

**SOPHARMA GROUP****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
for the three-month period ending on 31 March 2019**

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**1. BACKGROUND INFORMATION ON THE GROUP**

Sopharma Group (the Group) is comprised of the parent company and its fifty-three (31 December 2018: fifty-two) subsidiaries. In addition, the Group has investments in one associate (31 December 2018: in one associate).

***Parent company***

Sopharma AD (the parent company) is a business entity registered in Bulgaria with a seat and registered management address: Sofia, 16, Iliensko Shousse St.

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

***Subsidiaries***

The Group subsidiaries as at 31 March 2019 are as follows:

- Sopharma Trading AD – a business entity registered in Bulgaria by Decision No. 3594/16.10.1998 of Varna District Court, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Pharmalogistica AD – a business entity registered in Bulgaria by Decision of Sofia City Court dated 12 August 2002, with a seat and management address: Sofia, 16, Rozhen Blvd.;
- Electroncommerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 24456 of 1991, with a seat and management address: Sofia, 1, Samokovsko Shousse St.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and management address: Sliven, 75, Trakiya Blvd.;
- Momina Krepost AD – a business entity registered in Bulgaria by Decision No. 3426/1991 of Veliko Tarnovo District Court, with a seat and management address: Veliko Tarnovo, 23, Magistralna St.;
- Sopharma Buildings REIT – a business entity registered in Bulgaria by Decision No. 1/14.08.2007 of Sofia City Court, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 20;
- Phyto Palauzovo AD – a business entity registered in Bulgaria by Decision No. 20120924105551/24.09.2012 of the Registry Agency, with a seat and management address: Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;
- Sopharmacy EOOD – a business entity registered in Bulgaria by Decision No. 201501191300026/19.01.2015 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 2 EOOD – a business entity registered in Bulgaria by Decision No. 20150617110324/17.06.2015 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;

- Sopharmacy 3 EOOD – a business entity registered in Bulgaria by Decision No. 20151202165822/02.12.2015 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 4 EOOD – a business entity registered in Bulgaria by Decision No. 20160229093338/29.02.2016 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 5 EOOD – a business entity registered in Bulgaria by Decision No. 20160301155620/01.03.2016 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 6 EOOD – a business entity registered in Bulgaria by Decision No. 20140127170842/27.01.2014 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 7 EOOD – a business entity registered in Bulgaria by Decision No. 20180315161212/15.03.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 8 EOOD – a business entity registered in Bulgaria by Decision No. 20180627142803/27.06.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12’;
- Sopharmacy 9 EOOD – a business entity registered in Bulgaria by Decision No. 20180911100706/11.09.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 10 EOOD – a business entity registered in Bulgaria by Decision No. 20180911101412/11.09.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 11 EOOD (until 15 May 2018, the company was called Pharmastore 1 EOOD) – a business entity registered in Bulgaria by Decision No. 20180302125338 /02.03.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 12 EOOD (until 15 May 2018, the company was called Pharmastore 2 EOOD) – a business entity registered in Bulgaria by Decision No. 20180306085236/ 06.03.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 13 EOOD (until 15 May 2018, the company was called Pharmastore 3 EOOD) – a business entity registered in Bulgaria by Decision No. 20180306080850/ 06.03.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 14 EOOD (until 15 May 2018, the company was called Pharmastore 4 EOOD) – a business entity registered in Bulgaria by Decision No. 20180306081205/ 06.03.2018 of the

Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;

- Sopharmacy 15 EOOD (until 15 May 2018, the company was called Pharmastore 5 EOOD) – a business entity registered in Bulgaria by Decision No 20180302134305/ 02.03.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 16 EOOD – a business entity registered in Bulgaria by Decision No 20180515105543/15.05.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 17 EOOD – a business entity registered in Bulgaria by Decision No 20180515105543/15.05.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 18 EOOD – a business entity registered in Bulgaria by Decision No 20190228133836/28.02.2019 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Veta Pharma AD – a business entity registered in Bulgaria under Company File No. 581/05.04.1999 of Veliko Tarnovo District Court, with a seat and management address: Veliko Tarnovo, 32, Dulga Luka St.;
- Aromania AD – a business entity registered in Bulgaria by Decision No 4276/27.06.2005 of the Varna District Court, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 8;
- Sopharma Poland Z.O.O., Poland, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554/04.11.2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and management address: Poland, Warsaw, 58, Shashkova St.;
- Sopharma Warsaw SP. Z.O.O., Poland – a business entity registered in Poland by Decision No. DSR 0000372245 of 17 December 2010 by XII Economic Division of the State Court Register of Warsaw, with a seat and management address: Poland, Warsaw, 8, Halubinskiego St.;
- OOO Sopharma Ukraine, Ukraine – a business entity registered in Ukraine by Decision No. 10691020000029051/07.08.2012 in the Unified State Register of Legal Entities and Physical Entities-Entrepreneurs, with a seat and management address: Ukraine, Kiev, Oblonski Region, prospect Moskovskii No. 9, unit 4, floor 2, office 4-203;
- PAO Vitamini, Ukraine – a business entity registered in Ukraine by Decision No. 133/15.04.1994 of Uman City Court, with a seat and management address: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri St.;
- Sopharma Trading Pharmaceuticals, Serbia (Until 14.03.2019 the name of the company is Sopharma Trading d.o.o. Belgrade) – a business entity registered in Serbia by BD 49136/2015 on 5 June 2015 of the Business Registers Agency in Belgrade with a seat and management address: Republic of Serbia, Belgrade, 13, Palmoticheva St.;

- Sopharma Trading, Serbia (Until 27.03.2019 the name of the company is Lekovit d.o.o.) – a business entity registered in Serbia by Decision No 07829531/ 05.02.1992 of the Business Registers Agency – Serbia, Belgrade, Zorana Djindjica 48v St.;
- UAB TBS Pharma, Lithuania – a business entity registered in the Lithuanian Register of Legal Entities on 01.03.2013/ 303011389, with seat and management address – Lithuania, Vilnius, 8, Vitauto St./7, Liubarto St., postcode: 08118;
- TOO Sopharma Kazakhstan, Kazakhstan – a business entity registered in Kazakhstan by Decision No 5286-1910-04-TOO/06.11.2014 of the Ministry of Justice, Auezov District, with seat and management address: Kazakshatn, Almaty, Auezov District, Mamir-4, home 190;
- Rap Pharma International OOD, Moldova – a business entity registered in Moldova with decision No 1004601000376/ 11.02.2004 of the Moldova State Chamber of Registration, with seat at: Moldova, Kishinev, 58 Mitropolit Varlaam St., and management address: Moldova, Kishinev, 9/1 Uzinelor St.;
- SIA Briz, Latvia – a business entity registered in Latvia by Decision No. 000302737 / 18.09.1991 of the Commercial Registry of the Republic of Latvia, with a seat and management address: Latvia, Riga, Rasas No. 5, LV – 1057;
- SOOO Brititrade, Belarus – a business entity registered in Belarus by Decision No. 1983 / 24.09.2004 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 118, M. Bogdanovicha St., office 303 – B;
- OOO Tabina, Belarus – a business entity registered in Belarus by Decision No. 1432 / 29.12.1999 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 57, Kuybisheva St., ap.1;
- SOOO Brizpharm, Belarus – a business entity registered in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 800007989 / 07.07.2009, with a seat and management address: Belarus, Minsk, Esenina St., d. 16, ap. 1H;
- OOO Farmacevt Plus, Belarus – a business entity registered by the Minsk City Executive Committee on 24.11.2000 / No 1348 in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 190174236, with a seat and management address: Belarus, Minsk, 1 Tverdiy Pereulok, d. 7;
- OOO Galenapharm, Belarus – a business entity registered in Belarus by Decision dated 12.06.2013 of Brest Regional Executive Committee, with a seat and management address: Belarus, Brest Region, Pinsk, ul. Bretskaya 118-97;
- ODO Medjel, Belarus – a business entity registered in Belarus by Decision No. 1044 / 14.09.2000 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 60, Soltisa St.;
- ODO Alenpharm-plus, Belarus – a business entity registered in Belarus by Decision dated 25.09.2008 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 29, Logotskiy Tract;

- ODO Farmatea, Belarus – a business entity registered in Belarus by Decision dated 17.10.2012 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 20, Bakinskaya St.;
- ODO SalusLine, Belarus – a business entity registered in Belarus by Decision No. 287 / 05.05.2006 of Grodno City Executive Committee, with a seat and management address: Belarus, Grodno, 6, Vilenskaya St.
- ZAO Interpharm, Belarus – a business entity registered in the Unified State Register of Legal Entities and Individual Entrepreneurs under No 300000556, with seat and management address: Belarus, Vitebsk, Stroiteley Square, block 3, ap. 2;
- OOO Zdorovey, Belarus – a business entity registered in Belarus by Decision dated 04.06.2014 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 20, Bakinskaya St.;
- OOO Ivem & K, Belarus – a business entity registered in Belarus by Decision dated 27.07.2001 of Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 20, Bakinskaya St.;
- OOO Ariens, Belarus – a business entity registered in Belarus by Decision 605 dated 30.12.1996 of the Vitebsk City Executive Committee, with a seat and management address: Belarus, Polotsk, Shkolnaya Street.
- OOO Zabotlivaya Apteka, Belarus – a business entity registered in the Minsk City Executive Committee in the single state register of legal entities and individual entrepreneurs under No 193060383/ 03.04.2018, with a seat and management address: Belarus, Minsk, 1<sup>st</sup> Tverdiy Pereulok St, d. 7;
- BOOO SpetsAfarmacia, Belarus – a business entity registered in Belarus by Decision No. 22-8 / 30.10.2000 of Mogilevsk District Executive Committee, with a seat and management address: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx St., office 2;
- OOO Bellerofon, Belarus - a business entity registered in Belarus by Decision No. 1193 / 17.07.2003 issued by Minsk District Executive Committee, with a seat and management address: Belarus, Minsk, 5-45 Storojevsкая Str.;

On 02.01.2019, a merger of BOOO SpetzApharmacia, Belarus with OOO Meddent, Belarus, was registered by merging the assets and liabilities of the two companies. The business of BOOO Spetzapharmacia, Belarus, is terminated and all its rights and obligations at the time of the merger are taken over by OOO Meddent, Belarus.

On March 7, 2019, through its subsidiary SOOO Brititrade, Belarus, the Group acquired 25% of the capital of OOO Bellerofon, Belarus, as a result of which the parent acquires control and the company is classified as a subsidiary.

On 13 September 2018, the acquisition of Unipharm AD (transforming company), a subsidiary of Sopharma AD until 2018, was registered with the Trade Register at the Registry Agency, under Art. 262 and the subsequent of the CA. The transforming company was terminated without liquidation and its entire

## SOPHARMA GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS for the three-month period ending on 31 March 2019

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property was transferred to Sopharma AD (acquiring company). For accounting purposes, the date of acquisition is accepted to be 1 January 2018.

#### *Joint ventures*

As at 31 March 2019, the Group has no investments in joint ventures.

The Group's joint venture as at 31 December 2018, is as follows:

- OOO Bellerofon, Belarus – a business entity registered in Belarus with Decision No 1193/17.07.2003, issued by the Minsk City Executive Committee, with a seat and management address: Belarus, Minsk, 5-45, Storozhevskaya St.

#### *Associates*

The Group's associate as at 31 March 2019 is as follows:

- Doverie Obedinen Holding AD – a business entity registered in Bulgaria by Sofia City Court under Company File No. 13056 of 1996, with a seat and management address: 1594 Sofia, 82, Knyaz Dondukov Blvd.

#### *1.1. Ownership and management of the parent company*

Sopharma AD is a public company under the Bulgarian Public Offering of Securities Act. Starting from November 2011, the shares of the company are traded in the Warsaw Stock Exchange.

The shareholding structure of the parent company as at 31 March 2019 is as follows:

	%
Donev Investments Holding AD	25.40
Telecomplect Invest AD	20.45
Sopharma AD (treasury shares)	6.59
Rompharm Company OOD	6.03
CUPF Alianz Bulgaria	5.09
Other legal persons	28.88
Natural persons	7.56
	<b>100.00</b>

Sopharma AD has a one-tier management system with a five-member Board of Directors. Company's management in the form of Board of Directors is composed as at 31 March 2019 as follows:

Ognian Donev, PhD	Chairman
Vessela Stoeva	Member
Ognian Palaveev	Member

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Alexander Chaushev

Member

Ivan Badinski

Member

The parent company is represented and managed by its Executive Director Ognian Donev, PhD. The Audit Committee supports the work of the Board of Directors and plays the role of those charged with governance that exercise monitoring and control over the internal control system, risk management and Company's system of financial reporting.

The composition of the Audit Committee is as follows:

Vasil Naidenov

Chairman

Tsvetanka Zlateva

Member

Kristina Atanasova – Elliot

Member

**1.2. Structure of the Group and principal activities**

The structure of the Group includes Sopharma AD as a parent company and the subsidiaries stated below:

<b><i>Subsidiaries</i></b>	<b>31.03.2019</b>	<b>31.12.2018</b>	<b><i>Date of</i></b>	<b><i>Date of</i></b>
<b><i>Companies in Bulgaria</i></b>	<b><i>Interest</i></b>	<b><i>Interest</i></b>	<b><i>acquisition</i></b>	<b><i>disposal</i></b>
	<b>%</b>	<b>%</b>	<b><i>of control</i></b>	<b><i>of control</i></b>
Sopharma Trading AD*	72.96	72.96	08.06.2006	
Pharmalogistica AD	89.39	89.39	15.08.2002	
Electroncommerce EOOD	100.00	100.00	09.08.2005	
Biopharm Engineering AD	97.15	97.15	10.03.2006	
Sopharma Buildings REIT	40.38	40.38	04.08.2008	
Momina Krepost AD	71.11	93.56	01.01.2008	
Phyto Palauzovo AD	95.00	95.00	21.09.2012	
Veta Pharma AD	99.98	99.98	11.11.2016	
Aromania AD	76.00	76.00	31.07.2017	
Sopharmacy EOOD**	72.96	72.96	19.01.2015	
Sopharmacy 2 EOOD**	72.96	72.96	05.06.2015	
Sopharmacy 3 EOOD**	72.96	72.96	02.12.2015	
Sopharmacy 4 EOOD**	72.96	72.96	29.02.2016	
Sopharmacy 5 EOOD**	72.96	72.96	01.03.2016	
Sopharmacy 6 EOOD**	72.96	72.96	03.12.2015	
Sopharmacy 7 EOOD**	72.96	72.96	15.03.2017	
Sopharmacy 8 EOOD**	72.96	72.96	27.06.2017	
Sopharmacy 9 EOOD**	72.96	72.96	11.09.2017	
Sopharmacy 10 EOOD**	72.96	72.96	11.09.2017	
Sopharmacy 11 EOOD	72.96	72.96	07.12.2017	
Sopharmacy 12 EOOD	72.96	72.96	07.12.2017	
Sopharmacy 13 EOOD	72.96	72.96	07.12.2017	
Sopharmacy 14 EOOD	72.96	72.96	07.12.2017	
Sopharmacy 15 EOOD	72.96	72.96	07.12.2017	
Sopharmacy 16 EOOD**	72.96	72.96	15.05.2018	
Sopharmacy 17 EOOD**	72.96	72.96	15.05.2018	
Sopharmacy 18 EOOD**	72.96	0.00	28.02.2019	



**SOPHARMA GROUP**
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
for the three-month period ending on 31 March 2019**

\* *effective percentage of interest*

\*\* *indirect interest*

<i>Subsidiaries</i>	<b>31.03.2019</b>	<b>31.12.2018</b>	<i>Date of</i>	<i>Date of</i>
<i>Companies abroad</i>	<i>Interest</i>	<i>Interest</i>	<i>acquisition</i>	<i>disposal</i>
	<b>%</b>	<b>%</b>	<i>of control</i>	<i>of control</i>
SIA Briz	68.14	66.13	10.11.2009	
SOOO Brititrade **	54.51	52.90	10.11.2009	
PAO Vitamini	99.56	99.56	18.01.2008	
Sopharma Warsaw SP. Z.O.O.	100.00	100.00	23.11.2010	
Sopharma Trading Pharmaceuticals**(Sopharma Trading d.o.o. Belgrade**)	72.96	72.96	05.06.2015	
Sopharma Poland Z.O.O. – in liquidation	60.00	60.00	16.10.2003	
OOO Tabina **	54.66	53.05	08.04.2011	
SOOO Brizpharm **	36.94	35.85	20.12.2012	
OOO Sopharma Ukraine	100.00	100.00	07.08.2012	
OOO Farmacevt Plus **	41.96	40.72	31.05.2013	
UAB TBS Pharma**	34.75	33.73	01.03.2013	
TOO Sopharma Kazakhstan	100.00	100.00	06.11.2014	
OOO Galenapharm**	61.73	59.91	28.02.2015	
ODO Medjel**	55.87	54.23	28.02.2015	
ODO Alenpharm-plus**	62.68	55.54	30.06.2015	
OOO Farmatea**	36.89	35.80	30.11.2015	
ODO SalusLine**	52.47	50.92	18.11.2016	
Rap Pharma International OOD	51.00	51.00	14.04.2017	
ZAO Interpharm **	61.33	59.52	26.04.2017	
Sopharma Trading d.o.o. (Lekovit d.o.o.**)	72.96	51.07	09.08.2017	
OOO Zdorovei**	40.12	38.94	16.08.2017	
OOO Ivem&K**	30.55	29.65	16.08.2017	
OOO Ariens**	41.04	39.83	16.08.2017	
OOO Zabolivaya Apteka **	41.04	34.74	03.04.2018	
OOO Med-Dent **	0.00	46.29	16.08.2018	02.01.2019
BOOO SpetsAfarmacia **	47.70	46.29	16.08.2018	
OOO Bellerofon**	47.70	0.00	07.03.2019	

\* *effective percentage of interest*

\*\* *indirect interest*

- Sopharma Buildings REIT is a subsidiary by virtue of a written agreement for control concluded between Sopharma AD and other shareholders;
- Sopharmacy EOOD is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy EOOD;
- Sopharmacy 2 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 2 EOOD;
- Sopharmacy 3 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 3 EOOD;

- Sopharmacy 4 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 4 EOOD;
- Sopharmacy 5 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 5 EOOD;
- Sopharmacy 6 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharmacy 7 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharmacy 8 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharmacy 9 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharmacy 10 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharmacy 11 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 11 EOOD;
- Sopharmacy 12 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 12 EOOD;
- Sopharmacy 13 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 13 EOOD;
- Sopharmacy 14 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 14 EOOD;
- Sopharmacy 15 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 15 EOOD;
- Sopharmacy 16 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 16 EOOD;
- Sopharmacy 17 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 17 EOOD;
- Sopharmacy 18 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 18 EOOD;
- Sopharma Trading Pharmaceuticals is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharma Trading Pharmaceuticals;
- Sopharma Trading d.o.o. is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharma Trading d.o.o.;
- SOOO Brititrade, Belarus, is a subsidiary of SIA Briz, Latvia, whereas the latter holds 80% of the capital of SOOO Brititrade;

- OOO Tabina, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 1.10% of the capital, and SOOO Brititrade – 98.9% of the capital of OOO Tabina;
- SOOO Brizpharm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Pharcacevt Plus, Belarus, whereas SIA Briz holds 1.27% of the capital, and SOOO Pharcacevt Plus – 85.98% of the capital of SOOO Brizpharm;
- OOO Farmacevt Plus, Belarus, is a subsidiary through SIA Briz, Latvia, whereas the latter holds 61.58% of the capital of OOO Farmacevt Plus;
- UAB TBS Pharma, Lithuania, is a subsidiary through SIA Briz, Latvia, whereas the latter holds 51% of the capital of UAB TBS Pharma;
- OOO Galenapharm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 47% and SOOO Brititrade holds 37% of the capital of OOO Galenapharm;
- ODO Medjel, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 50% and SOOO Brititrade holds 30% of the capital of ODO Medjel;
- ODO Alenpharm-plus, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 59.90% and SOOO Brititrade holds 40.10% of the capital of ODO Alenpharm-plus;
- OOO Farmatea, Belarus, is a subsidiary through SIA Briz, Latvia, its subsidiary OOO Farmacevt Plus, Belarus, and the subsidiary OOO Ivem&K, Belarus, whereas SIA Briz holds 2%, OOO Farmacevt Plus holds 49%, and OOO Ivem&K holds 49% of the capital of OOO Farmatea;
- ODO SalusLine, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 25%, and SOOO Brititrade holds 65% of the capital of ODO SalusLine;
- ZAO Interpharm, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus, whereas SIA Briz holds 50%, and SOOO Brititrade – 50% of the capital of ZAO Interpharm;
- OOO Zdorovei, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary OOO Pharmacevt Plus, Belarus, whereas SIA Briz holds 9%, and OOO Pharmacevt Plus holds 81% of the capital of OOO Zdorovei;
- OOO Ivem&K, Belarus, is a subsidiary through OOO Pharmacevt Plus, Belarus, and OOO Zdorovei, Belarus – OOO Pharmacevt Plus hold 25%, and OOO Zdorovei holds 50% of the capital of OOO Ivem&K;
- OOO Ariens, Belarus, is a subsidiary through OOO Pharmacevt Plus, Belarus, and OOO Zdorovei, Belarus, whereas OOO Pharmacevt Plus and OOO Zdorovei hold 50% each of the capital of OOO Ariens;
- OOO Zabotlivaya Apteka, Belarus, is a subsidiary through OOO Ivem and K, Belarus, and OOO Ariens, Belarus, each holding 50% of the capital of OOO Zabotlivaya Apteka;

- BOOO SpetsAfarmatsia, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus – SIA Briz holds 50%, and SOOO Brititrade – 25% of the capital of BOOO SpetsAfarmatsia.
- OOO Bellerofon, Belarus, is a subsidiary through SIA Briz, Latvia, and its subsidiary SOOO Brititrade, Belarus – SIA Briz holds 50%, and SOOO Brititrade – 25% of the capital of OOO Bellerofon.

The principal business activities of the Group companies are focused on the pharmaceutical sector except for separate companies having principal business activities also in the field of investment in real estate and securities.

The parent company holds a permit for production/import of pharmaceuticals No P-I-10-14/B-I-21-002 / 28.10.2015, issued by the Bulgarian Drug Agency (BDA).

The principal business activities of the companies within the Group are as follows:

- Sopharma AD – production and trade in medicinal substances (active ingredients) and finished drug forms; research and development activities in the field of medicinal products;
- Sopharma Trading AD – trade in pharmaceutical products;
- Biopharm Engineering AD – production and trade in infusion solutions;
- Pharmalogistica AD – secondary packaging of pharmaceutical products and real estate leases;
- Electroncommerce EOOD – trade, transportation and packaging of radioactive materials and nuclear equipment for medicinal use, household electronics and electrical equipment;
- Sopharma Buildings REIT – investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale;
- Momina Krepost AD – development, implementation and production of medical goods for human and veterinary medicine;
- Phyto Palauzovo AD – production, collection, purchase, growing and trade in herbs and medicinal plants;
- Veta Pharma AD – production of medicinal, non-medicinal and other products;
- Sopharmacy EOOD – franchising, know-how, renting of property, trade and other;
- Sopharmacy 2 EOOD – retail trade in medicinal products;
- Sopharmacy 3 EOOD – retail trade in medicinal products;
- Sopharmacy 4 EOOD – retail trade in medicinal products;
- Sopharmacy 5 EOOD – retail trade in medicinal products;
- Sopharmacy 6 EOOD – online and off-line retail trade in medicinal products;
- Sopharmacy 7 EOOD – retail trade in medicinal products;
- Sopharmacy 8 EOOD – retail trade in medicinal products;

- Sopharmacy 9 EOOD – retail trade in medicinal products;
- Sopharmacy 10 EOOD – retail trade in medicinal products;
- Sopharmacy 11 EOOD – retail trade in medicinal products;
- Sopharmacy 12 EOOD – retail trade in medicinal products;
- Sopharmacy 13 EOOD – retail trade in medicinal products;
- Sopharmacy 14 EOOD – retail trade in medicinal products;
- Sopharmacy 15 EOOD – retail trade in medicinal products;
- Sopharmacy 16 EOOD – retail trade in medicinal products;
- Sopharmacy 17 EOOD – retail trade in medicinal products;
- Sopharmacy 18 EOOD – retail trade in medicinal products
- Aromania AD – development and marketing of food supplements;
- PAO Vitamini, Ukraine – production and trade in pharmaceuticals;
- OOO Sopharma Ukraine, Ukraine – trade in pharmaceuticals and market and public opinion research;
- Sopharma Trading Pharmaceuticals, Serbia – consulting activities;
- Sopharma Trading d.o.o. – wholesale trade in medicinal products;
- Sopharma Poland Z.O.O., Poland, in liquidation – market and public opinion research;
- Sopharma Warsaw SP. Z.O.O., Poland – wholesale trade in pharmaceutical and medicinal products and market and public opinion research;
- SIA Briz, Latvia – trade in pharmaceuticals;
- UAB TBS Pharma, Lithuania – trade in pharmaceuticals, production of finished drug forms and pharmaceutical products, research and development activities in the field of biotechnology;
- TOO Sopharma Kazakhstan, Kazakhstan – trade in pharmaceuticals;
- Rap Pharma International OOD, Moldova – trade in pharmaceuticals;
- SOOO Brititrade, Belarus – trade in pharmaceuticals;
- OOO Tabina, Belarus – trade in pharmaceuticals;
- SOOO Brizpharm, Belarus – trade in pharmaceuticals;
- OOO Farmacevt Plus, Belarus – trade in pharmaceuticals;
- OOO Galenapharm, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO Medjel, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- ODO Alenpharm-plus, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Farmatea, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;

- ODO SalusLine, Belarus – retail trade in pharmaceuticals and medical equipment.
- ZAO Interpharm, Belarus – trade in pharmaceuticals and food supplements;
- OOO Zdorovei, Belarus – trade in pharmaceuticals;
- OOO Ivem&K, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Ariens, Belarus – retail trade in medicinal products, medical equipment and pharmaceuticals;
- OOO Zabotlivaya Apteka – consulting activities related to organisational and management services;
- BOOO SpetsAfarmatsia - trade in pharmaceuticals and food supplements;
- OOO Bellerofon - retail trade in medicinal products, medical equipment and pharmaceuticals;

The parent company and the subsidiaries Sopharma Trading AD, Pharmalogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Sopharma Buildings REIT, Momina Krepost AD, Phyto Palauzovo AD, Sopharmacy EOOD, Sopharmacy 2 EOOD, Sopharmacy 3 EOOD, Sopharmacy 4 EOOD, Sopharmacy 5 EOOD, Sopharmacy 6 EOOD, Sopharmacy 7 EOOD, Sopharmacy 8 EOOD, Sopharmacy 9 EOOD, Sopharmacy 10 EOOD, Sopharmacy 11 EOOD, Sopharmacy 12 EOOD, Sopharmacy 13 EOOD, Sopharmacy 14 EOOD, Sopharmacy 15 EOOD, Sopharmacy 16 EOOD, Sopharmacy 17 EOOD, Sopharmacy 18 EOOD and Aromania AD perform their activities in Bulgaria.

Sopharma Poland Z.O.O. (in liquidation) and Sopharma Warsaw SP. Z.O.O. operate in Poland; PAO Vitamini, OOO Sopharma Ukraine – in Ukraine; Sopharma Trading Pharmaceuticals and Sopharma Trading d.o.o. – in Serbia; SIA Briz – in Latvia; SOOO Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, ODO SalusLine, ZAO Interpharm, OOO Zdorovei, OOO Ivem&K, OOO Ariens, OOO Zabotlivaya Apteka, BOOO SpetsAfarmatsia and OOO Bellerofon – in Belarus; UAB TBS Pharma – in Lithuania, TOO Sopharma Kazakhstan – in Kazakhstan, and Rap Pharma International OOD – in Moldova.

As at 31 March 2019, the interest of the Group in *associates* is as follows:

- Doverie Obedinen Holding AD – 33.31% interest of Sopharma AD. The principal activities of the company include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies – legal entities.

