"TCHAIKAPHARMA HIGH QUALITY MEDICINES" AD
ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS TO DECEMBER 31, 2017

APPENDIXES TO THE ANNUAL FINANCIAL STATEMENTS

I. INFORMATION ON THE COMPANY

1. Company name

TCHAIKAPHARMA High Quality Medicines AD is a commercial company, established and developing its activity according to the provisions of the Commercial Law and registered by a decision of the District Court, Varna given on company case № 1096 of 14.03.2000.

By virtue of a decision of the Varna District Court № 8866 of 10.10.2007 and the Ruling of the Sofia City Court of 09.11.2007 the registered office and the headquarters address has changed from Varna, Primorski District, Chaika Quarter, 1, Nikola Vaptsarov Str. to Sofia, Izgrev District, 1, G. M. Dimitrov Blvd.
The Company is entered in the Register of Commercial Companies as a joint-stock company under company case № 16559/2007 in the Sofia City Court.

Date of establishment and term of existence:

Tchaikapharma High Quality Medicines AD was established in 2000. The existence of the Company is not limited in time.

2. Country where the Company is incorporated, legal address and headquarters, telephone, fax, e-mail and website:

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

3. Scope of activity

The company's scope of activity includes the production and sale of medicines in processed or re-processed form.

4. Capital

The company's capital is at BGN 64,300,000 (fifty six million and six hundred thousand BGN), divided into 64,300,000 ordinary registered shares with a par value of BGN 1 each.

II. ESSENTIAL CONDITIONS OF THE COMPANY'S ACCOUNTING POLICY

The accounting policy applied in the preparation of the financial statements is described below. The policy has been consistently applied for all represented years unless explicitly stated otherwise.

1. Basis for the financial statements preparation

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

The Company has prepared this non-consolidated financial statement for presentation to the shareholders, the tax authorities and the commercial register in accordance with the requirements of the Bulgarian legislation.

The financial statements are prepared in accordance with the historical cost principle, which is limited in the cases of a revaluation of certain properties, machines and equipment, investment properties, financial assets held for sale and financial assets and liabilities at fair value through profit or loss.

The financial statements preparation in accordance with IFRS requires the use of accounting estimates. When applying the entity's accounting policies, the management was based on its own judgment. The elements of the financial statements, the presentation of which includes a higher degree of judgment or subjectivity, and those elements for which assumptions and estimates have a material impact on the financial statements as a whole are disclosed separately.

The entity's management applies IFRS/IAS for ongoing reporting and preparation of the annual financial statements. At the compilation of the annual financial statements for the current year, the 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 end of the reporting period
IAS 11 Construction Contracts
IAS 12 Income Taxes
IAS 16 Property, Machines and Equipment
IAS 17 Leases
IAS 18 Revenues
IAS 19 Employee Benefits
IAS 20 Accounting for Government Grants and State Aid Disclosure
IAS 21 Effects of Foreign Exchange Rates Changes
IAS 23 Loans Costs
IAS 24 Related Parties Disclosures
IAS 26 Accounting and reporting of retirement benefit plans
IAS 27 Individual Financial Statements
IAS 28 Investments in Associates and Joint Ventures
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 Impairment of Assets
IAS 37 Provisions, Contingent Liabilities and Contingent Assets
IAS 38 Intangible Assets

IAS 39 Financial Instruments: Recognition and Evaluation
IAS 40 Investment Property
IAS 41 Agriculture
IFRS 1 First-time Application 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 and Evaluation of Mineral Resources
IFRS 7 Financial Instruments: Disclosure
IFRS 8 Operating Segments
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Activities
IFRS 12 Disclosure of participations in other entities
IFRS 13 Evaluation at fair value
IFRIC Interpretation 1: Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC Interpretation 2: Members' Shares in Cooperatives 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 IFRS 2
IFRIC Interpretation 9: Reassessment of Embedded Derivatives
IFRIC Interpretation 10: Interim Financial Reporting and Impairment
IFRIC Interpretation 11: IFRS 2: Group and Treasury Share 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 a 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: Setting-off Financial Liabilities with Equity Instruments
IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine
IFRIC 21 Levies
SIC Interpretation 7: Introduction of the euro
SIC Interpretation 10: State aid – not specifically related to the 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: Evaluation of the content of transactions involving the legal form of a lease
SIC Interpretation 29: Concession Service Agreements: Disclosure
SIC Interpretation 31: Revenue – barter transactions involving advertising services
SIC Interpretation 32: Intangible assets – website costs

