

SOPHARMA GROUP**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

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1. BACKGROUND INFORMATION ON THE GROUP

SOPHARMA GROUP (the Group) is comprised of the parent company and its twenty one (2010: eighteen) subsidiaries. In addition, the Group has an investment in one joint venture (2010: one joint venture and one associate – until 4 September 2010).

Parent company

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

The court registration of the Company dates from 15 November 1991 – Decision No. 1/1991 of Sofia City Court.

Subsidiaries

The subsidiaries of the Group as at 31 December 2011 were 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 address of management: Sofia, 16, Rozhen Blvd.;
- Bulgarian Rose Sevtopolis AD – a business entity registered in Bulgaria by Decision No. 3912/1991 of Stara Zagora District Court, with a seat and address of management: Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;
- Pharmalogistica AD – a business entity registered in Bulgaria by Decision of Sofia City Court dated 12 August 2002, with a seat and address of management: Sofia, 16, Rozhen Blvd.;
- Elektroncommerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 24456 of 1991, with a seat and address of management: Sofia, 1, Samokovsko Shousse Str.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and address of management: 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 address of management: Veliko Tarnovo, 23, Magistralna Str.;
- Sopharma Buildings REIT – a business entity registered in Bulgaria by Decision No. 1/14.08.07 of Sofia City Court, with a seat and address of management: Sofia, 16, Iliensko Shousse Str.;

- Unipharm AD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 3685 of 1994, with a seat and address of management: Sofia, 3, Traiko Stanoev Str.;
- Rostbalkanpharm ZAO – a business entity registered in Russia by Decision No. 1026101791594 of 9 October 2002, with a seat and address of management: Russia, Azov, 10, Osipenko Str.;
- Sopharma Poland OOD, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554 of 4 November 2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and address of management: Poland, Warsaw, 58, Shashkova Str.;
- Sopharma Warsaw EOOD – 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 address of management: Poland, Warsaw, 8, Halubinskiego Str.;
- Sopharma USA – a business entity registered in USA by Decision No. 97227599 of 25 April 1997 in California State Secretary Office, with a seat and address of management: USA, California, Los Angelis, 4622, Hollywood Blvd.;
- Extab Corporation USA – a business entity registered in USA by Decision No. 090292393 of 6 November 2008 in the Delaware State Secretary Office, with a seat and address of management: USA, Delaware, Wilmington, New Castle Region, 1209 Orange Street;
- Extab Pharma Limited, United Kingdom – a business entity registered in England by Decision No. 06751116 of 17 November 2008, with a seat and address of management: Oxfordshire, RG9 1AY, Henlay on Thames, 10 Station Road;
- PAO Vitamini – a business entity registered in Ukraine by Decision No. 133 dated 15 April 1994 of Uman City Court, with a seat and address of management: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri Str.;
- Ivanchich and Sons OOD – a business entity registered in Serbia by Fi-11350/91 on 14 October 1991 by the Commercial Court of Belgrade with a seat and address of management: Republic of Serbia, Belgrade, 13, Palmoticheva Str.;
- Briz OOD, Latvia – a business entity registered in Latvia by Decision No. 000302737 dated 18 September 1991 of the Commercial Registry of the Republic of Latvia, with a seat and address of management: Latvia, Riga, Rasas No. 5, LV – 1057;
- Brititrade SOOO, Belarus – a business entity registered in Belarus by Decision No. 1983 dated 24 September 2004 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 118, M. Bogdanomicha Str., office 303 – B;
- Tabina OOO, Belarus – a business entity registered in Belarus by Decision No. 1432 dated 29 December 1999 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 57, Kuybisheva Str., ap.1;
- ZAO Interpharm, Belarus - a business entity registered in Belarus in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 300000556, with a seat and address of management: Belarus, Vitebsk, Stroitelei Square, bl. 3 ap. 2;

- Superlats OOD, Latvia – a business entity registered in Latvia by Decision No. 40003960404 dated 5 October 2007 of the Commercial Registry of the Republic of Latvia, with a seat and address of management: Latvia, Riga, 117 Dzelzavas Str., LV – 1021.

Joint venture

The joint venture is Sopharma Zdrovit AD, in liquidation – a business entity registered in Poland by Decision KRS 0000298139 dated 27 September 2007 of Warsaw Republican Court Registry, with a seat and address of management: Poland, Warsaw, 31, Nochnitskego Str.

Associate

The company ZAO Interpharm, Belarus, acquired by the Group in 2011 had initially the status of an 'associate' (from 8 April 2011 to 17 December 2011) but subsequently the control over it was obtained and its status was changed to 'subsidiary' (Note 41).

The associate company within the Group until 4 September 2010 was Sopharma Logistica AD - business entity registered in Bulgaria by Decision No. 1/1999 dated 30 December 1999 of Sofia City Court, with a seat and address of management: Sofia, 12, Pozitano Str.

On 13 January 2010, by virtue of a merger contract (and Annex thereto dated 3 March 2010) concluded between Sopharma Logistica AD and Sopharma Trading AD, the latter was transformed through a merge-in of Sopharma Logistica AD (Art. 262e of the Commercial Act). As a result of the transformation, the total assets of Sopharma Logistica AD were transferred to Sopharma Trading AD and Sopharma Logistica AD was wound-up without liquidation. As from 4 September 2010, Sopharma Logistica AD was deleted from the Commercial Registry.

As a result of the above circumstances, the parent company acquired through an exchange additional 849,144 shares from the capital of Sopharma Trading AD (Note 42).

1.1. Ownership and management of the parent company

SOPHARMA AD is a public company under the Bulgarian Public Offering of Securities Act. As of November 2011, its shares started to be traded also in the Warsaw Stock Exchange.

The joint-stock capital structure of the parent company as at 31 December 2011 was as follows:

	%
Donev Investment Holding AD	24.56
Telecomplect AD (<i>formal holder of the shares as per the Registry at the Central Depository (CD) until the entry of Telecomplect Invest AD in the CD Registry – Note 44</i>)	20.42
Financial Consulting Company EOOD	16.24
Gramercy Select Master Fund	6.34
Gramercy Emerging Markets Fund	5.89
Other legal persons	23.23
Physical persons	3.32

SOPHARMA GROUP**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

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

Ognian Donev, PhD	Chairman
Vessela Stoeva	Member
Unipharm AD represented by Ognian Palaveev	Member
Alexander Todorov – till 29.06.2011	Member
Alexander Chaushev – from 29.06.2011	Member
Andrey Breshkov	Member

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

1.2. Structure of the Group and principal activities

The *structure* of the Group as at 31 December includes SOPHARMA AD as a parent company and the companies stated below:

<i>Subsidiaries</i>	31.12.2011	31.12.2010	<i>Acquisition of control date</i>
	<i>Interest %</i>	<i>Interest %</i>	
<i>Companies in Bulgaria</i>			
Sopharma Trading AD	81.33	82.5	08.06.2006
Bulgarian Rose Sevtopolis AD *	52.77	51.81	22.04.2004
Pharmalogistica AD	76.54	76.54	15.08.2002
Electroncommerce EOOD	100.00	100.00	09.08.2005
Biopharm Engineering AD	69.43	69.43	10.03.2006
Sopharma Buildings REIT	42.64	40.87	04.08.2008
Momina Krepost AD *	51.10	50.10	01.01.2008
Unipharm AD *	52.05	49.99	27.10.2010
<i>Companies abroad</i>			
Rostbalkanpharm ZAO	51.00	51.00	27.07.2001
Sopharma Poland OOD – in liquidation	60.00	60.00	16.10.2003
Sopharma USA	100.00	100.00	25.04.1997
Extab Corporation	80.00	80.00	05.08.2009
Extab Pharma Limited **	80.00	80.00	05.08.2009
Briz OOD	51.00	51.00	10.11.2009
Brititrade SOOO **	49.73	49.73	10.11.2009
PAO Vitamini	99.56	99.56	18.01.2008
Ivanchich and Sons OOD	51.00	51.00	10.04.2008
Sopharma Warsaw EOOD	100.00	100.00	23.11.2010
Tabina OOO **	50.49	-	08.04.2011
ZAO Interpharm **	49.27	-	17.12.2011
Superlats OOO **	31.24	-	20.05.2011

* *efficient percentage of participation*

** *indirect participation*

- Bulgarian Rose Sevtopolis AD is a subsidiary to SOPHARMA AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Bulgarian Rose Sevtopolis AD with 49.99% and the indirect participation of the parent company with 2.77% through the subsidiary Sopharma Trading AD holding 3.41% of the capital of Bulgarian Rose Sevtopolis AD;
- Momina Krepost AD is a subsidiary to SOPHARMA AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Momina Krepost AD with 49.85 % and the indirect participation of the parent company with 1.25% through the subsidiary Sopharma Trading AD holding 1.54 % of the capital of Momina Krepost AD;
- Unipharm AD is a subsidiary to SOPHARMA AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Unipharm AD with 49.99 % and the indirect participation of the parent company with 2.06% through the subsidiary Sopharma Trading AD holding 2.53 % of the capital of Unipharm AD;
- Sopharma Buildings REIT is a subsidiary by virtue of a written control agreement concluded between SOPHARMA AD and other shareholders;
- Extab Pharma Limited, United Kingdom, is a subsidiary through Extab Corporation, USA, the latter company being 100% capital holder of Extab Pharma Limited, United Kingdom;
- Brititrade SOO, Belarus, is a subsidiary of Briz OOD, Latvia – Briz OOD holds 97.50% of the capital of Brititrade SOO;
- Tabina OOO, Belarus, is a subsidiary through Briz OOD, Latvia – Briz OOD holds 99% of the capital of Tabina OOO;
- ZAO Interpharm, Belarus, is a subsidiary through Briz OOD, Latvia – Briz OOD holds 96.61% of the capital of ZAO Interpharm; and
- Superlats OOO, Latvia, is a subsidiary through Briz OOD, Latvia – Briz OOD holds 61.25% of the capital of Superlats OOO at the amount of BGN 3 thousand for the purpose of a future sale within 12 months. The Group sold its investment in Superlats OOO in February 2012 for BGN 4 thousand.

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

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

- SOPHARMA AD – production and trade in medicinal substances and finished drug forms; research and development activities in the field of medicinal products;
- Sopharma Trading AD – trade in pharmaceutical products;
- Bulgarian Rose Sevtopolis AD – production of finished drug forms;
- 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;
- Unipharm AD – production and trade in pharmaceuticals (a subsidiary as from 27 October 2010);
- PAO Vitamini – production and trade in pharmaceuticals;
- Rostbalkanpharm ZAO – production and trade in pharmaceuticals;
- Ivanchich and Sons OOD – production and trade in pharmaceuticals;
- Sopharma Poland OOD, in liquidation – market and public opinion research;
- Sopharma Warsaw EOOD – market and public opinion research (a subsidiary as from 23 November 2010);
- Sopharma USA – trade in pharmaceuticals and food supplements;
- Extab Corporation, USA – market and public opinion research;
- Extab Pharma Limited, United Kingdom – market and public opinion research;
- Briz OOD, Latvia – trade in pharmaceuticals;
- Brititrade SOOO, Belarus – trade in pharmaceuticals;
- Tabina OOO, Belarus – trade in pharmaceuticals;
- ZAO Interpharm, Belarus – trade in pharmaceuticals;
- Superlats OOO, Latvia – trade in furniture, lighting fixtures and other articles for domestic use.

SOPHARMA GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The parent company and the subsidiaries Sopharma Trading AD, Bulgarian Rose Sevtopolis AD, Pharmalogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Sopharma Buildings REIT, Momina Krepost AD and Unipharm AD (a subsidiary as from 27 October 2010) perform their activities in Bulgaria; Sopharma Poland OOD – in liquidation and Sopharma Warsaw EOOD (a subsidiary as from 23 November 2010) operate in Poland, Rostbalkanpharm ZAO – in Russia, PAO Vitamini – in Ukraine, Ivanchich and Sons OOD – in Serbia, Briz OOD – in Latvia, Brititrade SOOO , Tabina OOO and ZAO Interpharm – in Belarus, Extab Pharma Limited – in the United Kingdom, and Sopharma USA and Extab Corporation, USA – in USA.

As at 31 December 2011, the interest of the Group in the *joint venture* Sopharma Zdrovit AD – in liquidation, was 50.01% together with Natur Product Zdrovit OOD, Poland.

The principal activities of the joint venture include research and development activities in the field of medical science and pharmacy, wholesale in pharmaceuticals. Sopharma Zdrovit AD – in liquidation has been a joint venture since 27 September 2007.

The Group had no interest in *associates* as at 31 December 2011.

From 1 February 2011 to 17 December 2011 the Group held indirectly 22.48% of the associate ZAO Interpharm and after that period it acquired the control thereon.

Until 4 September 2010, the group held 28.44% of the capital of Sopharma Logistica AD – an *associate* company and after that date the company was deleted from the Commercial registry due to a transformation – merger into the subsidiary Sopharma Trading AD.

The average number of Group's personnel in 2011 was 3,889 workers and employees (2010: 3,654).