As of the date of these interim condensed consolidated financial statements, the average number of Group's personnel was 5,308 workers and employees (2018: 5,075 workers and employees).

### ***1.3. Main indicators of the economic environment***

Exchange rates are one of the key indicators that affected the activities of the Group companies throughout the period 2017 – 2019. The exchange rates are presented in the table below:

Indicator	2017	2018	2019
USD/BGN average for the year/period	1.71916	1.65770	1.72226
USD/BGN at end of the year/period	1.63081	1.70815	1.74084
PLN/BGN average for the year/period	0.45956	0.45907	0.45464
PLN/BGN at end of the year/period	0.46824	0.45470	0.45478
RSD/BGN average for the year/period	0.01612	0.01654	0.01654
RSD/BGN at end of the year/period	0.01651	0.01655	0.01658
UAH/BGN average for the year/period	0.06528	0.06094	0.06307
UAH/BGN at end of the year/period	0.05839	0.06167	0.06398
EUR/BGN average for the year/period	1.95583	1.95583	1.95583
EUR/BGN at end of the year/period	1.95583	1.95583	1.95583
BYN/BGN average for the year/period	0.89931	0.81357	0.80218
BYN/BGN at end of the year/period	0.83112	0.79145	0.81960
KZT/BGN average for the year/period	0.00533	0.00481	0.00455
KZT/BGN at end of the year/period	0.00491	0.00445	0.00459
MDL/BGN average for the year/period	0.09393	0.09862	0.10038
MDL/BGN at the end of the year/period	0.09583	0.10019	0.10065

Source: BNB, National Banks of Ukraine, Poland, Serbia, Belarus, Kazakhstan and Moldova.

## 2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

### 2.1. Basis for preparation of the consolidated financial statements

The present interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

In the preparation of this consolidated condensed interim financial report, the same accounting policy, accounting techniques and calculation methods and basic assumptions apply as in the last consolidated annual financial report for 2018.

The consolidated condensed interim financial statement for the three-month period, ended on 31 March 2019 should be read in conjunction with the consolidated annual financial statements for the year ended 31 December 2018 prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise of: Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

For the current financial year the Group has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the

International Financial Reporting Interpretations Committee (IFRIC), which have been relevant to its activities.

The adoption of these standards and/or interpretations, applicable to entities in Bulgaria for annual reporting periods beginning on 1 January 2019 at the earliest, has not caused changes in Group's accounting policies, besides some new ones and the extension of already established disclosures, without leading to any other changes - in the classification or evaluation of individual reporting objects and operations. Exceptions are the effects of the application of IFRS 16 Leases, which have led to changes in the principles, rules and criteria on the accounting, as well as the presentation and the disclosure of financial information of the following reporting facilities: property, plant and equipment, lease liabilities, other current liabilities, depreciation and finance costs.

New and / or revised standards and interpretations include:

- IFRS 16 “Leases” (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC). *This standard has an entirely new concept. It establishes new principles for the recognition, measurement and presentation of a lease by introducing a new model with the objective to ensure a more faithful and adequate representation of such transactions primarily for the lessee. The standard supersedes the effective so far standard related to leases – IAS 17. (a) The main principle of the new standard for lessees is the introduction of a single lessee accounting model in the statement of financial position – an asset will be recognised for all contracts with duration of more than 12 months in the form of a 'right-of-use', which will be subsequently depreciated over the duration of the contract, and respectively, a financial liability will be stated for the lease liability under these contracts. This is the significant change in the current accounting practice. The standard allows an exception and retaining the current practice for leases of low-value assets and short-term leases. (b) There would not be any significant changes for lessors and they would continue to account for leases as per the old standard IAS 17 – as operating and finance lease. The new standard requires more extensive disclosures. The management has done research and has concluded that the changes made through the new standard have an impact on the accounting policies, and on the value and classification of Group's assets, liabilities, transactions and performance, with regard to: some of its operating lease agreements in which the Group acts as lessee. The management has chosen modified retrospective application of IFRS 16 on its initial application and will not restate comparative information.*
- IFRIC 23 (amended) “Uncertainty over Income Tax Treatments” (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC). *This Interpretation provides guidance on the accounting treatment and accounting for income tax when tax treatments involve uncertainty that affects the application of IAS 12. It does not apply to taxes or other state levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation addresses the following matters: (a) whether an entity considers uncertain tax treatments; (b) the assumptions an entity makes about the examination and assessment of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; (d) how an*



*entity considers and treats changes in facts and circumstances; and (e) the entity's approach whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments.*

- IFRS 9 (amended) “Financial Instruments” – regarding prepayment features with negative compensation in case of early repayment and modifications of financial liabilities (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC). *This change covers two aspects: (a) it amends the existing requirements in IFRS 9 by enabling entities to measure at amortised cost some financial assets and their passing of the “contractual cash flow characteristics” test, despite the availability of “prepayment features with negative compensation”. Negative compensation exists when the terms of the contract allow the debtor to make an early repayment of the instrument prior to its maturity, and the amount repaid may differ from the outstanding principal and interest, but this negative compensation should be reasonable and relevant to the early termination of the contract. Prepayment itself is not a sufficient assessment indicator, i.e. depending on the interest rate prevailing at the time of termination a payment may also be made in favour of the contracting party initiating the early repayment. The calculation approach of this compensation payment must be the same for both type of payments - the case of an early repayment penalty and the case of an early repayment gain. Moreover, the respective asset should belong to the category of assets “held to collect contractual cash flows” according to the entity's business model; (b) it confirms that when a financial liability measured at amortised cost is modified but not derecognised, the effect of the modification should be recognised in the profit or loss. The effect is measured as the difference between the original negotiated cash flows and the ones, following the modification, discounted at the original effective interest rate.*
- Annual improvements to IFRSs 2015-2017 Cycle (December 2017) – improvements to IAS 23, IAS 12 and IFRS 3 in relation to IFRS 11 (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC). *These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application of the rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items and transactions: (a) they clarify that when an entity acquires control over a business which constitutes a joint venture, it should restate its previous holding in the business under IFRS 3. It is further clarified that when an entity acquires a joint control over a business which constitutes a joint venture, it should not restate its previous holding in the business under IFRS 11; (b) they clarify that all tax consequences on dividend income (i.e. upon profit distribution) should be stated within profit or loss irrespective of how they occurred – upon the application of IFRS 12; and (c) they clarify if under special-purpose loans concluded to finance a specific asset remain outstanding after the asset is ready for its intended use or disposal, these loans become part of general-purpose financing, and capitalisation rate is calculated under IAS 23.*
- IAS 19 (amended) “Employee Benefits” (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC). *This amendment clarifies that in case of changes to*

*defined benefit plan amendments, curtailments and settlements, upon determining the current service cost and interest costs for the period following the restatement, the entity is obliged to use the assumptions made therein. Additionally, changes are envisaged to the disclosure of impact for changes to defined benefit plan amendments, curtailments and settlements in relation to the plan asset ceiling.*

- IAS 28 (amended) “Investments in Associates and Joint Ventures” – regarding long term interests in associates and joint ventures (in force for annual periods beginning on 1 January 2019 – endorsed by EC). *The amendment clarifies that an entity should apply IFRS 9 including its impairment requirements regarding interests in associate or joint venture that form the net investment in these associate or joint venture but to which the equity method is not applied. A change in the intents or plans of the management are not regarded as evidence for a change in use.*

As at the date of issue for approval of these financial statements, several new standards and interpretations, as well as revised standards and interpretations that have not been adopted, have been issued but are not yet in force for annual periods beginning on 1 January 2019 for earlier application by the Group.

The management has determined that the following would have a potential effect in the future for changes in accounting policies and the classification and amounts of reportable items in the Group's consolidated financial statements for subsequent periods, namely:

- Amendments to the Conceptual Framework for Financial Reporting (in force for annual periods beginning on or after 1 January 2020, not endorsed by EC). *These amendments include revised definitions of “asset” and “liability”, as well as new guidance for their measurement, derecognition, presentation, and disclosure. The amendments to the Conceptual Framework are accompanied by amendments to some references thereto in the International Financial Reporting Standards, including IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32. Some of the references state which version of the Conceptual Framework statements in the respective standards should refer to (the IASC framework adopted by IASB in 2001, the IASB framework of 2010, or the new revised framework dated 2018), while others specifically state that the standard’s definitions have not been updated in accordance with the framework’s latest amendments.*
- IFRS 3 (amended) “Business Combinations” (in force for annual periods beginning on or after 1 January 2020, not endorsed by EC). *This change concerns the definition of “business” provided in the appendices to the standard and is related to the difficulties that acquiring entities experience when determining whether they have acquired a business or a group of assets. The amendment aims: (a) to clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; (b) to narrow*

*the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; (c) to add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; (d) to remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and (e) to add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.*

- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” (in force for annual periods beginning on or after 1 January 2020 – not endorsed by EC). *These changes relate to providing a more precise definition of ‘material’ as stated in the two standards. According to them, the new definition of ‘material’ is: “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. There are three new aspects of the definition which should be noted: (a) “Obscuring”. The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. (b) “Could reasonably be expected to influence”. The existing definition referred to ‘could influence’ which the Board felt might be understood as requiring too much information as almost anything ‘could’ influence the decisions of some users even if the possibility is remote; and (c) Primary users. The existing definition referred only to ‘users’ which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose. Moreover, the amendments stress especially five ways material information can be obscured: (a) if the language regarding a material item, transaction or other event is vague or unclear; (b) if information regarding a material item, transaction or other event is scattered in different places in the financial statements; (c) if dissimilar items, transactions or other events are inappropriately aggregated; (d) if similar items, transactions or other events are inappropriately disaggregated; and (e) if material information is hidden by immaterial information to the extent that it becomes unclear what information is material.*

The management is in process of analysis and assessment of the effects from the changes in Conceptual framework and the standards listed above, which might have an effect on the accounting policy and the value and classification of assets, liabilities, operations and results of the Group in subsequent reporting periods.

Additionally, with regard to the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on 1 January 2019, the management has determined that they are unlikely to have a potential impact resulting in changes in the accounting policies, classifications and the value of the reporting items in the consolidated financial statements of the Group:

- IFRS 17 “Insurance Contracts” (in force for annual periods beginning on or after 1 January 2021 – not endorsed by EC). *This is an entirely new accounting standard on all types of insurance contracts, including some guarantees and financial instruments, and includes rules on recognition and measurement, presentation and disclosure. The standard will supersede the effective so far standard related to insurance contracts – IFRS 4. It establishes an entirely new overall model for insurance contracts’ accounting, covering all relevant accounting aspects.*
- IFRS 10 (amended) “Consolidated Financial Statements” and IAS 28 (amended) “Investments in Associates and Joint Ventures” – regarding the sale or contribution of assets between an investor and its associates or joint ventures (postponed effective date, to be determined by the IASB). *These amendments address the accounting treatment of the sale or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the assets sold or contributed constitute in substance a business as defined in IFRS 3. If these assets as an aggregate do not meet the definition of a business, then the investor shall recognise gain or loss only to the extent of other unrelated investor's interests in the associate or joint venture.*
- *In cases of sale or contribution of assets, which as an aggregate constitute a business, the investor shall recognise the full gain or loss on the transaction. The amendments will be applied on a prospective basis. IASB postponed the initial date of application of these amendments for an indefinite period.*

The interim condensed consolidated financial statements of the Group have been prepared on a historical cost basis except for:

a/ property, plant and equipment, measured at revalued amount; b/ investment property and other long-term equity investments, measured at fair value at the date of the consolidated statement of financial position.

The Bulgarian subsidiaries of the Group and the associate Doverie Obedinen Holding AD maintain their accounting books in Bulgarian Lev (BGN), which is accepted as being their functional and presentation currency. The subsidiaries abroad organise their accounting and reporting in accordance with the requirements of the respective local legislation: OOO Sopharma Ukraine and PAO Vitamini – the Ukrainian legislation; Sopharma Trading Pharmaceuticals and Sopharma Trading d.o.o. – the Serbian legislation; SIA Briz – the Latvian legislation; UAB TBS Pharma – the Lithuanian legislation; SOOO Brittrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Farmatea, ODO SalusLine, ZAO Interpharm, OOO Ivem and K, OOO Ariens, OOO Zdorovei, OOO Zabotlivaya Apteka, BOOO SpetzApharmacia and OOO Bellerofon – the Belarusian legislation; Sopharma Poland Z.O.O. (in liquidation), Sopharma Warsaw SP. Z.O.O. – the Polish legislation; TOO Sopharma Kazakhstan – the legislation of Kazakhstan, and Rap Pharma International OOD – the Moldovan legislation. The companies keep their accounting ledgers in the respective local currency – Belarusian Ruble (BYN), Ukraine Hryvnia (UAH), Serbian Dinar (RSD), Euro (EUR), Polish Zloty (PLN), Kazakhstan Tenge (KZT), and Moldovan Leu (MDL).

The data in the consolidated condensed interim financial statements and the notes thereto are presented in BGN '000 unless explicitly stated otherwise, and the Bulgarian Lev has been adopted as the Group's presentation currency. The separate financial statements of foreign companies are restated from local currencies into BGN for the purposes of the consolidated financial statements as per the Group's policy (*Note 2.5*).

The presentation of the consolidated condensed interim financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the consolidated financial statements.

These estimates, accruals and assumptions are based on the information, which is available as of the date of the consolidated financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed in *Note 2.33 and Notes 14, 16, 17, 22, 23, 28*.

## ***2.2. Definitions***

### ***Parent company***

This is a company that has control over one or more other companies, in which it has invested. Having control means that the investor is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

The parent company is Sopharma AD, Bulgaria (*Note 1*).

### ***Subsidiary company***

A subsidiary is a company, or another entity, that is controlled directly or indirectly by the parent company.

The subsidiary companies are consolidated as from the date on which the effective control over them has been acquired by the Group and are de-consolidated as from the date when the control over them ceases and is transferred outside the Group. The full consolidation method is applied for their consolidation.

The subsidiary companies are presented in *Note 1.2*.

### ***Joint venture***

A joint venture is a company or another entity established by virtue of a contractual arrangement between the parent company as an investor and one or more other parties (companies) that start a common business undertaking, and on which the joint venturers (including the parent, which also has such a status) have a joint control. Joint control exists when it is contractually agreed that the strategic financial and

operating decisions, relating to the joint venture, shall require mandatory unanimous consent of the joint venturers. The latter have rights to the net assets of the joint venture.

The joint venture is included in the consolidated financial statements of the Group by applying the equity method – as from the date on which the joint control has been acquired by the venturer (the parent company) and its consolidation under this method is ceased when the joint venture is transformed into a subsidiary or when the joint control is transferred from the venturer to third parties.

At the date of preparation of this consolidated condensed interim financial report, the Group has no investments in joint ventures.

### ***Associate***

An associate is a company in which the investor (the parent company) exercises significant influence but is neither a subsidiary nor a joint venture with the investor.

Significant influence is the right of participation in decision-taking with regard to financial and operating policies of the investee but is not control or joint control over these policies.

Usually it exists in case of: (a) possession by the investor, directly or indirectly, of 20% to 50% of the shares in the capital of the investee company (including by virtue of an agreement between shareholders), and (b) in addition, the investor is represented in the managing body of the investee and/or participates in the decision-taking process with regard to the policy and strategy of the investee, and/or significant transactions exist between the investor and the investee.

The associate is included in the consolidated financial statements of the Group by applying the equity method – from the date on which the investor (the parent company) acquires significant influence and its consolidation under this method is ceased when associate is transformed into a subsidiary or when it is accepted that the significant influence is transferred from the investor to third parties.

The associate company is and Doverie Obedinen Holding AD (*Note 1.2*).

## ***2.3. Consolidation principles***

The consolidated financial statements include the financial statements of the parent company and the subsidiaries, the joint ventures and the associates, prepared as at 31 December, which is the reporting date of the Group's financial year. The 'economic entity' assumption has been applied in the consolidation whereas for the measurement of non-controlling interest in business combinations and other forms of acquisition of subsidiaries for which the 'proportionate share of net assets' method has been chosen.

For the purposes of consolidation, the financial statements of the subsidiaries, the joint ventures and the associates have been prepared for the same reporting period as the parent company using uniform accounting policies.

### ***2.3.1. Consolidation of subsidiaries***

In the consolidated financial statements, the financial statements of the included subsidiaries are consolidated under the 'full consolidation' method, line-by-line, by applying accounting policies that are uniform with regard to the significant reporting items. The investments of the parent company are eliminated against its share in the equity of the subsidiaries at the date of acquisition. Intra-group transactions and balances, including unrealised intra-group gains and losses, are eliminated in full. The effect of deferred taxes has been taken into account in these eliminating consolidation entries.

The shares of shareholders – third parties in the subsidiaries other than these of the shareholders of the parent company are presented separately in the consolidated statement of financial position, the consolidated statement of comprehensive income and the statement of changes in equity as 'non-controlling interest'. The non-controlling interest includes: (a) the combined share of the shareholders – third parties at the date of initial consolidation in the fair value (deemed cost) of all identifiable assets acquired, liabilities and contingent (crystallised) liabilities of the respective subsidiaries assumed, determined (based on the share) through the proportionate method, and (b) the change in the share of these third parties in the equity of each respective subsidiary from their initial consolidation to the end of the reporting period.

### ***2.3.2. Acquisition of subsidiaries***

The acquisition (purchase) method of accounting is used on the acquisition of a subsidiary (entity) by the Group in business combinations. The consideration transferred includes the fair value at the date of exchange of the assets transferred, the incurred or assumed liabilities and the equity instruments issued by the acquirer in exchange of the control over the acquiree. It includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related direct costs are recognised as current expenses when incurred except for the issue costs of debt or equity instruments, which are recognised as equity components.

All identifiable assets acquired, liabilities and contingent (crystallised) liabilities assumed in the business combination are measured initially at their fair values at the date of exchange. Any excess of the aggregate consideration transferred (measured at fair value), the amount of non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquiree's previously held equity, over the acquired identifiable assets and assumed liabilities of the acquirer, is treated and recognised as goodwill. If acquirer's share in the fair value of acquired net identifiable assets exceeds the cost of acquisition of the business combination, this excess is recognised immediately in the consolidated statement of comprehensive income of the Group in the item 'gains/(losses) on acquisition/(disposal) of subsidiaries'. Any non-controlling interest in a business combination is measured based on the method of the 'proportionate share of the net assets' of the acquiree.

When a business combination for the acquisition of a subsidiary is achieved in stages, all previous investments held by the acquirer at the acquisition date are revalued to fair value and the effects of this revaluation are recognised in the current profit or loss of the Group, respectively in 'finance income' and 'finance costs' or 'gains/(losses) from associates and joint ventures', and all previously recorded effects in other comprehensive income are recycled.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or

additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date. Adjustments, made during the measurement period, are accounted for retrospectively and the comparative information is adjusted as of the acquisition date.

### ***2.3.3. Disposal of subsidiaries***

On sale or other form of loss (transfer) of control over a subsidiary:

- The carrying amounts of the assets and liabilities (including any attributable goodwill) of the subsidiary are derecognised at the date when control is lost;
- The non-controlling interest in the subsidiary is derecognised at carrying amount in the consolidated statement of financial position at the loss of control date, including all components of other comprehensive income related thereto;
- The fair value of the consideration received from the transaction, event or operation that resulted in the loss of control is recognised;
- All components of equity, representing unrealised gains or losses in accordance with the respective IFRS under the provisions of which these components fall, are reclassified to 'profit or loss for the year' or are transferred directly to retained earnings;
- Any resulting difference as a 'gain or loss from a disposal (sale) of a subsidiary' attributable to the parent is recognised in the consolidated statement of comprehensive income.
- The remaining shares held that form investments in associates, joint ventures or other long-term equity investments are initially measured at fair value at the date of sale and subsequently – following the accounting policy adopted by the Group (*Note 2.14 and Note 2.15*).

The acquisition (purchase-and-sale) method is applied also in transactions of uniting and/or restructuring of entities under a common control with companies of the Group, provided that they represent direct acquisitions from the perspective of the parent company.

### ***2.3.4. Transactions with non-controlling interests***

The Group treats transactions with non-controlling interests as transactions with holders of the common equity of the Group. The effects from sales of parent company's shares, without loss of control, to holders of non-controlling interests are not treated as components of the current profit or loss of the Group but as movements directly in its equity components, usually to the 'retained earnings' reserve. And vice versa, when the parent company purchases additional shares from holders of non-controlling interest, without acquisition of control, the difference between the consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is also directly recognised in the consolidated statement of changes in equity, usually to the 'retained earnings' reserve. When the Group ceases to have control, joint control and significant influence, any retained minority investment as interest in the capital of the respective entity, is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. Respectively, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of all components related to the initial investment (in a subsidiary, joint venture or associate).



***2.3.5. Consolidation of associates and joint ventures***

Associates and joint ventures are included in the consolidated financial statements by applying the equity method whereby the investment of the parent company is initially stated at cost and is subsequently recalculated to reflect the changes in investor's (the parent company) share in the post-acquisition net assets of the associate or joint venture. Group's investment in an associate or joint venture includes also the goodwill identified on their acquisition net of any recognised impairment.

The post-acquisition gains or losses for the Group (through the parent company) from associates and joint ventures for the respective reporting period represent its share in the net (post-tax) financial results of their business activities for the period, which share is recognised and presented on a separate line in the consolidated statement of comprehensive income.

Analogously, the Group's share in post-acquisition changes in other components of comprehensive income of associates and joint ventures is also recognised and presented as movement in the other components of comprehensive income in the consolidated statement of comprehensive income, and respectively the consolidated reserves of the Group - in the statement of changes in equity. The Group recognises its share in the losses of associates and joint ventures up to the amount of its investment, including the granted internal loans, unless it has assumed certain obligations or payments on behalf of the associate or joint venture.

The internal accounts and balances between the Group and associates and joint ventures are not eliminated. The unrealised gains or losses from transactions between them are eliminated to the percentage of Group's interest in the associates and joint ventures by also making tests for impairment in case of loss. The effect of deferred taxes on these consolidation procedures has also been taken into account.

***2.4. Comparatives***

In these consolidated financial statements, the Group presents comparative information for one prior year. Where necessary, comparative data is reclassified (and restated) in order to achieve comparability in view of the current year presentation changes.

An exception to this rule is the presentation of the effects of the application for the first time since January 1, 2019 of IFRS 16 *Leasing*. The Group has selected a modified retrospective application for the first time of IFRS 16 and comparative data for the prior year (2018) will not be recalculated. When adopting IFRS 9 *Financial Instruments* and IFRS 15 *Revenue* from 1 January 2018, the Group applied the exemptions (exemptions) upon initial application and chose a modified retrospective application. All adjustments resulting from the initial application of the two new standards are reported in equity (to "retained earnings") as at 1 January 2018.

***2.5. Functional currency and recognition of exchange differences***

The functional currency of the Group companies in Bulgaria being also presentation currency for the Group is the Bulgarian Lev. The Bulgarian Lev is fixed to the Euro, under the BNB Act, at the ratio BGN 1.95583:EUR 1.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash, receivables and payables, as monetary reporting items, denominated in a foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the Bulgarian National Bank (BNB) for the last working day of the respective month. At 31 March, these amounts are presented in BGN at the closing exchange rate of BNB.

The non-monetary items in the consolidated statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate.

Foreign exchange gains or losses arising on the settlement or recording of foreign currency commercial transactions at rates different from those at which they were converted on initial recognition, are recognised in the consolidated statement of comprehensive income in the period in which they arise and are presented net under 'other operating income/(losses)'.

The functional currency of the companies in Poland (Sopharma Poland Z.O.O. (in liquidation) and Sopharma Warsaw SP. Z.O.O. is the Polish Zloty, of the subsidiary TOO Sopharma Kazakhstan – the Kazakhstan Tenge, of the subsidiaries in Ukraine (PAO Vitamini, OOO Sopharma Ukraine) – the Ukrainian Hryvnia, of the subsidiaries in Serbia (Sopharma Trading Pharmaceuticals, Sopharma Trading d.o.o.) – the Serbian Dinar, of the subsidiary in Latvia (SIA Briz) and the company in Lithuania (UAB TBS Pharma) – the Euro, of the subsidiaries in Belarus (SOOO Brititrade, OOO Tabina, SOOO Brizpharm, OOO Farmacevt Plus, OOO Galenapharm, ODO Medjel, ODO Alenpharm-plus, OOO Mobil Line, OOO Farmatea, ODO SalusLine, ZAO Interpharm, OOO Zdorovei, OOO Ivem and K, OOO Ariens, OOO Zabotlivaya Apteka, BOOO SpetsAfarmatsia and OOO Bellerofon – the Belarusian Ruble, and of the subsidiary in Moldova (Rap Pharma International OOD) – the Moldovan Leu.

For the purposes of the consolidated financial statements, the financial statements of the subsidiaries abroad are restated from the functional currency of the respective subsidiary to the presentation currency (BGN) adopted for the consolidated financial statements, whereas:

- (a) all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency thereto at 31 March or at the date of disposal of the company;
- (b) all income and expenses are restated to the currency of the Group at average rate of the local currency thereto for the reporting period (*Note 2.6 and Note 2.7*);
- (c) all exchange differences resulting from the restatements are recognised and presented as a separate component of equity in the consolidated statement of financial position – 'translation of foreign operations reserve', and
- (d) the exchange differences resulting from the restatement of the net investment in the companies abroad together with the loans and other currency instruments, accepted as hedge of these investments, are presented directly in equity.

On disposal (sale) of a foreign operation (company), the cumulative amount of exchange differences that have been directly stated as a separate component of equity, are recognised as part of the

profit or loss in the consolidated statement of comprehensive income on the line 'gains/(losses) on acquisition and disposal of subsidiaries, net', obtained on disposal (sale).

Goodwill and adjustments to fair value arising on acquisition of a company abroad are treated analogously to the assets and liabilities of this company and are restated to the presentation currency at closing exchange rate.

## **2.6. Revenue**

### **2.6.1. Recognition of revenue under contracts with customers**

The Group's usual revenue is from the activities disclosed in Note 1.2.

The Group's revenue is recognised when control of the goods or services promised in the *contract with the customer* are transferred to the customer. Control is transferred to the customer upon *satisfaction of the contractual performance obligations* through transfer of the promised goods and/or provision of the promised services.

#### *Measurement of contracts with customers*

The Group accounts for a contract with a customer only if upon its enforcement: a/ it has commercial substance and rationale; b/ the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform it; c/ each party's rights can be identified; d/ the payment terms can be identified; and e/ it is probable that the Group will collect the consideration to which it is entitled upon performing its performance obligations.

In assessing whether collectability of an amount of consideration is probable, the Group considers all relevant facts and circumstances of the transaction, including past experience, customary business practices, published rules and declarations made by the Group, collaterals and possibilities for satisfaction.

A contract for which any of the above criteria has not yet been met is subject to new assessment in each reporting period. The consideration received under such contracts shall be recognised as a liability (*contract liability*) in the statement of financial position, until: a/ all criteria for recognizing a contract with a customer are met; b/ the Group meets its performance obligations and has received all or substantially all of the consideration (which is non-refundable); and/or c/ when the contract is terminated and the consideration received is non-refundable.

Upon the initial assessment of its contracts with customers, the Group makes additional analysis and judgement whether two or more contracts should be combined and accounted for as a single contract, respectively whether the goods and/or services promised in each separate and/or combined contract should be accounted for as a single and/or multiple performance obligation(s).

Each promise to transfer goods and/or services which are distinct (in nature and in the context of the contract), is accounted for as a separate performance obligation.

The Group recognises revenue for each separate performance obligation on an individual contracts basis with customers, by analyzing the type, term and conditions of each specific contract. For contracts with similar features, revenue is recognised on a portfolio basis, only if their grouping into a portfolio would not have a materially different impact on the financial statements.