The entity applies the amendments and supplements to the International Accounting Standards effective for the annual periods beginning on or after January 1, 2016. The amendments were adopted with the following normative acts:

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

New standards and interpretations that have not yet been implemented

In the current year, the Company has adopted all new and changed IFRSs that are relevant to its operations and are effective for the reporting period beginning January 1, 2017. Their application has not led to significant changes in the accounting policies of the Company.

As of the date of the financial statements preparation, the IASB/ICIFRS has issued standards and interpretations that are not yet in force. Some of them have been adopted by the European Union and others have not yet been adopted. The Management expects that the adoption of these accounting standards in future periods will not have a material effect on the Company's financial statements.

Standards issued by the IASB/ICIFRS and approved by the EU, which have not yet entered into force and have not been implemented earlier:

Standards issued by the IASB/ICIFRS that have not yet entered into force at the date of issue of the financial statements and have not been applied earlier are listed below. The company intends to adopt these standards when they enter into force.

IFRS 9 Financial Instruments

The new standard enters into force for the accounting periods beginning on or after January 1, 2018.

The Company will not be affected by the application of this standard regarding its financial position or financial result. The Company does not have available financial instruments of significant amounts at the end of the current year and does not intend to purchase such financial instruments in the following year.

IFRS 15 Revenue from contracts with customers

The new standard enters into force for the accounting periods beginning on or after January 1, 2018.

The Company is in the process of evaluating the effect of this standard on the financial position or the financial result. At present, the opinion is that no further effect is expected from the application of that standard.

Standards and interpretations issued by the IASB, which have not yet been adopted by the EU:

IFRS 14 Regulated Deferred Accounts
The new standard enters into force for the accounting periods beginning on or after January 1, 2016.
The approval of this EU standard has been postponed for an indefinite period.
The Company is in the process of evaluating the effect of this standard on the financial position or the financial result.

IFRS 16 Leases
The new standard enters into force for the accounting periods beginning on or after January 1, 2019.
The Company is in the process of evaluating the effect of this standard on the financial position or the financial result.

Amendments to IFRS 10, Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or transfer of assets between an investor and an associate or joint venture.
The effective date of the entry into force of these amendments has been postponed for an indefinite period.
The approval of these EU amendments is postponed. The Company is in the process of evaluating the effect of these amendments on the financial statements.

Amendments to IAS 12: Recognition of deferred tax assets for unrealized losses.
These amendments enter into force for accounting periods beginning on or after January 1, 2017.
The Company is in the process of evaluating the effect of these amendments on the financial statements.

Amendments to IAS 7 Disclosure Initiative
These amendments enter into force for accounting periods beginning on or after January 1, 2017.
The Company is in the process of evaluating the effect of these amendments on the financial statements.

Amendments to IFRS 2: Classification and evaluation of share-based payments
These amendments enter into force for accounting periods beginning on or after January 1, 2018.
The Company's management opinion is that no further effect is expected from the application of that standard.

Amendments to IFRS 4: Application of IFRS 9 Financial Instruments to IFRS 4 Insurance Contracts
These amendments enter into force for accounting periods beginning on or after January 1, 2018.
The Company's management opinion is that no further effect is expected from the application of that standard.

Improvements to IFRS 2014-2016
These improvements will become effective for accounting periods beginning on or after January

1, 2017. The Company is in the process of evaluating the effect of these improvements on the financial statements.

IFRIC Interpretation 22 Transactions in foreign currency and prepayments
This interpretation becomes effective for accounting periods beginning on or after January 1, 2018. The Company's management opinion is that no further effect is expected from the application of that standard.