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the activities of the Group companies throughout the period 2009 – 2011, are presented in the table below:

Indicator	2009	2010	2011
GDP in million leva (Bulgaria)	66,256	70,474	75,265
Actual growth of GDP (Bulgaria)	-5%	0.20%	1.70%
Year-end inflation (Bulgaria)	0.60%	4.50%	2.75%
Year-end inflation (Belarus)	9.80%	10.10%	108.70%
USD/BGN average for the year	1.40553	1.4779	1.4065
USD/BGN at year-end	1.36409	1.4728	1.5116
PLN/BGN average for the year	0.45284	0.4892	0.47590
PLN/BGN at year-end	0.47415	0.49327	0.43872
RUB/BGN average for the year	0.04434	0.04864	0.04787
RUB/BGN at year-end	0.04496	0.04824	0.04683
RSD/BGN average for the year	0.02082	0.01898	0.01918
RSD/BGN at year-end	0.0204	0.01854	0.01869
UAH/BGN average for the year	0.18046	0.18633	0.17660
UAH/BGN at year-end	0.17083	0.18498	0.18992
GBP/BGN average for the year	2.19719	2.27433	2.25443
GBP/BGN at year-end	2.16353	2.27369	2.34147
LVL/BGN average for the year	2.77162	2.75965	2.76943
LVL/BGN at year-end	2.75741	2.75555	2.79604
1000 BYR/BGN average for the year	0.5038	0.4946	0.1813
1000 BYR/BGN at year-end	0.4763	0.4923	0.1813
Basic interest rate at the year-end (Bulgaria)	0.55%	0.18%	0.22%
Unemployment rate at the year-end (Bulgaria)	9.13%	9.24%	10.40%

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

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP**2.1. Basis for the preparation of the consolidated financial statements**

The consolidated financial statements of SOPHARMA Group have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2011 and have been accepted by the Commission of the European Union.

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 are relevant to its activities.

The adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2011, has not resulted in changes in Group's accounting policies, except for some new disclosures and expanding of those already established, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

These standards and interpretations include:

- *IFRS Improvements (May 2010) - improvements in IAS 1, 27, 28, 34, IFRS 1, 3 and 7 and IFRIC 13 (in force for annual period beginning on or after 1 January 2011 (or 1 July 2010) – endorsed by EC)*. These improvements introduce partial amendments in the respective standards primarily with a view to remove existing inconsistency in the application rules and requirements of individual standards as well as to set up more precise terminology with regard to: (a) presentation of the analysis of other comprehensive income (by item – in a separate note or in the statement of changes in equity); (b) the approach for a measurement choice of the non-controlling interest, the presentation of the contingent consideration and all share-based payment transactions, which are part of business combinations – from the amendment of IFRS 3 (2008); (c) improvement of the qualitative disclosures on the risks associated with financial instruments together with the quantitative ones and the disclosures on the collateral held; (d) enhanced disclosure requirements for interim financial reporting regarding all significant events and transactions, including changes in fair values, transfers and classification of financial instruments, and financial information update compared to the most recent annual financial statements; (e) corresponding changes for prospective application in associates and joint ventures according to the amendments to IAS 27 (2008); (f) clarification of the term 'fair value' for the purpose of measuring the award credits in customer loyalty programmes.

The management of the parent company has done research and has concluded that the stated below amendments to standards and interpretations, or the new standards and interpretations for 2011, have not affected the accounting policies and the accounting for of Group's assets, liabilities and performance results as far as it has no practice and/or status for similar type of items, deals and transactions, and respectively, no reporting obligations:

- *IAS 24 (amended) "Related Party Disclosures" (in force for annual periods beginning on or after 1 January 2011 – endorsed by EC)*. The amendments are focused on improvement of the definition for the scope and types of related parties and introduce a specific rule for a partial exemption from full disclosure regarding related parties, controlled by or under significant influence by government bodies at international, national and local level and other entities owned thereby – with regard to the types of relations, accounts and balances and transactions with them.

- *IAS 32 (amended) “Financial Instruments: Presentation” (in force for annual periods beginning on or after 1 February 2010 – endorsed by EC as from 1 February 2010) – regarding the classification of issued rights. The amendment is aimed as a clarification of the treatment of rights, options and warrants for acquisition of a fixed number of entity’s equity instruments for a fixed amount of any currency as equity instruments if they are offered on pro rata basis to all existing owners of the same class non-derivative equity instruments.*
- *IFRIC 14 “Prepayments of a Minimum Funding Requirement” under IAS 19 (in force for annual periods beginning on or after 1 January 2011 – endorsed by EC as from 1 January 2011). The amendment provides clarifications on defining the existing economic benefit of prepayments of minimum funding requirements, available as a reduction in future contributions in the two cases of existence or non-existence of a minimum funding requirement for contributions relating to future service and the possibility such prepayments to be recognised as an asset.*
- *IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (in force for annual periods beginning on or after 1 July 2010 – endorsed by EC as from 1 July 2010). This interpretation sets out clarifications on the accounting treatment of transactions related to settlement, in full or in part, of financial liabilities to creditors through the issue of equity instruments by debtor – measurement of the equity instruments as a consideration paid and treatment of the resulting differences between the measurement of the equity instruments and that of the financial liability, as well as certain limitations of application.*

At the date when these consolidated financial statements have been approved for issue, there are several new standards, amended/revised standards and interpretations issued but not yet in force for annual periods beginning on or after 1 January 2011, which have not been adopted by the Group for early application. The management of the parent company has judged that out of them the following are likely to have a potential impact in the future resulting in changes in the accounting policies and the financial statements of the Group for subsequent periods.

- *IAS 1 (amended) “Presentation of Financial Statements” (in force for annual periods beginning on or after 1 July 2012 – not endorsed by EC). The amendment introduces a requirement for entities to present the components of other comprehensive income in the statement of comprehensive income in two separate categories depending on whether they could be subsequently reclassified or not to current profit or loss in the income statement, including their tax effect.*
- *IAS 12 (amended) “Income Taxes” (in force for annual periods beginning on or after 1 January 2012 – not endorsed by EC). The amendment clarifies explicitly that the assessment of deferred tax (asset or liability) on the underlying asset should be based on the manner in which the respective entity intends to recover the investment in the carrying amount of the asset – through sale or through continuing use. It sets out specific rules for cases of non-current assets measured by applying the revaluation model in IAS 16 but mostly for investment*

properties measured by applying the fair value model in IAS 40, including those acquired in a business combination, i.e. a rebuttable presumption is introduced that deferred tax should be determined on the basis that the carrying amount will normally be recovered through sale. SIC-21 is incorporated in IAS 12 and therefore, it is to be withdrawn as of the date on which the amendment in IAS 12 becomes effective.

- *IAS 19 (amended) "Employee Benefits" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* The amendment changes the accounting for defined benefit plans and termination benefits. The fundamental change is the elimination of the 'corridor' approach and the introduction of the rule that all subsequent remeasurements (referred to so far as actuarial gains or losses) of defined benefit obligations and plan assets shall be recognised when occurred in a component of 'other comprehensive income', as well as the accelerated recognition of past service costs.
- *IAS 27 (as revised in 2011) "Separate Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* The standard was reissued with a changed title as the part of it referring to consolidated financial statement was entirely separated in a new standard – IFRS 10 "Consolidated Financial Statements". Thus the standard now includes only the rules on accounting for investments in subsidiaries, associates and joint ventures at the level of separate financial statements.
- *IAS 28 (as revised in 2011) "Investments in Associates and Joint Ventures" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* The title of the standard has been changed and the standard sets out rules for application of the equity method when accounting for investments in associates as well as in joint ventures, which were previously included in the scope of IAS 31 "Interests in Joint Ventures" in line with the new IFRS 11 and IFRS 12. IAS 31 becomes inapplicable starting from 1 January 2013.
- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding transfer of financial assets (in force for annual periods beginning on or after 1 July 2011 – endorsed by EC as from 1 July 2011).* These amendments are related to expanding the requirements for disclosure of data regarding transfer transactions of financial assets, including depending on the circumstances whether the reporting entity continues, at the reporting date, to have involvement in and responsibility to the respective financial asset by assuming certain risks, rights and benefits and regardless of whether the transferred assets are derecognised from the statement of financial position or not.
- *IFRS 9 (issued in November 2009 and October 2010) "Financial Instruments: Classification and Measurement" (in force for annual periods beginning on or after 1 January 2013 and revised effective date – for annual periods beginning on or after 1 January 2015 – not endorsed by EC).* This standard replaces parts of IAS 39 by establishing principles, rules and criteria for the classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. It introduces a requirement that financial assets are to be classified based on entity's business model for their management and the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for

financial assets: amortised cost and fair value. The new rules will lead to possible changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated as at fair value through current profit or loss (for credit risk).

- *IFRS 10 “Consolidated Financial Statements” (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* This standard replaces a significant part of IAS 27 (“Consolidated and Separate Financial Statements”) and SIC-12 (“Consolidation - Special Purpose Entities”). Its main objective is to establish the principles and methods for the preparation and presentation of financial statements when an entity controls one or more other entities. It gives a new definition of control that contains three elements and establishes control as the sole basis for consolidation. The standard also sets out the main mandatory rules for the preparation of consolidated financial statements.
- *IFRS 11 “Joint Arrangements” (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* This standard replaces IAS 31 “Interests in Joint Ventures”, including SIC-13 “Jointly Controlled Entities – Non-monetary Contributions by Venturers”. It introduces only two types of joint arrangements – joint operations and joint ventures – whereas the classification criterion used is not the legal form but rather the rights and obligations of each party to an arrangement, i.e. whether they represent rights to the assets and liabilities and respectively, to the expenses and revenue from the joint arrangement (joint operation) or rights to the net assets of the joint arrangement (joint venture). The standard removes the option for proportionate consolidation and requires application of the equity method for consolidation of jointly controlled entities.
- *IFRS 12 “Disclosing of Interest in Other Entities” (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* This standard introduces obligations for disclosure in the financial statements and requirements to the information included therein with regard to all forms of interests of the reporting entity in other companies and entities, including both the effects and the risks of those interests.
- *IFRS 13 “Fair Value Measurement” (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* This standard establishes a single source of methodological guidance by providing a precise definition of ‘fair value’, rules and methods for its measurement as well as more extensive disclosure requirements for fair value and its measurement for the purposes of all IFRSs. It applies to both financial instruments and non-financial assets and liabilities when fair value is required or permitted by IFRS.

Additionally, in regard of 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 2011, the management of the parent company has judged that the following are rather unlikely to have potential impact resulting in changes in the accounting policies and the financial statements of the Group as far as its operations are not in the indicated business segments and the Group neither has such practice nor performs similar deals and transactions.

- *IAS 32 (amended) "Financial Instruments: Presentation" (in force for annual periods beginning on or after 1 January 2014 – not endorsed by EC)* – regarding the offsetting of financial assets and financial liabilities. These amendments relate to a clarification as to the application of the rules on offsetting financial instruments.
- *IFRS 1 (amended) "First-time Adoption of International Financial Reporting Standards" (in force for annual periods beginning on or after 1 July 2011 – not endorsed by EC)*. The amendment provides relief for first-time adopters regarding transactions occurred before the date of transition to IFRS as well as guidance to entities after a period of hyperinflation – whether to resume their presentation of financial statements under IFRS or to present financial statements as first-time adopters of IFRS. The management of the Group performed research and concluded that these amendments may affect the accounting policy and the values of assets, liabilities, transactions and performance of the companies operating currently in the conditions of hyperinflation after the period of required presentation of restated financial statements for the effect of hyperinflation.
- *IFRS 1 (amended) "First-time Adoption of International Financial Reporting Standards" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC)*. The amendment relates to unification of the approach for prospective application of IAS 20 for government loans received on or after the date of transition to IFRS.
- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the offsetting of financial assets and financial liabilities (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC)*.; These amendments are related to the enhanced disclosures for all financial instruments, which will be netted (offset) in accordance with IAS 32 (par. 42) as well as additional arrangements for offsetting outside the scope of IAS 32.
- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (in force for annual periods beginning on or after 1 January 2015 – not endorsed by EC)*;
- *IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC)*. This interpretation provides clarifications regarding the differentiation of the accounting treatment of the costs of mine waste materials removal (stripping) for the purposes of production and the costs of improved access to further quantities of material that will be mined in future periods.

The consolidated financial statements have been prepared on a historical cost basis except for: a/ property, plant and equipment, which are measured at revalued amount; and b/ investment property and available-for-sale financial instruments, which are measured at their fair value at the date of the consolidated statement of financial position. The figures of the companies, consolidated in these financial statements, which operate in the environment of hyperinflationary economy, have been restated for the effects of hyperinflation with the respective inflation index (Notes 2.9, 2.12, 2.14).

The Bulgarian companies of the Group maintain their accounting books in Bulgarian lev (BGN), which is accepted as being their functional and presentation currency. The subsidiaries and the joint ventures abroad organise their accounting and reporting in accordance with the requirements of the local legislation (Rostbalkanpharm ZAO – Russia, PAO Vitamini – Ukraine, Ivanchich and Sons OOD – Serbia, Extab Pharma Limited – United Kingdom, Briz OOD – Latvia, Brititrade SOOO, Tabina OOO, ZAO Interpharm – Belarus, Sopharma USA and Extab Corporation – USA legislation and Sopharma Poland OOD – in liquidation, Sopharma Warsaw EOOD and the joint venture Sopharma Zdrovit AD – in liquidation – the Polish legislation) and keep their accounting ledgers in the respective local currency – Rouble (RUB), Grivni (UAH), Serbian Dinar (RSD), Euro (EUR), British Pound (GBP), Latvian Lat (LVL), Belarus Ruble (BRUB), US Dollars (USD) and Polish Zloty (PLN).

The data in the consolidated financial statements and the notes thereto are presented in thousand Bulgarian Levs (BGN'000), unless explicitly stated otherwise, and the Bulgarian Lev is accepted as reporting and presentation currency of the Group. According to the policies of the Group, the financial statements of the Group companies abroad are restated from the local currency to Bulgarian Levs for the purposes of the consolidated financial statements (Note 2.5). The financial statements of the Group companies whose functional currency is a currency in hyperinflationary economy are restated with an inflationary index so that they are expressed in measurement units valid at the end of the reporting period and after that they are restated from the local currency to Bulgarian lev for the purposes of the Group consolidation.