When another party is involved in providing goods or services to a customer, the Group shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent). The Group is a principal and recognises as revenue the gross amount of consideration if it controls the specified goods and/or services prior to their transfer to the customers. If, however, the Group does not obtain control over the specified goods and/or services and its obligation is only to arrange for a third party to provide these specified goods and/or services, the Group is an agent and recognises as revenue the net amount it retains for the goods or services to be provided in its capacity as agent.

#### ***2.6.2. Measurement/ (assessment) of revenue under contracts with customers***

*Revenue is measured* based on the *transaction price* determined for each contract.

*The transaction price* is the amount of consideration to which the Group expects to be entitled, excluding amounts collected on behalf of third parties. Upon determining the transaction price, the Group takes into consideration the contractual conditions and its customary business practices, including the impact of variable consideration, the existence of a significant financing component in the contract, non-cash consideration, consideration payable to the customer (if any). In contracts with more than one performance obligations, the transaction price is allocated between each performance obligation based on the standalone selling prices of each good and/or service determined based on one of the methods permitted under IFRS 15, priority being given to the method of “observable selling prices”.

*The change in the scope or price* (or both) of the contract is accounted for as a separate contract and/or as part of the existing contract, depending on whether the change is related to the addition of goods and/or services which are distinct, and on the price determined for them. Based on that: a) the Group accounts for a contract modification as a separate contract if the scope of the contract increases because of the addition of promised goods or services that are distinct, and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services; b) the Group accounts for the contract modification as if it were a termination of the existing contract and the creation of a new contract (future application), if the remaining goods and/or services are distinct from the goods and/or services transferred before the contract modification, but the change in the contract price does not reflect the standalone selling price of the goods and/or services added; c) the Group accounts for the contract modification as if it were a part of the existing contract (cumulative catch-up adjustment) if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied.

#### ***2.6.3. Performance obligations under contracts with customers***

##### **Sales of finished goods**

Wholesales of medicinal substances and medicinal forms are made in the country and abroad, both based on the Group's specification (technology) and based on the customer's specification (technology).

##### ***Sales of finished goods based on the Group's specifications***

Upon sales of finished goods based on the Group's specifications, control is transferred to the customer *at a point in time*.

Upon *domestic sales*, this is usually upon handover of the products and the physical possession of the customer thereof, when the customer has the ability to direct the use of, and by obtaining substantially all of the remaining benefits from, the finished goods.

Upon *export sales*, the judgement at the point in which the customer obtains control over the finished goods sold is made based on the INCOTERMS applicable for the contract.

#### ***Sales of products based on the customer's specifications***

Regarding the finished goods based on the customer's specifications, the Group has a legal and contractual restriction to direct for other use (sales to another party) and it has no alternative use. In these cases, the method of transfer is determined specifically for each contract with customers (at individual contract basis). For this purpose, it is determined if the Group is entitled to payment for the work performed to date, which should at least compensate for the cost incurred plus a reasonable margin should the contract be terminated for reasons other than the Group's default (legally enforceable right to payment).

If in the specific contract the Group has a legally enforceable right to payment, revenue is recognised *over time*, and the *output method* is used to measure the progress (stage of completion) of the contract. This method has been determined to the most appropriate to measure the progress, as the results achieved best depicts the Group's activity towards complete satisfaction of the performance obligations. The progress is measured *based on the units produced versus the total number of units ordered by the customer*. The assessments of revenue, costs and/or stage of progress towards complete satisfaction of the performance obligations are reviewed at the end of each reporting period, incl. in case of change in the circumstance/occurrence of new circumstances. Each subsequent increase or decrease of expected revenue and/or costs is stated within profit or loss for the period in which the circumstances resulted in the review became known to the management.

If in the specific contract the Group does not have a legally enforceable right to payment, revenue is recognised *at a point in time*, when control of the finished goods sold is transferred to the customer: when the finished goods are provided to the customer and it has physical possession thereon (for domestic sales) and in accordance with the contract's applicable INCOTERMS (for export sales).

#### **Sales of pharmaceuticals and medical goods**

Sales of pharmaceuticals and medical goods by the Group's distributor companies are to customers which are pharmacies, hospitals and wholesalers (wholesale) in the country and abroad.

#### ***Wholesale***

Upon wholesale, the control of the goods sold is assessed to be transferred to the customer at a *point in time*. This is usually upon handover of the goods and the physical possession of the customer thereon, when the customer has the ability to direct the use of, and by obtaining substantially all of the remaining benefits from, the goods.

#### ***Retail sales***

Upon retail sales, control of the goods sold is transferred to the customer upon their handover thereto.

*Customer loyalty programmes*

The Group maintains a loyalty programme whereby customers holding a club card may accumulate points for each purchase. The points accumulated may be exchanged for products participating in the programme without payment by the customer within a period set in the programme conditions. The Group management has determined that the loyalty points grant customers with a material right they cannot obtain without concluding a contract for the initial purchase. Therefore, the promise for future discounts through giving points is a separate performance obligation. The transaction price is allocated between the goods and/services already sold and the points which the Group expects to be claimed and compensated, based on the respective standalone selling prices. The standalone selling price of a point reflects the discount that the customer would get, adjusted for the probability of the points being claimed and compensated, determined based on information about the points used (past experience). The stand-alone selling price of the goods and/or services sold is determined based on the price list effective at the sale date. Payables under the loyalty programme are stated as a contract liability in the consolidated statement of financial position. The Group recognises revenue when the loyalty points are claimed or when their validity expires. The Group reviews its estimate of the points to be claimed and compensated at the end of each reporting period, and if necessary, adjusts the payable (contract liability) recognised, respectively the recognised revenue, through cumulative catch-up adjustment.

*Medical equipment (appliances) sales*

The sales of medical equipment usually include delivery, installation, commissioning, operation training and warranty service, and the selling price is total for the respective contract and/or equipment. Revenue from the sales of medical equipment is recognised on an individual contracts basis, and for each contract it is assessed whether the promised goods and/or services are separate performance obligations.

This assessment is made based on the timing of transfer of control over the medical equipment and the interrelated components of the contract.

Usually, control over the medical equipment (appliances) is transferred to the customer *at a point in time*, when the equipment is delivered at the agreed location and the physical possession is handed over to the customer. At this point, the Group transfers all risks and rewards related to the medical equipment, subject of the contract with the customer, and the customer has the ability to direct the use of the asset.

The distinct installation, commissioning and training services which are sold together with the equipment are usually rendered following its delivery and are relatively independent. These services are accounted for as separate performance obligations, since a/ they may be performed by another supplier; b/ in most cases the services are short-term and not specific in nature; c/ they do not modify the equipment delivered and are not interrelated and integrated therewith. Therefore, it has been determined that in this case, control over the installation, commissioning and training services is transferred *over the period of their rendering*, since they are performed on an asset controlled by the customer, and the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs the services. The revenue from the services performed is recognised *over time*, and to measure contract progress (stage of completion), the *output method* is used.

This method has been determined to be the most appropriate to measure progress, as it is most relevant in depicting the scheme of transfer of control and satisfying performance obligations, respectively most accurately reflects the level of all outstanding activities.

***Warranty service***

The warranty service usually includes a standard warranty clause that guarantees that the medical equipment sold meets the contractual specifications and quality standards for the usual warranty period (usually 12 months) and is covered by the producer.

***Transportation of the finished goods and goods sold***

Usually, upon export sales, the Group is responsible for transporting the goods to the location agreed, and the transportation is organised by the Group, and the cost of transport is included (calculated) as part of the selling price. Depending on the transportation conditions agreed with the customer, it may be carried out also after control over the products sold has been transferred to the customer. Until the transfer of control over the products, the sales of products and the transportation service are accounted for as a *single performance obligation*, since they constitute parts of an integrated service.

The transportation service following transfer of control over the finished goods sold is accounted for as a *separate performance obligation*, since the transportation can be provided by another supplier (i.e. the customer may use the finished goods sold with readily available resources), and the transportation service does not modify or amend the finished goods sold in any way. In this case, the consideration the Group expects to be entitled to (the transaction price) is allocated between the separate performance obligations based on their stand-alone selling prices. The stand-alone selling price of the finished goods sold is determined based on the price list effective at the transaction's date, and the stand-alone selling price of the transportation service is determined as an approximation by using the cost plus margin approach.

To render the transportation service, the Group uses transportation companies – subcontractors. The Group has determined it controls the services prior to their provision to the customer and therefore it acts in its capacity as principal, since a/ it is primarily responsible for rendering the services and for the acceptability of the services to the customer (i.e. the Group is responsible for fulfilling the promise in the contract irrespective of whether it performs the services itself or hires a third-party service supplier to perform them); and b/ it has the discretion in establishing the price for the services independently, without interference by the customer.

Revenue from the sales of transportation services are recognised *over time*, since it is not necessary for the work performed to date to be repeated if another party has to perform the remaining work, therefore, the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs the services. In order to measure the contract progress (stage of completion), the *input method* is used. This method has been determined as the most appropriate to measure the progress since it best depicts the Group's activity regarding the transfer of control and satisfaction of obligations; respectively, it most accurately reflects the level of performance of obligations, in as far as the Group's efforts (costs incurred) are directly related to the transfer of the service to the customer. The progress is measured *based on the costs incurred to the total costs planned for contract performance*.

***Bill-and-hold arrangements***

In certain cases, upon wholesale, the goods sold are physically possessed by the Group. The Group has analysed these arrangements and has determined that although the customer does not have physical possession over the goods, usually they have control thereon, since: a/ the hold is done at the customer's

request; b/ the goods can be identified separately as belonging to the customer; c/ the goods are available for immediate shipment at the customer's request; d/ the Group does not have the ability to direct the use of the goods or direct them to another customer and e/ a separate consideration is agreed for the storage service. In these cases, the delivery of goods and the storage service rendering are accounted for as separate performance obligations. Respectively: a/ control over the goods sold is transferred to the customer at a point in time, when the goods can be identified separately as belonging to the customer, and the customer has legal title thereon; b/ the obligation to perform the storage services is satisfied over time, while this service is being provided.

### **Sales of services**

The services provided by the Group include: storage services (pre-distribution) for customer goods, subscription extra-warranty servicing of medical equipment, medical representation etc. Service revenue is presented as other income in the statement of comprehensive income, in as far as it does not constitute a portion of the Group's primary business activities.

### ***Extra-warranty (maintenance) service***

A Group's company provides extra-warranty services under subscription. The extra-warranty service contracts are usually concluded for a period of 2 years. The consideration is fixed and is determined on an annual basis and/or for the entire term of the contract, allocated on a monthly basis. The services performed are usually invoiced on a monthly basis, and the payment period is 30 to 60 days from the date of issuing an invoice to the assignor.

The extra-warranty service comprises various tasks/activities of continuous and/or repetitive nature, which are distinct and form part of an integrated service. They constitute a series of distinct services and are therefore a *single performance obligation*, since: a) the integrated maintenance service covers numerous distinct time periods (usually one month); b) the services are substantially the same, since the customer obtains continuous benefit therefrom for each separate time period (each month) even of the tasks performed differ in their nature and quantity; c) control is transferred over time, since the customer simultaneously receives and consumes the benefits provided by the Group as the Group performs the service and there is no need for another company to substantially repeat the work done by the Group company at a given date if this other company has to perform the remaining portion of the performance obligation.

Revenue is recognised *over time*, and the progress (stage of completion) is measured based on the time passed (on a linear basis – monthly). This method has been determined as the most appropriate one to measure the progress, since services are rendered on a monthly basis and form part of a series, therefore, it best depicts the Group's activity regarding transfer of control and satisfaction of performance obligations.

### ***Other services***

For the other services performed by the Group, control is transferred to the customer over the period of their rendering, since the customer simultaneously receives and consumes the benefits provided by the Group. The revenue from other sales is recognised over time by measuring the degree of performance of the Group's obligations (stage of completion). In order to measure the progress (stage of completion), the Group applies the output method based on the quantity of services provided.



***2.6.4. Refund obligations under contracts with customers***

The refund obligation includes the Group's obligation to reimburse a portion or all of the consideration received (or subject to receipt) from the customer under contracts with a right of return and/or for the expected retrospective discounts, rebates and discount volumes.

The obligation is initially measured at the amount which the Group does not expect to be entitled to and which it expects to reimburse to the customer. At the end of each reporting period, the Group reassess the measurement of the refund obligations, respectively of the transaction price and of the recognised revenue.

Refund obligations under contracts with customers are stated within "Other current liabilities" in the statement of financial position.

***2.6.5. Transaction price and payment terms*****Finished goods, pharmaceutical and medical produces**

The selling prices of the products (finished goods and goods) sold by the Group are usually fixed, based on a common and/or customer-specific price list, and are individually determined for each product. Upon determining the transaction price, the Group also takes into account the various forms of variable consideration and other amounts (consideration) owed to the customer.

***Variable consideration***

The variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The forms of variable consideration applicable for the Group include:

- **Volume discounts:** Retrospective trade discounts provided to the customer upon reaching monthly, quarterly and/or annual turnover determined in advance, set as a uniform threshold and/or progressive bonus scheme. Upon measuring the variable consideration, the Group determines the customer's estimated turnover by using the most probable outcome method. The discounts granted are offset against the amounts due by the customer.
- **Price discounts from the common price list:** under the pricing policy adopted, upon wholesale, the selling price from the common price list is reduced by the discount usually applicable for the respective product. The discount applicable for each customer is determined based on the turnover agreed for a certain period as compared to the total potential turnover with the customer. These price discounts are granted to the customer upon each sale and/or at the end of each month. If the customer fails to meet the turnover targets and does not compensate the difference over the next period, the Group is entitled to claiming default compensation set as a percentage of the turnover default.
- **Price protection:** With regards to domestic sales, the Group is obliged, upon price reduction imposed by a state regulatory body, to compensate the buyer and/or its customers for finished goods purchased at a higher price and not yet sold to end clients. The payment of this consideration depends on the state policy on medicinal products price regulation and is beyond the Group's control.

- Compensation for hidden flaws: the customer may claim returns due to hidden flaws (quality claims) throughout the validity period of the finished goods sold, which may vary from one to five years. Quality claims are settled by the provision of new replacement goods or by refund of the amount paid by the customer. Upon determining the compensations for hidden flaws due at the end of the reporting period, the Group takes into consideration the quality assurance system implemented thereby and the accumulated experience.
- Compensations due to the customer: in case of inaccurate performance of contractual obligations by the Group, usually in relation of failure to meet the negotiated delivery deadline. These are included within a decrease of the transaction price only if the payment is very likely. The Group's experience shows that historically, contract terms are complied with, and the Group has not recorded liabilities for payment of compensations.
- Right of return: Some sales contracts allow the customer to return the goods within a given period. The Group accounts for the right of return as a form of variable consideration and recognises revenue from sales only at the amount of consideration it is reasonably assured it is entitled to (considering the goods expected to be returned). Upon determining what proportion of the goods sold is expected to be returned, the Group uses historical data about goods returned by customers over the past year.
- Compensations owed by the customer: variable consideration in the form of compensations for delayed payment by the customer. Receiving such consideration depends on the customer's actions and is beyond the Group's control. They are included within the transaction price only when the uncertainty regarding their receipt has been resolved.  
Including compensations (owed by and due to the customer) as part of the transaction price is determined for each individual contract and is subject to reassessment at the end of each reporting period.

The variable consideration expected in the form of various discounts, defaults and compensations is determined and measured based on the accumulated experience and is recognised as adjustment of the transaction price only and respectively the revenue (as an increase or a decrease) only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, including due to assessment restrictions. Any subsequent changes to amount of the variable consideration are recognised as adjustment of revenue (as an increase or a decrease) at the date of change and/or resolving the uncertainty. At the end of each reporting period, the Group updates the transaction prices, including whether the estimated price contains restrictions, so as to accurately present circumstances existing and occurring during the reporting period. Upon assessing the variable consideration, the Group uses the most likely outcome approach.

Discounts accrued but not settled at the end of the reporting period, to which the customer still does not have unconditional right, are presented as refund liabilities in the statement of financial position.

#### *Consideration due to the customer*

The consideration due to the customer includes amounts that the Group companies pay and/or have promised to pay to the customer. It is included as a component of the transaction price, unless the payment to the customer is in return to distinct goods and/or services which the customer transfers and/or grants to the Group companies and the fair value of these distinct goods and/or services does not exceed the amount of consideration paid by the Group. If the latter is higher than the fair value of the goods and/or service

received by the customer, only the excess is included within the transaction price. The consideration paid to the customer is recognised as contract assets and are included within the transaction price, *respectively in a decrease of revenue from contracts with customers*, upon transfer of control over the goods sold or when the Group promises to pay, *whichever occurs later*.

*Significant financing component*

Upon wholesales the usual credit period is 30 to 270 days following the delivery of goods. In certain sales transactions, the payments can be partially in advance and the amounts paid in advance are refunded if the contract is terminated. The advance payments collected from customers are presented in the statement of financial position as contract liabilities.

As a result of the financial condition and credit risk of some of the customers which are hospitals, the customer pays for the goods delivered with a significant delay compared to the payment period agreed, and in some cases, the period between the date of transfer of control over the goods and the date of payment by the customer may reach and exceed 2 years. The Group has determined that contracts with such customers do not contain a financing component, since: a) the payment term agreed with the customer does not differ from the usual payment term for such transactions, and upon concluding the sales contract, no explicit deferred payment scheme has been agreed; b) the selling prices do not include a financing component (interest). They are legislatively regulated and do not significantly deviate from the selling price of the same goods and/or services upon sales to other customers and/or upon sale to the same customer by another distributor of medicinal products and medical consumables. The differences (if any) result from variable consideration granted in the form of discounts, rather than from the agreed and/or expected payment period; c) the delay in payments results from the financial condition and credit risk of some of the customers which are hospitals; d) upon delay by the customers, the Group charges an interest (penalty) at the amount of the statutory interest, as from the date of delay; e) the financing element arises on the date of delay starting from which the Group charges a delay interest; f) the customer (hospital) pays the interest charged (penalties) and they reflect the time value of money.

The interest income recognised due to not paying within the agreed payment period by customers, which are hospitals, are presented as finance income in the statement of comprehensive income (Note 11).

Upon retail sales, payment is due at the time of sale. Exceptions are retail sales in Bulgaria for which NHIF reimburses a portion of the price. This portion of the selling price is paid by NHIF within 60 days.

**Medical equipment (Appliances)**

The agreed selling price related to contracts for sale of medical equipment (appliances) is usually aggregated for the specific contract and/or equipment is aggregate. As a result, the consideration which the Group expects to be entitled is allocated to each separate performance obligation on the basis of stand-alone selling prices determined approximately by using the cost plus a margin approach.

*Significant financing component*

Upon the sale of medical equipment, the payment terms for the transaction price are determined individually for each contract. The customer usually makes an advance payment of up to 20% of the contracted consideration, and the remaining part is paid after performance of the contractual obligations, at

a later date or in accordance to a payment schedule. Deferred payment is usually made after 30 days to 2 years.

For contracts with deferred payment of over 1 year, the Group has determined that a *financing component exists which is significant for revenue. In these cases* the transaction price is adjusted so as to reflect the impact of the time value of money by using a discount rate reflecting the credit characteristics of the counterparty receiving the financing (the customer). The payments collected in advance from the customer are presented in the statement of financial position as contract liabilities, and the interest charged – as finance income in the statement of comprehensive income (*Notes 11 and 40*).

For contracts where the period for transferring the control of the promised goods and services to the customer and the payment is up to 12 months, the Group does not adjust the transaction price to reflect the effect of the financing component.

#### **Sales of services**

The selling prices of services are usually fixed. The consideration upon extra-warranty (maintenance) service is fixed and determined on an annually and/or for the entire duration of the contract, and it is allocated equally on a monthly basis.

The services performed are most often invoiced monthly, and the payment period is within 30 to 60 days from the date of the invoice issuance to the customer.

#### ***2.6.6. Contract costs***

The Group states as contract costs the following:

- the incremental and directly related expenses it incurs upon concluding a contract with a customer, which it expects to recover over a period longer than twelve months (*costs to obtain a contract with a customer*) and
- the expenses it incurs to fulfil a contract with a customer and which are directly related to the specific contract, enhance the generation of resources to be used in the contract fulfilment and the Group expects to recover them over a period longer than twelve months (*costs of fulfilling contracts with customers*).

The Group in its primary business activity does not incur direct or specific costs to obtain contracts with customers and costs of fulfilling such contracts, which would have not been incurred if the contracts had not been obtained.

#### ***2.6.7. Contract balances***

##### ***Trade receivables and contract assets***

A contract asset is the Group's right to receive consideration in exchange for goods or services that it has transferred to a customer but is not unconditional (receivable accrual). If by transferring the goods and/or providing the services the Group performs its obligation before the customer to pay the respective consideration and/or before the payment is due, a contract asset is recognised for the consideration earned (which is conditional). Recognised contract assets are reclassified as trade receivables when the right to consideration becomes unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

*Contract liabilities*

The Group presents as a contract liability the consideration received from the customer and/or the unconditional right to receive consideration before it has performed its contractual obligations. Contract liabilities are recognised as revenue when (or as) the performance obligations are satisfied.

Contract assets and contract liabilities are presented in other receivables and payables in the statement of financial position. They are included in current assets when their maturity is within 12 months or within the Group's usual operating cycle, and the others are stated as non-current. Assets and liabilities from a single contract are presented on a net basis in the statement of financial position, even if they result from difference performance obligations in the contract.

Following their initial recognition, trade receivables and contract assets are subject to review for impairment in accordance with the requirements of IFRS 9 *Financial Instruments*.

*Right of return assets from contracts with customers*

The right of return is the Group's right to receive sold goods which are expected to be returned by the customers (*Note 24*). This right is initially measured at the carrying amount of the goods which are expected to be returned, less any expected costs to recover the goods, including any potential decreases in the value of products returned, including due to passage of their expiry date. At the end of each reporting period the Group reassess the measurement of right of return assets recognised related to changes in expectations about the volume of goods returned and other decreases in their value.

Right of return assets are presented in inventories in the statement of financial position and are separately disclosed in the notes to the annual financial statements.

**2.7. Expenses**

Expenses are recognised in the Group when they are incurred based on the accrual and matching concepts (to the extent that this would not lead to recognition of an asset or liability not satisfying the definitions for assets and liabilities in the Framework and IFRS themselves).

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

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

**2.8. Finance income and costs****2.8.1. Finance income**

Finance income is included in the statement of comprehensive income (within profit or loss for the year) when earned and comprises: interest income on granted loans and term deposits, interest income on receivables under special contracts, interest income on past due receivables, income/gains from deals with investments in available-for-sale securities at fair value through profit or loss, or through other comprehensive income, including dividends, net gains on exchange differences under loans in foreign currency, income from debt settlement transactions, gain on fair value measurement of available-for-sale

investments in securities at fair value through profit or loss, or through other comprehensive income, gains from fair value measurement of investments in the acquisition of a subsidiary performed in stages.

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets, with the exception of financial assets, which are credit-impaired (Stage 3), for which interest income is calculated by applying the effective interest rate on their amortised cost (i.e. the gross carrying amount after deducting the impairment allowance)

### ***2.8.2. Finance costs***

Finance costs are included in the consolidated statement of comprehensive income (within profit or loss for the year) when incurred separately from finance costs and comprise: interest expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, and impairment losses on granted loans.

### ***2.9. Mandatory dividend for distribution***

The subsidiary company Sopharma Buildings REIT has the status of a joint-stock special-purpose investment company within the meaning of the Bulgarian Special Purpose Investment Companies Act (SPICA). For this reason, the company has specific policy for distribution of dividends to shareholders in line with the requirements of the law, namely:

- the company is obliged by law to distribute as dividend not less than 90% of the generated profit for the respective financial year adjusted in accordance with SPICA; and
- the distribution of the remaining 10% is determined by a decision of the General Meeting of Shareholders as per the common procedure of the Bulgarian Commercial Act, including for dividend payment.

The statutory dividend at an amount of not less than 90% of the generated profit is recognised as a liability in the current year and in decrease (mandatory distribution) of the current profit for the year.

In 2018 and 2019, the subsidiary did not distribute mandatory dividend as it reported a negative financial result (loss).

### ***2.10. Property, plant and equipment***

Property, plant and equipment, including permanent plants (fixed tangible assets) are presented in the consolidated financial statements at revalued amount less the accumulated depreciation and impairment losses in value.

### ***Initial acquisition***

Upon their initial acquisition, property, plant and equipment are valued at acquisition cost (cost), which comprises the purchase price, including customs duties and any directly attributable costs of

bringing the asset to working condition for its intended use. The directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, and professional fees for people involved in the project, non-refundable taxes, expenses on capitalised interest for qualifying assets, etc.

Property, plant and equipment of acquired subsidiaries are measured at fair value at the transaction (business combination) date which is accepted as acquisition price for consolidation purposes.

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

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

#### ***Subsequent measurement***

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

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

#### ***Subsequent costs***

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

#### ***Depreciation methods***

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

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- installations – 5-25 years;
- machinery and equipment – 7-25 years;
- computers and mobile devices – 2-5 years;
- motor vehicles – 5-17 years;
- servers and systems – 4-12 years;

- furniture and fixtures – 6-12 years.

The useful life set for any tangible fixed asset is reviewed by the management of each company within the Group and respectively, by the parent company, at the end of each reporting period and in case of any material deviation from the future expectations of their period of use, the latter is adjusted prospectively.

### ***Impairment of assets***

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might permanently differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) unless a revaluation reserve has been set aside for the respective asset. Then the impairment is treated as a decrease in this reserve (through other comprehensive income) unless it exceeds its amount and the excess is included as expense in the consolidated statement of comprehensive income (within profit or loss for the year).

### ***Gains and losses on disposal (sale)***

Tangible fixed assets are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' group are determined as the difference between the consideration that the Group expects to be entitled to (sales revenue) and the carrying amount of the asset on the date when the recipient obtains control thereon. They are stated net under 'other operating income/(losses), net' on the face of the consolidated statement of comprehensive income (within profit or loss for the year). The part of 'revaluation reserve' component attributable to the asset sold is directly transferred to 'retained earnings' component in the consolidated statement of changes in equity.

## ***2.11. Biological assets***

Biological assets are measured at fair value less the estimated costs to sell.

The fair value of biological assets is determined on the basis of their present location and condition based on a price quoted in an active market or other alternative sources of current prices. Gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and changes in fair value less estimated costs to sell is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) in the period in which it arises and is presented in 'other operating income/(losses), net'. When the fair value of a biological asset cannot be reliably measured, it is measured at cost less



accumulated depreciation or impairment losses. Subsequently, when the fair value of this biological asset becomes reliably measurable, the Group changes its approach and switches to measuring the asset at fair value less the estimated costs to sell.

### ***2.12. Intangible assets***

#### ***Goodwill***

Goodwill represents the excess of the cost of an acquisition (the consideration given) over the fair value of Group's share in the net identifiable assets of the acquired company at the date of acquisition (the business combination). Goodwill is initially measured in the consolidated financial statements at acquisition cost (cost) and subsequently – at cost less accumulated impairment losses. Goodwill is not amortised.

Goodwill arising on the acquisition of a subsidiary is presented in the consolidated statement of financial position in the group of 'intangible assets' while goodwill arising on the acquisition of a joint venture or an associate (entities) is incorporated in the total amount of the investment and is stated in the group of 'investments in joint ventures' or respectively 'investments in associates'.

The goodwill on the acquisition of joint ventures and associates (entities) is tested as part of the total balance (amount) of the investment. The individually recognised goodwill on the acquisition of subsidiaries (entities) is mandatory tested for impairment at least once in a year. Impairment losses on goodwill are not subsequently reversed. Gains or losses on the sale (disposal) of a particular subsidiary (entity) of the Group include the carrying amount of the goodwill relating to the entity sold (disposed of).

On the realisation of a particular business combination, each recognised goodwill is allocated to a particular cash generating unit and this unit is used for impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairment losses on goodwill are presented in the consolidated statement of comprehensive income (within profit or loss for the year) in the item 'impairment of non-current assets'.

#### ***Other intangible assets***

Intangible assets are stated in the consolidated financial statements at acquisition cost less accumulated amortisation and any impairment losses in value. The intangible assets include mainly intellectual property rights, software and complex intangible assets (licences and pharmacy chain locations).