Amendments to IAS 40: Transfer of Investment Property
These amendments are effective for accounting periods beginning on or after January 1, 2018. The Company is in the process of evaluating the effect of these amendments on the financial statements.

The Company expects the adoption of these standards, amendments and interpretations not to have a material effect on the Company's financial statements in the period of its initial application.

2. Investments in subsidiaries, associates and other enterprises

For participating interests in subsidiaries, joint ventures, associates and non-consolidated structured entities, the requirements of IFRS 12 Disclosure of participations in other entities are complied with. Information on significant judgments and assumptions about control, joint control, significant influence, and type of joint venture is disclosed.

For shareholdings in subsidiaries information shall be disclosed about the composition of the group, the shareholding of non-controlling interests, significant restrictions on the possibility to access assets and settlement of liabilities, nature of risks with participating interests in consolidated structured entities, and other requirements. For each subsidiary, the name, principal place of business, share of non-controlling shareholdings, profit or loss for non-controlling interests, accumulated non-controlling interests and aggregated financial information are disclosed. The nature and extent of significant constraints shall be disclosed.

For shareholdings in joint ventures and associates information shall be disclosed about the nature, extent, financial impact and nature of the risks. For each significant joint venture and associate, the name, the nature of the relationship, the principal place of business, the equity, the equity method or the fair value, the summary financial information are disclosed. The nature and extent of the material constraints shall be disclosed.

For shareholdings in non-consolidated structured entities information shall be disclosed about the nature, extent and type of the risks. Qualitative and quantitative information is disclosed about the nature of the shareholdings. Additional information is disclosed about the nature of the risks.

Investments are accounted for by the cost method in which partnerships are reported at acquisition cost less accumulated impairment losses. The statement of comprehensive income only records revenue from investments to the extent that a share of the profits of the investee is obtained in the form of dividends.

3. Segment Reporting

The business segment is a group of assets and business operations involved in the provision of products or services and exposed to risks and benefits other than those of other business segments.

The geographic segment is engaged in providing products or services in a separate economic environment and is exposed to risks and benefits other than those in other economic environments. Segment reporting is not required to be presented in a non-consolidated financial report of an entity outside a group.

4. Transactions in foreign currency

(1) Functional currency and presentation currency

The separate elements of the Company's financial statements are evaluated in the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in BGN, which is also the functional currency. The Bulgarian Lev has a fixed exchange rate to the euro since January 1, 1999 under the currency board introduced in Bulgaria.

(2) Transactions and balances

Transactions in foreign currency are transformed into the functional currency using the official exchange rate for the respective day. Foreign exchange profits and losses arising from foreign currency transactions and from the revaluation at the closing exchange rate of the assets and liabilities denominated in foreign currency are recognized in the statement of comprehensive income.

Significant exchange rates:	**31 December 2017**
	BGN
1 US dollar equals to	1.63081
1 euro equals to	1.95583
1 British pound	2.20442
1 Swiss franc	1.67136

Changes in the fair value of cash securities denominated in a foreign currency classified as financial assets available-for-sale are analysed and classified as a result of changes in their amortized cost and other changes in their carrying amount. Foreign exchange differences related to changes in amortized cost are recognized in the profit or loss and the other changes in the carrying amount are recognized in equity.

Differences from restatements of non-monetary financial assets and liabilities, such as shares reported at fair value through the profit or loss, are recognized in the profit or loss as part of a profit or loss related to their revaluation at fair value. Differences from reclassifications of held-to-maturity investments are recognized in the statement of comprehensive income.

5. Property, Machines and Equipment (PME)

Land and buildings (excluding investment property) are stated at fair value. When using fair values, the requirements and rules of IFRS 13 Fair value evaluation are observed. It is proceeded from the transactions for the sale or disposal of the asset, carried out on the principal market or on the most advantageous market, including transport costs and excluding other transaction costs.