The presentation of the consolidated financial statements in accordance with IFRS requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities and the disclosure of contingent receivables and payables as at the date of the financial statements, and respectively, on the reported amounts of income and expenses for the reporting year. These estimates, accruals and assumptions are based on the information, which is available at 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 2.31.

2.2. Definitions

Parent company – this is the company that has control over the economic and financial policies and the operation of the subsidiaries by holding more than 50% of their capital shares and/or voting rights or by virtue of a written control agreement concluded between the shareholders.

The parent company is SOPHARMA AD, Bulgaria (Note 1.1).

Subsidiary companies – companies, including non-legal entities, in which the parent holds directly or indirectly more than 50% of the voting rights in the General Meeting (in the joint-stock capital) and/or has the right to appoint more than 50% of the Board of Directors of the respective company or by virtue of a written control agreement concluded between the shareholders and can exercise control over their financial and operating policy (including by virtue of a concluded control agreement between shareholders). 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 used for their consolidation.

The subsidiary companies are presented in Note 1.2.

Joint venture – a joint venture is established by virtue of a contractual agreement based on which two or more parties (companies) start a common business undertaking, which is subject to joint control.

The joint control represents a contractual sharing of control (50:50) on a particular business. It is determined by the requirement that strategic financial and operating decisions relating to the business activities and the development of the joint venture shall be taken with mandatory unanimous consent of the controlling shareholders.

A controlling shareholder in a joint venture is the party (company), which participates in the joint venture and shares the joint control on the latter.

The proportionate consolidation method is applied for the consolidation of the joint venture. The joint venture is being consolidated as from the date on which the joint control has been acquired by the controlling shareholder (the parent company) and its consolidation under this method is ceased when the joint venture is transformed into a subsidiary or when joint control is transferred from the controlling shareholder to third parties.

The joint venture is Sopharma Zdrovit AD, Poland - in liquidation (Note 1.2).

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 operation policies of the entity, subject to investment, but 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.

2.3. Consolidation principles

The consolidated financial statements include the financial statements of the parent company and the subsidiaries, the joint venture and the associates, prepared as at 31 December, which is the date of the Group's financial year. The 'economic entity' assumption has been applied in the consolidation except 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 venture 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'. 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 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 also 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 and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the date of exchange. Any excess over the sum of the consideration transferred (measured at fair value), the amount of non-controlling interest in the acquiree and the fair value at the acquisition date of any previous interest in the acquiree (in case of stepwise acquisition) 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 and disposal of subsidiaries, net'. 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 an associate', including all previously recorded effects in other comprehensive income are recycled.

2.3.3. Disposal of subsidiaries

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

- Assets and liabilities (including any goodwill) of the subsidiary are derecognised at their carrying amounts 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 lost 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 or available-for-sale investments are initially measured at fair value at the date of sale and subsequently – following the accounting policy adopted by the Group (Notes 2.13 and 2.14).

The acquisition (purchase) method is applied also in transactions for mergers and/or transformation of companies under common control if they represent 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 equity owners 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 'accumulated profit' 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 'accumulated profits' reserve.

When the Group ceases to have 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 or associate).

2.3.5. Consolidation of a joint venture

The proportionate consolidation method is used for including the joint venture in the consolidated financial statements as far as the parent company SOPHARMA AD has the status of a controlling shareholder of Sopharma Zdrovit AD – in liquidation, Poland. In the proportionate consolidation method, the share of the controlling shareholder (the parent company) in each of the assets, liabilities, income and expenses in the jointly controlled company is combined (added) line-by-line with the analogous items in the financial statements of the controlling shareholder. The Group recognises only the attributable portion of the recorded gains and losses on transactions for sale of assets by the Group to the joint venture, which refers to other investors and controlling shareholders. At the same time, all intra-group transactions and accounts with the joint venture are eliminated, including the unrealised intra-group gains or losses on purchases of assets of the joint venture by the Group to their resale to third independent parties by also making checks for impairment in case of loss. The effect of deferred taxes on these consolidation procedures has also been taken into account.

2.3.6. Consolidation of associates

Associates 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. Group's investment in an associate includes also the goodwill identified on their acquisition net of any recognised impairment.

The post-acquisition profits or losses for the Group (through the parent company) from the associate for the respective reporting period represent its share in the net financial results (after taxes) of its operating 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 the associate is also recognised and presented as movement in the other components of comprehensive income in the statement of comprehensive income, and respectively the consolidated reserves of the Group - in the statement of changes in equity. The Group recognises its share of losses in an associate up to the amount of its investment, including the internal loans granted.

The internal accounts between the Group and the associate are not eliminated. The unrealised gains or losses from transactions between them are eliminated to the percentage of Group's interest in the associate by also making checks 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 compatibility in view of the current year presentation changes.

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 by the BNB Act to the Euro 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 and cash equivalents, receivables and payables, as monetary reporting items, denominated in foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the Bulgarian National Bank (BNB) for the last working day of the respective month. At 31 December, 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 AD – in liquidation, Sopharma Warsaw EOOD and Sopharma Zdrovit AD – in liquidation) is the Polish Zloty, of the subsidiary in Russia (Rostbalkanpharma ZAO) – the Russian Ruble, of the subsidiary in Ukraine (PAO Vitamini) – the Ukrainian Grivna, of the subsidiary in Serbia (Ivanchich and Sons OOD) – the Serbian Dinar, of the subsidiary in Latvia (Briz OOD) – Lat, of the subsidiaries in Belarus (Brititrade SOOO, Tabina OOD and ZAO Interpharm) - Belarussian Ruble, of the subsidiary Extab Pharma Limited (United Kingdom) – the British Pound, and of the companies in USA (Sopharma USA and Extab Corporation) – the US Dollar.

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) accepted 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 December;

- (b) all items of income and expenses are restated to the currency of the Group by applying an average rate of the local currency thereto for the reporting period or by applying the closing exchange rate of the local currency to the currency of the Group for companies whose financial statements are being restated for the effects of hyperinflation (Note 2.6);
- (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, net of deferred tax effects, 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 at closing exchange rate.

2.6. Restatement of figures in the financial statements of Group companies operating in the environment of hyperinflation (restatements for hyperinflationary economies)

The figures in the financial statements of subsidiaries operating in hyperinflationary economies are firstly restated on the basis of the general price index to the measuring unit at the end of the reporting period with the aim to reflect the changes in the purchasing power of the money for the period and secondly they are translated to the reporting currency of the Group.

Monetary items in the statement of financial position, which include money and cash as well as items that will be settled in money or cash, are not restated for the effects of hyperinflation. All other assets and liabilities, such as: property, plant and equipment; intangible assets; investments, inventories, goodwill as well as equity components, are non-monetary items in the statement of financial position for the purposes of restatements for the effects of hyperinflation. Non-monetary items, presented at amounts current at the end of the reporting period, are not restated with an inflation index. All other non-monetary items, measured at cost or at cost less accumulated depreciation, are restated for the effects of hyperinflation by using the general price index – from the date of the transaction (acquisition) to the end of the current reporting period. Non-monetary items, carried at amounts current at dates other than that of acquisition (revalued amounts) or the end of the reporting period, are restated from the date of the revaluation to the end of the reporting period. The restated inflated amount of a non-monetary item is reduced, in accordance with the appropriate IFRS, when this amount exceeds the recoverable amount of the non-monetary item.

All equity components, except for accumulated profits and all revaluation reserves, are restated for the effects of hyperinflation by applying a general price index – from the dates of contribution or arising of the respective components to the end of the current reporting period.

All items in the statement of comprehensive income are restated for the effects of hyperinflation by applying a general price index – from the date of the initial recognition of the respective business transactions to the end of the current reporting period.

The gain or loss on the net monetary position, reflecting the effects of restatements for hyperinflation of non-monetary items and items in the statement of comprehensive income, are presented in the consolidated statement of comprehensive income (within profit or loss) in the item 'gain or loss on net monetary position from restatements for hyperinflationary economies'.

2.7. Revenue

Revenue in the Group is recognised on accrual basis and to the extent and in the way the economic benefits will flow to the Group and respectively, the business risks are born thereby, and as far as revenue can be reliably measured.

The types of Group's revenue are presented in Notes 3, 4 and 11.

Upon sale of finished products, goods and materials, revenue is recognised when all significant risks and rewards of ownership have passed to the buyer.

Upon rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period, if this stage as well as the costs incurred for the transaction and the costs to complete the transaction, can be measured reliably.

Revenue is measured on the basis of the fair value of the products, goods and services sold, net of indirect taxes (excise duties and VAT) and any discounts and rebates granted.

Foreign exchange gains or losses related to cash, trade receivables and payables, denominated in foreign currency, are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) in the period, in which they arise and are presented net under 'other operating income/(losses), net'.

The gains 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), net'. Revenue from investment property leased-out under the terms of operating lease is also accounted for under this item of the consolidated financial statements.

Upon sale on an instalment plan, revenue is recognised on the date of sale, excluding the incorporated interest.

Finance income is included in the consolidated statement of comprehensive income 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 including dividends, net gains on exchange differences under loans in foreign currency, income from debt settlement transactions, gain on measurement of shares at fair

value when a subsidiary is being acquired in stages. They are presented separately from of finance costs on the face of the consolidated statement of comprehensive income.

2.8. 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)'.

Finance costs are included in the consolidated statement of comprehensive income when incurred separately from finance costs and comprise: interest expense under loans received, bank fees and charges on loans and guarantees, net losses on exchange differences under loans in foreign currency, expenses/losses on deals with investments in available-for-sale securities.

2.9. Statutory 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.

2.10. Property, plant and equipment

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

Initial acquisition

Upon their initial acquisition, property, plant and equipment are valued at cost, which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition for its intended use. The directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes 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 carrying amounts of all items of property, plant and equipment of Group companies, operating in the environment of hyperinflationary economies, initially measured at cost less accumulated depreciation, are restated for the effects of hyperinflation by applying a general price index – from the date of the transaction (acquisition) to the end of the current reporting period or from the date of the last revaluation of the assets.

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 moment 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.

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

Subsequent costs

Repair and maintenance costs are recognised as current expenses as incurred. Subsequent expenses incurred in relation to property, plant and equipment having the nature of replacement of certain components, significant parts and aggregates or improvements and restructuring, are 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;
- road facilities – 20 years;
- machinery and equipment – 7-15 years;
- installations – 7 - 10 years;
- computers – 2 - 5 years;
- motor vehicles – 7 - 17 years;
- furniture and fixtures – 6-7 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 significantly differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are 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 does not exceed 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)

Property, plant and equipment 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 are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' in the consolidated statement of comprehensive income (within profit or loss for the year). The part of 'revaluation reserve' attributable to the sold asset is directly transferred to 'retained earnings' in the consolidated statement of changes in equity.

2.11. Biological assets

Biological assets (perennial plants) 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 the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is initially measured in the consolidated financial statements at 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 an associate (entity) is incorporated in the total amount of the investment and is stated in the group of 'investments in associates'.

The goodwill on the acquisition of 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 'depreciation and amortisation expense'.

Other intangible assets

Intangible assets are stated in the consolidated financial statements at acquisition cost (cost) less accumulated amortisation and any impairment losses in value except where they belong to companies operating in hyperinflationary economy whose intangible assets are restated for the effects of hyperinflation from the date of their acquisition by applying the changes in the general price index to the date of the financial statements. Intangible assets include mainly rights on intellectual property and software.

The Group applies the straight-line amortisation method for the intangible assets with determined useful life from 5 to 10 years.

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Then impairment is 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. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' in the consolidated 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. 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 property is 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 investment property are determined as the difference

between the disposal proceeds and the carrying amount of the asset at the date of sale. They are presented under 'other operating income/(losses), net' in the 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

The long-term investments representing shares in subsidiaries are presented in the consolidated financial statements under the equity method – value that includes the acquisition price 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 associate after the date of its acquisition.

The share of profits and losses after the date of acquisition of an associate 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 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 'gains/(losses) from associates' (Note 2.32).

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

Investments in associates 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 control over the economic benefits from the investments are being lost. The income from their sale is presented in 'gains/(losses) from associates' of the consolidated statement of comprehensive income (within profit or loss for the year).

2.15. Available-for-sale investments***Initial measurement***

Available-for-sale investments (financial assets) are initially recognised at cost, being the fair value of the consideration paid including acquisition costs associated with the investment (Note 2.27).

Subsequent measurement

Group's investments (financial assets) representing shares in public companies traded in a stock exchange are subsequently measured at fair value commonly determined based on the average prices of realised transactions for the last month of the year unless the Company trades in an insignificant package of these companies' capital and/or has strongly limited volume of transactions with them – then the stock exchange prices are adjusted with the values obtained by applying other valuation methods and prices of similar instruments, including in other capital markets. (Note 2.27).

The effects of subsequent revaluation of securities to fair value are presented in a separate component of the consolidated statement of comprehensive income (within other comprehensive income) and recognised in the consolidated statement of comprehensive income (within profit or loss for the year) on disposal of the respective investment by being stated as 'finance income' or 'finance costs'.

Group's investments (financial assets) representing shares in other companies (non-controlling interest), which are not traded in an active market and no market price quotations are available for them while the assumptions for the application of alternative valuation methods are related to high uncertainty in respect of achieving a reliable fair value determination, are measured and presented at cost (Note 2.27).

The available-for-sale investments (financial assets) are reviewed for impairment at the end of each reporting period and if conditions for permanent impairment are identified, the latter is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) under 'finance costs'.