The Group applies the straight-line amortisation method for the intangible assets with determined useful life from 3 to 18 years.

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

Intangible assets are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale at the date

of transfer of control to the asset recipient. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration that the Group expects to be entitled to (sales revenue) and the carrying amount of the asset on the date when the recipient obtains control thereon. They are stated net within "other operating income/(losses) on the face of the statement of comprehensive income (within profit or loss for the year).

### ***2.13. Investment property***

Investment property is property lastingly held by the Group to earn rentals and/or for capital appreciation. They are presented in the consolidated statement of financial position at fair value (*Note 18*). Gains or losses arising from a change in the fair value of investment property are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as 'other operating income/(losses), net' for the period in which they arise. The income gained on investment property is presented in the same item of the consolidated statement of comprehensive income.

Investment properties are derecognised from the consolidated statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal. Gains or losses arising from the disposal of investment property are determined as the difference between the consideration that the Group expects to be entitled to (sales revenue) and the carrying amount of the asset on the date when the recipient obtains control thereon. They are presented under 'other operating income/(losses), net' in the consolidated statement of comprehensive income (within profit or loss for the year).

Transfers to, or from, the group of 'investment property' is made only when there is a change in the functional designation and the use of a particular property. In case of a transfer from 'investment property' to 'owner-occupied property', the asset is recognised in the new group at deemed cost, which is its fair value at the date of transfer.

To the opposite, in case of a transfer from 'owner-occupied property' to 'investment property' the asset is measured at fair value at the date of transfer while the difference to its carrying amount is presented as a component of the consolidated statement of comprehensive income (within other comprehensive income) and within 'revaluation reserve – property, plant and equipment' in the statement of changes in equity.

### ***2.14. Investments in associates and joint ventures***

Long-term investments, representing shares in associates and joint ventures, are presented in the consolidated financial statements under the equity method – value that includes the acquisition cost being the fair value of the consideration paid, including the direct costs on investment acquisition adjusted by investor's share of profits or losses and respectively the other reserves of the joint ventures and associates after the dates of their acquisition.

The share of profits and losses after the date of acquisition of an associate and a joint venture is presented on a separate line in the consolidated statement of comprehensive income (within profit or loss

for the year) while the share of other components of comprehensive income – on the respective line of the consolidated statement of comprehensive income (within other comprehensive income) and as a separate movement of the individual components of reserves in the consolidated statement of changes in equity.

The investments in associates and joint ventures held by the Group together with the included goodwill are subject to review for impairment at the date of the financial statements.

Where conditions for impairment are identified and its amount is determined, the impairment is included in the consolidated statement of comprehensive income (within profit or loss for the year) in the item 'gain/(loss) from associates and joint ventures'.

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

Investments in associates and joint ventures are derecognised when the rights related thereto are transferred to third parties as a result of occurrence of legal rights for that and thus the significant influence over or joint control of the economic benefits from the investments is being lost. The income from their sale is presented in 'gain/(loss) from associates and joint ventures' of the consolidated statement of comprehensive income (within profit or loss for the year).

#### ***2.15. Other long-term equity investments***

The other long-term equity investments are non-derivative financial assets in the form of shares in the capital of other companies (minority interest), held for a long term.

##### *Initial measurement*

Equity investments are initially recognised at cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition (*Note 2.26*).

All purchases and sales of equity instruments are recognised at the transaction's "trade date", i.e. the date on which the Group undertakes to purchase or sell the asset.

##### *Subsequent measurement*

The equity investments held by the Group are subsequently measured at fair value (*Note 2.32*) determined with support by an independent licensed valuator.

The effects from subsequent remeasurement to fair value are carried within a separate component of the statement of comprehensive income (in other comprehensive income), respectively in the reserve for financial assets at fair value through other comprehensive income.

These effects are transferred to retained earnings upon disposal of the respective investment.

##### *Dividend income*

Dividend income related to long-term investments constituting shares in other entities (non-controlling interest) is recognised as current income and stated in the statement of financial position (within profit or loss for the year) in the "finance income" item.

Upon derecognising shares at disposal or sale, the weighted-average price method is used, applying the price determined at the end of the month when the derecognition is performed.

**2.16. Inventories**

Inventories are valued in the consolidated financial statements as follows:

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

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

- raw materials, materials and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage (sale);
- finished products, semi-finished products and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs.

The inclusion of fixed production overheads in the production cost of finished products, semi-finished products and work in progress is based on normal production capacity.

They are allocated to finished products on the following bases chosen by the Group:

- for production of medicinal products – the standard rate of man-hours of directly engaged staff in the production of the particular unit;
- for production of infusion solutions – quantity of manufactured finished products;
- for production of plastic medical disposable products – planned cost of manufactured finished products.

The parent company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard purchase cost' for basic raw materials and other production materials.

At the end of each reporting period the management performs analysis of factors leading to variances on: (a) the supply of raw materials and other production materials – by comparing the actual and standard acquisition costs, and (b) the production of finished products, semi-finished products and work in progress – by comparing the actual and standard production costs.

Where necessary, the value of inventories, included in the financial statements, is adjusted. On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the consolidated financial statements.

Upon use (putting into production or sale) of inventories, they are currently expensed by applying the weighted average cost (cost) method.

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

### ***2.17. Trade receivables***

Trade receivables constitute the Group's unconditional entitlement to consideration under contracts with customers and other counterparties (i.e. it is only dependent on the passage of time before payment of the consideration).

#### ***Initial measurement***

Trade receivables are initially recognised and carried at fair value based on the transaction price, which is usually equal to the invoice amount, unless they contain a significant financial component, which is not additionally charged. In this case they are recognised at their present value determined by applying a discount rate which is equal to the interest rate specific to the customer-debtor.

#### ***Subsequent measurement***

The Group holds trade receivables only for the purpose of collecting contractual cash flows and subsequently measures them at amortised cost less the amount of impairment accumulated for expected credit losses. (*Note 2.26 Financial instruments*).

#### ***Impairment***

The Group applies the expected credit losses model for the entire term of all trade receivables, using the simplified approach under IFRS 9, and based on the matrix model for loss percentage (*Note 24*).

### ***2.18. Interest-bearing loans and other financial resources granted***

All loans and other financial resources granted are initially recognised at acquisition cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, net of the direct costs related to these loans and granted resources. After the initial recognition, the interest-bearing loans and other granted resources are subsequently measured and presented in the consolidated financial statements at amortised cost by applying the effective interest rate method. They are classified in that category as the business model of the Group is solely to collect contractual cash flows of principal and interest. Amortised cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as 'finance income' (interest) or 'finance costs' throughout the amortisation period, or when the receivables are settled, derecognised or reduced.

Interest income is recognised in accordance with the stage in which the respective loan or other receivables has been classified based on the effective interest method.

Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) the Group has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period (*Note 2.26*).

### ***2.19. Cash and cash equivalents***

Cash includes cash on hand and cash at current accounts, and cash equivalents – bank deposits with original maturity up to three months, and funds in deposits with longer maturity which are readily available to the Group under its agreements with the banks over the deposits' terms (*Note 2.26*).

#### ***Subsequent measurement***

Cash and cash equivalents at banks are subsequently measured at amortised cost, less the impairment accumulated for expected credit losses.

For the purposes of the statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on investment purpose loans received is reported as payments for financial activities while the interest on loans for current activities (for working capital) is included in the operating activities;
- interest received on overdue trade receivables is reported as receipts from customer in cash flows from operating activities;
- interest received from bank deposits is included within cash flows from investing activities;
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line 'taxes paid' while that paid on assets purchased from local suppliers is presented as 'cash paid to suppliers' in the cash flows from operating activities as far as it represents a part of the operating flows of the Group companies and is recovered therewith in the respective period (month).
- overdraft proceeds and payments are stated net.
- permanently blocked funds for a period of more than 3 months are not treated as cash and cash equivalents.
- proceeds under factoring agreements are stated within cash flows from financing activities.

### ***2.20. Trade and other payables***

Trade and other current amounts payable are carried to the consolidated financial statements at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value based on their present value at a discount rate applicable for the Group, and subsequently – at amortised cost (*Note 2.26*).

***2.21. Interest-bearing loans and other borrowings***

All loans and other borrowings are initially recognised in the consolidated financial statements at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings.

After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured and presented in the consolidated financial statements at amortised cost by applying the effective interest rate method. Amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement, associated with these loans. Gains and losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortisation period, or when the liabilities are derecognised or reduced (*Note 2.26*).

Interest costs are recognised for the term of the financial instrument based on the effective interest method.

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

***2.22. Capitalisation of borrowing costs***

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

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

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

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

***2.23. Leases******2.23.1. Finance lease******Lessee***

Finance leases, which transfer to the Group a substantial part of all risks and rewards incidental to ownership of the leased property, plant and equipment, are recognised as assets in the statement of financial

position of the lessee and are presented as leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments.

The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the consolidated statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate (*Note 2.26*).

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

### ***Lessor***

Finance lease, where a substantial portion of all risks and rewards incidental to the ownership of the leased asset is transferred outside the Group, is written-off from the assets of the lessor upon transfer to the lessee and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the non-earned finance income.

The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) in the beginning of the lease term (when the asset is delivered) as sales income.

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

### ***2.23.2. Operating lease***

#### ***Accounting policy applicable from 1 January 2019***

### ***Lessee***

IFRS 16 *Leases* establishes lessees to recognize all leases under a single model that imposes balance sheet recognition, similar to accounting for the finance lease under IAS 17.

Under the new standard, a contract contains a lease if it transfers the right to control the use of an identified asset for a certain period of time against remuneration. On the date of the commencement of the lease, the lessee recognizes an asset in the form of a "right of use" of the individual underlying asset and a financial liability representing the present value of the obligation to pay the lease amounts.

The Standard admits two mitigating exceptions: (a) short-term (up to 12 months) and / or (b) low-value leasing contracts.

If lessees choose to benefit from the short-term and / or low-value leases of the standard, the lease payments relating to these contracts should be reported as current costs on a straight line basis over the contract period or on a systematic basis similarly of the operating lease accounting rules under IAS 17.



***Initial measurments***

The lessee recognizes a "right of use" asset and a lease liability on the date when the lease is available for use.

In the initial measurement, the "right of use" asset is stated at cost, which includes the amount of the initial assessment of the lease liability, all payments to and before the lease date less amounts for incentives, all initial direct costs and the provision for costs associated with the dismantling and relocation of the asset.

The liability "lease obligation" is initially recognized at the present value of all lease payments outstanding at that time at the interest rate inherent in the lease or the interest rate on the tenant's borrowed capital.

***Subsequent measurment***

The Group's approach to subsequent revaluation of the "right of use" asset is the revalued ammount model under IAS 16 - revalued ammount, less subsequent accrued amortization and accumulated impairment losses.

Subsequently, the lease obligation was changed to:

- in the direction of increase - with accrued interest rates;
- in the direction of reduction - with the payments of contributions (interest and principal), and
- recalculation of the liability due to changes in the guaranteed residual value, changes in future lease payments due to a change in the applied index or rate used to calculate lease payments, changes in the lease term, and changes in the valuation of the asset acquisition option.

Any adjustments to the lease obligation also adjust the "right of use" asset and, if it is fully amortized, are accounted for as current expense in the current profit or loss.

***Lessor***

IFRS 16 *Leasing* does not substantially alter the accounting of leases for lessors. They will continue to classify each lease as a financial or operating arrangement by applying in practice rules analogous to those in IAS 17 that are substantially translated into the new IFRS 16.

***Accounting policy applicable until 31 December 2018******Lessee***

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

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

***Lessor***

Lessor continues to hold a significant part of all risks and rewards of ownership over the said asset. Therefore the asset is still included in the composition of property, plant and equipment while its depreciation for the period is included in the current expenses of the lessor.

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

#### ***2.24. Pensions and other payables to personnel under the social security and labour legislation***

The employment and social security relations with workers and employees of the Group are based on the Labour Code and the provisions of the effective social security legislation for the companies operating in *Bulgaria*, the Polish Code – for the companies in *Poland*, the employment legislation and the Collective Labour Agreement – for the companies in *Ukraine*, the employment legislation, the General Collective Labour Agreement and the effective Employment Rules and Regulations – for the companies in *Serbia*, the Labour Act – for the company in *Latvia*, the employment legislation – for the companies in *Belarus*, the Social Security Law of the Republic of Kazakhstan – for the company in *Kazakhstan*, the Labour Code – for the company in *Lithuania*, and the Labour Code – for the company in *Moldova*.

##### ***Short-term benefits***

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

At each date of consolidated balance sheet, the companies of the Group measure the estimated costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated amounts of employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

##### ***Tantieme***

In accordance with the Group companies' Articles of Association and upon a decision of the General Meeting of Shareholders, the Executive Director and/or other management are entitled to one-off remuneration (tantieme), usually determined as a percentage of the Company's net profit. These remuneration expenses are recognised in the statement of comprehensive income (within profit or loss) within "employment benefit expenses". When a certain portion is required to be deferred for a period of more than 12 months, this portion is measured at present value at the reporting date and is stated within non-current liabilities in the statement of financial position in the item 'payables to personnel'.

##### ***Bonus schemes***

The amounts payable to staff, including key management members, under different bonus schemes applied in the Group, are usually accrued for the reporting year to which the achieved results refer. These remuneration expenses are recognised in the statement of comprehensive income (within profit or loss) within “employment benefit expenses” and in the statement of financial position as “payables to personnel” and are usually short-term.

***Long-term retirement benefits***

*Defined contribution plans*

*For Bulgaria*

The major duty of the companies - employers in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, and for health insurance.

The rates of the social security and health insurance contributions are defined annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC).

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

*For companies abroad*

The rates of the social security contributions in Poland are approved by the Law on the National Social Security System, in Ukraine – Law on Pension Provision, in Serbia – the Law on Labour in the Republic of Serbia, in Latvia – the Law on Social Security, in Lithuania – Law on National Social Security, in Belarus – the Law on the Mandatory Contributions to the Fund for Social Security of the Population of the Ministry of Labour and Social Security, in Kazakhstan – Law of the Republic of Kazakhstan on Social Security Obligations, and in Moldova – Law on State Social Insurance Budget. The social security contributions are being apportioned between an employer and employees at ratios regulated by the relevant local laws.

There is no established and functioning private voluntary social security scheme at the Group.

The contributions, payable by the companies of the Group under defined contribution plans for social security and health insurance, are recognised as a current expense in the statement of comprehensive income (within profit or loss for the year) unless a particular IFRS requires this amount to be capitalised to the cost of an asset, and as a current liability at their undiscounted amount along with the accrual of the

respective employee benefits to which the contributions refer and in the period of rendering the underlying service.

#### *Defined benefit plans*

In accordance with the requirements of the Labour Code, the employer of the companies in *Bulgaria* is obliged to pay to its personnel upon retirement an indemnity, which depending on the length of service at the entity varies between two and six gross monthly salaries as at the termination date of the employment.

In accordance with the Labour Law in *Serbia*, the employer of the Serbian company is obliged to pay to its personnel on coming of age for retirement an indemnity at the amount of at least three average salaries calculated at the time of payment. In accordance with the employment legislation in *Ukraine* and the Collective labour Agreement of the Ukrainian company, the employer is obliged to pay to its personnel on coming of age for retirement an indemnity, which depending on the length of service with the entity may vary between UAH 100 and UAH 200 (between BGN 6 and BGN 13). Also, the company in Ukraine accrues social indemnities, which are paid prior to retirement of employees due to specific labour conditions. According to the employment legislation in Poland, the employer is obliged to pay upon retirement one gross monthly salary. According to the employment legislation, there are no obligations to the personnel on retirement in Lithuania, Latvia, Belarus and Moldova.

In their nature these are unfunded defined benefit schemes.

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

At the date of issue of the consolidated financial statements, the companies of the Group assign certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in the respective country where the company itself operates.

#### *Share based payments*

Share based payments to employees and others providing similar services are measured at fair value of the equity instruments as of the grant date. Form remunerations related to share based payments

with conditions which have not vested rights the fair value as of the grant date is measured in a way to reflect these conditions and not to account for differences between expected and actual results.

#### *Termination benefits*

In accordance with the local provisions of the employment and social security regulations of the Group companies, the employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities.

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

#### *2.25. Share capital and reserves*

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

According to the requirements of the Commercial Act and the Articles of Association, the parent company is obliged to set aside a ***Reserve Fund (statutory reserve)*** by using the following sources:

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

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

The *treasury shares* are presented in the consolidated statement of financial position at acquisition cost (cost) and Group's equity is decreased by their gross purchase price. Gains or losses on sales of treasury shares are at the expense of retained earnings and are carried directly to Group's equity in the 'retained earnings' component.

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

- the revaluation surplus between the carrying amount of property, plant and equipment and their fair values at the date of each revaluation;
- the revaluation surplus between the carrying amount of property stated as owner-occupied property and their fair values at the date when they are transferred to investment property.

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

Revaluation reserve is transferred to accumulated profits when the assets are derecognised from the consolidated statement of financial position of the Group or are fully depreciated.

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

*The reserve for financial assets at fair value through other comprehensive income* is formed by the effects of fair-value measurement of other long-term equity investments. Upon derecognition of these investments, the reserve form is not recycled through the statement of comprehensive income (through profit or loss for the year).

The *translation of foreign operations reserve* includes the effects of restating the financial statements of the companies abroad from local currency to the presentation currency of the Group. This reserve is recognised as a separate component of equity in the consolidated statement of financial position and as part of the profit or loss in the consolidated statement of comprehensive income on the line 'gains/(losses) on acquisition and disposal of subsidiaries, net' on disposal (sale) of a foreign operation (company).

## **2.26. Financial instruments**

A financial instrument is any contract that simultaneously gives rise to a financial asset at one entity and a financial liability or equity instrument at another entity.

### **Financial assets**

#### *Initial recognition, classification and measurement*

At initial recognition, financial assets are classified in three groups, as subsequently measured: at amortised cost; at fair value through other comprehensive income, and at fair value through profit or loss.

The Group initially measures financial assets at fair value, and in the case of financial assets which are not stated at fair value through profit and loss, the direct transaction costs are added. An exception to this rule are trade receivables that do not contain a significant financing component – they are measured based on the transaction price determined under IFRS 15 *Revenue from contracts with customers* (Note 2.6.1.2).

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The classification of financial assets at their initial recognition depends on the characteristics of the contractual cash flows of the respective financial asset and on the Group's business model for management thereof. In order for a financial asset to be classified and measured at amortised cost or fair value through

OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result solely from collecting contractual cash flows, selling the financial assets, or both.

#### *Subsequent measurement*

For the purpose of subsequent measurement, financial assets are classified in the following categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through other comprehensive income without “recycling” of cumulative gains or losses (equity instruments)

#### *Classification groups*

##### *Financial assets at amortised cost (debt instruments)*

The Group measures a financial asset at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method. They are subject to impairment. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) upon asset disposal, modification or impairment.

The Group’s financial assets at amortised cost include: cash and cash equivalents at banks, trade receivables, including from related parties, loans to related and third parties (*Note 19, Note 20, Note 22, Note 22, Note 23, Note 24 and Note 25*).

##### *Financial instruments at fair value through other comprehensive income (equity instruments)*

At initial recognition, the Group companies may make an irrevocable election to classify certain equity instruments as financial instruments at fair value through other comprehensive income, but only if they meet the equity definition under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined at an individual level, on an instrument by instrument basis.

At derecognition of these assets, gains and losses from measurement to fair value, recognised in other comprehensive income, are not transferred to (recycled through) profit or loss. Dividends are recognised as “financial income” in the statement of comprehensive income (within profit or loss for the year) when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated as financial instruments at fair value through other comprehensive income are not subject to impairment test.

The Group has made an irrevocable election to classify into this category minority equity investments which it holds in the long term and in relation to its business interests in these entities. Significant part of these instruments are listed. They are presented in the consolidated statement of financial position within the „Other long-term equity investments” item.

#### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred, nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Impairment of financial assets*

The Group recognises an allowance (impairment provision) for expected credit losses for all debt instruments which are not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms

To calculate the expected credit losses for *loans to related and third parties, incl. cash and cash equivalents at banks*, the Group applies the general impairment approach defined by IFRS 9. Under this approach, the Group applies a 3-stage impairment model based on changes at the initial recognition of the credit quality of the financial instrument (asset).

Expected credit losses are recognised at two stages:

a. A financial asset which is not credit impaired at its initial recognition/acquisition is classified in Stage 1. These are loans granted to debtors with low risk of default, classified as performing and not overdue. Since its initial recognition, its credit risk and characteristics are subject to continuous monitoring and analyses. The expected credit losses for the financial assets classified in Stage 1 are determined based on credit losses resulting from probable events or default that are possible in the next 12 months of the respective asset’s lifetime (12-month expected credit losses for the instrument).



b. When there has been a significant increase in credit risk since the initial recognition of a financial asset, and as a result its characteristics deteriorate, it is classified in Stage 2. Expected credit losses for financial assets classified in Stage 2 are determined for the remaining lifetime of the respective asset, irrespective of the point of default (lifetime expected credit loss (ECL)).

The Group's management has developed a policy and a set of criteria to analyse, ascertain and assess the occurrence of a condition of "significant increase in credit risk". The main points of the policy and set of criteria are disclosed in *Note 43*.

In the cases when the credit risk of a financial instrument increases to a level that indicates default, the financial asset is considered to be impaired, and is classified in Stage 3. At this stage, the losses incurred for the lifetime of the respective asset are identified and calculated.

The Group's management has performed the respective analyses, based on which it has determined a set of criteria for default events. One of them is delay in contract payments by over 90 days, unless circumstances exist for a certain instrument that make such claim refutable. Along with that, there are other events, based on internal and external information, which indicate that the debtor is not able to repay all contracted amounts due, including in consideration of all loan collaterals and credit enhancements held by the Group. The main points of the policy and set of criteria are disclosed in *Note 43*.

The Group adjusts expected credit losses determined based on historical data, with forecasted macroeconomic indicators for which it has been established that correlation exists and which are expected to impact the amount of expected credit losses.

In order to calculate expected credit losses for *trade receivables and contract assets* the Group has elected and applies a simplified approach based on an expected credit losses calculation matrix and does not monitor subsequent changes in their credit risk. In this approach, it recognises an allowance (impairment provision) based on lifetime expected credit losses at each reporting date. The Group has developed and applies a provisioning matrix based on its historical experience with credit losses, adjusted with forecast factors specific for debtors and the economic environment, for which a correlation has been established with the percentage of credit losses (*Note 43*).

#### *Derecognition*

Impaired financial assets are derecognised when there is no reasonable expectation of recovering the contractual cash flows.

#### ***Financial liabilities***

##### *Initial recognition, classification and measurement*

The Group's financial liabilities include trade and other payables, loans and other borrowings, including bank overdrafts. At initial recognition, financial assets are usually classified as: financial liabilities at amortised cost.

All financial assets are initially recognised at fair value, and in the case of loans and borrowings and trade and other payables, net of direct transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, including bank overdrafts, derivative financial instruments.

##### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as described below:

*Classification groups**Loans and borrowing*

After initial recognition, the Group measures interest-bearing loans and borrowings at amortised cost, applying the effective interest method. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) when the respective financial liability is derecognised, as well as through amortisation based on the effective interest rate.

The amortised cost is calculated by taking into consideration any discounts or premiums at acquisition, as well as fees or costs that constitute an integral part of the effective interest rate. Amortisation is included as a “finance expense” in the statement of comprehensive income (within profit or loss for the year) (*Note 43*).

*Derecognition*

Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

*Offsetting (netting) of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

This requirement results from the concept of the economic substance of the Group’s relations with a given counterparty stating that in the simultaneous presence of these two requirements the expected actual future cash flow and rewards for the Group is the net flow, i.e. the net amount reflects the Group’s actual right and obligation resulting from these financial instruments – in all cases to only receive or pay the net amount. If the two conditions are not simultaneously met, it is assumed that the Group’s rights and obligations with respect to these offsetting financial instruments are not exhausted in all situations by only the payment or receipt of the net amount.

The offsetting policy is also related to the measurement, presentation and management of actual credit risk and the liquidity risk pursuant from these offsetting instruments.

The criteria applied to establish the “current and legally enforceable entitlement to offsetting” are:

- lack of dependence on a future event, i.e. it should not only be applicable upon the occurrence of a future event;
- the offsetting should be enforceable and legally defensible during (cumulatively):
  - the usual business operations;
  - in case of default/delay, and
  - in case of insolvency

The applicability of criteria is measured against the requirements of the Bulgarian legislation and the contractual relations between the parties. The condition of “presence of current and legally enforceable right to offsetting” is always and mandatorily assessed together with the second condition – for “mandatory settling of these instruments on a net basis”.

### 2.27. *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised as a financial liability at fair value determined based on the present value of the difference in cash flows between contract payments required under the debt instrument, and payments that would be required without a guarantee payable to a third party upon commitment.

The subsequent measurement of financial guarantee liabilities is the higher of the following:

- the amount determined in accordance with the expected credit losses model, and
- the initially recognised amount, less, when applicable, the cumulative amount of the revenue recognised under the principles of IFRS 15 *Revenue from Contracts with Customers*.

The provision for expected credit losses on financial guarantee contracts is included in the consolidated statement of financial position as ‘other current liabilities’.

### 2.28. *Income taxes*

*Current income taxes* of the Bulgarian companies of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for 2019 is 10% (2018: 10%).

The subsidiaries and joint ventures abroad are charged in accordance with the requirements of the respective local tax regulations by applying the following tax rates:

<i>Country</i>	<i>Tax rate</i>	
	<b>2019</b>	<b>2018</b>
Ukraine	18%	18%
Serbia	15%	15%
Latvia	0-25%	0-25%
Belarus	18%	18%
Lithuania	15%	15%
Poland	19%	19%
Kazakhstan	20%	20%
Moldova	12%	12%

*Deferred income taxes* are determined using the liability method on all temporary differences of each consolidated company existing at the consolidated financial statements date, between the carrying

amounts of the assets and liabilities and their tax bases, including for those arising from consolidation adjustments.

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

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

The carrying amount of all deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, whereby they could be deducted or compensated.

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

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

Deferred tax assets of a Group company are presented net against the deferred tax liabilities of this company when it is the tax payer in the respective jurisdiction, and this is only in cases where the company is legally entitled to perform or receive net payments of current tax liabilities or income tax receivables.

### ***2.29. Government grants***

Government grants represent various forms of providing gratuitous resources by a government (local and central authorities and institutions) and/or intergovernmental agreements and organisations.

Government grants (from municipal, government and international institutions, including under the procedure of using the European funds and programmes) are initially recognised as deferred income (financing) when there is reasonable assurance that they will be received by the Group and that the latter has complied and complies with the associated thereto requirements.

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

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

***2.30. Net earnings or losses per share***

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

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.

This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

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

Diluted net earnings or losses per share are not calculated because no dilutive potential ordinary shares have been issued within the Group.

***2.31. Segment reporting***

The Group identifies its reporting segments and discloses segment information in accordance with the organisational and reporting structure used by the management of the parent company for current general monitoring and management of the Group and its components. Operating segments are business components, which are regularly reviewed by Group's chief operating decision makers who take operating decisions by using financial and operating information prepared specifically on the segment for the purposes of current monitoring and assessment of results and allocating Group's resources.

The Group's operating segments are currently monitored and directed separately as each of them represents a separate business area that offers various products and bears various business risks and rewards. The operating segments that the Group's management monitors, measures and controls risks and return therefrom are defined based on the main business operations performed on pharmaceutical products, namely: production and trade.

***Information by operating segments***

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

Segment assets, liabilities, respective revenue, expenses and results include those that are and can be directly attributable to the respective segment as well as such that can be allocated on a reasonable basis. Usually they include: (a) for revenue - sales of finished products; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration, cost of goods sold; (c) for assets - property, plant and equipment and inventories, receivables from related parties, trade receivables and cash and cash equivalents; (d) for liabilities - payables to personnel and for social security, payables to related parties, trade payables and bank loans for direct financing (long-term and short-term).

