The standard requires that the present value of the employer's future obligations to pay defined benefits is determined by applying the projected unit credit method.

An estimate is made, on an individual basis, for all employees hired by the employer under employment agreements, based on the completed and expected length of service. The total obligation is distributed over the employee's expected length of service with the employer. The amount of the obligation at the time of the assessment is proportionate to the completed years of service. Each unit – a completed year of service, is measured separately to determine the final amount of the liability. Based on the employees' structure by sex and age, statistical probabilities have been applied, which assume that the individuals may not survive to the age required for them to be entitled to a pension or that they may resign on other grounds before becoming eligible to a contributory-service and retirement-age pension.

The calculation of these liabilities requires 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 position and the respective change in their amount is recognised in the statement of comprehensive income whereas: a) the current and past service costs, interest expenses and the effects of redundancies and settlements are recognised immediately in the period in which they arise and are presented in the current profit or loss under item "personnel expenses", and b) the effects of subsequent valuations of obligations, which essentially represent actuarial gains and losses, are recognised immediately in the period in which they arise and are presented as part of other components of comprehensive income in item "subsequent valuations of defined benefit pension plans". Actuarial gains and losses originate from changes in the actuarial assumptions and experience.

At the date of each set of annual financial statements, the Company appoints certified actuaries, who issue a report with calculations of the long-term retirement benefit obligations. For the purpose, they apply the projected unit credit method. 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 obligation 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 are of a long-term nature of commitment, they are recognised as non-current liabilities in the statement of the financial position of Tchaikapharma High Quality Medicines Inc.

The demographic assumptions reflect the probability that individuals appointed under an employment contract will still be with the employer at the time of contributory-service and retirement-age pension entitlement, and that an obligation to pay them compensation will arise.

Individuals may drop out before retirement for various reasons: resignation, staff cuts, disease, death, and other similar. The demographic assumptions reflect specific probabilities that are based on statistical information on the population and are relating to the staff structure by sex and age at the time of the assessment.
The mortality table reflects the probability that the individuals will survive to the age required for them to be entitled to a pension. It is calculated individually for each person based on his/her sex and age at the time of the assessment. The table showing the mortality rates and average life expectancy of the population in Bulgaria for the period 2010 - 2012 of the National Statistical Institute has been used.
Based on the information provided for the staff turnover in the last four years and the expected restructuring of the company over the next two years, the probability of retirements or impending personnel reduction is reflected. This probability is applied to the existing staff structure according to the sex and age of the individuals 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 interest rates applied are an essential 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 calculated. The financial assumptions reflect real expectations for the development and future size of some basic parameters, such as return on investment, salary growth, inflation rates, 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 rate of wage growth applied is essential for determining the amount of the obligation at the time of its occurrence. This rate has been determined on the basis of statistics on salary 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 inflation, and employer’s expectations, the projected salary growth is calculated. The projected salary growth is 2 percent a year.
According to the standard requirement, the rate at which the obligation will be discounted should correspond to the market yields of high quality corporate bonds at the balance sheet date. Provided that there is no matured capital market, the market yields of government bonds should be used. Moreover, it is convenient the future rate of return on assets to be used as a discount rate. Due to the long-term nature of the obligation and the lack of such financial instruments covering fixed income for a longer period, it has been judged that the expected rate of return on instruments with longer maturities may be used as a discount rate, following the requirements of IAS 19. The discount rate, which has been used in calculating the liability of TCHAIKAPHARMA HIGH QUALITY MEDICINES INC as of 31 December 2015, amounts to 4 per cent per year over the entire duration of the liability, while as of 31 December 2016 it amounted to 3 per cent per year over the entire 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 contributory-service and retirement-age pension for employees working under the third category of labour.

Provisions to cover its obligation to pay retirement benefits to its staff were set aside by TCHAIKAPHARMA HIGH QUALITY MEDICINES INC. as of 31 December 2017.

18. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely (than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When several similar liabilities exist, the probability for outflows for their settlement is measured for the whole class of similar liabilities. A provision is recognised even in the cases when the probability for an outflow to settle certain liability in this class is unlikely.