Where conditions for impairment are identified, the latter is determined as the difference between the carrying amount and the recoverable value of the investment and is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) unless a positive reserve for this investment was formed in prior periods – then the impairment is at first covered at the account of this reserve and is presented net in the consolidated statement of comprehensive income (within other comprehensive income).

When shares are written-off due to sale, the Company uses the method of weighted average price determined at the end of the month in which write-off is made.

Any purchase or sale of available-for-sale investments is recognised on the trade date, i.e. the date when the Group undertakes the engagement to buy or sell the asset.

2.16. Assets held for sale

Assets (and disposal groups) are classified as held for sale if the intents and the expectations are that their carrying amounts will be recovered principally through a sale transaction rather than through continuing use in the operations of the Group.

Assets (and disposal groups) classified in this group are available for immediate sale in their present condition. The Group management is committed to perform a sale transaction within one year from the date of assets classification in this group and such sale is highly probable.

In case of engagement with a plan for sale that includes loss of control over a subsidiary, the Group classifies all consolidated assets and liabilities of the subsidiary as held for sale regardless of whether it will keep non-controlling interest in its former subsidiary after the sale.

Assets (and disposal groups) classified as held for sale are presented in the consolidated statement of financial position separately and are measured at the lower of their carrying amount (initially, acquisition cost) and their fair value less the costs to sell (net selling price). Any impairment loss is allocated on a pro rata basis between those assets of a disposal group, which are within the scope of IFRS 5.

Assets belonging to the groups 'property, plant and equipment' and 'intangible assets' when classified as 'non-current assets held for sale' cease to be depreciated until they are within this group.

2.17. Inventories

Inventories are measured in the consolidated financial statements at the lower of acquisition cost (cost), including restated for the subsidiaries operating in the environment of hyperinflationary economy for the changes in the general price index from the transaction date to the date of the statement of financial position, and the net realisable value.

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

- raw materials, materials in finished form and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage/sale;
- finished products and work in progress – cost of direct materials and labour and the attributable proportion of the manufacturing overheads, based on normal operating capacity of production facilities, but excluding administrative expenses, exchange rate gains and losses and borrowing costs.

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

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

- for production of medicinal products – direct labour valued on the basis of labour norms;
- for production of infusion solutions – quantity of manufactured finished products.

On use (sale) of materials and finished products the weighted average cost method is applied while on sale of goods – the first-in first-out (FIFO) 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.

2.18. Trade and other receivables

Trade receivables are recognised in the consolidated financial statements and carried at fair value based on the original invoice amount (cost) less any allowance for uncollectable debts. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the receivables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest rate method (Note 2.27).

An estimate of allowances for doubtful and bad debts is made when significant uncertainty exists as to the collection of the full amount or a part of it. Bad debts are written-off when the legal grounds for this are available. Writing-off is against the formed allowance and/or as expense in the consolidated statement of comprehensive income (within profit or loss for the year).

2.19. Interest-bearing loans and other financial resources granted

All loans and other financial resources granted are initially recognised at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, net of the direct costs related to these loans and granted resources. After the initial recognition, the interest-bearing loans and other granted resources are subsequently measured 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, 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 costs throughout the amortisation period, or when the receivables are settled, derecognised or reduced.

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 2.27).

2.20. Cash and cash equivalents

Cash includes cash in hand and with current accounts while cash equivalents include short-term deposits with banks, with original maturity of less than three months (Note 2.27).

For the purposes of the consolidated 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 related to current activities (working capital) is included in the operating activities;
- short-term blocked funds (for up to 3 months) are treated as cash and cash equivalents. Long-term blocked funds (for more than 3 months) are not included as cash in the consolidated statement of cash flows but are stated as ‘other proceeds/(payments), net’;
- provided that bank deposits with original maturity of up to three months exist, they are treated as cash and cash equivalents and the interest received thereon is included in the cash 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).

2.21. 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 and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest rate method (Note 2.27).

2.22. 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. The 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 2.27).

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.

2.23. Capitalisation of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset 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.

2.24. Leases

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 2.27).

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 goods of the lessor and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the non-earned financial income. The difference between the carrying amount of the leased asset and the immediate (fair selling) value is 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.

Operating lease***Lessee***

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

Operating lease payments are 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.

Lease 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.

2.25. 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 company in *Ukraine*, the employment legislation, the General Collective Labour Agreement and the effective Employment Rules and Regulations – for the company in *Serbia*, the Labour Act – for the company in *Latvia*, the employment legislation – for the company in *Belarus* and the Labour Code of the Russian Federation – for the company is *Russia*.

For Bulgaria

The major duty of 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, the Guaranteed Receivables of Workers and Employees (GRWE) Fund and for health insurance.

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

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

For companies abroad

The rates of the social security contributions in Poland are approved by the Law on the National Social Security System, in Russia – the Federal Law on Obligations for Pension Security in the Russian Federation and the Tax Code, in Ukraine – Law on Pension Provision, in Serbia – the Law on Labour in the Republic of Serbia, in Latvia – the Law on Social Security, and 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. The social security contributions are being apportioned between employer and employee at ratios regulated by the relevant local laws.

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

Short-term benefits

Short-term employee benefits in the form of remunerations, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or has met the required terms and requirements) are recognised as an expense in the consolidated statement of comprehensive income (within profit or loss for the year) in the period when the service

thereon has been rendered or the requirements for their receipt have been met and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount. The payables of the Group for social security and health insurance are recognised as a current expense and liability at their undiscounted amount together with the respective benefits they relate to and within the period of their accrual.

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 expenses on the employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Long-term retirement benefits

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 Law on Labour 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 25 and BGN 50). Also, the company in Ukraine accrues social indemnities, which are paid after 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 Latvia and Belarus.

In their nature these are 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 included in the consolidated statement of financial position, adjusted with the amount of the unrecognised actuarial gains and losses, and respectively, the change in their value including the recognised actuarial gains and losses is included in the consolidated statement of comprehensive income (within profit or loss for the year).

Past service costs are recognised immediately in the consolidated statement of comprehensive income (within profit or loss for the year).

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 in the respective countries in which the companies of the Group operate.

Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments. Those exceeding the 10% corridor of the present value of the defined benefit obligations as at the end of the year are recognised immediately in the consolidated statement of comprehensive income (within profit or loss for the year) for the period in which they arise.

The changes in the amount of Group's liabilities to personnel for indemnities upon retirement, including the interest from unwinding of the present value and the recognised actuarial gains or losses, are recognised as employee benefits expense in the consolidated statement of comprehensive income (within profit or loss for the year).

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 announced plan, 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.

2.26. 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. The shareholders are liable for the obligations of the Company up to the amount of the share of the capital held by each of them and may claim refunding of this share only in case of liquidation or bankruptcy proceedings. The 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 increasing share capital.

The *treasury shares* are presented in the consolidated statement of financial position at cost and Group's equity is decreased by their gross price. Gains or losses on sales of treasury shares 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 revaluation date;
- the positive difference between the carrying amount of property stated as owner-occupied property and their fair value 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.

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

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) (Note 2.5).

2.27. Financial instruments**2.27.1. Financial assets**

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale assets. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management of the parent company together with the management of the respective subsidiary determine the classification of the financial assets for the purposes of the Group at the date of their initial recognition in the statement of financial position.

The Group companies usually recognise their financial assets in the statement of financial position on the trade date, being the date on which they commit to purchase the respective financial assets. All financial assets are initially measured at their fair value plus the directly attributable transaction costs.

Financial assets are derecognised from the Group's consolidated statement of financial position when the rights to receive cash from these assets have expired or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity (person) external thereto. If the Group retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognise the transferred asset in its consolidated statement of financial position but also recognises a secured liability (a loan) for the consideration received.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured in the consolidated statement of financial position at their amortised cost using the effective interest method less any allowance for impairment. These assets are included in the group of current assets when having maturity within 12 months or within a common operating cycle of the respective Group company while the remaining ones are carried as non-current assets.

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the consolidated statement of financial position (Notes 2.17, 2.18 and 2.20). Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the consolidated statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

At the date of each statement of financial position, the Group companies assess whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired (Note 2.33).

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are either acquired for the purpose of being sold or are not classified in any other category. For the Group, these are usually shares, bonds or interest in other (third) companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where a Group company intends to sell them in the following 12 months and is actively searching for a buyer (Note 2.15).

Available-for-sale financial assets are measured at

- fair value – for companies whose shares are quoted in a stock exchange. The fair value of these assets is determined by applying average stock exchange bid price commonly for the last month at the date of the consolidated statement of financial position unless only an insignificant package of the capital of these companies is being traded and/or the volume of transactions with them is very limited – then stock exchange prices are adjusted by applying other valuation methods, or as an exception,
- at acquisition cost for closed-end companies for which it is difficult to find analogous market transactions data or due to the circumstance that the future operation of these companies is related to certain doubts so that reasonable and justifiable long-term assumptions are not possible for the calculation of the fair value of their shares through other alternative valuation methods.

The effects, gains or losses, of revaluation to fair value of the available-for-sale investments are included in the consolidated statement of comprehensive income (within other comprehensive income) under the item ‘net change in fair value of available-for-sale financial assets’ and are accrued to a separate equity component – ‘available-for-sale financial assets reserve’.

Where subsequent permanent impairment is identified or on sale of an available-for-sale investment, the amount of impairment and all previously accumulated losses (net) to the reserve are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as ‘finance costs’. Analogously, on each sale of investment of this type, the unrealised gains accumulated in the reserve are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as ‘finance income’.

The recycling of accumulated effects from change in the fair value of available-for-sale investments are presented with other comprehensive income (in ‘net change in fair value of available-for-sale financial assets’), net of those resulting from new revaluations for the period.

Dividends on shares, classified as available-for-sale financial assets, are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) when the company’s right to receive the dividends is established.

The available-for-sale investments are reviewed at each date of the statement of financial position for events or circumstances indicating the existence of objective evidence for impairment of a particular

financial asset or group of assets. Financial assets are impaired if their carrying amount is higher than the expected recoverable amount. The recognised impairment loss is equal to the difference between the acquisition cost less the repayments and their recoverable amount, which is accepted to be equal to the present value of the expected future cash flows, discounted at the current interest rate or through the yield for similar financial assets.

2.27.2. Financial liabilities and equity instruments

The Group classifies debt and equity instruments either as financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments.

Financial liabilities

The financial liabilities of the Group include loans and payables to suppliers and other counterparts. They are initially recognised in the consolidated statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method (Note 2.21, 2.22 and 2.24).

2.28. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle (repay) the obligation. The provisions are valued based on the best estimate of the respective company management and the Group at the date of the consolidated statement of financial position of the expenses necessary to settle the respective obligation. The estimate is discounted if the obligation is long-term. When part the resources required to settle the obligation are expected to be recovered from a third party, the respective company of the Group recognises a receivable if it is virtually certain that reimbursement will be received, its amount can be reliably measured and income (credit) is recognised in the same item of the consolidated statement of comprehensive income (within profit or loss for the year) where the provision itself is presented (Note 2.33).

2.29. 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 year 2011 was 10 % (2010: 10%).

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

<i>Subsidiary company</i>	<i>Country</i>	<i>Tax rate</i>	
		<i>2011</i>	<i>2010</i>
Rostbalkanpharm ZAO	Russia	20%	20%
Sopharma Poland OOD in liquidation	Poland	19%	19%
Sopharma Zdrovit AD – in liquidation	Poland	19%	19%
Sopharma Warsaw OOD	Poland	19%	19%
PAO Vitamini	Ukraine	23%	25%
Ivanchich and Sons OOD	Serbia	10%	10%
Extab Corporation	USA	15.35%	15.35%
Extab Pharma Limited	United Kingdom	19%	19%
Briz OOD	Latvia	15%	15%
Tabina OOD	Belarus	24%	24%
Interpharm AD	Belarus	24%	24%
Brititrade SOOO	Belarus	24%	24%

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) as at the date of the transaction.

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 utilized, with the exception of the differences arising from the initial recognition of an asset or liability, which has affected neither the accounting nor taxable profit or loss as at the date of the transaction.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that they will reverse and sufficient taxable profit to be generated or occurring in the same period taxable temporary differences to allow the deferred tax asset to be utilized (deducted or compensated).

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

Deferred tax assets and liabilities are measured based on tax rates, which are expected to be applied for the period when the assets are expected to be realised and the liabilities – settled (repaid) on the basis of the tax laws that are effective or likely to be effective, and at tax rates of the country under the jurisdiction of which the respective deferred asset or liability is expected to be realised.

As at 31 December 2011, the deferred income taxes of the Group companies in Bulgaria were assessed at the rate of 10% valid for 2012 in Bulgaria while those of the subsidiaries abroad were as follows:

<i>Subsidiary company</i>	<i>Country</i>	<i>Tax rate – year 2012</i>
Rostbalkanpharm ZAO	Russia	20%
Sopharma Poland OOD – in liquidation	Poland	19%
Sopharma Zdrovit AD – in liquidation	Poland	19%
Sopharma Warsaw OOD	Poland	19%
PAO Vitamini	Ukraine	21%
Ivanchich and Sons OOD	Serbia	10%
Extab Corporation	USA	15.35%
Extab Pharma Limited	United Kingdom	20%
Briz OOD	Latvia	15%
Tabina OOD	Belarus	18%
Interpharm AD	Belarus	18%
Brititrade SOOO	Belarus	18%

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.

2.30. Grant from public institutions

A grant from public institutions is initially recognised as deferred income (financing) when there is reasonable assurance that it will be received by the Group and that the latter has complied and complies with the associated thereto requirements.

A grant from public institutions that compensates the Company 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 grant from public institutions 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.