Capital expenditures (investments) by business segments are differentiated expenses incurred in the period of acquisition or construction of segment non-current assets, which are expected to be used for more than one period.

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

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

Inter-segment transfers: segment revenue, expenses and results, include internal transfers between business segments. These transfers are accounted for at competitive market prices charged to third party customers of similar goods, and are eliminated at consolidated financial statements level.

Investments in joint ventures and associates, accounted for by using the equity method, are excluded from segment assets and segment revenue. They are stated within non-allocated assets, and revenue therefrom is presented within the item "gains/(losses) from joint ventures and associates, net".

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

Additionally, the Group discloses information about important customers when the amount of revenue realised from the respective client exceeds 10% of the total amount of Group's consolidated operating revenue.

### **2.32. Fair value measurement**

Some of Group's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. These include: (a) on a recurring (annual) basis – *other long-term equity investments (prior reporting period – available-for-sale financial assets), investment property, bank loans granted and received and loans to/from third parties, certain trade and other receivables and payables, receivables and payables under finance leases, etc.* (b) on a non-recurring (periodical) basis – *non-financial assets such as property, plant and equipment.*

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

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

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

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

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

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

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

Internal rules and procedures for measuring the fair value of various types of assets and liabilities have been developed centrally in the parent company. For the purpose, a specifically designated individual, subordinated to the Finance Director of the Group, organised the performance of the overall valuation process and also coordinates and observes the work of the external appraisers.

The Group uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: *other long-term equity investments (prior reporting period – available-for-sale financial assets)* Level 2 and Level 3, *investment properties – Level 1, property, plant and equipment – Level 2*. The choice of such appraisers is made on an annual basis using the following criteria: applied professional standards, professional experience and knowledge, reputation and market status. The need for rotation of external appraisers is periodically assessed – every three to five years. The applied valuation approaches and techniques as well as the used inputs for each case of fair value measurement are subject to mandatory discussion and coordination between the external experts – appraisers and the specifically designated individual, engaged with measurements, and so is the acceptance of the issued appraiser's reports – especially with regard to the significant assumptions and the final conclusions and proposals for

the fair value amount. The final fair value measurements are subject to approval by the Finance Director and/or Chief Accountant, Executive Director and the Board of Directors of the respective company and the Finance Director of the Group.

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

The results of the assessment of the fair value measurement procedure are presented to the audit committee and to the independent auditors of the respective companies as well as to the Finance Director and the independent auditors of the Group.

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

***2.33. Critical accounting judgments on applying the Group's accounting policies. Key estimates and assumptions of high uncertainty.***

***Revenue from contracts with customers***

Upon revenue recognition and preparation of the consolidated financial statements, the management performs various judgements, estimates and assumptions that impact the revenue, costs, assets and liabilities accounted for and the respective disclosures thereto. As a result of the uncertainty regarding these assumptions and estimates, significant adjustments may occur in the carrying amount of the assets and liabilities concerned in the future, respectively the costs and revenue recorded.

The key judgements and assumptions that materially impact the amount and term for recognition of revenue from contracts with customers, including the timing, transfer of the control of the promised finished goods, goods and/or services, the estimation of variable consideration for returned assets and volume rebates, are disclosed in *Note 2.6.1*.

***Fair value measurement of equity investments***

When the fair value of equity investments carried in the statement of financial positions cannot be obtained based on quoted prices on active markets, their fair value is determined by using other valuation models and techniques, including the discounted cash flows model. The input used in these models is obtained from observable markets, where possible, but when this cannot be done, significant judgement is applied to determine fair values. Such judgement involves the review, analysis and assessment of input, for instance regarding liquidity risk, credit risk, and volatility. The changes in assumptions for these factors may impact the amount of the fair value of financial instruments stated.



***Calculation of expected credit losses for loans and guarantees granted, trade receivables, including from related parties, and cash and cash equivalents***

The measurement of expected credit losses for financial assets stated at amortised cost (loans granted, trade receivables and contract assets, cash and cash equivalents), as well as for financial guarantees granted is an area that requires the use of complex models and material assumptions for future economic conditions and the credit behaviour of customers and debtors (for instance, the probability of counterparties not meeting their obligations and the pursuant losses).

In order to apply these requirements, the Group's management makes a number of material judgements, such as:

- (a) determining criteria to identify and measure significant credit risk increases;
- (b) selection of suitable models and assumptions to measure expected credit losses;
- (c) establishing groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses,
- (d) establishing and assessing the correlation between historical default rates and the behaviour of certain macro indicators to reflect the effects of forecasts for these macro indicators in the calculation of expected credit losses. (*Note 39*).

**Regarding trade receivables, including from related parties**

The Group uses provisioning matrixes calculate expected credit losses from trade receivables and contract assets. The provision rates are based on days past due for groups from different customer segments (portfolios) sharing similar loss models (type of client sector).

Each provisioning matrix is initially based on detailed historical observation of default rates in the Group companies' receivables and the movement of receivables by delay groups. Usually, historical data is used for at least three years as per the financial statement's date. Moreover, the Company calibrates the matrix so as to adjust historically ascertained dependence for credit losses with forecast information by also using probability scenarios.

If certain forecast economic conditions, measured by means of certain macro indicators, are expected to aggravate or improve in the next year, which might result in established correlational increase in payment delays for a certain sector (type of client), the historic default rates are adjusted. At each reporting date, the observable historical default rates are updated and the effects of changes in the estimates are accounted for.

The assessment of the relation between observable historical default rates, the forecast economic conditions and expected credit losses is a significant accounting judgement. The amount of expected credit losses is sensitive to changes in circumstances and forecast conditions. The Group's historical credit closes and the forecast economic conditions may deviate from actual collection rates in the future.

**Regarding loans and guarantees granted:**

The Group has adopted the general approach for calculating impairment based expected credit losses of the loans granted, pursuant to IFRS 9. For this purpose, the Group applies a model of its choice. Its application goes through several stages. First, the debtor's credit rating is determined by means of several rating agencies' methodologies for the respective economic sectors and ratios, quantitative and qualitative parameters and indicators of the entity. Second, by using statistical models including historical

default probability data (PD), transfer between ratings, macro economic data and forecast, the relevant marginal PD are calculated by year for each rating. Third, based on this analysis and the determined rating, and based on a set of indicators for the instrument's characteristics at the date of each financial statements, the following parameters are determined: instrument stage (Stage 1, Stage 2 or Stage 3), PD needed for the instrument's lifetime, as well as loss given default (LGD). The main formula used to calculate expected credit losses is:  $ECL = EAD \times PD \times LGD$ , where:

ECL is the expected credit losses indicator;

EAD is the exposure at default indicator;

PD is the probability of default indicator;

LGD is the loss given default indicator.

Upon determining losses, all secured and/or insured amounts are taken into consideration. Thus, in the final step, by using all these parameters and following discount, the expected credit loss for the respective period of the respective financial assets is calculated.

Stage 1 includes loans granted which are classified as "Performing" according to the internal risk classification scheme developed. These are loans granted to debtors with low default rates, regular servicing, without considerable deterioration of key indicators (financial and non-financial), and without amounts past due.

The expected impairment loss for such loans is calculated based on probabilities of default for the next 12 months and the Company's expectation for loss amount upon exposure default over the next 12 months.

Stage 2 includes granted loans classified as "renegotiated". These are loans with respect to which (based on a set of indicators) a significant deterioration of the credit risk related to the debtor has been determined as compared to the exposure's initial recognition. The expected impairment loss for these loans is calculated based on the probabilities of default for the lifetime of the loan which is considered to be credit-unimpaired, and the Company's expectations for loss amount upon exposure default over the lifetime.

Stage 3 includes granted loans which are classified as "In default". These are loans for which evidence exists that the asset is credit-impaired, i.e. a credit event has occurred (according to the policy on default event eligibility). Therefore, an analysis is performed of a system of indicators used to identify the occurrence of credit losses. Impairment losses for such loans are calculated based on probability-weighted scenarios for the Company's expectations for the loss amount of the non-performing credit-impaired exposure throughout its lifetime.

A granted loan is credit-impaired when one or more events have occurred which have an adverse effect on expected future cash flows from this loan, accordingly financial assets.

The Group applies the same model with respect to expected credit losses from guarantees granted and certain individual receivables.

### *Cash*

To calculate expected credit losses for cash and cash equivalents at banks, the Group applies the general "three-stage" impairment model under IFRS 9. For this purpose, it applies a model based on the bank's public ratings as determined by internationally recognised rating firms like Moody's, Fitch, S&P, BCRA and Bloomberg. Based on this, on the one hand, PD (probability of default) indicators are set by

using public data about PD referring to the rating of the respective bank, and on the other hand, through the change in the rating of the respective bank from one period to the next, the Company assesses the presence of increased credit risk. Loss given default is measured by using the above formula. Upon determining LGD, the presence of secured and/or insured amounts in the respective bank accounts is taken into consideration.

#### ***Recognition of tax assets***

Upon recognition of deferred tax assets, the Group's management assesses the probability of future reversal of individual temporary differences and the abilities of each Group's company to generate sufficient profit to compensate such reversal. With respect to subsidiaries which have continued to state losses over the last few years, the Group's management has identified as at the date of issuance of the consolidated financial statement significant uncertainty about whether and to what extent these companies would be able to generate sufficient taxable profit within the period designated under the respective local tax legislation on tax losses carry forward.

#### ***Inventories***

##### ***Normal capacity***

Group's normal production capacity is determined on the basis of management assessments (made after relevant analyses) for optimum load of the production facilities and return on the investments made therein, with structure of the manufactured finished products accepted as being common for the Group.

#### ***Impairment***

At the end of each financial year, the Group companies review the state, useful life and usability of the existing inventories. In case of identified inventories bearing a potential of not being realised at their current carrying amount in the following reporting periods, the Group companies impair these inventories to net realisable value.

#### ***Revaluation of property, plant and equipment***

The Group uses the expertise of external licensed valuers to determine the fair values of property, machines and equipment. The selection of such valuers is done on an annual basis by using the following criteria: professional standards applied, professional experience and expertise, reputation and market status. On a periodic basis (once every five years), the need of external valuers rotation is assessed. The application of valuation approaches and techniques, as well as the input used for each instance of fair value measurement, are subject to mandatory discussion and coordination between the external expert valuers and a person designated as responsible for valuation and the approval of the valuation reports issued – especially with respect to the material assumptions and final conclusions and suggestions for the fair value amount. The final fair value measurement is subject to approval by the Group's management.

At the date of each financial statements, as per the Company's accounting policies, a person specially designated performs general analysis of information collected in advance on the movement in the

values of assets and liabilities which are subject to measurement or fair value disclosure, on the type of data available and the possible factors for observable changes, and proposes to the Finance Director the approach to measuring the fair values of the respective assets and liabilities at this date. If necessary, this is expressly coordinated with the external valuers appointed.

The outcomes of the fair value measurement process are presented to the parent company's Audit Committee and independent auditors.

In 2019 and 2018 the Group did not perform revaluation of its property, plant and equipment, because the management's observations show there has been no significant change in the price levels and behaviour of the markets of assets in these groups, which based on their characteristics belong to the Company's non-current tangible assets. (*Note 14*).

#### ***Actuarial calculations***

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

#### ***Litigation provisions***

With regard to the pending litigations against companies of the Group, the management of respective companies have judged, jointly with their lawyers, that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, no provisions for payables under litigations have been included in the consolidated statement of financial position as at 31 March 2019 (31 December 2018: none) (*Note 38*).

**3. REVENUE FROM CONTRACTS WITH CUSTOMERS***Group revenue from contracts with customers* includes:

	<i>1 January – 31 March 2019 BGN'000</i>	<i>1 January – 31 March 2018 BGN'000</i>
Revenue from sales of goods	248,434	238,156
Revenue from sales of finished products	64,942	54,707
<b>Total</b>	<b>313,376</b>	<b>292,863</b>

	<i>1 January – 31 March 2019 BGN'000</i>	<i>1 January – 31 March 2018 BGN'000</i>
<i>Sales of goods by type</i>		
Tablet dosage forms	121,686	120,253
Ampoule dosage forms	47,581	46,583
Syrup dosage forms	23,319	12,194
Drops	16,622	10,836
Consumables, dressing materials and apparatuses	7,949	9,096
Cosmetics	7,493	8,386
Ointments	6,473	5,997
Food supplements and herbs	5,436	5,819
Suppositories	3,475	3,432
Lyophilic products	1,927	1,802
Other	6,473	13,758
<b>Total</b>	<b>248,434</b>	<b>238,156</b>

	<i>1 January – 31 March 2019 BGN'000</i>	<i>1 January – 31 March 2018 BGN'000</i>
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*Sales of finished products by type*

Tablet dosage forms	43,950	35,288
Ampoule dosage forms	8,450	8,608
Consumables, dressing materials and apparatuses	2,755	2,423
Syrup dosage forms	2,670	1,708
Ointments	2,187	1,731
Lyophilic products	1,490	1,507
Inhalation products	619	346

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Haemodialysis concentrates	443	462
Infusion solutions	357	486
Other	<u>2,021</u>	<u>2,148</u>
<b>Total</b>	<b><u>64,942</u></b>	<b><u>54,707</u></b>

Contract balances are as follows:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Receivables under contracts with customers – third parties, net of impairment ( <i>Notes 22</i> )	223,173	224,514
Receivables under contracts with customers – related parties, net of impairment ( <i>Notes 23</i> )	893	1,376
Contract liabilities under contracts with customers – third parties	426	471

Contract liabilities at 31 March 2019 include advance payments received for the delivery of medical equipment, at the amount of BGN 426 thousand (31 December 2018: BGN 471 thousand).

The change in contract liabilities for the period 01.01 - 31.03.2019 is as follows:

	<b>1 January – 31 March 2019 BGN'000</b>
<b>Balance at 1 January</b> (Note 37)	<b><u>471</u></b>
Revenue stated, which was recognised as contract liabilities, incl.:	(408)
- <i>Advance payments received</i>	(408)
Payments from clients (excluding those recognised as revenue in the period)	363
<b>Balance at 31 March/ 31 December</b>	<b><u>426</u></b>

*The reimbursement obligations* as at 31 March 2019 amount at BGN 2,136 thousand (31 December 2018: BGN 2,199 thousand) and include liabilities under retrospective trade volume discounts payable under contracts with customers which have been or will be reimbursed over the next reporting period. (*Note 37*).

**4. OTHER OPERATING INCOME AND LOSSES***Other operating income and losses, net* include:

	<i>1 January – 31 March 2019</i>	<i>1 January – 31 March 2018</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Services rendered	2,184	1,277
Rentals	209	212
Government grants	198	234
Social activities and events	150	151
Gain on sale of long-term assets	73	37
Gain on sale of materials	15	15
Net gain/(loss) on exchange differences under trade receivables and payables and current accounts	(38)	73
Liabilities written-off	-	9
Other	164	94
<b>Total</b>	<b>2,955</b>	<b>2,102</b>

The services rendered include:

	<i>1 January – 31 March 2019</i>	<i>1 January – 31 March 2018</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Advertising and marketing	1,338	560
Pre-distribution income	165	196
Laboratory analyses	61	53
Secondary packaging	37	135
Other	583	333
<b>Total</b>	<b>2,184</b>	<b>1,277</b>

**5. MATERIALS AND CONSUMABLES USED***Expenses on materials* include:

	<i>1 January – 31 March 2019</i>	<i>1 January – 31 March 2018</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Basic materials	15,450	16,819
Electric energy	1,930	1,833
Spare parts, laboratory and technical materials	1,871	1,773
Heat power	1,431	1,391

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Fuels and lubricating materials	755	749
Auxiliary materials	361	375
Promotional materials	302	182
Other	851	911
<b>Total</b>	<b>22,951</b>	<b>24,033</b>

*Expenses on basic materials* include:

	<i>1 January – 31 March 2019</i>	<i>1 January – 31 March 2018</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Substances (active ingredients)	6,080	6,870
Packaging materials	4,019	3,595
Liquid and solid chemicals	2,397	2,254
Sanitary-hygienic and dressing materials	876	689
Herbs	779	573
Ampoules	573	584
Aluminium foil	337	332
Polypropylene, polyethylene, polystyrene	273	224
Other	116	1,698
<b>Total</b>	<b>15,450</b>	<b>16,819</b>

**6. HIRED SERVICES EXPENSE**

*Hired services expense* includes:

	<i>1 January – 31 March 2019</i>	<i>1 January – 31 March 2018</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Advertising and marketing services	5,971	3,644
Consulting services	1,927	1,516
Forwarding and transportation services	1,091	1,193
Buildings and equipment maintenance	1,053	1,350
Rentals	823	2,838
Manufacturing of medicinal products	806	655
Subscription fees	755	825
Bank and regulatory charges	654	740
Security	546	458
Local taxes and charges	517	550
Announcements and communications	472	279
Insurance	362	493



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Service charges	347	214
Motor vehicles repair	286	281
Services under civil contracts	260	259
Services on medicinal products registration	213	174
Commissions	213	20
Medical services Taxes on expenses	208	193
License fees and charges	176	98
Documentation translation	112	151
Other	990	939
<b>Total</b>	<b>17,782</b>	<b>16,870</b>

**7. EMPLOYEE BENEFITS EXPENSE**

	<i>1 January – 31 March 2019 BGN'000</i>	<i>1 January – 31 March 2018 BGN'000</i>
Current wages and salaries	23,928	21,553
Social security contributions	4,759	4,179
Accruals for unused paid leaves	976	721
Social benefits and payments	839	718
Social security/health insurance contributions on leaves	166	137
Accruals for long-term retirement benefits to personnel ( <i>Note 28</i> )	70	65
<b>Total</b>	<b>30,738</b>	<b>27,373</b>

**8. OTHER OPERATING EXPENSES**

	<i>1 January – 31 March 2019 BGN'000</i>	<i>1 January – 31 March 2018 BGN'000</i>
Scrap and shortages of goods	429	176
Business trip costs	376	397
Accrued/(reversed) impairment of trade, court and other receivables, net ( <i>Note 9</i> )	280	-
Donations	218	166
Entertainment allowances	196	240
Training	183	226

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Scrap and shortages of finished products and work in progress	48	47
Impairment of goods, finished products and work in progress	(130)	250
Other	351	254
<b>Total</b>	<b>1,951</b>	<b>1,756</b>

**9. IMPAIRMENT OF CURRENT ASSETS**

	<i>1 January– 31 March 2019 BGN'000</i>	<i>1 January – 31 March 2018 BGN'000</i>
<i>Impairment of credit losses from receivables, including from related parties</i>	379	-
<i>Reversed impairment of credit losses from receivables, including from related parties</i>	(99)	-
Net change in provision for impairment of credit losses (Note 8)	280	-
Impairment of finished products and work in progress (Note 8)	(130)	250
Impairment of materials (Note 5)	-	(44)
<b>Total</b>	<b>150</b>	<b>206</b>

**10. FINANCE INCOME**

	<i>1 January– 31 March 2019 BGN'000</i>	<i>1 January– 31 March 2018 BGN'000</i>
<i>Finance income</i> includes:		
Interest income on past due trade receivables	1,029	534
Interest income on loans granted	415	273
Net change in impairment allowance for credit losses on receivables from commercial loans granted	243	-
Net gains from exchange differences from loans in foreign currency	160	(221)
Net gain on transactions with investments in securities	119	-
Net gains from exchange differences from receivables on subsidiary sale	65	-

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Interest income on bank deposits	19	2
Interest on receivables under special contracts	9	-
<b>Total</b>	<b>2,059</b>	<b>588</b>

**11. FINANCE COSTS**

<i>Finance costs</i> include:	<i>1 January– 31 March 2019 BGN'000</i>	<i>1 January– 31 March 2018 BGN'000</i>
Interest expense on loans received	2,127	1,535
Interest expense on finance and operating lease	434	24
Bank fees and charges on loans and guarantees	217	171
Interest expense under factoring agreement	107	74
Net loss on exchange differences from receivables on subsidiary sale	-	87
Effects from derivatives	-	2
Net loss from transactions with investments in securities	-	6
<b>Total</b>	<b>2,885</b>	<b>1,899</b>

**12. GAINS/LOSSES FROM ASSOCIATES AND JOINT VENTURES**

	<i>1 January– 31 March 2019 BGN'000</i>	<i>1 January– 31 March 2018 BGN'000</i>
Gains from associates, net	2,359	(64)
Gains from joint ventures, net	114	47
	<b>2,473</b>	<b>(17)</b>

<i>Gains/(losses) from joint ventures, net</i> include:	<i>1 January– 31 March 2019 BGN '000</i>	<i>1 January– 31 March 2018 BGN '000</i>
Effect of fair value measurement of previously held shares on acquisition of control over Group companies	113	-
Share of the Group in the current (loss)/profit of joint ventures	1	47

<b>Total</b>	<b>114</b>	<b>47</b>
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**13. OTHER COMPREHENSIVE INCOME**

Other components of comprehensive income include:

	Items of other comprehensive income attributable to the Group		Items of other comprehensive income attributable to non- controlling interests		Total items of other comprehensive income	
	<i>1 January</i>	<i>1 January</i>	<i>1 January</i>	<i>1 January</i>	<i>1 January</i>	<i>1 January</i>
	–	–	y–	–	–	–
	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>	<i>31 March</i>
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
<i>Items that may be reclassified to profit or loss</i>						
Net change in the fair value of equity investments measured at fair value through other comprehensive income	55	21	-	-	55	21
<i>Items that may be reclassified to profit or loss</i>						
Foreign exchange differences from restatement of foreign operations	629	77	542	(259)	1,171	(182)
<b>Other comprehensive income for the year</b>	<b>684</b>	<b>98</b>	<b>542</b>	<b>(259)</b>	<b>1,226</b>	<b>(161)</b>

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**14. PROPERTY, PLANT AND EQUIPMENT**

	<i>Land and buildings</i>		<i>Plant and equipment</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Book value</i>										
<b>Balance at 1 January</b>	<b>235,235</b>	<b>225,602</b>	<b>237,925</b>	<b>230,964</b>	<b>44,728</b>	<b>41,839</b>	<b>16,365</b>	<b>9,103</b>	<b>534,253</b>	<b>507,508</b>
Effect of application of IFRS 16 to 1.1.2019	35,774	-	-	-	2,424	-	-	-	38,198	-
<b>Balance at 1 January (recalculated)</b>	<b>271,009</b>	<b>225,602</b>	<b>237,925</b>	<b>230,964</b>	<b>47,152</b>	<b>41,839</b>	<b>16,365</b>	<b>9,103</b>	<b>572,451</b>	<b>507,508</b>
Additions	167	2,323	1,041	4,020	1,000	5,797	4,185	20,751	6,393	32,891
Acquired assets in newly acquired subsidiaries	87	169	19	95	-	21	-	-	106	285
Effects of foreign currency restatements	432	70	74	105	76	(30)	35	14	617	159
Disposals	-	(101)	(56)	(2,135)	(475)	(4,168)	(151)	-	(682)	(6,404)
Allowance for impairment	-	-	-	-	-	-	-	(186)	-	(186)
Transfer to property, plant and equipment	408	7,172	699	4,876	1,308	1,269	(2,415)	(13,317)	-	-
<b>Balance at 31 March/ 31 December</b>	<b>272,103</b>	<b>235,235</b>	<b>239,702</b>	<b>237,925</b>	<b>49,061</b>	<b>44,728</b>	<b>18,019</b>	<b>16,365</b>	<b>578,885</b>	<b>534,253</b>
<i>Accumulated depreciation and impairment</i>										
<b>Balance at 1 January</b>	<b>51,658</b>	<b>44,504</b>	<b>130,479</b>	<b>117,926</b>	<b>27,591</b>	<b>27,458</b>	-	-	<b>209,728</b>	<b>189,888</b>
Depreciation charge for the year	3,790	7,211	3,386	14,478	1,319	3,817	-	-	8,495	<b>25,506</b>
Effects of foreign currency restatements	(50)	(55)	(68)	(58)	(30)	(4)	-	-	(148)	<b>(117)</b>
Written-off depreciation	-	(2)	(33)	(1,867)	(398)	(3,680)	-	-	(431)	<b>(5,549)</b>
<b>Balance at 31 March/ 31 December</b>	<b>55,398</b>	<b>51,658</b>	<b>133,764</b>	<b>130,479</b>	<b>28,482</b>	<b>27,591</b>	-	-	<b>217,644</b>	<b>209,728</b>
<b>Carrying amount at 31 March/ 31 December</b>	<b>216,705</b>	<b>183,577</b>	<b>105,938</b>	<b>107,446</b>	<b>20,579</b>	<b>17,137</b>	<b>18,019</b>	<b>16,365</b>	<b>361,241</b>	<b>324,525</b>

*This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for Q1 2019.*

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**Carrying amount at  
1 January**

<u>183,577</u>	<u>181,098</u>	<u>107,446</u>	<u>113,038</u>	<u>17,137</u>	<u>14,381</u>	<u>16,365</u>	<u>9,103</u>	<u>324,525</u>	<u>317,620</u>
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As at 31 March 2019, the tangible fixed assets of the Group include: land amounting to BGN 54,495 thousand (31 December 2018: BGN 54,392 thousand) and buildings of carrying amount BGN 162,210 thousand (31 December 2018: BGN 129,185 thousand).

Tangible fixed assets in progress as at 31 March include:

- expenses on new buildings construction – BGN 2,655 thousand (31 December 2018: BGN 3,670 thousand);
- buildings reconstruction – BGN 1,715 thousand (31 December 2018: BGN 1,717 thousand);
- land – BGN 2,839 thousand (31 December 2018: 2,839);
- supply of equipment – BGN 9,504 thousand (31 December 2018: BGN 6,053 thousand);
- advances granted – BGN 227 thousand (31 December 2018: BGN 150 thousand);
- other – BGN 1,079 thousand (31 December 2018: BGN 1,936 thousand).

### ***Lease***

As at 31 March 2019, in the line of Property, plant and equipment are included "rights of use" with carrying amount of 41,527 thousand, including buildings worth 34,245 thousand and transport vehicles worth 7,282 thousand (31.12.2018: BGN 4,819 thousand - assets received on financial leasing). During the period, amortization of "right of use" assets is amounted to 1,954 thousand.

The Group has leased fixed tangible assets with carrying amount of BGN 3,582 thousand as at 31 March 2019 to related parties (31 December 2018: BGN 3,594 thousand). In addition, tangible fixed assets at carrying amount of BGN 731 thousand have been leased to third parties as at 31 March 2019 (31 December 2018: BGN 764 thousand).

### ***Other data***

The following encumbrances have been constituted on tangible fixed assets of the Group as at 31 March 2019 in relation to received loans (*Notes 27 and 31*) as follows:

- Land and building with a carrying amount respectively of BGN 24,700 thousand and BGN 58,322 thousand (31 December 2018: respectively, BGN 24,700 thousand and BGN 59,013 thousand)
- Pledges on facilities with carrying amount of BGN 251 thousand (31 December 2018: BGN 251 thousand);
- Pledges on equipment, transportation vehicles and furniture and fixtures – BGN 45,793 thousand (31 December 2018: BGN 40,276 thousand);

### ***Periodical revaluation to fair value***

Revaluation of property, plant and equipment was performed as at 31 December 2016 with the assistance of an independent appraiser for the purpose of determining the fair value of the assets in accordance with the requirements of IFRS 13 and IAS 16.

Following the revaluation, revaluation reserve was recognised at the amount of BGN 11,802 thousand, net of impairment.

As at 31 March 2019, the Group's management again determined that no grounds existed for new revaluation before expiry of the adopted usual 5-year period (Note 2.10).