19. Lease contracts

Operating lease – the Company as a lessor
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Proceeds received under operating leases (net of any incentives received from the lessor) are recognised as income in the income statement, in equal instalments over the lease term.

Finance lease – the Company as a lessee
Leases of property, plant and equipment where the Company actually bears all the risks and rewards incidental to ownership of the asset are classified as finance leases. At the commencement of the lease term, finance leases are capitalized at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance costs so as to produce a constant rate of reduction of the lease liability. The corresponding rents, less finance costs, are added to other long-term liabilities. The interest portion of finance price is recognised in the income statement and is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Items of property, plant and equipment acquired under finance leases are depreciated over the shorter of the lease term and its useful life.
A lease of property, plant and equipment where the Company has actually transferred all the risks and rewards incidental to ownership of the asset is classified as finance lease with related receivable. At the commencement of the lease term, finance leases are capitalized at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance income so as to produce a constant rate of reduction of the lease receivable. The corresponding rents, less finance income, are added to other long-term receivables. The interest portion of finance price is recognised in the income statement and is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

20. Revenue recognition

Revenue comprises the fair value of goods and services sold, net of value added tax and any discounts. Revenue is recognised as follows:

(a) Sales of finished products and goods
Revenue from sales of finished products and goods are recognised when all the significant risks and rewards of ownership are transferred to the buyer. Revenue is measured at the fair value of finished products and goods sold, net of indirect taxes (value added tax) and any discounts and rebates.
In particular, revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:
(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
(b) the entity retains neither continuing managerial involvement to the degree usually associated

with ownership nor effective control over the goods sold;
(c) the amount of revenue can be measured reliably;
(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(b) Sale of services
Revenue from sale of services is recognised in the reporting period, in which the respective service has been rendered by reference to the stage of completion determined as a percentage of the services provided to date to all services that shall be provided.

(c) Interest income
Interest income is deferred using the effective interest rate. Upon write down of a receivable, the Company reduces its carrying amount to its recoverable amount. The recoverable amount is equal to the future cash flows discounted by the original effective interest rate. Interest income on impaired loans is recognised when the interest due is collected or on the basis of recognition of the related contingent guarantees.

(d) Dividend income
Dividends are recognised when the right to receive payment is established.

21. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends were approved.

22. Significant accounting estimates and judgments

Accounting estimates and judgments are based on experience gained and other factors including expectations of future events given the existing circumstances. The trustworthiness of accounting estimates and assumptions is reviewed regularly.

23. Significant accounting estimates and assumptions

The Company makes estimates and judgements for the purpose of accounting and disclosures which may differ from the actual results. Significant accounting estimates that have a considerable risk of causing material adjustments to the carrying amounts of the respective assets or liabilities in subsequent reporting periods are discussed herein below:

(a) Income taxes

The Company is a tax entity under the tax jurisdiction. Significant judgment is required in order to determine the tax provision. There are many transactions and calculations for which the final tax due cannot be specified in the normal course of business. The Company recognises liabilities for anticipated tax liabilities based on management judgment. When the final tax due as a result of such events differs from the original liabilities, such differences will affect the current and deferred tax assets and liabilities in the period of tax audits.

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

valuation techniques. Such techniques include the use of recent transactions concluded at fair values, discounted cash flows, option valuation models, and other techniques employed 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. At the balance sheet date, management conducts a review of its models in order to ensure that they appropriately reflect current market conditions, including relative market liquidity and credit spread.

Due to changes in financial markets in recent times the fair value of financial instruments can significantly change in the next financial period.