2.31. Earnings per share

Basic earnings 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 capitalization, additional issue or split, the number of the outstanding ordinary shares as at the date of such event, is adjusted as to reflect the proportional change in the number of outstanding ordinary shares as if the event has occurred in the beginning of the earliest presented period.

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

2.32. 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 measured by members of the management who take operating decisions by using financial and operating information prepared specifically for the segment for the purposes of current monitoring and assessment of performance and allocating Group's resources.

Group's operating segments are currently monitored and directed separately as each of them represents a separate business area that bears various business risks and rewards. The operating segments by which the Group's management monitors, measures and controls the risks and returns thereof are identified in line with the main business activities performed with pharmaceuticals, namely: production and trade.

Information by operating segments

The Group uses one 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, including inter-segment ones. Usually, these are: (a) for revenue – sales of finished products and goods; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration, carrying amount of goods sold; (c) for assets – property, plant and equipment, inventories, receivables from related parties, trade receivables; (d) for liabilities – current payables to personnel and for social security, payables to related parties and trade payables.

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

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

The results of the operations regarded as accidental ones compared to the main types of operations (activities) of the 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, other receivables, loans received, tax accounts, general-purpose production and administrative equipment.

Intersegmental transfers: segment revenue, segment expense and segment results include internal transfers between business segments. These transfers are stated at competitive market prices charged to non-related clients for similar goods and are eliminated at consolidated financial statements level.

The investments in associates recorded under the equity method are excluded from the assets by segment and the revenue by segment. They are presented as part of unallocated assets and the income therefrom is presented in 'gains/(losses) from an associate, net'.

In addition, the Group discloses information regarding important clients when the amount of achieved revenue from a client exceeds 10% of the total amount of consolidated revenue earned from Group's operations.

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.

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

2.33.1. Revaluation of property, plant and equipment

The initial revaluation of property, plant and equipment of the parent company was made as at 1 January 2002 on the transition of the parent company to IFRS as a statutory financial reporting framework for year 2003 for the first time.

Initial valuation of property, plant and equipment at fair value for the purposes of the first-time consolidation of the respective subsidiaries under IFRS was made by certified appraisers by applying the same methods as described below by groups of assets at the following dates:

- property, plant and equipment of subsidiaries acquired after 1 January 2004 (date of the first-time preparation of consolidated financial statements of the Group under IFRS) – at the respective dates of acquisition;
- property, plant and equipment of subsidiaries acquired before 1 January 2004 – at that date.

The Group's management again analyzed its key assets price changes occurred as at 31 December 2010 and concluded that no conditions and grounds were available for a new revaluation and impairment of the assets before expiry of adopted usual term. In addition, as at 31 December 2010 the management of the Group performed a review for existing indications for impairment of individual tangible fixed assets, which were not used in the operations. For the purpose, certain assets were valued also by a certified appraiser. The following were used in the course of valuation: (a) fair value net of costs to sell determined under the 'comparison method' (analogous prices) with adjustment factor calculated through the 'real cost method' (depreciated replacement cost); and (b) value in use, determined on the basis of rental income less the common accompanying expenses on property operation and adjustments for reflecting the specific features of the property itself and the operational loading by applying a discount factor adequate for the industry.

As a result of the valuation and the assessments of the management in 2010, the Group recognised impairment loss on tangible fixed assets at the amount of BGN 1,288 thousand presented under 'other operating expenses' in the statement of comprehensive income (Notes 9 and 10).

As at 31 December 2011, the Company performed an overall review and assessment for price changes of property, plant and equipment with the assistance of certified appraisers:

The following approaches and valuation methods were used in the revaluation of property, plant and equipment to measure the fair value of the different types (groups) of tangible fixed assets:

- 'Market-based approach' through the 'Market analogues method' – with regard to land and buildings for which actual market, market analogous property and deals and basis for comparison existed and their market value determined by the comparative method was accepted as fair value;
- 'Assets (expenses)-based approach' through the 'Method of amortised recoverable amount' – for special-purpose buildings for which no actual market existed, market/comparative sales of analogous assets; their amortised recoverable amount was accepted as their fair value and under the hypothesis of their common use in technologically-related production business process (including the term) and taking into account: physical wear, functional and economic impairment.

Revaluation reserve at the amount of BGN 3,099 thousand was recognised net of impairment as a result of the revaluation made as at 31 December 2011 (Note 16).

The main information sources, used for fair value calculation, assumptions and assessment, with regard to fair values cover: internal data and opinion of Group's management and the management of the respective company on the functional status of assets, level of capacity utilization, intention for sale of specific assets, general repairs performed, perspectives for assets utilization, public information on the financial, technical and operative status of the respective company during the last five years, published prices of realized transactions on real estate markets, information of realized or quoted transactions for sale and purchase of similar assets, offer data by manufacturers, merchants and importers of new specialized machinery and equipment as well as of second-hand machinery and equipment. (Note 16).

In addition, the management of the Group has considered and analyzed the existing uncertainties (as a result of the crisis) affecting the price levels of assets and especially of real estate in the context of the applied by the Company fair values, and is of the opinion that the used values reflect reliably the economic environment in the country and are adequate thereto. (Note 2.10).

2.33.2. Goodwill impairment

The management of the Group performed the necessary procedures for the mandatory annual test for impairment of goodwill recognised in the consolidated statement of financial position on the acquisition of the subsidiaries Bulgarian Rose Sevtopolis AD, PAO Vitamini, Ivanchich and Sons OOD, Sopharma Buildings REIT, Momina Krepost AD, Unipharm AD, Briz OOD, Extab Corporation USA, Tabina OOO and ZAO Interpharm. For the purpose, it was accepted that each individual company was in its capacity of a 'cash generating unit'. The calculations were made by the management of the Group and the assistance of an independent certified appraiser was used. 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 a 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 cash flows after the 5-year period were extrapolated at growth of 2-5 % against the prior year – the frames of the long-term prognosis of inflation for the country and the limits of the industry. 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 value are as follows:

- Growth rate – from 2% to 5% (2010: from 2 % to 3 %);
- Discount rate (based on the weighted average cost of capital – WACC) – from 9.8% to 20.8% (2010: from 10.3 % to 16.7%).

The discount rate was determined specifically for each goodwill bearing company by year and in line with its specific operations and business environment.

The methods for establishing the market values of the investment in the separate company as a bearer of the respective goodwill were applied as an alternative approach to determine the recoverable amount. The sources for determining these market values were both the stock exchange quotations (mainly the Bulgarian Stock Exchange) and contracts and offers of analogous items.

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 and expected in the future thereby revenue, ensuring position in the Bulgarian and international markets (development and retaining), the expectations for future sales and restructuring of the activities, etc. (Note 17).

As a result of the analyses and prognoses, the management of the Group concluded that as at 31 December 2011 there were conditions for impairment of the recognised goodwill at the amount of BGN 290 thousand (for the subsidiary Momina Krepost AD – BGN 254 thousand and for the subsidiaries Extab Corporation and Extab Pharma – BGN 36 thousand). Goodwill impairment was recognised and recorded as at 31 December 2010 for the subsidiary Momina Krepost AD – at the amount of BGN 879 thousand.

2.33.3. Subsequent measurement of available-for-sale investments to fair value and treatment of the results of negative revaluation

As at 31 December 2011, the Group made a detailed comparative analysis of the changes and movements of stock-exchange prices in the Bulgarian stock market with regard to the shares in public companies held thereby.

With regard to the investments in companies whose shares are registered for trading in the Bulgarian Stock Exchange, the management of the Group performed research and analysis and is of the opinion that the stock prices are not sufficiently directly indicative for the fair value of the respective securities mainly because of the still significantly decreased volumes. This circumstance lead to its decision to change the valuation approach applied by 31 December 2008 – from direct stock (unadjusted) average prices of realised deals in the stock market for the last month of the financial year (Level 1) to adjusted stock prices (Level 2). The calculations for these adjusted stock prices were made by the management with the assistance of independent certified appraisers using for the purpose share prices of other entities with similar characteristics, quoted on the Bulgarian Stock Exchange and/or other foreign analogous stock exchanges (Notes 15 and 19).

For investments in companies whose shares are registered for trade in foreign ctock exchanges and traded in sufficient volume of transaction in the capital market, it was accepted that they can be subsequently measured at fair value determined directly on the basis of average prices of realised deals in the stock exchange in the last month of the financial year (Level 1). The applied prices were additionally analysed for trends in the behaviour of stock prices of the respective securities at least for the last three months of the year and respectively, to the date of issue of the financial statements (Note 19).

The management of the Group also used mandatory alternative valuation methods for additional confirmation of the applied value as fair value for both reporting years.

Specific analysis was also made of the behavioural graph of the stock exchange prices and the fair values, determined by alternative valuation methods for a period of 18 months at 31 December, with regard to all investments in available-for-sale securities, held by the Group for more than one year from the acquisition date and trade in a stock exchange, in order to determine whether conditions exist for permanent and significant impairment. As a result of this analysis, the following it was found for part of the investments as at 31 December 2011: (a) a trend of retaining the low level of share prices; (b) continuous decrease against the prior period; (c) prices of analogous entities and/or existence of other valuations of the held shares-investments, determined by alternative valuation methods (e.g.

discounted cash flows method, market analogues), which are maintained or decreased compared to the values at the end of the prior year.

These results of the analysis are the grounds for the position of the management to recognise the impairment amount of these available-for-sale investments and all previously accumulated losses (net) to the reserve in the consolidated statement of comprehensive income (within profit or loss for the year) as 'finance costs' – at the amount of BGN 2,624 thousand (2010: BGN 4,299 thousand) (Note 12).

With regard to available-for-sale securities, which are not tradable in a stock exchange, analysis was performed of the change in the net assets and the results of the activities of the respective companies for the latest three years, the specifics and trends of the business environment in which the company operates. The accepted indicators for impairment are: the significant reduction of volumes, reporting of losses for a longer period of time (more than three years), reporting of negative figure for net assets and the specifics of the business environment in which the company operates. As a result of the performed analyses and calculations as at 31 December 2011 and 31 December 2010, no necessity in impairment recognition of available-for-sale investments was found (Note 12).

2.33.4. Group companies operating in the environment of hyperinflationary economies

At 31 December 2011 the total inflation in Belarus for the last three years exceeded 100%. Therefore, the management of the parent company has defined the Group companies performing their business activities in Belarus as companies operating in the environment of hyperinflationary economy. In addition, it undertakes all necessary measures so that the subsidiaries in Belarus are maintained to operate under the going concern principle (Note 41).

Because of these circumstances, for the purposes of these consolidated financial statements restatements for the effects of hyperinflation were made for the first time of the figures in the financial statements of the companies operating in Belarus – Brititrade SOOO, Tabina OOO and ZAO Interpharm for 2011. The prior year comparatives were not restated. The general index of consumer prices officially determined and published by the National Statistics Committee of Belarus was applied in these restatements.

The consumer price index in Belarus for the period from 2008 to 2011 is as follows:

			Year	2008	2009	2010	2011
Consumer price index compared to prior period (%)				13.4	9.8	10.1	108.7
			2011				
Q 1	%	Q 2	%	Q 3	%	Q 4	%
January	1.4	April	4.5	July	3.5	October	8.2
February	2.7	May	13.1	August	8.9	November	8.1
March	1.9	June	8.6	September	13.6	December	2.3

Inflation indices in the range from 1.708 to 2.087 were used for the restatement of the figures in the financial statements of the subsidiaries in Belarus.

The gain on the net monetary position from restatements for hyperinflationary economy consists of:

	2011
	BGN '000
Brititrade	2,701
<i>including: of goodwill</i>	93
Tabina	1,425
<i>including: of goodwill</i>	713
	<u>4,126</u>

2.33.5. Recognition of tax assets

On recognition of deferred tax assets, the management of the Group has assessed the probability the individual deductible temporary differences to reverse in the future and each of the Group companies' capability to generate sufficient taxable profit for their offset. The management of the Group has assessed at the date of issue of the consolidated financial statements the subsidiaries that continue to report losses in the last years with regard to existing significant uncertainties as to whether and to what extent within the final term, determined with the respective local tax regulations for tax loss carry forward, these companies would be able to generate sufficient taxable profit. As a result of this analysis, it has taken a decision to not recognise deferred tax assets in the consolidated financial statements at the amount of BGN 3,671 thousand (2010: BGN 3,755 thousand).

2.33.6. Inventories

Normal capacity

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

Allowance for impairment

At the end of each financial year, the Group companies review the state, useful life and usability of the existing inventories. Where inventories are identified that are potentially likely to not be realised at their current carrying amount in the following reporting periods, the Group companies impair the inventories to net realisable value.

As a result of the performed reviews and analyses as at 31 December 2011, impairment of inventories at the amount of BGN 1,111 thousand has been stated in the consolidated statement of comprehensive income (within profit or loss for the year) (2010: BGN 628 thousand) (Note 10).

2.33.7. Impairment of receivables

The losses from doubtful and bad debts are estimated at the date of the consolidated financial statements on individual basis for each receivable. Where difficulties in collecting certain receivables are observed, they are subject to analysis in order to determine the actually collectable portion therefrom while the remaining portion to the nominal value is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as impairment (Note 10).

After 180 days of delay it is already considered that indicators for impairment may exist. In the judgment of collectability of receivables, the management of the Group companies perform analysis of the total exposure of each counterparty in order to establish the actual possibility for their collection and not only at the level of past due individual receivables from the total amount due by the counterparty. When the collectability of a receivable (a group of receivables) is highly uncertain, an assessment is made what part thereof is secured by collateral (pledge, mortgage, guarantees) and thus with ensured collection (through future realisation of the collateral or guarantee payment). Where the management has judged that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are impaired to 100% (Notes 23 and 24).