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**15. INTANGIBLE ASSETS**

	<i>Goodwill</i>		<i>Software</i>		<i>Intellectual property rights and others</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Book value</i>										
<b>Balance at 1 January</b>	<b>33,653</b>	<b>33,284</b>	<b>18,613</b>	<b>17,811</b>	<b>73,437</b>	<b>67,785</b>	<b>560</b>	<b>362</b>	<b>126,263</b>	<b>119,242</b>
Additions	-	-	226	430	389	2,213	345	880	<b>960</b>	<b>3,523</b>
Acquired assets in subsidiaries	110	20	-	-	602	4,184	-	-	<b>712</b>	<b>4,204</b>
Effects of foreign currency restatements	122	349	2	(19)	524	(748)	-	(1)	<b>648</b>	<b>(419)</b>
Transfer	-	-	58	420	6	55	(64)	(475)	-	-
Disposals	(3,759)	-	-	(29)	-	(52)	(86)	(206)	<b>(3,845)</b>	<b>(287)</b>
<b>Balance at 31 March/ 31 December</b>	<b>30,126</b>	<b>33,653</b>	<b>18,899</b>	<b>18,613</b>	<b>74,958</b>	<b>73,437</b>	<b>755</b>	<b>560</b>	<b>124,738</b>	<b>126,263</b>
<i>Accumulated amortisation and impairment</i>										
<b>Balance at 1 January</b>	<b>10,137</b>	<b>10,137</b>	<b>9,524</b>	<b>7,938</b>	<b>20,891</b>	<b>14,571</b>	-	-	<b>40,552</b>	<b>32,646</b>
Amortisation charge for the period	-	-	417	1,610	1,747	6,274	-	-	<b>2,164</b>	<b>7,884</b>
Effects of foreign currency restatements	-	-	-	7	(96)	87	-	-	<b>(96)</b>	<b>94</b>
Amortisation written-off	-	-	-	(31)	-	(41)	-	-	-	<b>(72)</b>
<b>Balance at 31 March/ 31 December</b>	<b>10,137</b>	<b>10,137</b>	<b>9,941</b>	<b>9,524</b>	<b>22,542</b>	<b>20,891</b>	-	-	<b>42,620</b>	<b>40,552</b>
<b>Carrying amount at 31 March/ 31 December</b>	<b>19,989</b>	<b>23,516</b>	<b>8,958</b>	<b>9,089</b>	<b>52,416</b>	<b>52,546</b>	<b>755</b>	<b>560</b>	<b>82,118</b>	<b>85,711</b>
Carrying amount at 1 January	<b>23,516</b>	<b>23,147</b>	<b>9,089</b>	<b>9,873</b>	<b>52,546</b>	<b>53,214</b>	<b>560</b>	<b>362</b>	<b>85,711</b>	<b>86,596</b>

*This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for Q1 2019.*



Intangible assets in progress as at 31 March include:

- expenses on acquisition of software – BGN 634 thousand. (31 December 2018: BGN 427 thousand);
- advances granted – BGN 113 thousand (31 December 2018: 126);
- expenses on permits for use of medicinal products – BGN 8 thousand (31 December 2018: BGN 7 thousand);
- expenses on acquisition of licenses – none thousand (31 December 2018: BGN 84 thousand).

The rights on intellectual property include products of development activities related to medicinal substances (active ingredients) and dosage forms, acquired patents and trademarks and complex intangible assets (licences and pharmacy chain locations).

Within the total intellectual property owned by the Group the largest share belongs to internally created trademarks, which have not been capitalised in the consolidated statement of financial position.

These trademarks grant exceptional rights on the names of pharmaceuticals while those with biggest relative share in the sales of the Group are: Carsil, Tempalgin, Broncholit, Tabex, Analgin, Tribestan, Vicetin, Sydnopharm, Antistenocardin, Spasmalgon, Softensif, Chlofodon, Chlofasolin, Sofafailin, Sopral, Vasopren, Buscolisin, Nivalin, Maraslavin, Dimex, Allergosan, Amination.

Capitalised trademarks as a result of performed business combinations are as follows: Probiotic, Laxomucil, Alfalipoin, Influrex, etc. The Group holds a patent for production of dosage forms containing Ranitidin.

The intangible assets acquired through business combinations mainly in Belarus and Serbia, include the exclusive contracts with counterparts, licences and a distribution network

### ***Goodwill impairment***

The management of the Group performed the necessary procedures for the mandatory test for impairment of the goodwill, recognised in the consolidated statement of financial position, on the acquisition of a subsidiary. For the purpose, each individual company was accepted as a 'cash-generating unit'.

The calculations were made by the management of the Group with the assistance of an independent certified appraiser and a detailed review was performed on the availability of events and facts that could serve as indicators for changes in the assumptions and assessments made at 31 December 2018 and at 31 March 2019.

The (pre-tax) projected cash flows were based on the financial budgets, developed by the management of the respective companies and of the Group as a whole, that covered 3 to 5-year period as well as other medium-term and long-term plans and intents for the development and restructuring of the activities within the Group. The recoverable amount of each cash generating unit was determined on the basis of the 'value in use'. The key assumptions used in the calculations of recoverable amount were as follows:

- growth rate within a three (or five) year period – from 2% to 22%;
- growth after the projected period upon calculation of terminal value – 1.8% to 7.5%;
- discount rate (based on WACC) – from 6.1% to 24.28%;
- interest rate (debt price) – from 2.3% to 17%.

The key assumptions used in the calculations had been determined specifically for each goodwill bearing company, treated as a separate cash-generating unit, and in line with the characteristic features of its operations, the business environment and risks.

The tests and judgments of Group's management for impairment of recognised goodwill were made through the prism of its projections and intents as to the future economic benefits, expected by the Group from its subsidiaries including through the use of their internally created trademarks, commercial and industrial experience and the generated thereby and expected for the future volumes of revenue, ensuring position in the Bulgarian and international markets (development and retaining), the expectations for future sales and restructuring of the activities, etc.

As a result of the analyses performed the Group management has concluded that as at 31 March 2019 no goodwill impairment was recognised (31 December 2018: BGN 360 thousand for 2 subsidiaries in Belarus and 1 subsidiary in Bulgaria).

## 16. INVESTMENT PROPERTY

	<i>31.03.2019</i> <i>BGN '000</i>	<i>31.12.2018</i> <i>BGN '000</i>
<b>Balance at 1 January</b>	<b>10,427</b>	<b>9,811</b>
Additions	-	143
Disposals	-	(140)
Net gain from adjustment to fair value through profit or loss	-	613
<b>Balance at 31 March/ 31 December</b>	<b>10,427</b>	<b>10,427</b>

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

<i>Group of assets</i>	<i>31.03.2019</i> <i>BGN '000</i>	<i>31.12.2018</i> <i>BGN '000</i>
Warehouse premises	4,165	4,165
Offices	3,350	3,350
Production buildings	2,503	2,503
Social objects	409	409
<b>Total</b>	<b>10,427</b>	<b>10,427</b>

### *Fair value measurement*

#### *Fair value hierarchy*

The fair values of the groups of investment properties are categorised as Level 2 fair values based on the inputs to the valuation technique used. The investment property remeasurement to fair value is recurring and is due to the application of the fair value model under IAS 40. It is performed regularly at the end of each interim reporting period. Fair value is determined with the assistance of independent certified appraisers.

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The table below shows reconciliation between the opening and closing balances of the fair values of investment properties measured at Level 2:

	<i>Warehouse premises</i>	<i>Offices</i>	<i>Production buildings</i>	<i>Social objects</i>	<i>Total</i>
<b>Balance at 1 January 2018</b>	<b>4,045</b>	<b>2,897</b>	<b>2,466</b>	<b>403</b>	<b>9,811</b>
Additions		-	143	-	143
Disposals	-	-	(140)	-	(140)
Remeasurement to fair value through profit or loss – unrealised	120	453	34	6	613
<b>Balance at 31 December 2018</b>	<b>4,165</b>	<b>3,350</b>	<b>2,503</b>	<b>409</b>	<b>10,427</b>
<b>Balance at 31 March 2019</b>	<b>4,165</b>	<b>3,350</b>	<b>2,503</b>	<b>409</b>	<b>10,427</b>

*Valuation techniques and significant unobservable inputs*

The table below shows a description of the valuation techniques, used in measuring the fair value of all groups of Level 2 investment properties as well as the used significant unobservable inputs:

<b>Groups of assets (Level 2)</b>	<b>Valuation approaches and techniques</b>	<b>Significant unobservable inputs</b>
Warehouse premises	<i>a. Income approach</i> Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return  b. Term to entrance into rental deals
Production buildings	<i>b. Cost approach</i> Valuation technique: Method of replacement costs – depreciated recoverable amount (ancillary supportive valuation technique)	Adjusted prices for construction of identical properties and purchase prices of machinery and equipment, similar to those attached
Offices	<i>a. Income approach</i> Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return  b. Term to entrance into rental deals
Social objects	<i>b. Market approach</i> Valuation technique: Market multiples method (supportive valuation technique)	Comparability adjustments

**17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**
**31.03.2019**
**31.12.2018**

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	<i>BGN '000</i>	<i>BGN '000</i>
Investments in associates	22,785	20,339
Investments in joint ventures	-	44
<b>Total</b>	<b>22,785</b>	<b>20,383</b>

The movement of the investments in associates is presented below:

	<i>31.03.2019 BGN '000</i>	<i>31.12.2018 BGN '000</i>
<b>Balance at 1 January</b>	<b>20,339</b>	<b>18,122</b>
Acquisition of shares	135	227
Disposal of shares	(48)	(5)
Share in the current profit for the period	2,359	1,995
<b>Balance at 31 March/ 31 December</b>	<b>22,785</b>	<b>20,339</b>

The movement of investments in joint ventures is presented below:

	<i>31.03.2019 BGN'000</i>	<i>31.12.2018 BGN'000</i>
<b>Balance at 1 January</b>	<b>44</b>	<b>1,414</b>
Transfer to investments in subsidiaries	(45)	(1,330)
Share in current profit for the year	1	(28)
Effects from foreign exchange restatements	-	(5)
Effects of transactions with companies of the Group	-	(7)
<b>Balance at 31 March/ 31 December</b>	<b>-</b>	<b>44</b>

**18. OTHER LONG-TERM EQUITY INVESTMENTS**

Other long-term equity investments include shares in the following companies:

	<i>Country</i>	<i>31.03.2019 BGN '000</i>	<i>Interest %</i>	<i>31.12.2018 BGN '000</i>	<i>Interest %</i>
<b>Traded securities</b>					
Lavena AD	Bulgaria	4,874	12.62	3,616	10.89
Sopharma Properties REIT	Bulgaria	2,243	1.67	2,078	1.55
Olainfarm AD	Latvia	1,445	0.77	1,484	0.77
Todorov AD	Bulgaria	191	12.40	182	10.94
Achieve Life Sciences Inc. – USA	USA	180	0.53	83	0.53

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BTF Expat Bulgaria	Bulgaria	5	0.01	59	0.17
Elana Agrocredit AD	Bulgaria	-	-	31	0.07
Other		16	-	5	-
		<b>8,954</b>		<b>7,538</b>	
<b>Non-traded securities</b>					
OOO Medprostor	Belarus	566	19.00	546	19.00
OOO Farmico	Belarus	172	2.00	172	2.00
ODO DKM-Pharm	Belarus	100	2.00	100	2.00
OOO Set Aptek	Belarus	70	2.00	70	2.00
OOO Aptekar - Centr	Belarus	24	0.14	24	0.14
Other		148	-	148	-
<b>Total</b>		<b>1,080</b>		<b>1,060</b>	
		<b>10,034</b>		<b>8,598</b>	

As at 31 March 2019, within “others” are stated long-term equity investments at the amount of 164 thousand (31 December 2018: BGN 153 thousand) in Group’s non-controlling interest in a total of ten companies (31 December 2018: nine companies).

The fair value per share at 31 March 2019 and 31 December 2018 by companies is as follows:

	<i>Number of shares</i>	<i>Fair value per share</i>	<i>31.03.2019</i>	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>31.12.2018</i>
			<i>BGN '000</i>			<i>BGN '000</i>
<b>Equity investments</b>						
Lavena AD	905,639	5.38	4,874	905,639	3.99	3,616
Sopharma Properties REIT	324,772	6.91	2,243	324,772	6.40	2,078
Olainfarm AD	108,500	13.32	1,445	108,500	13.68	1,484
Todorov AD	372,081	0.51	191	372,081	0.49	182
Achieve Life Sciences Inc.	35,930	5.01	180	35,930	2.31	83
Chimimport AD	6,000	-	11	-	-	-
BTF Expat Bulgaria	4,565	1.10	5	56,604	1.04	59
Aroma AD	2,371	1.69	4	2,371	1.69	4
Industrial Holding Bulgaria	812	1.23	1	-	-	-
Elana Agrocredit AD	-	-	-	26,800	1	31
Gradus AD	-	-	-	900	1	1
<b>Total</b>			<b>8,954</b>			<b>7,538</b>

The table below presents Group's other long-term equity investments based on fair value levels in the interim consolidated statement of financial position:

<i>Equity investments</i>	<i>Fair value</i>	<i>(Level 1)</i>	<i>(Level 2)</i>
	<b>31.03.2019</b>		
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Lavena AD	4,874	-	4,874
Sopharma Properties REIT	2,243	2,243	-
Olainfarm AD	1,445	1,445	-
Todorov AD	191	-	191
Achieve Life Sciences Inc.	180	180	-
Chimimport AD	11	11	-
BTF Expat Bulgaria	5	5	-
Aroma AD	4	4	-
Industrial Holding Bulgaria AD	1	1	-
<b>Total</b>	<b>8,954</b>	<b>3,889</b>	<b>5,065</b>

<i>Equity investments</i>	<i>Fair value</i>	<i>(Level 1)</i>	<i>(Level 2)</i>
	<b>31.12.2018</b>		
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
Lavena AD	3,616	-	3,616
Sopharma Properties REIT	2,078	2,078	-
Olainfarm AD	1,484	1,484	-
Todorov AD	182	-	182
Achieve Life Sciences Inc.	83	83	-
BTF Expat Bulgaria	59	59	-
Elana Agrocredit AD	31	31	-
Aroma AD	4	4	-
Gradus AD	1	1	-
<b>Total</b>	<b>7,538</b>	<b>3,740</b>	<b>3,798</b>

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

<i>Equity investments</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Balance at 1 January 2018</b>	<b>3,868</b>	<b>3,674</b>	<b>7,542</b>
Purchases	1,664	30	1,694
Transfer from Level 1 to Level 2	(633)	(273)	(906)
Unrealised gain/(loss), net, included in other comprehensive income ( <i>Note 13</i> )	(1,159)	367	(792)
<b>Balance at 31 December 2018</b>	<b>3,740</b>	<b>3,798</b>	<b>7,538</b>

Purchases	177	1,270	1,447
Sales	(83)	(3)	(86)
Unrealised gain/(loss) included in other comprehensive income ( <i>Note 13</i> )	55	-	55
<b>Balance at 31 March 2019</b>	<b>3,889</b>	<b>5,065</b>	<b>8,954</b>

**19. LONG-TERM RECEIVABLES FROM RELATED PARTIES**

The long-term receivables from related parties as at 31 March include:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Long-term loans granted	86,098	22,977
<i>Provision for impairment of credit losses</i>	(106)	(116)
Long-term loans granted, net	85,992	22,861
Receivable under a long-term rental deposit granted	194	194
<b>Total</b>	<b>86,186</b>	<b>23,055</b>

The long-term loans are granted to an associate and to companies controlled by an associate.

The correction movement (provision) for impairment of receivables from related parties for long-term loans granted is as follows:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN '000</b>	<b>BGN '000</b>
<b>Balance at 1 January</b>	<b>116</b>	<b>119</b>
Decrease in the corrective for credit losses recognised in profit or loss for the year, net	(10)	(3)
<b>Balance at 31 March/ 31 December</b>	<b>106</b>	<b>116</b>

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

<b>Currency</b>	<b>Contracted amount</b>	<b>Maturity</b>	<b>Interest %</b>	<b>31.03.2019</b>	<b>31.12.2018</b>		
	<b>'000</b>			<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
					<b>including interest</b>		<b>including interest</b>
<b>BGN</b>	68,050	31.12.2025	3.00%	68,050	150	-	-
<b>EUR</b>	31,091	31.12.2021	3.50%	17,725	-	17,574	36
<b>BGN</b>	900	31.12.2021	3.00%	217	1	-	-

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<b>BGN</b>	29,900	31.12.2021	3.00%	-	-	3,904	89
<b>EUR</b>	700	31.12.2021	3.00%	-	-	1,383	14
				<b>85,992</b>	<b>151</b>	<b>22,861</b>	<b>139</b>

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

The deposit receivable related with a rent under a concluded rental contract for administrative offices with validity term on 1 August 2022, at the amount of BGN 194 thousand (31 December 2018: BGN 194 thousand).

**20. OTHER LONG-TERM RECEIVABLES**

The <i>other non-current receivables</i> of the Group include:	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Receivables on sold investment in a subsidiary	3,482	3,416
	(239)	(322)
Receivables from a sold investment in a subsidiary, net	3,243	3,094
Loans granted	3,639	2,641
<i>Provision for expected credit losses</i>	(71)	(71)
Loans granted, net	3,568	2,570
Deposits on long-term rental agreements	374	374
Other	424	361
<b>Total</b>	<b>7,609</b>	<b>6,399</b>

The receivables on a sold investment in a subsidiary, amounting to BGN 3,243 thousand. The receivables are with a deferred payment and expected maturity on 31 December 2022 – the date when the regulatory actions for registration of medicinal products permits are expected to be completed (31 December 2018: BGN 3,094 thousand).

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

<b>Currency</b>	<b>Contracted amount</b>	<b>Maturity</b>	<b>Interest %</b>	<b>31.03.2019</b>		<b>31.12.2018</b>	
	<b>'000</b>			<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
				<i>incl. interest</i>		<i>incl. interest</i>	



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<i>EUR</i>	1,000	29.6.2023	3.05%	1,956	4	961	-
<i>EUR</i>	695	12.10.2022	3.05%	1,364	-	1,360	-
<i>EUR</i>	40	30.9.2021	6.00%	92	-	92	-
<i>EUR</i>	30	30.9.2021	6.00%	69	-	69	-
<i>EUR</i>	30	30.9.2021	6.00%	68	-	68	-
<i>BGN</i>	24	14.3.2023	5.00%	19	-	20	-
				<u>3,568</u>	<u>4</u>	<u>2,570</u>	<u>-</u>

**21. INVENTORIES**

<i>Inventories</i> include:	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Goods	152,027	155,470
Materials	33,413	34,313
Finished products	31,586	27,424
Semi-finished products	10,060	9,090
Work in progress	7,301	9,466
<b>Total</b>	<b><u>234,387</u></b>	<b><u>235,763</u></b>

<i>Goods</i> by type are as follows:	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Tablet dosage forms	76,664	77,440
Ampoule dosage forms	20,628	20,311
Syrups	12,256	13,675
Consumables, dressing materials and apparatuses	10,215	11,717
Ointments	8,068	7,636
Cosmetics	6,080	5,457
Food supplements	4,450	4,617
Drops	3,829	4,136
Lyophilic products	2,153	2,099
Suppositories	1,211	1,214
Goods in transit	1,017	1,450
Other	5,456	5,718
<b>Total</b>	<b><u>152,027</u></b>	<b><u>155,470</u></b>

The *finished products* include:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Tablet dosage forms	19,984	16,462
Ampoule dosage forms	3,724	3,559
Consumables, dressing materials and apparatuses	2,199	1,740
Syrups	1,596	1,185
Ointments	896	1,599
Syringes	587	434
Lyophilic products	534	377
Other	2,066	2,068
<b>Total</b>	<b>31,586</b>	<b>27,424</b>

*Materials* by type are as follows:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Basic materials	30,531	30,396
Spare parts	740	625
Technical materials	506	522
Auxiliary materials	448	394
Materials in transit	-	1,362
Other	1,188	1,014
<b>Total</b>	<b>33,413</b>	<b>34,313</b>

*Basic materials* by type are as follows:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Substances (active ingredients)	16,784	16,083
Chemicals	4,452	4,393
Vials, tubes and ampoules	3,292	2,920
PVC and aluminium foil	1,990	2,017
Packaging materials	1,650	1,698
Consumables, dressing materials and apparatuses	1,365	1,353
Herbs	661	1,469
Other	337	463
<b>Total</b>	<b>30,531</b>	<b>30,396</b>

As at 31 March 2019, there were established special pledges on inventories at the amount of BGN 121, 205 thousand (31 December 2018: BGN 120,401 thousand) as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 31 and 38*).

## 22. TRADE RECEIVABLES

<i>Trade receivables</i> include:	31.03.2019 BGN'000	31.12.2018 BGN'000
<i>Receivables under contracts with customers</i>	229,654	230,623
<i>Provision for impairment of credit losses</i>	(6,481)	(6,109)
Receivables under contracts with customers, net	223,173	224,514
<i>Advances and other receivables from suppliers</i>	16,437	11,524
<i>Impairment of advances</i>	(127)	(127)
Advances granted and other receivables from suppliers, net	16,310	11,397
<b>Total</b>	<b>239,483</b>	<b>235,911</b>

The *receivables from clients* are interest-free and are mainly denominated in BGN, EUR and RSD.

Usually the Group companies negotiate with their clients payment terms within the range of 30 to 180 days for receivables under sales unless there are determined specific conditions for maturity for particular clients or in the cases where new markets and products are developed and new trade counterparts are attracted. The Group has set a common credit period of 180 days for which no interest is charged to clients, with the exception of cases of restructured receivables under a special agreement, setting a longer period and interest rates. In case of sale of medical equipment to hospitals, the credit period could exceed 2 years, due to the specific financial characteristics of counterparts.

The movement in the corrective (provision) for impairment of trade receivables from third parties is as follows:

	31.03.2019 BGN'000	31.03.2018 BGN'000
<b>Balance at 1 January</b>	<b>6,109</b>	<b>5,172</b>
Increase in the corrective for credit losses recognised in profit or loss for the year, net	363	1,567
Transfer to the allowance for court and awarded receivables	-	(322)
Foreign exchange effect	9	7
Amounts written-off as uncollectable	-	(315)
<b>Balance at 31 March/ 31 December</b>	<b>6,481</b>	<b>6,109</b>

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

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
up to 30 days	86,021	87,195
from 31 to 90 days	58,113	56,753
from 91 to 180 days	9,342	4,988
from 181 to 365 days	732	1,011
from 1 to 2 years	557	983
over 2 years	-	58
<i>Gross amount of non-matured (regular) trade receivables</i>	154,765	150,988
<i>Provision for impairment of credit losses</i>	(723)	(701)
<b>Non-matured (regular) trade receivables, net</b>	<b>154,042</b>	<b>150,287</b>

The corrective (provision) for impairment of non-matured (regular) trade receivables is as follows:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
up to 30 days	356	362
from 31 to 90 days	304	274
from 91 to 180 days	60	50
from 181 to 365 days	-	-
from 1 to 2 years	3	14
over 2 years	-	1
<b>Total</b>	<b>723</b>	<b>701</b>

The *age structure* based on invoice date of past due trade receivables is as follows:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
up to 30 days	6,473	8,075
from 31 to 90 days	19,488	24,829
from 91 to 180 days	16,147	14,360
from 181 to 365 days	19,890	20,501
from 1 to 2 years	9,563	8,774
over 2 years	3,328	3,096
<i>Gross amount of past due trade receivables</i>	74,889	79,635
<i>Provision for impairment of credit losses</i>	(5,758)	(5,408)
<b>Past due trade receivables, net</b>	<b>69,131</b>	<b>74,227</b>

The corrective (provision) for impairment of credit losses from past due trade receivables is as follows:

	31.03.2019 BGN'000	31.12.2018 BGN'000
up to 30 days	144	144
from 31 to 90 days	303	280
from 91 to 180 days	846	713
from 181 to 365 days	888	795
over 365 days	3,577	3,476
<b>Total</b>	<b>5,758</b>	<b>5,408</b>

Most past due receivables are from state hospitals. It is the Group's policy, with respect to all past due receivables, to accrue, invoice and collect default interest, by means of which it fully compensates for the payment delayed and the expense/losses incurred, both for special agreements with the respective debtor – hospital, and for litigation.

In 2018, the Group applied the simplified approach under IFRS 9 to measure expected credit losses from trade receivables, by recognising expected losses for the life term of all trade receivables (Note 2.17). Based on this, the loss allowance at 31 March 2019 and 31 December 2018 has been determined as follows:

		<i>Current</i>	<i>Up to 90 days past due</i>	<i>90-365 days past due</i>	<i>Over 365 days past due</i>	<i>Total</i>
<b>31 March 2019</b>						
Expected % of credit losses		0.47%	1.26%	5.82%	36.97%	
Trade receivables (gross carrying amount)	<b>BGN'000</b>	154,765	35,497	29,703	9,689	229,654
Expected credit loss (impairment corrective)	<b>BGN'000</b>	(723)	(447)	(1,729)	(3,582)	(6,481)
<b>31 December 2018</b>						
Expected % of credit losses		0.46%	1.01%	5.24%	38.42%	
Trade receivables (gross carrying amount)	<b>BGN'000</b>	150,988	41,883	28,691	9,061	230,623
Expected credit loss (impairment corrective)	<b>BGN'000</b>	(701)	(424)	(1,503)	(3,481)	(6,109)

As at 31 March 2019, there are established special pledges on trade receivables at the amount of BGN 71,823 thousand (31 December 2018: BGN 73,311 thousand). They are established as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 31 and 38*).

The *advances granted* to suppliers are regular and are mainly denominated in BGN and EUR and are for the purchase of:

	31.03.2019 BGN'000	31.12.2018 BGN'000
Goods	12,632	9,538
Raw materials and consumables	2,557	719
Services	1,196	1,198
Impairment	(127)	(127)
Other	52	69
<b>Total</b>	<b>16,310</b>	<b>11,397</b>

**23. RECEIVABLES FROM RELATED PARTIES***Receivables from related parties by type are as follows:*

	31.03.2019 BGN'000	31.12.2018 BGN'000
Trade loans granted	4,015	8,596
Provision for impairment of credit losses	(25)	(30)
Trade loans granted, net	3,990	8,566
Receivables under contracts with customers	901	1,384
Provision for impairment of credit losses	(8)	(8)
Receivables under contracts with customers, net	893	1,376
<b>Total</b>	<b>4,883</b>	<b>9,942</b>

The *trade loans granted to related parties* are unsecured and are as follows:

Currency	Contracted amount (original currency)	Maturity	Interest	31.03.2019		31.12.2018	
	'000		%	BGN '000	BGN '000 including interest	BGN '000	BGN '000 including interest
<i>to companies controlled by associates</i>							
BGN	3,910	31.12.2019	3.10%	3,935	25	3,140	34
BGN	190	31.03.2019	3.50%	55	-	55	-
<i>to companies related through key management personnel</i>							
BGN	2,735	31.12.2019	2.81%	-	-	5,371	27
<b>Total:</b>				<b>3,990</b>	<b>25</b>	<b>8,566</b>	<b>61</b>

The *receivables on contracts with customers* are interest-free and denominated in BGN.

The Group companies usually negotiate payment terms between 90 and 180 days for receivables on sales of finished products and up to 30 days for receivables on sales of materials (including substances – active ingredients).

The Group applied the simplified approach under IFRS 9 to measure expected credit losses from trade receivables, by recognising expected losses for the life term of all trade receivables (Note 2.17).

The movement in the loss allowance for impairment of trade receivables from related parties is as follows:

	31.03.2019 BGN'000	31.03.2018 BGN'000
<b>Balance at 1 January</b>	<b>38</b>	<b>-</b>
(Decrease)/ Increase in the corrective for credit losses recognised in profit or loss for the year	(5)	38
<b>Balance at 31 March/ 31 December</b>	<b>33</b>	<b>38</b>

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

	31.03.2019 BGN'000	31.12.2018 BGN'000
up to 30 days	130	199
from 31 to 90 days	4	409
<b>Total</b>	<b>134</b>	<b>608</b>

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

	31.03.2019 BGN'000	31.12.2018 BGN'000
from 31 to 90 days	-	158
from 91 to 180 days	568	564
from 181 to 365 days	199	54
<i>Gross amount of past due trade receivables from related parties</i>	767	776
<i>Provision for impairment of credit losses</i>	(8)	(8)
<b>Total</b>	<b>759</b>	<b>768</b>

A *provision for impairment of credit losses* has been charged at the amount of BGN 8 thousand for trade receivables from related parties between 91 and 180 days past due.