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

III. EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

1. Property, plant and equipment

	Land and buildings	Plant and equipment	Fixtures, fittings and motor vehicles	Total
	BGN'000	BGN'000	BGN'000	BGN'000
At 1 January 2016				
Book (revaluated) value	11 539	27 546	504	39 589
Accumulated depreciation	(34)	(12 430)	(250)	(12 714)
Carrying amount	**11 505**	**15 116**	**254**	**26 875**
At 31 December 2016				
Carrying amount at the beginning of the period	11 505	15 116	254	26 875
Additions		1 256	76	1 331
Disposals at carrying amount		(3)	(1)	(5)
Revaluation	496			496
Depreciation charge	(433)	(2 381)	(67)	(2 881)
Depreciation derecognised	(467)			(467)
Carrying amount at the end of the period	**11 568**	**13 988**	**261**	**25 817**
At 31 December 2016				
Book (revaluated) value	11 568	28 799	583	40 950
Accumulated depreciation	(0)	(14 811)	(322)	(15 133)
Carrying amount	**11 568**	**13 988**	**261**	**25 817**
At 1 January 2017				
Book (revaluated) value	11 568	28 799	583	40 950
Accumulated depreciation	(0)	(14 811)	(322)	(15 133)
Carrying amount	**11 568**	**13 988**	**261**	**25 817**
At 31 December 2017				
Carrying amount at the beginning of the period	11 568	13 988	261	25 817
Additions		1 011	2	1 013
Disposals at carrying amount				
Revaluation				
Depreciation charge	(431)	(1 923)	(73)	(2 427)
Depreciation derecognised				
Carrying amount at the end of the period	**11 137**	**13 076**	**190**	**24 403**
At 31 December 2017				
Book (revaluated) value	11 568	29 810	585	41 963
Accumulated depreciation	(431)	(16 734)	(395)	(17 560)
Carrying amount	**11 137**	**13 076**	**190**	**24 403**

Fixed tangible assets in progress are excluded. The assets amounted to BGN 71 thousand as of 31 December 2016 and to BGN 1 860 thousand as of 31 December 2017.
As of 31 December of the current year, property, plant and equipment included land at book value of BGN 778 thousand and buildings of BGN 10 359 thousand. At the end of the previous year the amounts were BGN 778 thousand and 10 790 thousand, respectively.
Property, plant and equipment are measured at cost less accumulated depreciation. According to the Company's management, the carrying amount of all assets is not less than their recoverable amount and therefore, there is no need for impairment.

2. Intangible assets

	Industrial property rights	**Software**	**Total**
	BGN'000	BGN'000	BGN'000
At 1 January 2016			
Book (revaluated) value	5 098	753	5 851
Accumulated amortisation	(3 250)	(752)	(4 002)
Carrying amount	**1 848**	**1**	**1 849**
At 31 December 2016			
Carrying amount at the beginning of the period	1 848	1	1 849
Additions	538	9	547
Disposals at carrying amount			
Revaluation			
Amortisation charge	(648)	(4)	(652)
Amortisation derecognised			
Carrying amount at the end of the period	**1 738**	**6**	**1 744**
At 31 December 2016			
Book (revaluated) value	5 636	762	6 398
Accumulated amortisation	(3 898)	(756)	(4 654)
Carrying amount	**1 738**	**6**	**1 744**
At 1 January 2017			
Book (revaluated) value	5 636	762	6 398
Accumulated amortisation	(3 898)	(756)	(4 654)
Carrying amount	**1 738**	**6**	**1 744**
At 31 December 2017			
Carrying amount at the beginning of the period	**1 738**	**6**	**1 744**
Additions	739	4	743
Disposals at carrying amount	(145)		(145)
Revaluation			
Amortisation charge	(650)	(6)	(656)
Amortisation derecognised	(1 027)		(1 027)
Carrying amount at the end of the period	**1 682**	**4**	**1 686**

At 31 December 2017			
Book (revaluated) value	5 203	766	5 969
Accumulated amortisation	(3 521)	(762)	(4 283)
Carrying amount	**1 682**	**4**	**1 686**

Non-current intangible assets in progress are excluded. The assets amounted to BGN 2 373 thousand as of 31 December 2016 and to BGN 1 312 thousand as of 31 December 2017.
Intangible assets are measured at cost less accumulated amortisation. According to the Company's management, the carrying amount of all assets is not less than their recoverable amount and therefore, there is no need for impairment.