The amount of recognised impairment losses for 2011 (net of the reversed ones) is BGN 1,572 thousand (2010: BGN 1,778 thousand) (Note 10).

2.33.8. 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 (Note 30).

2.33.9. Litigation provisions

With regard to the initiated litigations against the Group, the management together with Group's lawyers performed analysis and provisions at the amount of BGN 102 thousand were included for the cases where the probability and risks of a negative outcome at the present moment exceeded 50% (31 December 2010: BGN 99 thousand) (Notes 33) while for the remaining cases no liability provision was recognised in the statement of financial position as at 31 December 2011 (Note 39).

2.33.10. Operating lease

The Group classified a building, part of which had been leased to related parties under operating lease terms, in the group of 'property, plant and equipment'. Since a significant part of the building was used by the Group as well, the management decided that the building should not be treated as investment property.

3. REVENUE*Group revenue* includes:

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Goods	397,196	366,463
Finished products	<u>247,535</u>	<u>233,871</u>
	<u>644,731</u>	<u>600,334</u>

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<i>Sales of goods by type</i>		
Tablet dosage forms	209,367	208,351
Ampoule dosage forms	100,634	70,781
Consumables, dressing materials and apparatuses	23,665	33,910
Drops	22,151	19,674
Syrup dosage forms	9,482	4,980
Ointments	9,418	8,754
Food supplements and herbs	4,703	4,620
Other	<u>17,776</u>	<u>15,393</u>
	<u>397,196</u>	<u>366,463</u>

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<i>Sales of finished products by type</i>		
Tablet dosage forms	176,134	159,241
Ampoule dosage forms	28,477	28,832
Syrup dosage forms	17,001	18,982
Lyophilic products	5,943	10,486
Ointments	4,941	6,186
Syringes	2,191	1,987
Infusion solutions	1,986	1,654
Blow-moulded articles	1,015	973
Veterinary vaccines	806	896
Other	<u>9,041</u>	<u>4,634</u>
	<u>247,535</u>	<u>233,871</u>

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

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Services rendered	1,854	1,270
Written-off liabilities	764	570
Income from penalties	782	-
Social activities and events	559	367
Grants from public institutions	433	561
Rentals	405	971
Gain/(loss) on sale of non-current assets	173	(241)
Insurance indemnities received	103	35
Surplus of assets	37	240
Net loss from exchange differences under trade receivables and payables and current accounts	(3,789)	(1,304)
Loss from changes in the fair value of investment property	(109)	(217)
(Loss)/gains from sales of materials	(3)	93
Other	566	303
	1,775	2,648

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

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Basic materials	64,194	54,240
Spare parts, laboratory and technical materials	5,858	4,058
Heat power	4,501	3,062
Electric energy	4,262	3,428
Fuels and lubricating materials	3,246	3,107
Water	909	855
Impairment of materials	446	106
Labour safety measures	729	578
Scrapped materials	101	142
Other	2,278	1,410
	86,524	70,986

Expenses on *basic materials* include:

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Substances	31,827	26,483
Packaging materials	11,858	9,819
Liquid and solid chemicals	5,995	5,146
Aluminium foil	5,832	5,675
Ampoules	2,495	2,328
Polypropylene, polyethylene, polystyrene	1,511	1,003
Herbs	1,430	1,666
Bags	1,137	742
Other	2,109	1,378
	64,194	54,240

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Advertising	14,696	12,993
Manufacture	13,830	20,774
Buildings and equipment maintenance	3,735	2,500
Forwarding and transportation services	3,181	3,384
Commission fees	3,081	3,413
Consulting services	2,643	2,273
Bank and regulatory charges	2,003	1,940
Services under civil contracts with physical persons	1,732	1,035
Rentals	1,625	1,380
Insurance	1,397	1,333
Subscription fees	1,213	977
Logistic services	1,137	1,028
Services on drug registration	958	571
Local taxes and charges	912	1,051
Security	883	950
Announcements and communications	824	1,147
Motor vehicles repair	784	429
Taxes on expenses	554	504
Documentation translation	511	629
Medical service	510	431
Service fees	487	968
Drug destruction services	344	141
Analysis	226	158
Other	2,070	1,138
	59,336	61,147

7. EMPLOYEE BENEFITS EXPENSE

<i>Personnel costs</i> include:	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Current wages and salaries	50,470	41,206
Social security/health insurance contributions	9,981	8,349
Social benefits and payments	3,196	2,207
Accruals for unused paid leaves	552	456
Social security/health insurance contributions on leaves	164	110
Accruals for long-term benefits to personnel upon retirement (Note 29)	219	1,072
	<u>64,582</u>	<u>53,400</u>

8. CARRYING AMOUNT OF GOODS SOLD

The *carrying amount of goods sold by type* is as follows:

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Tablet dosage forms	198,925	195,508
Ampoule dosage forms	92,930	67,103
Drops	20,280	18,027
Consumables, dressing materials and apparatuses	21,264	31,148
Syrup dosage forms	10,210	4,904
Ointments	8,914	8,507
Food supplements and herbs	4,415	4,196
Other	14,053	7,701
	<u>370,991</u>	<u>337,094</u>

9. OTHER OPERATING EXPENSES

<i>Other operating expenses</i> include:	2011	2010
	BGN '000	BGN '000
Charged/(reversed) impairment of current assets, net (Note 10)	2,683	2,406
Entertainment allowances	2,541	2,324
Business trips	1,446	793
Scrap and shortages of goods	557	713
Taxes and interest on taxes payable to the budget	567	151
Donations	470	619
Training	356	274
Scrap and shortages of finished products and work in progress	231	508
Scrapping of non-current assets	226	193
Receivables written-off	178	20
Unrecognised input tax	109	143
Other	366	622
	9,730	8,766

10. IMPAIRMENT OF ASSETS

Impairment losses on receivables, work in progress, finished products and goods, net include:

	2011	2010
	BGN '000	BGN '000
<i>Impairment of receivables</i>	1,792	2,126
<i>Reversed impairment of receivables</i>	(220)	(348)
Net change in the impairment of receivables (Note 9, 23, 24 and 25)	1,572	1,778
Impairment of finished products (Note 9)	900	368
Impairment of goods (Note 9)	209	114
Impairment of work-in-progress (Note 9)	2	146
	2,683	2,406

Impairment losses on non-current assets include:

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Impairment of property, plant and equipment (Note 16)	1,683	1,288
Impairment of goodwill (Note 17)	290	879
	<u>1,973</u>	<u>2,167</u>

The impairment of tangible fixed assets, intangible assets and goodwill is recorded in the statement of comprehensive income (within profit or loss for the year) to 'depreciation and amortisation expense'.

11. FINANCE INCOME

Finance income includes:

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Interest income on loans granted	4,638	2,646
Interest income on past due payments	1,467	1,926
Interest income from deposits	440	392
Net gain from exchange differences on loans in foreign currency	388	577
Income from equity investments	80	106
Gain on valuation of previously held shares to fair value on acquisition of a subsidiary in stages	-	490
Interest on receivables under specific contracts	-	109
	<u>7,013</u>	<u>6,246</u>

12. FINANCE COSTS

Finance costs include:

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Interest expense on loans received	8,298	8,417
Impairment of available-for-sale investments	2,624	4,299
Bank fees and charges on loans and guarantees	529	551
Interest expense on finance lease	256	226
Expenses on investments in securities	6	399
Interest on discounted liabilities	-	291
	<u>11,713</u>	<u>14,183</u>

13. LOSSES FROM ASSOCIATES

<i>Losses from associates</i> include:	2011	2010
	BGN '000	BGN '000
Goodwill impairment	273	-
Share in the loss for the year	133	-
Impairment to fair value on a merger in a subsidiary	-	680
Recycling of Group's share in the negative available-for-sale financial assets reserve on the merger of an associate into a subsidiary	-	285
	<u>406</u>	<u>965</u>

14. INCOME TAX EXPENSE

Consolidated statement of comprehensive income (profit or loss for the year)	2011	2010
	BGN '000	BGN '000
Taxable profit of the Group companies for the year	64,230	57,983
Revaluation reserve included as an increase in the annual tax return	(196)	(88)
Tax profit for the year	<u>64,034</u>	<u>57,895</u>
Current income tax expense for the year - 10 %, 15%, 15.35%, 19%, 20%, 23 %, 24% (2010: 10%, 15%, 19%, 20%, 25%)	(6,655)	(5,917)
Tax relief	-	97
Prior periods tax expense	(35)	-
<i>Deferred income taxes</i>		
Occurrence and reversal of temporary differences	2,128	320
Tax rate change (in Ukraine)	(58)	-
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	<u>(4,620)</u>	<u>(5,500)</u>

Reconciliation of income tax expense applicable to the consolidated accounting profit or loss	2011	2010
	BGN '000	BGN '000
<i>Accounting profit for the year</i>	45,045	47,962
Income tax – 10 %, 15%, 15.35%, 19%, 20%, 23 %, 24% (2010: 10%, 15%, 19%, 20%, 24%, 25%)	(3,959)	(5,266)
<i>Unrecognised amounts under the tax return</i>		
Related to increases	(959)	(1,076)
Related to decreases	517	845
Tax loss from the current year on which no deferred tax assets are recognised	(126)	(100)
Tax relief	-	97
Prior periods tax expense	(35)	-
Tax rate change (in Ukraine)	(58)	-
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	(4,620)	(5,500)

The tax effects regarding other components of comprehensive income are as follows:

	2011			2010		
	BGN'000			BGN'000		
	Pre-tax amount	Tax benefit/ (expense)	Amount net of tax	Pre-tax amount	Tax benefit/ (expense)	Amount net of tax
Net change in the fair value of available-for-sale financial assets	283	-	283	4,267	-	4,267
Gain/(loss) on revaluation of property, plant and equipment	3,099	(325)	2,774	67	(5)	62
Exchange differences from restating foreign operations	(826)	-	(826)	(487)	-	(487)
Total other comprehensive income for the year	2,556	(325)	2,231	3,847	(5)	3,842

15. OTHER COMPREHENSIVE INCOME

	Other components of comprehensive income attributable to the Group		Other components of comprehensive income attributable to non- controlling interest		Total other components of comprehensive income	
	2011 BGN'000	2010 BGN'000	2011 BGN'000	2010 BGN'000	2011 BGN'000	2010 BGN'000
Change in the fair value of available-for-sale financial assets	289	3,982	(6)	-	283	3,982
Change in the fair value of available-for-sale financial assets of an associate	-	285	-	-	-	285
Gain/(loss) on revaluation of property, plant and equipment	2,787	61	312	6	3,099	67
Exchange differences from restating foreign operations	(1,028)	(232)	202	(255)	(826)	(487)
Income tax relating to components of other comprehensive income	(286)	(5)	(39)	-	(325)	(5)
Other comprehensive income for the year, net of tax	1,762	4,091	469	(249)	2,231	3,842

The revaluation to fair value of the available-for-sale financial assets existing as at 31 December 2011 was based on adjusted stock exchange prices determined with the assistance of independent certified appraisers except for securities traded on stock exchange abroad (Latvia). For the latter it was accepted to be valued directly based on 'average prices' of realised deals on the stock exchange in the last month of the financial year (Notes 2.27.1 and 2.33.3).

As at 31 December 2011, an overall review and assessment was performed for price changes of tangible fixed assets with the assistance of independent certified appraisers. As a result of the revaluation made at 31 December 2011 a revaluation reserve was recognised at the amount of BGN 3,099 thousand, net of impairment losses (Note 16).

16. 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>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</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>										
Balance at 1 January	133,274	119,155	105,731	98,032	27,389	23,671	17,986	4,344	284,380	245,202
Additions	909	439	2,542	2,620	3,755	1,632	35,029	14,304	42,235	18,995
Acquired assets in a newly acquired subsidiary	8	10,717	90	3,311	41	3,105	-	1,794	139	18,927
Acquired assets from a merger of a company in a subsidiary	-	3,636	-	1,428	-	-	-	-	-	5,064
Effect of revaluation to fair value	446	-	(109)	11	-	-	-	1	337	12
Effects of foreign currency and hyperinflationary restatements	118	107	(25)	(80)	5	(46)	47	70	145	51
Disposals	(57)	(212)	(1,045)	(654)	(712)	(1,121)	(10)	(552)	(1,824)	(2,539)
Allowance for impairment	(2,510)	(28)	19	-	(6)	(23)	-	-	(2,497)	(51)
Transfer to property, plant and equipment	5,171	739	8,948	1,063	2,466	171	(16,585)	(1,975)	-	(2)
Transfer (to)/from investment property	-	(1,279)	-	-	-	-	-	-	-	(1,279)
Balance at 31 December	137,359	133,274	116,151	105,731	32,938	27,389	36,467	17,986	322,915	284,380
<i>Accumulated depreciation and impairment</i>										
Balance at 1 January	8,275	4,180	54,474	47,689	13,081	10,563	-	-	75,830	62,432
Depreciation charge for the year	3,258	2,966	8,766	7,291	3,704	3,064	-	-	15,728	13,321
Allowance for impairment	(839)	1,237	25	-	-	-	-	-	(814)	1,237
Effect of revaluation to fair value	(127)	3	(2,635)	23	-	(5)	-	-	(2,762)	21
Effects of foreign currency and hyperinflationary restatements	16	-	1	(23)	(1)	46	-	-	16	23
Depreciation written-off	(8)	(111)	(946)	(506)	(467)	(587)	-	-	(1,421)	(1,204)
Balance at 31 December	10,575	8,275	59,685	54,474	16,317	13,081	-	-	86,577	75,830
Carrying amount at 31 December	126,784	124,999	56,466	51,257	16,621	14,308	36,467	17,986	236,338	208,550
Carrying amount at 1 January	124,999	114,975	51,257	50,343	14,308	13,108	17,986	4,344	208,550	182,770

As at 31 December 2011, the tangible fixed assets of the Group include: land amounting to BGN 40,754 thousand (31 December 2010: BGN 39,657 thousand) and buildings of carrying amount BGN 86,030 thousand (31 December 2010: BGN 85,342 thousand).