The management uses the fair value hierarchy, wherever possible the valuation being on level 1 in accordance with the announced prices at the active markets. If it is not possible to apply level 1, it goes to level 2 to monitor the prices directly or indirectly. The last option is level 3, where unpredictable hypotheses are being developed. The overall fair value evaluation is categorized at the level of the fair value hierarchy, where the underlying hypothesis is relevant to the overall valuation.

The most appropriate approach is used in the fair value evaluation. The approach of market comparisons is based on the current market price, the recent market price or the adjusted market price for a similar object. It is applied to investment properties, debt or equity instruments on the stock exchange /shares and bonds/, off-exchange investments and biological assets. The cost based approach is based on estimates of replacement cost of a new asset, the asset age and status and the economic rate of wear and tear. It is applied to fixed tangible assets and long-term intangible assets. The income-based approach is based on direct methods of calculating cost savings, premium pricing, exemption from royalties, excess profit, or indirect methods of returns on assets, residual profits that reconcile cash flow assumptions and the discount rate. It is applied to impairment of non-financial liabilities, financial instruments and cash-flow generating units.

The management discloses the reportable items whose fair value is in the balance sheet. Disclosure is made, if case of necessity and materiality also of the fair value of reportable items that are not included in the balance sheet. The fair value is determined on the basis of regular estimates by an independent external valuer, less the subsequent depreciation of the buildings. The cumulative depreciation at the revaluation date is set off against the asset's carrying amount and the resulting net amount is adjusted by the revalued amount of the asset. All other machines and equipment are stated at historical cost, less the accumulated depreciation and impairment. The historical value includes costs that are directly attributable to the asset acquisition.

The value materiality threshold for property, machines and equipment adopted by the company is BGN 700.

Subsequent costs are added to the carrying amount of the asset or accounted for as a separate asset only when the Company is expected to receive future economic benefits associated with the use of that asset and when the carrying amount can be reliably determined. All other maintenance and repair costs are recognized in the income statement in the period in which they are incurred.

Increases in the balance amount arising from the revaluation of land and buildings are included in the revaluation reserve. Discounts that offset previous increases for the same asset are at the expense of the revaluation reserve; all other reductions are reported in the statement of comprehensive income. When the revalued assets are derecognised, the accumulated revaluation reserve is transferred to the undistributed profit from previous periods.

Land is not depreciated. Machinery with a significant impact on the production volume is depreciated using the functional method, based on the hours of operation, based on the total number of hours worked on the technical characteristic. Depreciation of other property, machines and equipment is accounted for using the straight-line method aimed to allocate the difference between the balance value and the residual value over the useful life of the assets using the following depreciation rates (in percentages):

Buildings and Facilities	4%
Machines and equipment	30%
Computers and Peripherals	50%
Fixtures and fittings	15%

The residual value and the useful life of the assets are reviewed and, if necessary, adjusted for each date of the financial statements preparation.

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

The profits and losses of the sale of PME are determined by comparing the proceeds from the sale to the balance value and are included in the operating result.

Loan costs for PME are reported as current expenses during the period to which they relate.

6. Investment properties

Investment properties most often represent buildings or parts of buildings which are not used but are owned by the Company to be leased out in the form of operating leases. Investment property is measured at fair value, which is the market price determined by independent valuers annually or over a longer period of time, upon a material change in the fair value. Fair value changes are recognized in the statement of comprehensive income as part of other income. At the end of the current year there are no investment properties available in the company.

7. Intangible assets

Expenses on the acquisition of patents, licenses, software and trademarks are recognized as an asset at historical cost, less accumulated depreciation and impairment. They are depreciated using the straight-line method over their useful lives, but not more than 20 years. Intangible assets are not revalued. The management conducts annual reviews of assets subject to impairment and, when the balance value of an asset is higher than its recoverable value, it is depreciated to its recoverable value.
The value materiality threshold for property, machines and equipment adopted by the company is BGN 700.
For intangible assets, the following depreciation rates in percentages are used:

Intellectual Property Rights	15%
Software	50%
Other intangible assets	15%

Impairment of assets

Assets that are depreciated, as well as investments in subsidiaries and associates are reviewed for impairment when events occur or there is a change in circumstances suggesting that the balance value of the assets is not recoverable. The amount by which the balance value exceeds the recoverable amount is recognized for an impairment loss. The recoverable amount is the higher of the net selling value and the value in use. In order to determine the value in use, the assets are grouped into the smallest possible identifiable cash-flow generating units.