3. Minority interest investments

The company holds minority interest in the following companies:

	31.12.2017 BGN'000	31.12.2016 BGN'000
Tchaikapharma High Quality Medicines Available For All Inc. (former name Care Pharmaceuticals)	1	1
Total	**1**	**1**

4. Non-current loans granted и non-current trade receivables

	31.12.2017 BGN'000	31.12.2016 BGN'000
Maturity of long-term receivables s:		
Within one year	0	0
From one to three years	5 960	6 025
Over three years		
Total	**5 960**	**6 025**

The carrying amounts of the long-term receivables and loans are denominated in the following currencies:

	31.12.2017 BGN'000	31.12.2016 BGN'000
Euro		
BGN	5 960	6 025
Total	**5 960**	**6 025**

The Company's management is of the opinion that the fair value of long-term receivables and loans granted approximates their carrying amount.

5. Inventories, trade and other receivables

	31.12.2017 BGN'000	31.12.2016 BGN'000
Trade receivables from clients	54 784	49 072
Advances from suppliers	216	332
Financial assets with maturity		24
Court and awarded receivables	969	938
Treasury shares redeemed	8	-
Other receivables	2	1
Prepayments	26	30
Total trade and other receivables	**55 997**	**50 397**

In the fourth quarter, receivables amounting to BGN 17 thousand were written off due to expiry of their period of limitation.
Receivables are reported at initial cost of acquisition. The Company's management is of the opinion that the fair value of long-term receivables and loans granted approximates their carrying amount.
The Company's management deems that the above receivables are collectable and there is no need for impairment of prior years' receivables amounting to BGN 5 960 thousand, for which an agreement for their payment during the current year was concluded.

The carrying amounts of trade and other receivables are denominated in the following currencies:

	31.12.2017 BGN'000	**31.12.2016 BGN'000**
BGN	55 822	50 043
Euro and USD	175	354
Total	**55 997**	**50 397**

	31.12.2017 BGN'000	**31.12.2016 BGN'000**
Materials	4 225	4 629
Finished products	554	138
Goods	229	192
Work in progress	23	123
Total inventories	**5 031**	**5 082**

Inventories are stated at standard cost adjusted for any deviation from the cost of acquisition. There are no indications of impairment of inventories to a lower net realizable value.

6. Cash and cash equivalents

	31.12.2017 BGN'000	**31.12.2016 BGN'000**
Cash on hand in BGN and foreign currencies	2	6
Bank accounts in BGN and foreign currencies	21	28
Restricted cash	2	16
Total	**25**	**50**

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	31.12.2017 BGN'000	**31.12.2016 BGN'000**
BGN	24	49
Foreign currency	1	1
Total	**25**	**50**

Cash in BGN is measured at its nominal value and cash in foreign currency, at the closing exchange rate of BNB as at 31 December 2017. For the purposes of the cash flow statement, cash and cash equivalents include cash on hands and cash with banks.

7. Share capital

	Shares in thousand	Ordinary shares, BGN'000
At 31 December 2015	49 600	49 600
At 31 December 2016	56 600	56 600
At 30 September 2017	64 300	56 600

The number of registered ordinary shares is 64 300 000 (2016: 56 600 000 and 2015: 49 600 000) with nominal value of BGN 1 /one/ each (2016 and 2015: BGN 1 /one/ each). The shares issued have been paid in full. All shares give equal rights to the shareholders.

8. Revaluation and other reserves, retained earnings

	Revaluation reserve of PPE	Statutory reserve	Other reserves	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Balance at 1 January 2016	**2 715**	**3 881**	**(4)**	**6 592**
Correction of errors	496		(9)	487
Deferred taxes	(50)		1	(49)
Other comprehensive income	**446**		**(8)**	**438**
Profit distribution		780		780
Balance at 31 December 2016	**3 161**	**4 661**	**(12)**	**7 810**
Balance at 1 January 2017	**3 161**	**4 661**	**(12)**	**7 810**
Correction of errors				
Deferred taxes				
Other comprehensive income				
Profit distribution		885		885
Balance at 31 December 2017	**3 161**	**5 546**	**(12)**	**8 695**

Reserves from revaluation of land and buildings are formed as a result of the comparison between the fair values and the former carrying amounts according to a report of a licensed valuer. Reserves from revaluation of land and buildings cannot be distributed in the form of dividends.