Tangible fixed assets in progress as at 31 December include:

- expenses on new buildings construction – BGN 27,844 thousand (31 December 2010: BGN 8,922 thousand);
- buildings reconstruction - BGN 2,834 thousand (31 December 2010: BGN 5,821 thousand);
- supply of equipment – BGN 1,376 thousand (31 December 2010: BGN 3,097 thousand);
- advances granted – BGN 4,171 thousand (31 December 2010: BGN 142 thousand);
- other - BGN 242 thousand (31 December 2010: BGN 3 thousand)

The following encumbrances were established on tangible fixed assets of the Group as at 31 December 2011 in relation to received loans (Notes 27 and 32) as follows:

- Land and buildings with carrying amount of BGN 15,519 thousand and BGN 55,032 thousand, respectively (31 December 2010: respectively, BGN 15,015 thousand and BGN 33,885 thousand);
- Pledges on facilities with carrying amount of BGN 734 thousand (31 December 2010: BGN 815 thousand);
- Pledges on equipment – BGN 27,286 thousand (31 December 2010: BGN 10,284 thousand);
- Motor vehicles of carrying amount BGN 1,076 thousand (31 December 2010: none);
- Furniture and fixtures with carrying amount of BGN 115 thousand (31 December 2010: none);
- Non-current assets in progress – BGN 159 thousand (31 December 2010: none).

The carrying amount of the tangible fixed assets (motor vehicles) of the Group obtained under finance lease as at 31 December 2011 was BGN 2,578 thousand (31 December 2010: BGN 883 thousand).

Operating lease

The Group has leased fixed tangible assets with carrying amount of BGN 2,167 thousand as at 31 December 2011 to related parties (31 December 2010: BGN 5,226 thousand). In addition, tangible fixed assets at carrying amount of BGN 435 thousand were leased to third parties as at 31 December 2011 (31 December 2010: BGN 2,054 thousand).

The carrying amount of Group's tangible fixed assets provided under operating lease by type of assets is as follows:

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>1</i>	<i>0</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Buildings	2,536	7,071
Machinery and equipment	66	208
Motor vehicles	-	1
	<u>2,602</u>	<u>7,280</u>

17. INTANGIBLE ASSETS

	<i>Goodwill</i>		<i>Intellectual property rights</i>		<i>Software</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</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>BGN'000</i>	<i>BGN'000</i>
<i>Book value</i>												
Balance at 1 January	19,425	13,955	7,912	2,358	4,499	1,865	1,681	1,722	516	2,339	34,033	22,239
Additions	2,588	5,253	41	105	687	697	-	3	1,874	164	5,190	6,222
Acquired assets in a subsidiary	-	-	1,031	5,521	-	7	460	-	-	-	1,491	5,528
Effects of foreign currency and hyperinflationary restatements	(411)	218	(35)	(99)	-	(1)	(175)	(44)	-	-	(621)	74
Transfer	-	-	314	55	-	1,932	-	-	(314)	(1,987)	-	-
Disposals	-	(1)	-	(28)	(5)	(1)	-	-	(14)	-	(19)	(30)
Balance at 31 December	21,602	19,425	9,263	7,912	5,181	4,499	1,966	1,681	2,062	516	40,074	34,033
<i>Accumulated amortisation and impairment</i>												
Balance at 1 January	6,531	5,652	1,315	820	1,452	996	378	245	-	-	9,676	7,713
Amortisation charge for the year	-	-	1,195	556	766	457	170	159	-	-	2,131	1,172
Allowance for impairment	290	879	-	-	-	-	-	-	-	-	290	879
Effects of foreign currency and hyperinflationary restatements	-	1	1	(33)	-	-	2	(26)	-	-	3	(58)
Amortisation written-off	-	(1)	-	(28)	(5)	(1)	-	-	-	-	(5)	(30)
Balance at 31 December	6,821	6,531	2,511	1,315	2,213	1,452	550	378	-	-	12,095	9,676
Carrying amount at 31 December	14,781	12,894	6,752	6,597	2,968	3,047	1,416	1,303	2,062	516	27,979	24,357
Carrying amount at 1 January	12,894	8,303	6,597	1,538	3,047	869	1,303	1,477	516	2,339	24,357	14,526

The rights on intellectual property include mainly products of development activities related to medicinal substances and dosage forms and acquired patents and trademarks.

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, Broncholitin, Tabex, Analgin, Tribestan, Vicetin, Sydnopharm, Antistenocardin, Spasmalgon, Softensif, Chlofadon, Chlofasolin, Sofafailin, Sopral, Vasopren, Buscolisin, Nivalin, Maraslavin, Dimex, Allergosan, Aminimalon.

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

The other intangible assets include mainly exclusive contracts with counterparts acquired in business combinations.

As a result of the analysis, valuations and projections performed, the management of the Group recognised in 2011 impairment of part of the goodwill of the subsidiary Momina Krepost AD at the

amount of BGN 254 and Extab companies at the amount of BGN 36 thousand (2010: Momina Krepost AD – BGN 879 thousand) (Note 10).

For the remaining goodwill recognised in the consolidated statement of financial position it was assessed that no conditions for impairment existed (Note 2.33.2).

18. INVESTMENT PROPERTY

	<i>2011</i> <i>BGN '000</i>	<i>2010</i> <i>BGN '000</i>
Balance at 1 January	<u>6,821</u>	<u>5,572</u>
Additions	37	130
Disposals	(210)	-
Effect of restatement	16	-
Fair value measured as at 31 December, carried to the statement of comprehensive income (within profit or loss for the year) (Note 4)	(109)	(217)
Transfer from property, plant and equipment	-	1,279
Fair value measured at transfer, carried to the revaluation reserve	-	57
Balance at 31 December	<u><u>6,555</u></u>	<u><u>6,821</u></u>

The investment property represent buildings and specially separated parts from buildings of Group companies for individual exploitation, intended for long-term rent-out to third parties for income generating purposes.

19. AVAILABLE-FOR-SALE INVESTMENTS

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

		31.12.2011	Interest	31.12.2010	Interest
		BGN'000	%	BGN'000	%
Doverie United Holding AD	Bulgaria	12,870	14.87	14,630	13.87
Medica AD	Bulgaria	2,420	10.13	2,492	9.45
Krimgas OAO	Ukraine	2,098	9.07	2,046	9.07
<i>including: book value</i>		2,798	-	2,727	-
<i>allowance for impairment</i>		(700)	-	(681)	-
Lavena AD	Bulgaria	732	8.58	-	-
Olainfarm AD	Latvia	703	0.77	617	0.77
Elpharma AD	Bulgaria	665	19	665	19
<i>including: book value</i>		1,520		1,520	
<i>allowance for impairment</i>		(855)		(855)	
Maritzatex AD	Bulgaria	146	3.68	247	8.01
Sopharma Properties REIT	Bulgaria	115	0.36	1	-
Balkanpharma Razgrad AD	Bulgaria	70	-	70	-
Hydroizomat AD	Bulgaria	51	3.74	44	2.93
Todorov AD	Bulgaria	47	4.97	-	
United Health Insurance Fund					
Doverie AD	Bulgaria	15	0.5	15	0.5
CF Status New Shares	Bulgaria	12	0.25	12	0.3
Ecobulpack AD	Bulgaria	7	1.48	7	1.48
Aik Banka AD	Serbia	4	0.002	9	0.007
Bulgarian Stock Exchange	Bulgaria	4	0.03	-	-
Privredna Banka AD	Serbia	3	0.019	5	0.019
UniCredit Bulbank AD	Bulgaria	3	0.001	3	0.001
Agrobank AD	Serbia	2	0.007	6	0.01
Balkanpharma Dupnitsa AD	Bulgaria	2	-	2	-
Metals Banka AD	Serbia	1	0.008	2	0.008
Dunav Insurance AD	Serbia	1	0.012	1	0.012
Aroma	Bulgaria	1	0.03	-	-
CF Elana Money Market Fund	Bulgaria	-	-	53	0.42
		19,972		20,927	

As at 31 December, the investments with shares registered for trading in a stock exchange listed in the table below, are measured at fair value based on adjusted stock exchange prices for shares traded on the Bulgarian Stock Exchange (Level 2), except for Olainfarm AD - measured based on average stock exchange prices for the month of December for shares traded on a foreign stock exchange (Level 1).

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	31.12.2011			31.12.2010		
	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>Fair value as per the statement of financial position</i>	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>Fair value as per the statement of financial position</i>
		BGN	BGN'000		BGN	BGN'000
Doverie United Holding AD	2,081,067	6.18	12,870	1,930,665	7.58	14,630
Medica AD	1,019,550	2.37	2,420	951,929	2.62	2,492
Olainfarm AD*	108,500	6.48	703	108,500	5.68	617
Lavena AD	17,174	42.63	732	-	-	-
Maritzatex AD	16,270	8.96	146	37,561	6.59	247
Hydroizomat AD	48,572	1.04	51	38,075	1.15	44
Sopharma Properties REIT	46,866	2.46	115	100	2.50	-
Todorov AD	0.27	0.27	46	-	-	-
Bulgarian Stock Exchange – Sofia AD	2.6	2.6	4	-	-	-
Aroma AD	0.37	0.37	1	-	-	-
			17,088			18,030

* measured based on average stock exchange prices for the month of December for shares traded on a foreign stock exchange (Level 1)

20. LOANS GRANTED TO RELATED PARTIES

	31.12.2011	31.12.2010
	BGN '000	BGN '000
Companies under a common indirect control through key managing personnel	729	121
Main shareholding companies	-	3,074
	729	3,195

As at 31 December 2011, the Group granted a loan to a company under a common indirect control through key managing personnel under the following terms and conditions:

Contracted amount:	EUR 1,100 thousand
Interest rate:	8.08%
Maturity:	31 December 2014
Collateral:	None
Purpose of the loan:	For working capital
Balance at 31 December 2011 including interest	BGN 729 thousand (31 December 2010: none) BGN 1 thousand (31 December 2010: none)

As at 31 December 2010, the Group granted a loan to other company under a common indirect control under the following terms and conditions:

Contracted amount:	BGN 120 thousand
Interest rate:	8.08%
Maturity:	10 February 2012
Collateral:	None
Purpose of the loan:	For working capital
Balance at 31 December 2010 <i>including interest</i>	BGN 121 thousand <i>BGN 1 thousand</i>

As at 31 December 2010, the Group granted a loan to a main shareholding company under the following terms and conditions:

Contracted amount:	EUR 1,500 thousand
Interest rate:	5.50%
Maturity:	10 February 2012
Collateral:	None
Purpose of the loan:	For working capital
Balance at 31 December 2011 <i>including interest</i>	none (31 December 2010: BGN 3,074 thousand) <i>none (31 December 2010: BGN 140 thousand)</i>

21. OTHER NON-CURRENT ASSETS

The *other current assets* of the Group as at 31 December include:

	31.12.2011	31.12.2010
	BGN '000	BGN '000
Loans granted	520	445
Guarantee deposits	320	123
Other	8	33
	848	601

The two largest loans granted to the Group as at 31 December 2011 were at the amount of BGN 394 thousand (31 December 2010: BGN 389 thousand) to F.D. Alimentari, Italy, at interest rate of 8% (31 December 2010: 8%) and term for repayment - year 2021 (31 December 2010: 2021), and at the amount of BGN 112 thousand (31 December 2010: none) to Brizpharm, Belarus, at interest rate of 6% (31 December 2010: none) and term for repayment – year 2017 (31 December 2010: none).

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The guarantee deposits include mainly receivables at the amount of BGN 272 thousand (31 December 2010: none) under guarantees granted in relation with a long-term rental contract with ultimate term in 2016.

22. INVENTORIES*Inventories* include:

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Goods	53,256	51,267
Finished products	38,409	26,039
Materials	26,142	24,285
Semi-finished products	3,813	4,950
Work-in-progress	4,402	5,144
	126,022	111,685

Goods by type are as follows:

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Tablet dosage forms	28,719	27,219
Ampoule dosage forms	10,717	7,402
Syrups	2,176	1,450
Drops	1,830	2,147
Ointments	1,385	968
Goods in a process of delivery	521	2,726
Isotopes	3	1,514
Other	7,905	7,841
	53,256	51,267

Finished products existing at 31 December include:

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Tablet dosage forms	23,659	16,574
Ampoule dosage forms	6,091	4,438
Syrups	3,490	1,625
Other	5,169	3,402
	38,409	26,039

Materials by type are as follows:

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Basic materials	22,006	20,707
Materials in a process of delivery	2,333	1,729
Technical materials	466	381
Auxiliary materials	451	549
Spare parts	285	392
Other	601	527
	26,142	24,285

<i>Basic materials</i> by type are as follows:	<i>31.12.2011</i> <i>BGN '000</i>	<i>31.12.2010</i> <i>BGN '000</i>
Substances	13,188	11,758
Vials, tubes and ampoules	3,805	3,297
Chemicals	1,561	1,308
Packaging materials	1,387	1,297
PVC and aluminium foil	934	1,439
Herbs	540	896
Other	591	712
	<u><u>22,006</u></u>	<u><u>20,707</u></u>

As at 31 December 2011, there were established special pledges on inventories at the amount of BGN 85,001 thousand (31 December 2010: BGN 59,133 thousand) as collateral under received by the Group bank loans and issued bank guarantees (Notes 27, 32 and 38).