8. Financial assets

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

(a) Financial assets reported at fair value through profit or loss
Financial assets, reported 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 in order to be sold 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 determinable payments that are not quoted in an active market. They are included in current assets, with the exception of those maturing more than 12 months after the balance sheet date, which are classified as non-current. The loans and receivables of the Company are included in the balance sheet in the category of "trade and other receivables" and cash and cash equivalents (Appendix 2.10 and 2.11).

(c) Investments held to maturity
Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management intends to hold to maturity.

(d) Financial assets available for sale
Financial assets available for sale are non-derivative assets that are allocated to that category or are not designated in other categories. They are included in the long-term assets unless the management intends to sell their investments within 12 months

The purchase and sale of investments is accounted for taking into account the trading date, i.e. the date on which the Company commits to the purchase or sale of the asset.
The investments are initially recognized at fair value, plus transaction costs for all financial assets that are not reported at fair value as profit or loss. Financial assets reported at fair value through profit or loss are initially recognized at fair value and transaction costs are reported in the income statement. The investments are derecognized when the rights to receive cash flows from investments have expired or have been transferred and the Company has transferred substantially all the risks and benefits of the ownership.

Financial assets available for sale and financial assets reported at fair value through profit or loss are reported at fair value in subsequent periods. Loans, receivables and investments held to maturity are reported at depreciated cost using the effective interest method.

The profits and losses arising from a change in the fair value of financial assets reported at fair value through profit or loss are included in the statement of comprehensive income in the line "net financial income" for the period in which they have arisen. The revenue from dividends from financial assets reported at fair value through profit or loss is recognized in the income statement as part of "net financial income" when the Company acquires the right to receive a payment.

The changes in the fair value of financial securities denominated in a foreign currency and classified as available for sale are classified as currency differences arising from changes in the depreciated cost of securities and other changes in the balance value of the securities. Foreign currency translation differences are reflected in the profit or loss, while foreign currency translation differences of non-monetary securities are recognized in equity. The changes in the fair value of cash and non-cash securities classified as "available for sale" are recognized in 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 on investment securities.

Dividends on capital instruments available for sale are recognized in the income statement as part of the net financial income when the Company acquires the right to receive payment.

The fair value of quoted investments is determined on the basis of market price data. If the market of financial assets is inactive (also for unlisted securities), the Company establishes the fair value using valuation techniques, including the use of recent market operations with similar instruments, discounted cash flow analysis and option pricing models reflecting the maximum of market conditions and as little information for the company as possible.

At the balance sheet date, the Company assesses whether there is objective evidence that a financial asset or group of financial assets are impaired. When capital securities classified as available for sale are tested for impairment, account shall be taken of the existence of a material or prolonged decline in the fair value below the book value.
If there is evidence of impairment of the financial assets available for sale, the accumulated losses (calculated as the difference between the cost of acquisition and the current fair value less impairment previously recognized in the income statement) are derecognised from the equity and are recognized in the statement of comprehensive income. An impairment loss on equity instruments recognized in the income statement cannot be reversed through the statement of comprehensive income when the impairment is reversed. Testing for impairment of trade receivables is described in Appendix 2.10.