Reserves from revaluation of pension funds are formed as a result of the effects of subsequent valuation of liabilities, which in their substance represent actuarial gains and losses according to a report of a licensed valuer. The actuarial revaluation reserves cannot be distributed in the form of dividends.

Retained earnings are formed of the current operating results in previous years. In 2016, the capital was increased by BGN 7 000 thousand against retained earnings, as also the reserves by BGN 778 thousand and the additional reserves by BGN 2 thousand. In 2017, the capital was increased by BGN 7 700 thousand against retained earnings, as also the reserves by 858 thousand and the additional reserves by BGN 27 thousand.

9. Loans

	31.12.2017 BGN'000	31.12.2016 BGN'000
Non-current finance lease liabilities	595	1 015
Current finance lease liabilities	486	869
Short-term loan	9 778	11 349
Total	**10 859**	**13 233**

The terms and conditions of the short-term bank loans as of 31 December 2017 were as follows:

Creditor bank:	CIBANK EAD
Contractual loan amount:	BGN 7 823 thousand (EUR 4 000 thousand)
Annual interest rate:	Three month EURIBOR+margin of 2 points
Maturity:	19 December 2018
Collateral:	Mortgage and pledge
Purpose of the credit:	Refinancing of an existing loan and for working capital
Liability as of 31 December 2017:	BGN 7 822 thousand

Creditor bank:	CIBANK EAD
Contractual loan amount:	BGN 1 956 thousand (EUR 1 000 thousand)
Annual interest rate:	Three month EURIBOR+margin of 2 points
Maturity:	19 December 2018
Collateral:	Mortgage and pledge
Purpose of the credit:	Working capital
Liability as of 31 December 2017:	BGN 1 955 thousand

10. Deferred taxes

Deferred income taxes are reported for all temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at a tax rate of 10% (for the previous year: 10%) applicable to the year in which they are expected to occur retroactively.

Movement in deferred taxes:

	31.12.2017 BGN'000	31.12.2016 BGN'000
At the beginning of the year	(1 210)	(1 210)
(Income)/expenses in the statement of comprehensive income	(23)	(23)
(Income)/expenses in the equity statement	(51)	(51)
At the end of the year	**(1 284)**	**(1 284)**

Deferred tax liabilities	**Land and buildings**	**Depreciation**	**Total**
	BGN'000	BGN'000	BGN'000
At 1 January 2016	**(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)
At 31 December 2016	**(275)**	**(1 025)**	**(1 300)**
Debit/(credit) in equity due to changes in temporary differences			
Expenses/(income) in the statement of comprehensive income due to changes in temporary differences			
At 31 December 2017	**(275)**	**(1 025)**	**(1 300)**

Deferred tax assets	**Leaves and benefits**	**Receivables and liabilities**	**Total**
At 1 January 2016	**12**	**1**	**13**
(Expense)/ income in the statement of comprehensive income	1	2	3
At 31 December 2016	**13**	**3**	**16**
(Expense)/ income in the statement of comprehensive income			
At 31 December 2017	**13**	**3**	**16**

The total amount of deferred tax assets and liabilities is a liability of BGN 1 284 thousand (2016: a liability of BGN 1 284 thousand).
The deferred tax assets and liabilities are offset as they relate to the same tax authority.

Long-term employee benefits

	31.12.2017	**31.12.2016**
	BGN'000	**BGN'000**
Long-term retirement benefits	67	67
	67	67

The Company appointed certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For the purpose, they apply the projected unit credit method. 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 liability 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 payables

	31.12.2017 BGN'000	31.12.2016 BGN'000
Payables to suppliers	1 537	2 566
Payables to personnel	194	257
Taxes and social insurance contributions	297	620
Current corporate income tax	-	55
Other liabilities	22	10
Total	**2 050**	**3 508**

The BGN liabilities are measured at the value of their occurrence, and those denominated in foreign currency are measured at the closing exchange rate of BNB on 31 December 2017.
Trade liabilities are carried at original cost, at the nominal value of the Bulgarian lev and the equivalent of the foreign currency at the exchange rate of BNB.
Trade and other payables are denominated and measured at the BGN nominal value. The Company's management is of the opinion that there is no need to charge provisions in relation to claims or commitments to interest, penalties and other payment obligations.