**24. OTHER SHORT-TERM RECEIVABLES AND ASSETS***Other receivables and prepayments* of the Group include:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<i>Court and awarded receivables</i>	4,116	6,569
<i>Provision for impairment of credit losses from court and awarded receivables</i>	(775)	(765)
Court and awarded receivables, net	3,341	5,804
Taxes refundable	11,096	9,866
<i>Loans granted to third parties</i>	1,577	4,108
<i>Provision for impairment of credit losses</i>	(327)	(805)
Loans granted to third parties, net	1,250	3,303
Prepayments	1,854	1,815
Receivables on deposits placed as guarantees	293	514
Receivables from investment transactions	209	11
Amounts granted to investment intermediaries	-	270
Other	874	1,188
<i>Provision for impairment of credit losses from other receivables</i>	(54)	(54)
<i>Other receivables, net</i>	820	1,134
<b>Total</b>	<b>18,863</b>	<b>22,717</b>

*Taxes refundable* include:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Excise duties	5,119	4,905
VAT	5,006	3,908
Income tax	955	1,045
Local taxes and charges	16	8
<b>Total</b>	<b>11,096</b>	<b>9,866</b>

*Prepayments* include:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Subscriptions	848	666
Insurance	627	635
Licence and patent fees	77	91
Advertisements	19	44
Rentals	7	11
Vouchers	9	4
Other	267	364



<b>Total</b>	<b>1,854</b>	<b>1,815</b>
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The loans granted to third parties, amounting to BGN 1,250 thousand (31 December 2018: BGN 3,303 thousand), are granted to six entities – counterparts for working capital. The annual interest agreed for these loans for 2019 was between 4.3% and 4.7% (2018: between 4.3% and 4.7%).

The movement in the allowance (provision) for impairment of court and awarded receivables is as follows:

	<i>31.03.2019</i> <i>BGN'000</i>	<i>31.12.2018</i> <i>BGN'000</i>
<b>Balance at 1 January</b>	<b>765</b>	<b>2,559</b>
Decrease in the corrective for credit losses recognised in profit or loss for the year	-	(13)
Transferred from impairment of trade receivables	-	322
Effect of exchange rate conversions	10	-
Impairment written-off	-	(2,103)
<b>Balance at 31 March/ 31 December</b>	<b>775</b>	<b>765</b>

The movement in the allowance (provision) for impairment of loans to third parties is as follows:

	<i>31.03.2019</i> <i>BGN'000</i>	<i>31.12.2018</i> <i>BGN'000</i>
<b>Balance at 1 January</b>	<b>805</b>	<b>764</b>
Decrease/increase in the corrective for credit losses recognised in profit or loss for the year	(228)	41
Amounts written off on uncollectible receivables	(250)	-
<b>Balance at 31 March/ 31 December</b>	<b>327</b>	<b>805</b>

## 25. CASH AND CASH EQUIVALENTS

	<i>31.03.2019</i> <i>BGN'000</i>	<i>31.12.2018</i> <i>BGN'000</i>
Cash at current bank accounts	14,104	17,585
Impairment of cash at current bank accounts	(166)	(166)
Short-term deposits d	3,505	2,813
Cash in han	2,375	3,871
Short-term blocked funds	34	26

**Cash and cash equivalents presented in the consolidated statement of cash flows**

	<u>19,852</u>	<u>24,129</u>
Blocked cash under acquisition of subsidiaries	-	1,009
Blocked cash under court cases and issued bank guarantees	<u>404</u>	<u>444</u>
<b>Cash and cash equivalents presented in the consolidated statement of financial position</b>	<u><u>20,256</u></u>	<u><u>25,582</u></u>

The available cash and cash equivalents of the Group are mainly denominated in BGN, PLN and EUR (31 December 2018: BGN, UAH and EUR).

The average level of the annual interest on current accounts in BGN and foreign currency is within the range from 0.01% to 0.18% (2018: from 0.01% to 0.18%) and that on deposit accounts in BGN and foreign currency is mainly within the range from 0.4% to 10% (2018: from 0.4% to 10%).

Short-term blocked cash at the amount of BGN 34 thousand (31 December 2018: BGN 26 thousand) represent mainly blocked funds under performance guarantees.

**26. EQUITY*****Share capital***

As at 31 March 2019, the registered share capital of Sopharma AD amounts to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

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

The *treasury shares* are 8,881,650 at the amount of BGN 33,339 thousand (31 December 2018: 8,881,336 shares at the amount of BGN 33,337 thousand).

*Statutory reserves* at the amount of BGN 55,967 thousand (31 December 2018: BGN 55,967 thousand) have been set aside from allocation of profit of the parent company and included all amounts for the Reserve Fund.

The *revaluation reserve – for property, plant and equipment*, amounting to BGN 29,089 thousand (31 December 2018: BGN 29,264 thousand), has been set aside from excess of the carrying amount of property, plant and equipment of the Group companies over their fair values at the dates of the respective regular revaluation. The effect of deferred taxes on the revaluation reserve is stated directly through other components of comprehensive income for the year.

*The reserve of financial assets at fair value through other comprehensive income* at the amount of BGN 2,988 thousand – a positive figure) (31.12.2018: BGN 2,933 thousand – a positive figure) has

been formed by the impact of measurement at fair value of other long-term equity investments (including the consolidated share of the change in this reserve in associates on their valuation under the equity method). Upon derecognition of these investments, the reserve formed is not recycled through the statement of comprehensive income (through profit or loss for the period). Prior to the adoption of IFRS 9, this reserve was called Reserve of available-for-sale financial assets and was subject to statement (recycling) through the statement of comprehensive income (through profit or loss for the period).

The *translation of foreign operations reserve*, amounting to BGN 1,463 thousand – a positive figure (31 December 2018: BGN 834 thousand – a positive figure), has been set aside from exchange differences arising as a result of translation of the currency in the financial statements of foreign companies to the presentation currency of the Group.

The *retained earnings reserve* includes the component 'other reserves', which contains the amounts distributed from profits of the Group companies generated in prior years, as well as the component 'accumulated profits and losses'.

*Retained earnings*, amounting to BGN 303,017 thousand at 31 March 2019 (31 December 2018: BGN 285,101 thousand), include also the recognised accumulated actuarial loss at the amount of BGN 2,363 thousand (31 December 2018: BGN 2,363 thousand), stated upon remeasurement of defined benefit pension plans in relation with the amendment to IAS 19 *Employee Benefits*.

## 27. LONG-TERM BANK LOANS

	<i>Contracted loan amount</i>  '000	<i>Maturity</i>	<i>31.03.2019</i>			<i>31.12.2018</i>		
			<i>Non- current portion</i>	<i>Current portion</i>	<i>Total</i>	<i>Non- current portion</i>	<i>Current portion</i>	<i>Total</i>
			<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Credit lines and working capital loans</i>								
BGN	16,000	30.06.2024	10,032	2,667	12,699	10,648	2,462	13,110
BGN	3,500	10.07.2028	1,712	-	1,712	1,113	-	1,113
USD	3,600	01.06.2023	1,593	258	1,851	1,657	131	1,788
BYR	3,350	26.06.2021	1,229	1,005	2,234	1,425	973	2,398
EUR	590	31.05.2022	778	188	966	825	188	1,013
BGN	4,250	16.04.2023	680	157	837	680	209	889
EUR	300	05.06.2020	59	235	294	118	235	353
BGN	120	25.08.2020	16	18	34	16	24	40
BGN	800	10.07.2020	-	128	128	-	-	-
EUR	33	31.05.2021	13	7	20	13	8	21
EUR	30	30.12.2019	-	13	13	-	17	17
RSD	6,000	25.03.2019	-	-	-	-	6	6

*Investment-purpose loans*

EUR	12,000	24.04.2024	15,885	1,798	17,683	14,995	3,386	18,381
EUR	32,000	15.04.2021	7,742	7,152	14,894	9,539	7,157	16,696
EUR	172	28.02.2021	62	73	135	78	67	145
AZN	35	16.03.2021	16	11	27	17	11	28
<b>Total</b>			<b>39,817</b>	<b>13,710</b>	<b>53,527</b>	<b>41,124</b>	<b>14,874</b>	<b>55,998</b>

The Group has gradually established a policy for annual re-negotiation of the terms and conditions of initially agreed long-term credit lines, including maturity terms. Starting from the date of re-negotiation, the extended credit lines are presented as short-term bank loans (*Note 31*). The bank loans obtained in Euro are contracted mainly at interest rate determined on the basis of EURIBOR plus a mark-up of up to 3.5%, or fixed to 2.35%; for loans in BGN – interest fixed to 4.1%; and for loans in RSD – BELIBOR plus a mark-up of 0.5% and for a bank loan in AZN – 24.10% fixed rate; for loans in USD – 8% fixed rate; and for loans in BYR – 11.50% fixed rate (2018: in EUR – EURIBOR plus a mark-up of up to 3.5% or fixed to 2.35%, for loans in BGN – up to 4.1%, and for RSD – BELIBOR plus 0.5% surplus and for bank loan in AZN - 24.10% fixed, for USD bank loans - 8% fixed, for bank loans in BYR - 11.50% fixed ). Loans are intended for providing working capital.

Investment-purpose loans are intended for purchase of tangible fixed assets and expanding of activities.

The following collateral has been established in favour of the creditor banks:

- Real estate mortgages (*Note 14*);
- Special pledges on:
  - machinery and equipment (*Note 14*);
  - inventories (*Note 21*);
  - trade receivables (*Note 22*).

**28. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS**

The long-term employee benefits as at 31 March include:

	<i>31.03.2019</i>	<i>31.12.2018</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Long-term retirement benefit obligations	5,740	5,666
Long-term benefit obligations for tantieme	344	349
<b>Total</b>	<b>6,084</b>	<b>6,015</b>

*Long-term retirement benefit obligations*

The long-term payables to personnel include the present value of the obligation of the Group companies, operating mainly in *Bulgaria and Ukraine*, to pay indemnities to the hired personnel at the date of the statement of financial position on coming of age for retirement. In accordance with the Labour Code in *Bulgaria* each employee is entitled to indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for at least the last 10 years of the service period for the same employer – six gross monthly salaries at the time of retirement (*Note 2.24*).

Employer's obligations to personnel on retirement for the companies abroad are as follows:

- *Ukraine* – the employer is obliged to pay between BGN 6 and BGN 13 depending on the length of service as well as a social pension, which the company accrues after employees' retirement due to specific work conditions;
- *Latvia, Belarus and Moldova* – the employer does not have a legal obligation to personnel upon retirement;
- *Kazakhstan* – according to the Kazakhstani legislation, the employer does not have a legal obligation to personnel upon retirement;
- *Serbia* – the employer is obliged to pay 3 average salaries.

*Long-term benefit obligations for tantieme*

As at 31 March 2019, the long-term benefit obligations to personnel include also the amount of BGN 344 thousand (31 December 2018: BGN 349 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months – until 2022 (2018: until 2021).

**29. FINANCE LEASE LIABILITIES**

As at 31 March, the finance lease liabilities are under revocable contracts for of property, machinery, equipment and motor vehicles acquisition. They are presented net of the future interest due and are as follows:

<i>Term</i>	<i>31.03.2019</i> <i>BGN'000</i>	<i>31.12.2018</i> <i>BGN'000</i>
Up to one year ( <i>Note 37</i> )	10,621	1,196
Over one year	29,248	2,486
<b>Total</b>	<b>39,869</b>	<b>3,682</b>

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

<i>Term</i>	<i>31.03.2019</i> <i>BGN'000</i>	<i>31.12.2018</i> <i>BGN'000</i>
Up to one year	11,969	1,282
From one to three years	32,495	2,574
	<u>44,464</u>	<u>3,856</u>
Future finance costs under finance leases	(4,595)	(174)
<b>Total</b>	<b><u>39,869</u></b>	<b><u>3,682</u></b>

The lease payments due within the next 12 months are presented in the interim consolidated statement of financial position as 'other current liabilities' (*Note 37*).

### 30. GOVERNMENT GRANTS

The government grants to Group companies as at 31 March include:

	<i>31.03.2019</i> <i>BGN'000</i>	<i>31.12.2018</i> <i>BGN'000</i>
Government grants, non-current portion	7,307	7,470
Government grants, current portion ( <i>Note 37</i> )	757	792
<b>Total</b>	<b><u>8,064</u></b>	<b><u>8,262</u></b>

The government grants received as at 31 March are to the following Group companies:

	<i>31.03.2019</i> <i>BGN'000</i>	<i>31.12.2018</i> <i>BGN'000</i>
Sopharma AD	5,802	5,937
Biopharm Engineering AD	1,778	1,813
Veta Pharma AD	484	512
<b>Total</b>	<b><u>8,064</u></b>	<b><u>8,262</u></b>

The government grants are received by the Group companies under European Operational Programmes mainly in relation to the acquisition of machinery and equipment (*Note 14*). The current portion of the grants, amounting to BGN 757 thousand (31 December 2018: BGN 792 thousand), will be recognised as current income over the following 12 months from the date of the interim consolidated statement of financial position and is presented as 'other current liabilities' (*Note 37*).

**31. SHORT-TERM BANK LOANS**

The *short-term bank loans* of the Group as at 31 March are as follows:

<i>Currency</i>	<i>Contracted amount '000</i>	<i>Maturity</i>	<i>31.03.2019 BGN'000</i>	<i>31.12.2018 BGN'000</i>
<b><i>Bank loans (overdrafts)</i></b>				
EUR	30,000	30.12.2019	43,966	52,384
BGN	20,000	31.12.2019	20,000	10,002
BGN	10,000	31.05.2019	19,975	9,996
BGN	20,000	21.05.2019	19,972	12,947
EUR	10,000	31.12.2019	19,468	9,817
EUR	7,500	25.04.2019	10,753	10,742
EUR	5,000	25.04.2019	9,764	9,757
UAH	150,000	22.04.2019	9,145	9,472
EUR	4,500	31.05.2019	8,803	5,868
EUR	3,500	26.06.2019	6,845	6,715
EUR	5,000	30.04.2019	7,573	9,192
EUR	3,500	02.09.2019	6,881	7,980
EUR	3,000	25.04.2019	5,865	5,863
BGN	5,000	07.01.2020	4,924	-
EUR	1,500	26.06.2019	2,543	2,543
EUR	1,000	25.09.2019	1,676	-
EUR	1,100	26.06.2019	2,153	2,151
BGN	9,779	01.06.2019	1,015	3,636
EUR	257	08.08.2019	243	335
RSD	47,000	30.04.2019	556	608
BGN	500	30.06.2019	498	440
RSD	40,000	29.06.2019	315	328
BYN	350	20.06.2019	280	265
BYN	340	23.07.2019	274	257
BYN	345	20.02.2020	273	257
EUR	373	02.07.2019	669	425
EUR	135	24.12.2019	199	265
BYN	230	30.04.2019	189	184
EUR	126	28.10.2019	164	205
BYN	150	20.05.2019	127	120
EUR	1,000	30.04.2019	66	-
BYN	21	30.06.2019	16	17
EUR	500	06.03.2019	-	978
EUR	500	11.03.2019	-	978
			<b>205,190</b>	<b>174,727</b>

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>31.03.2019</i>	<i>31.12.2018</i>
	<i>'000</i>		<i>BGN'000</i>	<i>BGN'000</i>
<i>Credit lines</i>				
BGN	20,000	30.11.2019	19,925	19,254
EUR	8,434	30.04.2019	15,908	15,908
BGN	10,000	31.12.2019	10,000	10,000
BYN	10,500	20.02.2021	8,681	8,311
EUR	5,000	31.08.2019	8,207	-
EUR	3,400	04.01.2021	6,563	6,507
EUR	3,000	01.11.2019	4,855	4,753
BYN	1,200	08.01.2020	993	961
BYN	1,000	06.07.2020	828	791
BGN	1,000	20.12.2023	425	128
BYN	500	31.03.2020	414	396
BYN	345	08.01.2020	285	273
BYN	376	18.10.2021	273	298
BYN	210	04.05.2021	174	168
BYN	210	13.02.2021	172	166
BYN	150	31.10.2020	125	101
BYN	150	30.12.2019	119	117
			<b>77,947</b>	<b>68,132</b>
			<b>283,137</b>	<b>242,859</b>

The bank loans obtained in Euro are contracted mainly at interest rate determined on the basis of EURIBOR plus a mark-up of up to 2%, or fixed to 12%, or EONIA plus a mark-up of up to 2.1%, for loans in BGN – the reference interest rate of the respective bank plus a mark-up of up to 2.6% and fixed to 3.2%, for RSD – BELIBOR plus a mark-up of up to 1.5%, for BYR – up to 13.8%, fixed, for HUV – 22.4% fixed and for USD 12% fixed (2018: EURIBOR plus a mark-up of up to 2.2% or fixed up to 12%, EONIA plus mark-up of up to 2.1%; for BGN loans - reference rate of the respective bank plus a mark-up of up to 2.6% and fixed to 3.2%; for RSD - BELIBOR plus a mark-up of up to 1.5%; for BYN - up to 13.8% fixed; for UAH - 22.4% fixed and for USD - 12% fixed). Loans are intended for providing working capital.

The following special pledges have been established as collateral for the above loans in favour of the creditor banks:

- machinery and equipment (*Note 14*);
- raw materials, consumables and finished products (*Note 21*);
- trade receivables (*Note 22*).



As at 31 March 2019, there are special pledges on receivables from related parties, subject to consolidation and eliminated for the purpose of the interim consolidated financial statements, at the amount of BGN 73,190 thousand (31 December 2018: BGN 66,507 thousand), established as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 31 and 38*).

### 32. TRADE PAYABLES

<i>Trade payables</i> include:	<b>31.03.2019</b> <b>BGN'000</b>	<b>31.12.2018</b> <b>BGN'000</b>
Payables to suppliers	115,632	123,627
Advances from clients	630	849
<b>Total</b>	<b>116,262</b>	<b>124,476</b>
The <i>payables to suppliers</i> refer to:	<b>31.03.2019</b> <b>BGN'000</b>	<b>31.12.2018</b> <b>BGN'000</b>
Suppliers outside Bulgaria	88,303	94,616
Suppliers from Bulgaria	27,329	29,011
<b>Total</b>	<b>115,632</b>	<b>123,627</b>

The payables to suppliers are regular, interest-free and refer to supplies of materials, goods and services. The average credit period, for which usually no interest is charged on trade payables, is up to 180 days.

### 33. PAYABLES TO RELATED PARTIES

The <i>payables to related parties</i> refer to:	<b>31.03.2019</b> <b>BGN'000</b>	<b>31.12.2018</b> <b>BGN'000</b>
Payables to companies related through key management personnel	6,292	293
Payables to companies related through a main shareholder	1,036	78
Payables to main shareholding companies	82	58
Payables to companies controlled by an associate	66	20
Other related parties	18	18
<b>Total</b>	<b>7,494</b>	<b>467</b>

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

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables on commercial loans	6,000	-
Payables on supply of goods and materials	1,180	110
Payables on supply of services	314	278
Payables on supply of non-current assets	-	45
Payables under advances	-	34
<b>Total</b>	<b>7,494</b>	<b>467</b>

The payables to related parties are regular, denominated in BGN, interest-free and are not additionally secured through a special pledge or guarantee by the Group.

### 34. PAYABLES UNDER FACTORING AGREEMENT

Companies of the Group have entered into factoring agreements with a financial institution (Factor), dated 19 January 2016, for transfer of existing unsalable receivables from debtors. The Factor is entitled to recourse for all amounts paid in advance regardless of whether they are included not in the approved credit limit. The approved credit limit is BGN 40,000 thousand (2018: BGN 40,000 thousand). The transferred invoices are paid in advance up to 90% (ninety per cent) of their amount with VAT included. The interest for the amounts paid in advance is 1M RIR + 1.55% on an annual basis and is deducted on a monthly basis in the end of each calendar month.

The payable under the factoring agreement amounts to BGN 23,221 thousand as at 31 March 2019 (31 December 2018: BGN 21,791 thousand).

The financing granted for 2019 amounts to BGN 59,670 thousand (2018: 37,350 thousand) (Note 2.18).

### 35. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

*Payables to personnel and for social security include:*

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables to personnel, including:	12,606	11,474

<i>current wages and salaries</i>	6,143	5,733
<i>accruals on unused compensated leaves</i>	3,433	2,711
<i>tantieme</i>	3,030	3,030
Payables for social security/health insurance, including:	2,838	2,702
<i>current payables for social security contributions</i>	2,336	2,313
<i>accruals on unused compensated leaves</i>	502	389
<b>Total</b>	<b>15,444</b>	<b>14,176</b>

**36. TAX PAYABLES***Tax payables* include:

	<i>31.03.2019</i>	<i>31.12.2018</i>
	<i>BGN'000</i>	<i>BGN'000</i>
VAT	4,102	3,995
Income taxes	2,283	1,092
Individual income taxes	888	857
Taxes on expenses	81	607
Withholding taxes	9	5
Other	633	119
<b>Total</b>	<b>7,996</b>	<b>6,675</b>

By the date of issue of these interim consolidated financial statements the following inspections and audits of Group companies have been performed:

<b>Company</b>	<b>Full-scope tax audit</b>	<b>VAT inspection</b>	<b>Inspection under the social security legislation</b>
Sopharma AD	31.12.2011	31.12.2011	30.09.2013
Sopharma Trading AD	31.12.2011	31.12.2017	30.04.2018
Sopharmacy EOOD	none	31.05.2018	none
Sopharmacy 2 EOOD	none	30.11.2018	none
Sopharmacy 3 EOOD	none	30.11.2017	none
Sopharmacy 4 EOOD	none	31.03.2018	none
Sopharmacy 5 EOOD	none	30.11.2018	none
Sopharmacy 6 EOOD	none	31.01.2018	none
Sopharmacy 7 EOOD	none	30.11.2018	none
Sopharmacy 8 EOOD	none	30.11.2018	none
Sopharmacy 9 EOOD	none	30.11.2018	none
Sopharmacy 10 EOOD	none	31.03.2019	none
Sopharmacy 11 EOOD	none	31.08.2018	none

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Sopharmacy 12 EOOD	none	30.09.2018	none
Sopharmacy 13 EOOD	none	31.01.2018	none
Sopharmacy 14 EOOD	none	30.11.2018	none
Sopharmacy 15 EOOD	none	28.02.2018	none
Sopharmacy 16 EOOD	none	28.02.2019	none
Biopharm Engineering AD	31.12.2014	31.10.2018	30.04.2009
Momina Krepost AD	31.12.2005	31.10.2006	31.10.2006
Pharmalogistica AD	31.12.2005	31.03.2007	none
Sopharma Buildings REIT	none	31.10.2018	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none
PAO Vitamini	31.12.2013	31.12.2013	01.04.2014
OOO Sopharma Ukraine	31.12.2014	31.12.2013	31.03.2016
SIA Briz	31.12.2016	30.09.2018	31.12.2018
COOO Brititrade	31.12.2011	31.12.2011	31.12.2011
OOO Tabina	31.12.2010	31.12.2010	31.12.2006
SOOO Brizpharm	31.12.2012	31.12.2012	none
OOO Med-Dent	31.03.2014	31.03.2014	31.12.2007
BOOO SpetzApharmacia	01.04.2010	01.04.2010	none
OOO Bellerophon	30.04.2008	30.04.2008	30.11.2007
OOO Ivem & K	31.03.2017	31.03.2017	31.12.2010
OOO NPKF Ariens	30.04.2013	30.04.2013	31.12.2012
ODO Medjel	none	31.12.2018	30.06.2016
Veta Pharm AD	31.10.2007	31.10.2007	31.03.2016
ODO SalusLine	30.04.2013	30.04.2013	none
ZAO Intepharm	none	none	06.07.2017
Sopharma Warsaw SP. Z.O.O.	31.03.2017	30.06.2017	15.04.2017
Sopharma Trading, Serbia	31.03.2017	30.06.2017	15.04.2017

Tax audit of the companies in Bulgaria is performed within a 5-year period after the end of the year when the tax return for the respective liability has been submitted. The tax audit confirms ultimately the tax liability of the respective company — tax liable person except in the cases explicitly stated by law. For the companies outside Bulgaria a tax audit is performed as follows: in Ukraine, Latvia and Belarus – within a term of three years, in Poland, Kazakhstan and Lithuania – within a term of five years, and in Serbia – within a term of ten years, and Moldova – within a term of four years.

The companies Phyto Palauzovo AD, Aromania AD, Sopharmacy 17 EOOD, Sopharmacy 18 EOOD, OOO Phamracevt Plus, TOO Sopharma Kazakhstan, Sopharma Trading Pharmaceuticals, Serbia, OOO Pharmatea, UAB TBS Pharma, OOO Galenapharm, OOO Zdorovei, ODO Alenpharm – Plus, Rap Pharma International, and OOO Zabotlivaya Apteka have not been subject to full-scope tax audits, VAT audits and inspections under the social security regulations.

**37. OTHER CURRENT LIABILITIES**

*Other current liabilities* include:

**31.03.2019      31.12.2018**

	BGN'000	BGN'000
Financial lease liabilities ( <i>Note 29</i> )	10,621	1,196
Payables for recovery	2,136	2,199
Trade loans received from third parties	1,369	-
Dividends payable	1,268	681
Liabilities related to share purchase	1,244	-
Government grants ( <i>Note 30</i> )	757	792
Contract liabilities	426	471
Outstanding conditional liability related to acquisition of shares in a subsidiary	394	1,009
Awarded amounts under litigations	342	337
Deductions from work salaries	222	239
Provisions under financial guarantees	33	33
Other	496	624
<b>Total</b>	<b>19,308</b>	<b>7,581</b>

### 38. CONTINGENT LIABILITIES AND COMMITMENTS

#### Issued and granted guarantees

##### *Sopharma AD*

The Company is a co-debtor under received bank loans, issued bank guarantees, concluded lease agreements, and is a guarantor of banks and suppliers of the following companies:

	Maturity	Currency	Amount		Debt status
			Original		31.03.2019
			Currency	BGN'000	BGN'000
Sopharma Properties REIT	2024	EUR	22,619	44,239	16,101
Energoinvestments AD	2020	BGN	2,000	2,000	1,562
Mineralcommerce AD	2019 – 2021	BGN	726	726	404
Pharmaplant AD	2023	EUR	235	460	279
<b>Total</b>					<b>18,346</b>

#### Bank guarantees

##### *Sopharma Trading AD*

The bank guarantees issued in favour of the Company amount to BGN 14,123 thousand (31 December 2018: BGN 14,705 thousand) are to secure payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medicinal products to hospitals under concluded contracts, customs office guarantees and tender participation.

The bank guarantees have been issued by:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN '000</b>	<b>BGN '000</b>
SG Expressbank AD	5,711	5,702
Reiffeisenbank EAD	5,098	5,200
ING Bank N.V.	3,314	3,803
	<b>14,123</b>	<b>14,705</b>

The collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 8,997 thousand (31 December 2018: BGN 8,927 thousand) (*Note 21*).
- Special pledge on receivables from clients with a carrying amount of BGN 2,347 thousand (31 December 2018: BGN 2,347 thousand) (*Note 22*).

### ***Electroncommerce EOOD***

As at 31 March 2019 the company has no bank guarantees issued (31 December 2018: BGN 47 thousand).

### **Performance guarantee**

#### ***Sopharma Trading AD***

As at 31.03.2019 the Company has concluded contracts for insurance of performance guarantees in auctions for supply of medicines and consumables in favour of medical institutions and the Ministry of Health in the amount of BGN 945 thousand.

### **Assets held under safe custody**

#### ***Sopharma Trading AD***

According to concluded pre-distribution contracts, the Company has received goods for safe custody amounting to BGN 6,250 thousand as at 31 March 2019 (31 December 2018: BGN 6,242 thousand).