9. Inventories

Inventories are measured at the lower of the acquisition cost and net realizable value. Costs incurred in order to prepare the product for sale in a given state and location are included in the cost (cost of acquisition). These costs include:
a) materials and goods – all delivery charges, including import duties and fees, transport costs, non-recoverable taxes and other costs that contribute to bringing the materials and goods into ready-to-use form;
b) production and work in progress – direct costs of materials and labour and the deductible part of indirect production costs under normal capacity of production facilities. The basis for allocating the constant total cost of production by products is the quantity of output produced.
In the case of derecognition for use and sale, inventories are valued using the standard cost method. The standard cost takes into account the normal levels of materials and supplies, labour, efficiency and capacity utilization. They are reviewed regularly and, if necessary, are recalculated according to the new conditions. Deviations from standard cost to actual cost are derecognized on a current basis for the produce and goods sold, as well as at the end of each reporting period.
The net realizable value is the estimated selling price of an asset in the ordinary course of business, less the estimated cost of realization. It is determined on the basis of information used from external or internal sources, taking into account the specifics of different types of inventories.
When inventories are sold, their balance value is recognized as an expense during the period in which the respective income was recognized. The amount of any impairment of inventories to their net realizable value, as well as any material inventory losses, is recognized as an expense for the period of impairment or the occurrence of losses. The amount of any possible reversal of the value of impairment of inventories arising from the increase in net realizable value is recognized as a reduction in the amount of recognized cost of inventories during the period in which the reversal has occurred.

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. As of 31.12.2017 amounted to 2 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 31.12.2017 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, 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)	(4)
Revaluation	496			496
Depreciation expenses	(433)	(2 381)	(67)	(2 881)
Written off depreciation				
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**
On January 1, 2017				
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**
As of December 31, 2017				
Balance value at the beginning of the period	11 568	13 988	261	25 817
Newly acquired		1 011	2	1 013
Written off at balance value				
Revaluation	539			539
Depreciation expenses	(431)	(1 923)	(72)	(2 426)
Written off depreciation				
Balance value at the end of the period	**11 676**	**13 076**	**191**	**24 943**

On December 31, 2017

Book (revaluated) value	11 676	29 810	586	42 072
Accumulated depreciation	(0)	(16 734)	(395)	(17 129)
Balance value	**11 676**	**13 076**	**191**	**24 943**

The amounts of the expenses for acquisition of fixed tangible assets are not included.
The noted assets are BGN 270 thousand as of 31.12.2015, BGN 71 thousand as of 31.12.2016, BGN 71 thousand as of 31.12.2016, and BGN 1 860 thousand as of 31.12.2017
As of December 31 of the current year, property, plant and equipment included at book value land for BGN 797 thousand and buildings for BGN 10 879 thousand. At the end of the previous year the indicators were respectively BGN 778 thousand and BGN 10 790 thousand.
The company uses in its operations fully depreciated assets of the group Property, plant and equipment with a carrying value as of 31.12.2017 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 220 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, 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**
On January 1, 2017				
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**

As of December 31, 2017				
Balance value at the beginning of the period	**1 738**	**6**		**1 744**
Newly acquired	739	4		743
Written off at balance value	(145)			(145)
Revaluation				
Depreciation expenses	(650)	(6)		(656)
Written off depreciation	**1 682**	**4**		**1 686**
Balance value at the end of the period				
On December 31, 2017	5 203	766		5 969
Book (revaluated) value	(3 521)	(762)		(4 283)
Accumulated depreciation	**1 682**	**4**		**1 686**
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 2 113 thousand as of 31.12.2015, BGN 1 900 thousand as of 31.12.2016 and BGN 1 312 thousand as of 31.12.2017.

The company uses in its operations fully depreciated assets of the group. 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:

	2017 BGN thousand	2016 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	
	2017 BGN thousand	**2016 BGN thousand**
The maturity of long-term receivables is as follows:		
Up to one year	0	0
Between one and three years	5 960	6 025
Over three years		
Total	**5 960**	**6 025**

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

	As of December 31st	
	2017 BGN thousand	**2016 BGN thousand**
Euro		
BGN	5 960	6 025

Total	**5 960**	**6 025**

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	
	2017 BGN thousand	**2016 BGN thousand**
Trade receivables from clients	54 784	49 072
Advances from suppliers	217	332
Loans granted		24
Court awarded receivables	969	938
Tax refunds	-	-
Other receivables	2	1
Deferred expenses	26	30
Total trade and other receivables	**55 998**	**50 397**

During the reporting period receivables amounting to BGN 17 thousand were written off due to the expiry of their period of limitation
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 5 960 thousand, and for which an agreement of payment ti the end of 2019 was concluded.