12. Revenue

	31.12.2017 BGN'000	31.12.2016 BGN'000
Sales of finished products	27 807	25 708
Sales of goods	5 480	7 280
Sales of services	72	88
Changes in stock of finished products and work in progress	432	
Other revenue	57	11
Total	**33 848**	**33 087**

The sales of finished products and goods are related to dosage forms. They take place throughout the country.
Revenue is measured at the fair value of the payment or consideration received or receivable, and are stated at the BGN nominal value.

13. Operating expenses

	31.12.2017 BGN'000	31.12.2016 BGN'000
Carrying amount of goods sold	(1 719)	(3 379)
Changes in stock of finished products and work in progress	0	(107)
Materials	(9 696)	(8 275)
Hired services	(4 010)	(4 022)
Salary expenses	(2 831)	(2 731)
Social insurance expenses	(573)	(520)
Depreciation / amortisation expenses	(3 084)	(3 532)
Other expenses	(1 681)	(545)
Total	**(23 594)**	**(23 111)**

Operating expenses are related to production and sales of dosage forms.
Expenses are measured at the fair value of the consideration paid or payable, and are stated at the BGN nominal value or at the BGN equivalent of the foreign currency, by applying the exchange rate of BNB on the date of the transaction.

14. Finance income and costs

14.1. Finance income

	31.12.2017 BGN'000	31.12.2016 BGN'000
Interest income		139
Foreign currency gains	88	38
Other finance income	-	-
Total	**88**	**177**

Income generated from the use by other persons of interest-bearing assets of the Company, and from other financial transactions, has been recognised when it is probable that future economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably.

14.2. Finance costs

	31.12.2017 BGN'000	31.12.2016 BGN'000
Interest expenses	(273)	(425)
Foreign currency losses	(48)	(81)
Other finance costs	(58)	(83)
Total	**(379)**	**(589)**

Expenses arising out of the use by the Company of interest-bearing assets of other persons, and of other financial transactions, have been recognised when it is probable that the Company will be able to reduce the economic benefits associated with the transaction and the amount of expense can be measured reliably.

14.3.Tax expenses

	31.12.2017 BGN'000	31.12.2016 BGN'000
Current income tax	(934)	(955)
Deferred taxes		(24)
Total	**(934)**	(979)

The tax rate of 10% remained unchanged in 2017 (2016: 10%) in accordance with the Corporate Income Tax Act.

The Company's corporate income tax differs from the theoretical amount that would have been calculated had the applicable tax rate been applied to the accounting result before tax, as follows:

	31.12.2017 BGN'000	**31.12.2016 BGN'000**
Profit before taxes	9 963	9 564
Tax calculated at an effective tax rate of 10% (2017: 10%)	(934)	(955)
Correction due to unrecognised income and expense		
Correction of deferred tax assets and liabilities		(24)
Tax expense in the income statement	**(934)**	**(979)**

	31.12.2017 BGN'000	**31.12.2016 BGN'000**
Other comprehensive income from revaluation of FTAs		496
Other comprehensive income from deferred tax on revaluation of FTAs		(50)
Other comprehensive income from revaluation of defined benefit pension funds		(9)
Other comprehensive income from deferred tax on revaluation of defined benefit pension funds		1
Total other comprehensive income		**438**

Land and buildings were not revalued in the fourth quarter of 2017, nor were reserves set aside to cover payables to personnel.

16. Earnings per share

Basic earnings per share
Basic earnings per share are calculated by dividing net profit distributable to majority shareholders by the weighted average number of ordinary shares issued during the year, of which the average number of ordinary shares redeemed by the Company is subtracted.