### **Significant irrevocable agreements and commitments**

#### ***Sopharma AD***

The Company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 (*Note 30 and Note 37*), related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section (*Note 14*). The Company undertook a commitment that for a period of 5 years after the completion of the respective projects they shall not be subject to

significant modifications affecting the essence and the terms and conditions for their execution or giving rise to unjustified benefits to the company, neither modifications resulting from a change in the nature of ownership over the assets acquired in relation to the grants. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

***Biopharm Engineering AD***

The Company has assumed a commitment under a grant contract with a term of five years after completion of the project for acquisition of

- (a) line for production of amino acid solution for parenteral nutrition, which includes components for inflation, filling and hermetisation in aseptic environment, and
- (b) clean rooms construction (omega profile ceilings, separation walls, doors, blocking devices, lighting, air conditioning, etc.). The term commenced on 27 April 2015 (the date on which the project was ultimately approved by the financing institution) and according to the contract the project should not suffer significant changes referring to its nature, the conditions of its performance or leading to unjustifiable benefits for the company as well as changes resultant from modification in the nature of ownership of infrastructural component or discontinuance of production activities. On non-compliance with these requirements, the financing shall be returned. At the date of approval for issue of the financial statements, all contractual requirements were fulfilled.

**39. FINANCIAL RISK MANAGEMENT**

In the ordinary course of business, the Group can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows.

The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Group.

The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the finished products and services of the Group companies and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations.

Risk management is currently performed by the management of the parent company and respectively, the managing bodies of the subsidiaries, in line with the policy defined by the Board of Directors of the parent. The Board of Directors has approved the basic principles of general financial risk

management, on the basis of which specific procedures have been established for management of the separate specific types of risk such as currency, price, interest, credit and liquidity risk and the risk of use of non-derivative instruments.

The structure of financial assets and liabilities at 31 March 2019 is as follows:

<b>Categories of financial instruments:</b>	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN '000</b>	<b>BGN '000</b>
<b>Financial assets</b>		
<b>Financial assets at amortised cost, including:</b>	<b>346,329</b>	<b>297,620</b>
<i>Receivables and loans granted (Notes 19, 20, 23 and 24)</i>	326,477	273,491
<i>Cash and cash equivalents (Note 25)</i>	19,852	24,129
<b>Financial assets at fair value through other comprehensive income, including:</b>	<b>10,034</b>	<b>8,598</b>
<i>Equity investments (Note 18)</i>	10,034	8,598
<b>Total financial assets</b>	<b>356,363</b>	<b>306,218</b>
<b>Financial liabilities</b>		
<b>Financial assets at amortised cost, including:</b>	<b>526,731</b>	<b>451,066</b>
<i>Short-term and long-term bank loans (Notes 27 and 31)</i>	336,664	298,857
<i>Other loans and payables (Notes 32, 33, 34 and 37)</i>	150,198	148,527
<i>Finance lease liabilities (Note 29)</i>	39,869	3,682
<b>Total financial liabilities</b>	<b>526,731</b>	<b>451,066</b>

The net effect of accrued / (reversed) impairment associated with financial assets and financial guarantees recognized in the statement of comprehensive income (profit or loss) is as follows:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Receivables from clients	280	-
Loans granted at amortised cost	(243)	-
<b>Total</b>	<b>37</b>	<b>-</b>

#### **Credit risk**

Credit risk is the risk that any of the Group's clients will fail to discharge in full and within the normally envisaged terms the amounts due under trade receivables.

The Group's credit risks arises both from its business operations, through trade receivables, and from its financing activities, including the granting of loans to related and third parties, commitments undertaken under loans and guarantees and bank deposits. The Group has developed policies, procedures and rules for control and monitoring of credit risk behaviour.



***Policy for credit risk management and assessment applied as from 1 January 2018******Trade receivables***

In its business practice, the Group has applied various schemes of distribution until arriving at its current effective approach, which considers the market environment, various forms of payments, as well as the inclusion of trade rebates. The Group works with counterparts with whom it has a history on its main markets, and partners with over 70 Bulgarian and foreign licensed distributors of medicinal products.

Work with the NHSSO and with distributors working with state hospitals also require the adoption of a deferred payment policy in Bulgaria. In this sense, even though credit risk concentration exists, this risk is controlled by means of selection, ongoing monitoring of the liquidity and financial stability of sales partners, as well as direct communication therewith and seeking quick measures upon indications for problems.

The Group's credit policy envisages assessing each new customer's creditworthiness before proposing standard delivery and payment conditions.

Expected credit losses are calculated at the date of each reporting period. They were first calculated as at 1 January, respectively as at 31 December 2018.

The Group uses provisioning matrixes to calculate expected credit losses from trade receivables and contract assets. The latter are grouped into groups (portfolios) from various client segments sharing similar characteristics, incl. for credit risk.

The percentages applied in the provisioning matrix are based on days past due for each portfolio.

Each matrix percentage is initially determined based on historical data observed by the Group companies for a period of three years. The method is based on analysis of the history and assessing behaviour for each invoice within a group issued over at least the last three years, including pays past due, going period by period among the different past due ranges, payments and outstanding receivables, etc. Based on that, the loss percentage is determined as bad debt for the given group of factors versus past due invoices by days. The period of occurrence on an economic loss from uncollectability is determined by customer portfolios: wholesalers, pharmacy market, hospital market, and by geographic regions. This period is examined and historically assessed. The Group does not have a practice to request collateral of trade receivables, and does not insure them. Second, the Group makes the impairment provisioning matrixes for each portfolio precise by adjusting certain percentages based on historical data for the behaviour of payments under the invoices issued and historical losses from bad debt, by including scenarios and forecast information about certain macro factors. Historical percentages are adjusted to reflect the effect of the future behaviour of macroeconomic factors for which a statistical dependence has been identified and which are considered to impact the customers' ability to service and settle their payables.

***Court and awarded receivables***

Upon determining the collectability of court and awarded receivables, the management analyses on an individual basis the overall exposure from each counterpart (counterpart type) in order to determine the actual likelihood of their collection.

Upon establishing it is highly unlikely to collect a given receivable (group of receivables), it is assessed what portion thereof is secured (pledge, mortgage, guarantors, and bank security) to thus guarantee collectability (through potential future realisation of the collateral or payment by the guarantor).

The receivables or portion thereof for which the management determines are highly unlikely to be collected, are 100% impaired.

*Loans and financial guarantees granted*

The assessment of each credit exposure for the management's purposes is a process that requires the use of models to reflect impact on exposure by changes in market conditions and the debtor's operation, estimated cash flows and time left to maturity. The assessment of the credit risk of loans granted leads to further judgement on the possibility of default, on the loss coefficients related to this judgement and to correlation between counterparts. The Company measures credit risk by using probability of default (PD), exposure at default (EAD) and loss given default (LGD).

To determine the credit risk of loans and financial guarantees granted, and of certain individual trade receivables, the Group's management has developed a methodology that includes two main components: determining the debtor's credit rating, and statistical models for calculating marginal PR by year for each rating. With respect to the rating, it uses internal credit ratings of its counterparts based on the global methodologies of world's leading rating agencies. The rating reflects financial indebtedness, liquidity, profitability ratios, etc. quantitative (for instance, sales volumes) and qualitative (for instance, financial policy, diversifications, etc.) criteria depending on the respective methodology and industry.

By means of statistical models based on historical global data about probability of default (PD) and transitions between different ratings, as well as forecasts for key macroeconomic indicators (GDP growth, inflation, etc.), the necessary marginal PD are determined by year for each rating.

Based on the specific rating established and the analysis of the debtor's characteristics and the loan/guarantee, incl. changes which have occurred therein compared to the prior period, the instrument's stage is determined (Stage 1, Stage 2, and Stage 3).

The criteria used to identify a substantial increase in credit risk are monitored, and their viability is reviewed on a periodic basis by the Group's Finance Director.

The Group applies a number of policies and practices to lower the credit risk from loans granted. Most frequently, it accepts collateral. The Company assigns valuation to external experts – independent valuers, of the collateral received, as part of the process of granting loans. This valuation is reviewed on a periodic basis, but at least once per year.

The table below provides information about the Group's exposure to credit risk and the impairment of credit losses for loans granted and trade receivables as at 31 March 2019:

Category	Correlation to an external credit rating	Average percentage of expected impairment loss	Gross carrying amount BGN '000	Impairment loss (allowance) BGN '000
Renegotiated loans (Stage 2 )	B2	0.00%	68,062	-
Renegotiated loans (Stage 2 )	Ba3	0.83%	21,241	(177)

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Renegotiated loans (Stage 2 )	Ba2	0.55%	4,716	(26)
Renegotiated loans (Stage 2 )	B3	0.00%	217	-
Renegotiated loans (Stage 2 )	B1	0.00%	55	-
Under-performing loans (Stage 3)	Caa1	31.41%	1,038	(326)
Trade and other receivables (Stage 1)		2.79%	234,880	(6,543)
Underperforming trade receivables (court and awarded receivables)		18.83%	4,115	(775)
<b>Total</b>			<b>334,324</b>	<b>(7,847)</b>

The Group has concentration of receivables from related parties (trade receivables and loans), as follows:

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Client 1	74.72%	53%
Client 2	19.46%	16%
Client 3	4.36%	16%

The Group manages concentration of receivables from related parties on a current basis by applying credit limits and additional collaterals in the form of pledge on securities and other assets and applying promissory notes.

	<b>31.03.2019</b>	<b>% credit exposure versus the total amount of trade receivables</b>	<b>31.12.2018</b>	<b>% credit exposure versus the total amount of trade receivables</b>
	<b>BGN'000</b>	<b>%</b>	<b>BGN'000</b>	<b>%</b>
Client 1	12,130	5%	13,691	6%
Client 2	10,468	5%	11,327	5%
Client 3	10,405	5%	9,947	4%
Client 4	6,173	3%	5,308	2%
Client 5	4,774	2%	5,236	2%

### Cash

The Group's cash and payment operations are concentrated in different first-class banks. To calculate expected credit losses for cash and cash equivalents, it applies a model based on the bank's public ratings as determined by internationally recognised rating firms like Moody's, Fitch, S&P, BCRA and Bloomberg and the reference public data about PD referring to the rating of the respective bank. The management monitors changes in a bank's rating on an ongoing basis in order to assess the presence of increased credit risk, ensure the current management of incoming and outgoing cash flows and the allocation of cash in the bank accounts and banks.

### Foreign currency risk

The Group companies perform their operations with active exchange with foreign suppliers and clients and therefore, they are exposed to currency risk.

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The Group through the companies in Belarus, Ukraine and Serbia carries out business in these countries and, therefore, has significant exposure in BYN, UAH and RSD. The currency risk is related with the adverse floating of the exchange rate of these currencies against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The rest of the companies abroad perform sales mainly to the local markets, which leads to currency risk to their currencies as well – Polish Zloty (PLN), Lithuanian Lit (LTL), US Dollar (USD), British Pound (GBP) and Kazakhstani Tenge (KZT).

Most operations of the Group companies are usually denominated in BGN and the fact that the BGN is fixed to the EUR reduces the potential currency volatility for the companies of the Group.

To control foreign currency risk, there is an implemented system in the whole Group for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rates and control on pending payments. The exposures of almost all subsidiaries in Bulgaria to foreign currency risk are insignificant because almost all sales are performed to the local market in Bulgarian Levs (BGN). The import of goods is performed mainly in Euro (EUR). The loans denominated in a foreign currency have been granted mainly in EUR.

The assets and liabilities of the Group denominated in BGN and presented by a foreign currency are as follows:

<i>31 March 2019</i>	<i>in BGN</i>	<i>in EUR</i>	<i>in RSD</i>	<i>in BYN</i>	<i>in USD</i>	<i>in UAH</i>	<i>in other currency</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Equity investments	7,477	1,445	-	566	546	-	-	10,034
Financial assets at amortised cost, including	246,928	37,988	30,395	13,321	5,382	3,491	8,824	346,329
<i>Loans and receivables, Cash and cash equivalents</i>	<i>234,859</i>	<i>36,905</i>	<i>29,562</i>	<i>12,331</i>	<i>5,134</i>	<i>2,730</i>	<i>4,956</i>	<i>326,477</i>
	<i>12,069</i>	<i>1,083</i>	<i>833</i>	<i>990</i>	<i>248</i>	<i>761</i>	<i>3,868</i>	<i>19,852</i>
<b>Total financial assets</b>	<b>254,405</b>	<b>39,433</b>	<b>30,395</b>	<b>13,887</b>	<b>5,928</b>	<b>3,491</b>	<b>8,824</b>	<b>356,363</b>
Short-term and long- term bank loans	127,912	181,369	871	15,471	1,869	9,145	27	336,664
Other loans and liabilities	58,947	49,142	14,159	19,850	5,066	415	2,619	150,198
Lease liabilities	7,015	30,499	12	726	1,105	-	512	39,869
<b>Total financial liabilities</b>	<b>193,874</b>	<b>261,010</b>	<b>15,042</b>	<b>36,047</b>	<b>8,040</b>	<b>9,560</b>	<b>3,158</b>	<b>526,731</b>

<i>31 December 2018</i>	<i>in BGN</i>	<i>in EUR</i>	<i>in RSD</i>	<i>in BYN</i>	<i>in USD</i>	<i>in UAH</i>	<i>in other currency</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Equity investments	6,119	1,484	-	546	449	-	-	8,598
Financial assets at amortised cost, including	177,538	54,205	35,423	12,149	5,474	5,226	7,605	297,620
<i>Loans and receivables,</i>	<i>166,756</i>	<i>50,384</i>	<i>34,611</i>	<i>10,944</i>	<i>4,851</i>	<i>1,173</i>	<i>4,772</i>	<i>273,491</i>

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<i>Cash and cash equivalents</i>	<i>10,782</i>	<i>3,821</i>	<i>812</i>	<i>1,205</i>	<i>623</i>	<i>4,053</i>	<i>2,833</i>	<i>24,129</i>
<b>Total financial assets</b>	<b>183,657</b>	<b>55,689</b>	<b>35,423</b>	<b>12,695</b>	<b>5,923</b>	<b>5,226</b>	<b>7,605</b>	<b>306,218</b>
Short-term and long-term bank loans	102,555	168,961	936	15,100	1,805	9,472	28	298,857
Other loans and liabilities	53,202	52,392	15,177	17,448	7,161	169	2,978	148,527
Lease liabilities	3,202	207	-	254	-	-	19	3,682
<b>Total financial liabilities</b>	<b>158,959</b>	<b>221,560</b>	<b>16,113</b>	<b>32,802</b>	<b>8,966</b>	<b>9,641</b>	<b>3,025</b>	<b>451,066</b>

***Foreign currency sensitivity analysis***

The foreign currency sensitivity of the Group exposures is mainly related with the Ukrainian Hryvnia (UAH), the Belarusian Ruble (BYN), and the Serbian Dinar (RSD). With regard to the other currencies in which the Group operates or in which other companies of the Group operate (Polish Zloty, US Dollar and Kazakhstani Tenge) the foreign currency risk of the Group is limited, because their exposures in these currencies are relatively small and are more easily regulated by the managing bodies of the respective subsidiaries.

The impact of the first quarter of 2019 on a 10% increase / decrease in the rates of the Serbian Dinar (RSD), Belarusian ruble (BYN), the Ukrainian hryvnia (UAH), the US dollar (USD) against the Bulgarian Lev on the Group's profit (after tax) is:

	31.03.2019				31.03.2018			
	RSD	BYN	USD	UAH	RSD	BYN	USD	UAH
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Financial result	1,305	(1,817)	(190)	(498)	1,251	(1,682)	283	131
Retained earnings	1,305	(1,817)	(190)	(498)	1,251	(1,682)	283	131

Other currencies' include mainly: BGN 5,075 thousand in PLN and BGN 1,204 thousand in MDL net financial assets (2018: BGN 3,692 thousand in PLN and BGN 1,266 thousand in MDL net financial assets).

In case of a 10% increase / decrease of the Polish zloty (PLN) and the Moldovan leu (MDL) exchange rate against the Bulgarian lev (BGN) respectively, the final effect on the Group's profit (after tax) is:

	31.03.2019		31.03.2018	
	PLN	MDL	PLN	MDL
	BGN '000		BGN '000	
Financial result	411	106	299	111

Retained earnings	411	106	299	111
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The effect on equity is of the same amount and in a direction of a decrease and reflects in the component 'retained earnings'.

The Group analyzes the currency exposure and takes timely measures to mitigate its effects on the Group's results.

### ***Price risk***

The Group companies are exposed to price risk of inventories based on three main factors:

- (a) a possible increase of purchase prices of raw materials and consumables, since a significant portion of the raw materials used are imported and they represent a significant share of production costs;
- (b) a possible increase in supplier prices of goods; and
- (c) the growing competition on the Bulgarian pharmaceutical market, affecting the prices of pharmaceuticals.

For the purpose of mitigating this influence, the management of the Group applies a strategy aimed at optimisation of production costs, validation of alternative suppliers that offer beneficial commercial conditions, expanding product range by means of new generic products development and last but not least, adoption of a flexible marketing and price policy. Price policy is a function of three main factors – structure of expenses, prices of competitors and purchasing capacity of customers.

The Group is exposed to a significant price risk also with regard to the shares held thereby, classified as other long-term equity investments, mostly through the parent company. For this purpose, the management monitors and analyses all changes in security markets and also uses consulting services of one of the most authoritative in the country investments intermediaries.

In addition, at this stage, the management has taken a decision for a reduction in its operations on stock markets, retaining of the purchased shares for longer periods with current monitoring of the reported by the respective issuer financial and business indicators as well as the development of the operations in the environment of crisis.

### ***Liquidity risk***

The liquidity risk is the adverse situation when the Group encounters difficulty in meeting unconditionally its obligations within their maturity.

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is its main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible general liquidity risk, the group implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic

activities. This is supplemented by current monitoring of the maturities of assets and liabilities, control over cash outflows and ensuring their current balancing with inflows, including renegotiation of maturities and optimisation of debt structure, increase and internal restructuring of self-generated funds and their investment.

### *Maturity analysis*

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

### *Maturity analysis*

<i>31 March 2019</i>	<i>up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 2 years</i>	<i>2 to 5 years</i>	<i>over 5 years</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Short-term and long-term bank loans	44,678	58,411	32,950	159,052	22,757	24,771	1,028	<b>343,647</b>
Other loans and liabilities	92,893	38,344	15,143	2,669	1,149	-	-	<b>150,198</b>
Lease liabilities	677	1,668	3,206	5,783	8,014	19,540	5,635	<b>44,523</b>
<b>Total liabilities</b>	<b>138,248</b>	<b>98,423</b>	<b>51,299</b>	<b>167,504</b>	<b>31,920</b>	<b>44,311</b>	<b>6,663</b>	<b>538,368</b>
<i>31 December 2018</i>	<i>up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 2 years</i>	<i>2 to 5 years</i>	<i>over 5 years</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Short-term and long-term bank loans	92,359	8,204	89,041	66,547	22,145	26,660	473	<b>305,429</b>
Other loans and liabilities	88,961	43,409	15,160	890	107	-	-	<b>148,527</b>
Lease liabilities	-	12	1,498	787	387	1,175	-	<b>3,859</b>
<b>Total liabilities</b>	<b>181,320</b>	<b>51,625</b>	<b>105,699</b>	<b>68,224</b>	<b>22,639</b>	<b>27,835</b>	<b>473</b>	<b>457,815</b>

### *Risk of interest-bearing cash flows*

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

- optimisation of resources and structure of credit resources for achieving relatively lower price of attracted funds; and
- combined structure of interest rates on loans comprising two components – a permanent one and a variable one; the correlation between them, as well as their absolute value, are maintained in a proportion favourable for the Group companies. The fixed component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the

probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

The managing bodies of the Group companies together with the management of the parent currently monitor and analyse the exposure of the respective company to the changes in interest levels. Simulations are carried out for various scenarios of refinancing, renewal of existing positions, and alternative financing. The impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated based on these scenarios. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

<i>Interest analysis</i> <i>31 March 2019</i>	<i>interest-free</i> <i>BGN '000</i>	<i>with floating</i> <i>interest %</i> <i>BGN '000</i>	<i>with fixed</i> <i>interest %</i> <i>BGN '000</i>	<i>Total</i> <i>BGN '000</i>
Equity investments	10,034	-	-	10,034
Financial assets at amortised cost, including:	215,949	2,104	128,276	346,329
<i>Receivables and loans</i>	<i>204,856</i>	<i>15</i>	<i>121,606</i>	<i>326,477</i>
<i>Cash and cash equivalents</i>	<i>11,093</i>	<i>2,089</i>	<i>6,670</i>	<i>19,852</i>
<b>Total financial assets</b>	<b>225,983</b>	<b>2,104</b>	<b>128,276</b>	<b>356,363</b>
Short-term and long-term bank loans	-	298,235	38,429	336,664
Other loans and liabilities	102,833	34,335	13,030	150,198
Lease liabilities	-	149	39,720	39,869
Liabilities under financial guarantees	-	-	-	-
<b>Total financial liabilities</b>	<b>102,833</b>	<b>332,719</b>	<b>91,179</b>	<b>526,731</b>
<i>Interest analysis</i> <i>31 December 2018</i>	<i>interest-free</i> <i>BGN '000</i>	<i>with floating</i> <i>interest %</i> <i>BGN '000</i>	<i>with fixed</i> <i>interest %</i> <i>BGN '000</i>	<i>Total</i> <i>BGN '000</i>
Equity investments	8,598	-	-	8,598
Financial assets at amortised cost, including:	226,519	28,631	42,470	297,620
<i>Receivables and loans</i>	<i>219,874</i>	<i>16,620</i>	<i>36,997</i>	<i>273,491</i>
<i>Cash and cash equivalents</i>	<i>6,645</i>	<i>12,011</i>	<i>5,473</i>	<i>24,129</i>
<b>Total financial assets</b>	<b>235,117</b>	<b>28,631</b>	<b>42,470</b>	<b>306,218</b>
Short-term and long-term bank loans	-	247,282	51,575	298,857
Other loans and liabilities	126,872	20,950	705	148,527
Lease obligations	-	3,401	281	3,682
<b>Total financial liabilities</b>	<b>126,872</b>	<b>271,633</b>	<b>52,561</b>	<b>451,066</b>

The table below demonstrates Group's sensitivity to possible changes in interest rates by 0.50% based on the structure of assets and liabilities as at 31 March and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and on equity.



<i>Increase / decrease in interest rate</i>	<i>Impact on post-tax financial result and equity profit/(loss)</i>	
	<b>31.03.2019</b>	<b>31.03.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Increase	(1,497)	(1,106)
Decrease	1,497	1,106

***Capital risk management***

The capital management objectives of the Group are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital. Analogous approach is applied also at the level of a separate Group company with regard to its capital structure and financing.

The Group currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total amount of employed capital. Net debt is calculated as total borrowings (current and non-current ones) as presented in the interim consolidated statement of financial position less cash and cash equivalents. Total employed capital is equal the sum of equity (including non-controlling interest) and net debt. It is a characteristic feature for both presented periods that the Group finances its operations both through its own generated profit and by maintaining a certain level of trade and other current payables and loans (bank, commercial ones).

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

	<b>31.03.2019</b>	<b>31.12.2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Total borrowings, including:</b>	<b>399,754</b>	<b>324,330</b>
<i>Bank loans</i>	336,664	298,857
<i>Loans and liabilities under finance lease and factoring</i>	63,090	25,473
<b>Less: Cash and cash equivalents</b>	<b>(19,852)</b>	<b>(24,129)</b>
<b>Net debt</b>	<b>379,902</b>	<b>300,201</b>
<b>Total equity of the Group</b>	<b>519,153</b>	<b>508,529</b>
<b>Total capital of the Group</b>	<b>899,055</b>	<b>808,730</b>
<b>Gearing ratio</b>	0.42	0.37

The liabilities shown in the table are disclosed in *Notes 27, 29, 31 and 34*.

***Fair value measurement***

The fair value concept presumes realisation of the financial instruments through sales, based on the position, assumptions and judgements of independent market participants on the main or more profitable market for given assets or liabilities. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits with banks, the Group expects to realise these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at amortised cost.

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the interim consolidated statement of

financial position based on market value (deposits placed with banks, investments in securities, loans with floating interest rate) and therefore, their fair value is almost equal to their carrying amount.

For receivables and loans with a fixed interest rate, the methodology applied in determining it uses as starting point for calculations Group's observations of market interest rates.

As far as no sufficient market experience, stability and liquidity exist in regards of purchases and sales of certain financial assets and liabilities, still no adequate and reliable quotes of market prices are available thereof, due to which alternative assessment methods and techniques are used.

The management of the parent company is of the opinion that the estimates of the financial assets and liabilities presented in the statement of financial position are as reliable, adequate and trustworthy as possible for financial reporting purposes under the existing circumstances.

#### 40. RELATED PARTY TRANSACTIONS

<i>Related parties</i>	<i>Relation type</i>	<i>Relation period</i>	
Telecomplect Invest AD	Main shareholding company	2019	2018
Donev Investments Holding AD	Main shareholding company	2019	2018
Sopharma Properties REIT	Company related through a main shareholder	2019	2018
Sofprint Group AD	Company related through a main shareholder	2019	2018
Elpharma AD	Company related through key management personnel	2019	2018
Telecomplect AD	Company related through key management personnel	2019	2018

	<i>1 January – 31 March 2019 BGN '000</i>	<i>1 January – 31 March 2018 BGN '000</i>
<b><i>Supplies from related parties:</i></b>		
<b><i>Supply of inventories from:</i></b>		
Companies related through a main shareholder	2,765	2,314
Companies controlled by an associate	13	14
Companies related through key management personnel	4	4
	<b>2,782</b>	<b>2,332</b>
<b><i>Supply of services from:</i></b>		
Companies related through key management personnel	803	679
Companies related through a main shareholder	294	608
Companies controlled by an associate	268	245
Main shareholding companies	91	113
	<b>1,456</b>	<b>1,645</b>
<b><i>Supplies, related to operating leases assets from:</i></b>		
Companies related through a main shareholder	262	-
	<b>262</b>	<b>-</b>
<b><i>Supplies for investment properties acquired from:</i></b>		
Companies related through key management personnel	12	-
	<b>12</b>	<b>-</b>
<b><i>Supplies for the acquisition of fixed assets:</i></b>		
Companies related through key management personnel	21	691

	<u>21</u>	<u>691</u>
<b><i>Loans granted from:</i></b>		
Companies related through key management personnel	6,000	-
	<b>6,000</b>	<b>-</b>
	<b>10,533</b>	<b>4,668</b>
 <b><i>Sales of services to related parties</i></b>		
<b><i>Sales of inventories for:</i></b>		
Associates	311	1,360
Companies related through a main shareholder	243	239
Companies controlled by an associate	60	-
Companies under a common indirect control through key management personnel	3	-
	<b>617</b>	<b>1,599</b>
 <b><i>Sales of services for:</i></b>		
Companies controlled by an associate	41	69
Companies related through a main shareholder	14	12
Associates	2	-
Companies under a common indirect control through key management personnel	-	3
	<b>57</b>	<b>84</b>
 <b><i>Other sales to:</i></b>		
Companies related through a main shareholder	67	-
	<b>67</b>	<b>-</b>
 <b><i>Interest on loans granted:</i></b>		
Companies controlled by associates	198	59
Associates	151	143
Companies related through key management personnel	17	23
	<b>366</b>	<b>225</b>
	<b>1,107</b>	<b>1,908</b>

The accounts and balances with related parties are presented in *Notes 19 and 23*.

The composition of key management personnel of the Group includes the disclosed in Note 1.1 Executive Director and the members of the Board of Directors of the parent company.

Salaries and other short-term benefits of key management personnel and Executive Directors, members of the Board of Directors and General Managers of the Group's subsidiaries amount to BGN 1,414 thousand (2018: BGN 1,460 thousand) and include:

- current wages and salaries – BGN 1,401 thousand (2018: BGN 1,460 thousand);
- tantieme – BGN 13 thousand (2018: BGN none);

**41. EVENTS AFTER THE REPORTING PERIOD**

There are no events after the balance sheet date that requires disclosure in these Interim Consolidated Financial Statements.