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

	2017 BGN thousand	**2016 BGN thousand**
BGN	55 815	50 043
Euro and USD	183	354
Total	**55 998**	**50 397**

	As of December 31st	
	2017 BGN thousand	**2016 BGN thousand**
Materials	4 384	4 629
Production	542	138
Goods	229	192
Production in progress	35	123
Total inventories	**5 190**	**5 082**

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 2017 BGN thousand	2016 BGN thousand
Cash on hand in BGN and foreign currencies	2	6
Bank accounts in BGN and foreign currencies	20	28
Blocked cash	2	16
Total	**24**	**50**

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

	2017 BGN thousand	2016 BGN thousand
BGN	23	49
Foreign currency	1	1
Total	**24**	**50**

The cash in BGN is measured at its nominal value and the cash in foreign currency – at the closing exchange rate of BNB on 31.12.2017. 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, 2015.	49 600	49 600
As of December 31st, 2016.	56 600	56 600
As of December 31st, 2017	64 300	64 300

The registered ordinary shares are 64 300 000 (in 2015 they were 49 600 000 and in 2016 they were. 56 600 000) with nominal value of BGN 1 /one/ per share (in 2016: 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 , 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**

Balance on January 1st , 2017	**3 161**	**4 661**	**(12)**	**7 810**
Changes from revaluation	539		(4)	535
Deferred taxes	(59)		1	(58)
Other comprehensive income	**480**		**(3)**	**477**
Distributed profit		885		885
Balance on December 31st, 2017	**3 641**	**5 546**	**(15)**	**9 172**

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 (22.12.2017).
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 10.02.2017. 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 2016 the capital was increased on the account of retained earnings by BGN 7 000 thousand, the reserves (Reserve fund) were increased by BGN 780 thousand. In 2017 the capital was increased on the account of retained earnings by BGN 7 700 thousand and the reserves (Reserve fund) were increased by BGN 885 thousand.

9. Loans

	2017 BGN thousand	2016 BGN thousand
Non-current finance lease liabilities	590	1 015
Current finance lease liabilities	491	869
Short-term loan	9 784	11 349
Total	**10 865**	**13 233**

The terms of the short-term bank loans as of 31.12.2017 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:	20.12.2021
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:	20.12.2021
Collateral:	Mortgages and pledges
Purpose of the credit:	Working capital
Liability at the end of the current year:	BGN 1 956 thousand

Liabilities under finance lease contracts are denominated in euros. The gross amount payable includes principal BGN 1 081 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:

	2017 BGN thousand	2016 BGN thousand
At the beginning of the year	(1 284)	(1 210)
(Income)/expenses in the Statement of comprehensive income	34	(23)
(Income)/expenses in the Statement of equity	(58)	(51)
At the end of the year	**(1 308)**	**(1 284)**

Deferred tax liabilities	**Land and buildings** BGN thousand	**Amortizations** BGN thousand	**Total** BGN thousand
As of January 1st, 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)
As of December 31st, 2016	**(275)**	**(1 025)**	**(1 300)**
Debit/(credit) in equity due to changes in temporary differences	(60)		(60)
Expenses/(income) in the statement of comprehensive income due to changes in temporary differences		28	28
As of December 31st, 2017	**(335)**	**(997)**	**(1 332)**

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

As of December 31st, 2016	**13**	**3**	**16**
(Expenses)/income) in the statement of comprehensive income	10	(2)	8
As of December 31st, 2017	**23**	**1**	**24**

The total amount of deferred tax assets and liabilities is a liability in the amount of BGN 1 308 thousand (2016: liability of BGN 1 284 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	
	2017 BGN thousand	**2016 BGN thousand**
Long-term liabilities for retirement	83	67
Total	83	67