Diluted earnings per share
For the purposes of calculating diluted earnings per share, the weighted average number of issued ordinary shares is adjusted by all securities potentially convertible into ordinary shares. Convertible securities were not issued as of 31 December of the current year and previous year. This explains the equality of both coefficients.

17. Dividends per share

Dividends payable are accounted for only after they have been approved by the annual General Meeting of Shareholders.
The General Meeting of Shareholders held in 2015 approved a dividend distribution of BGN 35 thousand and a capital increase of BGN 6 100 thousand.
In 2016 the General Meeting of Shareholders approved the distribution of the 2015 profit for increasing the capital and reserves by BGN 7 000 thousand and BGN 780 thousand, respectively.
The General Meeting of Shareholders held on 08 June 2017 passed a decision to increase the capital reserves by BGN 7 700 thousand and BGN 885 thousand, respectively.
The registration with the Commercial Register was effected on 05 July 2017.

18. Contingent liabilities

The Company is currently engaged in litigation with other entities for about BGN 969 thousand.
The Company has no other substantial contingent liabilities and commitments under contracts,

litigations and other documents.

Taxation
The tax authorities carried out a full-scope tax audit of the Company until and including 2005. No significant violations were detected or notices made.

The tax authorities can at any time check the financial statements and accounting records for five consecutive years from 1 January of the year following the year in which the respective tax liability should have been paid, and to assess additional tax liabilities or penalties. The Company's management is not aware of any circumstances that might lead to significant liabilities in this area.

19. Remuneration to key management staff and audit fee

The remuneration policy concerning remuneration of key management staff is published in the annual financial statements for 2016. Audit fees were accrued in the fourth quarter of 2017 in accordance with the contract concluded.

20. Financial risk management

In its activity the Company is exposed to various financial risks. The Company's overall risk management policy is focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company does not use derivative financial instruments to hedge certain risk exposures.

(a) Currency risk
The Company is not exposed to a significant currency risk since its assets, liabilities and transactions are denominated in BGN or Euro, and according to the currency board regime the exchange rate of the Bulgarian lev has been anchored to the Euro. The balance sheet components are subject to regular control aiming at minimising the exposure to foreign currency risk.

(b) Price risk
The Company is not exposed to risk of changes in prices of equity instruments as it does not hold such instruments. The Company is exposed to risk of changes in prices of finished products and goods. For the purposes of managing price risk arising from sales of services, the Company systematically monitors market prices, optimises costs and seeks appropriate key accounts.

(c) Interest rate risk
Interest-bearing assets of the Company can be with fixed and floating interest rates. Loans bearing variable interest rates expose the Company to interest rate risk of changes in future cash flows and those bearing fixed interest rate - to interest rate risk of changes in fair values. It is a policy of the Company to obtain and grant loans, while minimising the interest rate risk. At 31 December of the current and previous year, the Company had no interest-bearing assets and liabilities measured at fair value and therefore, it was not exposed to risk of changes in cash flows and fair values.

(d) Credit risk
There is no significant concentration of credit risk within the Company. The Company has developed policies guaranteeing that the sales to key accounts will be made only under the terms of immediate payment or within a reasonable period of time according to agreements.
The credit risk originates mainly from cash and cash equivalents deposited with banks and other financial institutions, as well as from loans granted. Only financial institutions with high credit ratings

are accepted as banks and other financial institutions. Management does not expect losses due to the failure of its contractors to fulfil their obligations.

All financial assets are placed with contractors that do not have an external credit rating and history of non-performance from the past.

(e) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and other liquid funds. Due to the dynamic nature of the underlying businesses, the Finance Department of the Company maintains flexibility in funding by maintaining sufficient cash and trade receivables, which could be used to cover the liabilities within reasonable time.

Capital risk management

The Company's capital management objective is to preserve the ability of the Company to continue as a going concern, to ensure return for its shareholders and to maintain the optimal capital structure.

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

Date of preparation: 26 January 2018

Prepared by:............................... Executive Director: ....

/Petya Moneva/ /Biser Georgiev/