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	
	2017 BGN thousand	**2016 BGN thousand**
Liabilities to suppliers	1 716	2 566
Liabilities to personnel	309	257
Taxes and social security	305	620
Current corporate tax	78	55
Other liabilities	15	10
Unpaid dividents	-	-
Provisions	-	-
Total	**2 423**	**3 508**
Trade and other liabilities are denominated in:		
BGN	1 523	1 666
EUR	900	1 561
USD	-	281
	2 423	**3 508**

The liabilities in BGN are valued at the value of their occurrence, and those in foreign currency at the rate of BNB on 31.12.2017.
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

	2017 BGN thousand	2016 BGN thousand
Sales of produce	27 807	25 708
Sales of goods	5 480	7 280
Sales of services	72	88
Changes in inventories of finished goods and work in progress	-	-
Other income	76	11
Total	**33 435**	**33 087**

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

	2017 BGN thousand	2016 BGN thousand
Balance value of assets sold	(1 719)	(3 379)
Changes in inventories of finished goods and work in progress	432	(107)
Materials	(9 703)	(8 275)
External services	(4 023)	(4 022)
Expenditure on salaries	(2 950)	(2 731)
Social security expenditure	(594)	(520)
Depreciation costs (Appendices 5,6)	(3 084)	(3 532)
Others	(1 692)	(545)
Total	**(23 333)**	**(23 111)**

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 4 782 thousand) and substances (BGN 2 784 thousand).
A major share of the costs for external services falls on the marketing of products – BGN 2 870 thousand.
Depreciation costs are formed mainly of depreciation of machinery and equipment – BGN 1 121 thousand.
Salaries under employment contracts are an essential part of the labour costs – BGN 2 624 thousand.

14. Financial income and expenses

14.1 Financial income

	2017 BGN	2016 BGN

	thousand	**thousand**
Interest income		139
Income from exchange rate differences	88	38
Other financial income		
Total	**88**	**177**

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

	2017 BGN thousand	**2016 BGN thousand**
Interest expenses	(275)	(425)
Expenses for exchange rate differences	(48)	(81)
Other financial expenses	(58)	(83)
Total	**(381)**	**(589)**

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

	2017 BGN thousand	**2016 BGN thousand**
Current expense for income tax	(1 012)	(955)
Deferred taxes	34	(24)
Total	**(978)**	**(979)**

For 2017 the tax rate remained unchanged at 10% (2016 - 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:

	2017 BGN thousand	**2016 BGN thousand**
Profit before taxes	9 809	9 564
Tax calculated at the effective tax rate 10% (2017 : 10%)	(981)	(955)
Correction of unrecognized income and expense	(31)	(1)
Correction of assets and liabilities for deferred taxes	34	(23)
Tax expense in the income statement	**(978)**	**(979)**

	2017	**2016**
	BGN	**BGN**

	thousand	thousand
Other comprehensive income from revaluation of fixed assets	539	496
Other comprehensive income from deferred tax on revaluation of fixed assets	(60)	(50)
Other comprehensive income from the revaluation of pension funds with defined benefits	(3)	(9)
Other comprehensive income from deferred tax on revaluation of pension funds with defined benefits	1	1
Total amount of other comprehensive income	**477**	**438**

As a result of the revaluation of land and buildings other comprehensive income of BGN 539 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 - 60 thousand and it effects the deferred income tax.
As a result of the revaluation of pension funds with defined benefit comprehensive income of BGN - 3 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.

	2017 BGN thousand	2016 BGN thousand
Profit attributable to shareholders (in BGN thousand)	8 831	8 585
Weighted average number of shares in circulation (in BGN thousand)	60 450	52 755
Basic profit per share (in BGN per share)	0.15	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 2018. 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, 2018.

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.
At the General Meeting of Shareholders held in June 2017 a decision was taken BGN 7 700 thousand from the profit for 2016 to be used for capital increase, BGN 885 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.

Taxation

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. Transactions with related parties

As of 31.12.2017 and as of 31.12.2016 the Company has no control related parties.

20. Remuneration of key management personnel and audit costs

Accrued are short-term incomes of the Management for 2017 in avvordance with the contracts concluded. Accrued in accordance with the contract are the audit costs for 2017.

21. 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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