23. TRADE RECEIVABLES

<i>Trade receivables</i> include:	<i>31.12.2011</i> <i>BGN '000</i>	<i>31.12.2010</i> <i>BGN '000</i>
<i>Receivables from clients</i>	134,789	143,729
<i>Impairment of uncollectible receivables</i>	(3,296)	(2,732)
Receivables from clients, net	<u>131,493</u>	<u>140,997</u>
<i>Advances to suppliers</i>	5,315	4,591
<i>Impairment of advances</i>	(52)	(65)
Advances granted, net	<u>5,263</u>	<u>4,526</u>
	<u><u>136,756</u></u>	<u><u>145,523</u></u>

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

Usually the Group companies negotiate with their clients payment term from 30 to 180 days for receivables under sales unless there are determined specific conditions for maturity for particular clients.

The Group has set a common credit period of 180 days for which no interest is charged to clients. Any delay after this period is regarded by the Group as an indicator for impairment. The management of the Group companies assess collectability by analysing the exposure of the particular client, the opportunities for settlement (of the client and through the collateral) and take decision on the recognition and charging of the respective impairment.

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

	31.12.2011	31.12.2010
	BGN '000	BGN '000
up to 30 days	37,022	56,921
from 31 to 90 days	46,713	33,755
from 91 to 180 days	19,986	8,643
from 180 to 360 days	4,573	4,814
from 1 to 2 years	205	2,528
over 2 years	652	142
	109,151	106,803

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

	31.12.2011	31.12.2010
	BGN '000	BGN '000
from 31 to 90 days	5,459	11,881
from 91 to 180 days	1,513	2,032
from 180 to 365 days	4,148	1,321
from 1 to 2 years	2,830	3,792
over 2 years	1,333	1,835
	15,283	20,861

With regard to the past due but not impaired receivables, there are agreements already achieved or under preparation for interest rescheduling of payments for each individual client (including penalty interest for delay).

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

	31.12.2011	31.12.2010
	BGN '000	BGN '000
from 31 to 90 days	216	283
from 91 to 180 days	1,013	1,463
from 180 to 365 days	1,711	5,838
over 1 year	7,415	8,481
allowance for impairment	(3,296)	(2,732)
	7,059	13,333

The larger part of the past due impaired receivables is from state hospitals and interest is charged and invoiced thereon. For this reason, the management of the Group took a decision only for a partial impairment of the above receivables.

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As at 31 December 2011, there were established special pledges on trade receivables at the amount of BGN 54,872 thousand (31 December 2010: BGN 54,412 thousand) as collateral under received by the Group bank loans and issued bank guarantees (Notes 27, 32 and 38).

Movement of the allowance for impairment

	2011	2010
	BGN '000	BGN '000
Balance at the beginning of the year	<u>2,732</u>	<u>2,131</u>
Impairment amount	865	1,590
Amounts written-off as uncollectable	(113)	(708)
Reversal of impairment	(180)	(281)
Transferred impairment of litigations	(8)	-
Balance at the end of the year	<u>3,296</u>	<u>2,732</u>

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

	31.12.2011	31.12.2010
	BGN '000	BGN '000
Raw and other materials	2,501	1,253
Goods	1,618	2,786
Services	1,123	547
Other	73	5
Allowance for impairment	(52)	(65)
	<u>5,263</u>	<u>4,526</u>

24. RECEIVABLES FROM RELATED PARTIES

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>1</i>	
	<i>BGN '000</i>	<i>BGN '000</i>
<i>Receivables from related parties</i> include:		
Receivables from companies under a common indirect control through key managing personnel	36,088	18,886
Receivables from main shareholding companies	14,898	13,003
Receivables from companies under a common indirect control	12,127	13,933
	<u>63,113</u>	<u>45,822</u>

The *receivables from related parties* by type are as follows:

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Trade loans granted	62,040	44,160
Receivables on sales of finished products and materials	1,073	1,559
Receivables on transactions with investments	-	103
	<u>63,113</u>	<u>45,822</u>

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

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Companies under a common indirect control through key managing personnel	36,088	18,783
Main shareholding companies	14,861	13,378
Companies under a common indirect control	11,091	11,999
	<u>62,040</u>	<u>44,160</u>

The *granted loans* are as follows:

Currency	Contracted amount '000	Maturity	Interest %	31.12.2011		31.12.2010	
				BGN '000	BGN '000 including interest	BGN '000	BGN '000 including interest
<i>to companies under a common indirect control through key managing personnel</i>							
BGN	14,287	31.12.2012	8.30%	14,492	662	13,493	563
EUR	7,200	25.10.2012	4.50%	14,164	82	-	-
EUR	1,581	31.12.2012	5.50%	3,387	295	-	-
BGN	2,477	31.12.2012	8.08%	2,669	288	2,477	96
BGN	945	31.12.2012	8.08%	1,011	211	945	146
BGN	190	31.12.2012	8.08%	211	21	196	6
BGN	120	10.07.2012	8.08%	101	-	-	-
BGN	500	31.12.2012	8.08%	53	3	-	-
BGN	1,100	31.12.2011	8.08%	-	-	1,115	15
BGN	540	31.12.2011	8.08%	-	-	557	17
<i>to main shareholding companies</i>							
EUR	4,035	30.09.2012	4.80%	7,991	99	-	-
BGN	18,495	31.08.2012	8.08%	6,467	-	6,214	-
BGN	300	31.12.2012	8.08%	403	103	379	79
EUR	1,686	30.09.2012	5.50%	-	-	3,344	47
EUR	1,500	26.01.2012	5.50%	-	-	3,081	147
EUR	179	30.06.2012	5.50%	-	-	360	10
<i>to companies under a common indirect control</i>							
EUR	7,000	28.12.2012	4.50%	10,604	-	-	-
BGN	570	15.03.2012	8.08%	350	-	-	-
BGN	120	10.02.2012	8.08%	137	17	128	8
BGN	4,374	31.12.2011	8.08%	-	-	3,945	-
EUR	1,581	01.04.2011	5.50%	-	-	3,217	125
EUR	12,286	31.12.2011	5.50%	-	-	2,783	-
BGN	5,701	31.12.2011	8.08%	-	-	1,875	13
BGN	350	30.06.2012	8.08%	-	-	51	-
				62,040	1,781	44,160	1,272

The loans were granted for working capital of the respective counterparts. As at 31 December 2011, the loans were not additionally secured with special pledge or guarantee, except for promissory notes received at the amount of BGN 17,551 thousand (31 December 2010: none).

The *receivables on sales of finished products and materials* are interest-free and denominated in BGN and in EUR.

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 (incl. substances).

The Group has set a maximum credit period of up to 365 days for which no interest is charged to sales counterparts – related parties. Any delay after this period is regarded by the Group as an indicator for

impairment. The management of the Group companies assess collectability by analysing the specific receivables and the position of the debtor company as well as the circumstances for the delay and the opportunities for repayment and after that, they take a decision on whether impairment shall be recognised and charged on individual basis and at what amount.

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

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
up to 30 days	564	451
from 31 to 90 days	103	378
from 91 to 180 days	1	31
	<u>668</u>	<u>860</u>

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

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
from 31 to 90 days	11	241
from 181 to 365 days	-	8
from 1 to 2 years	394	450
	<u>405</u>	<u>699</u>

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

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
over 1 year	399	343
Allowance for impairment	<u>(399)</u>	<u>(343)</u>
	<u>-</u>	<u>-</u>

Movement of the allowance for impairment

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	<u>343</u>	<u>287</u>
Impairment amount	56	56
Balance at 31 December	<u>399</u>	<u>343</u>

25. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments of the Group include:

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<i>Court and awarded receivables</i>	14,998	6,626
<i>Impairment of court receivables</i>	(496)	(1,332)
Court and awarded receivables, net	<u>14,502</u>	<u>5,294</u>
Taxes refundable	5,657	4,125
Prepayments	1,930	1,254
Loans granted to third parties	1,239	1,254
Receivables on deposits placed as guarantees	508	296
Amounts granted to an investment intermediary	197	83
Other	299	334
	<u>24,332</u>	<u>12,640</u>

The court and awarded receivables originate mainly in relation to sales to state hospitals. For most of them there are agreed or under negotiations repayment schedules and therefore, the management of the Group has taken a decision for only a partial impairment of the above receivables.

Taxes refundable include:

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Excise duties	2,856	2,125
VAT	2,346	1,752
Income tax	350	139
Withholding taxes	105	109
	<u>5,657</u>	<u>4,125</u>

Prepayments include:

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Insurance	620	676
Subscriptions	354	208
Vouchers	203	-
Licence and patent fees	190	58
Advertising	189	154
Rentals	141	27
Other	233	131
	<u>1,930</u>	<u>1,254</u>

The loans granted to third parties amounted to BGN 1,239 thousand (31 December 2010: BGN 1,254 thousand) and were granted to seven entities – counterparts, for working capital. The annual agreed interest for these loans for 2010 was between 6 % and 12% (2010: 8.08% and 10.8%).

26. CASH AND CASH EQUIVALENTS

	31.12.2011	31.12.2010
	BGN '000	BGN '000
Cash at current bank accounts	18,754	37,584
Short-term deposits	13,114	6,316
Cash in hand	292	1,031
Blocked funds	75	138
	32,235	45,069

The cash and cash equivalents of the Group are mainly denominated in BGN and in EUR (31 December 2010: BGN and EUR).

The average level of annual interest on current accounts in BGN and foreign currency is within the range from 0.1% to 0.2% (2010: from 0.1% to 0.2%).

The blocked funds as at 31 December 2011 referred to performance guarantees at the amount of BGN 75 thousand (31 December 2010: the blocked funds were for guarantee deposits on sales of pharmaceuticals at the amount of BGN 138 thousand).

27. EQUITY

Share capital

As at 31 December 2011, the registered share capital of SOPHARMA AD amounted to BGN 132,000 thousand distributed in 132,000,000 shares of nominal value BGN 1 each.

The treasury shares were 2,934,163 at the amount of BGN 11,463 thousand (31 December 2010: 1,180,615 at the amount of BGN 4,643 thousand), based on a decision of the General Meeting of Shareholders of 23 June 2010.

The *statutory reserves* amounting to BGN 21,855 thousand (31 December 2010: BGN 17,788 thousand) were 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 26,662 thousand (31 December 2010: BGN 24,267 thousand) was set aside from the positive difference between the carrying amount of property, plant and equipment of the Group companies and their fair values at the dates of the respective regular revaluation (Notes 15, 16). The effect of deferred taxes on the revaluation reserve is stated directly through other components of comprehensive income for the year.

Available-for-sale financial assets reserve amounting to BGN 65 thousand – a negative figure (31 December 2010: BGN 354 thousand – a negative figure) was set aside from the effects of subsequent measurement of available-for-sale investments to fair value (including the consolidated share of the change in this reserve in associates on their valuation under the equity method). (Note 15).

The *translation of foreign operations reserve* amounting to BGN 3,455 thousand – a negative figure (31 December 2010: BGN 2,427 thousand – a negative figure) was 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. (Note 15).

The *accumulated profit reserve* includes also the component “other reserves”, which contains the amounts distributed from the realized profits from prior years of the companies from the Group.

Basic earnings per share

	<i>2011</i>	<i>2010</i>
Weighted average number of shares	129,935,685	131,661,124
Net profit for the year (BGN'000)	<u>38,404</u>	<u>41,958</u>
Basic earnings per share (BGN)	<u><u>0.30</u></u>	<u><u>0.32</u></u>

28. LONG-TERM BANK LOANS

	<i>Contracted loan amount</i>	<i>Maturity</i>	<i>31.12.2011</i>			<i>31.12.2010</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>'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>Credit lines and working capital loans</i>								
EUR	12,000	31.01.2012	-	22,583	22,583	23,202	57	23,259
EUR	5,000	31.08.2012	-	9,774	9,774	-	9,779	9,779
EUR	3,000	25.08.2012	-	5,863	5,863	-	5,864	5,864
EUR	2,500	31.08.2012	-	2,192	2,192	-	-	-
EUR	1,617	30.01.2015	998	479	1,477	965	1,679	2,644
BGN	18,000	30.06.2012	-	286	286	-	17,983	17,983
EUR	530	28.02.2012	-	86	86	58	345	403
EUR	1,675	30.06.2013	22	42	64	64	42	106
USD	4,000	30.09.2012	-	-	-	3,929	1,964	5,893
EUR	1,000	20.09.2011	-	-	-	-	503	503
EUR	2,500	31.03.2011	-	-	-	-	3,211	3,211
EUR	2,000	15.06.2011	-	-	-	-	3,327	3,327
EUR	1,700	25.10.2010	-	-	-	-	5,867	5,867
<i>Investment-purpose loans</i>								
EUR	32,000	15.04.2021	18,737	37	18,774	-	-	-
EUR	2,000	29.07.2015	2,480	960	3,440	-	-	-
EUR	1,565	09.12.2015	1,043	348	1,391	1,391	174	1,565
EUR	2,000	29.07.2015	-	-	-	1,573	-	1,573
			<u>23,280</u>	<u>42,650</u>	<u>65,930</u>	<u>31,182</u>	<u>50,795</u>	<u>81,977</u>

The bank loans received in Euro were mainly agreed at interest rate based on EURIBOR plus a surplus of 5.5 points (2010: EURIBOR plus a surplus of up to 5.5 points, the loans in USD – LIBOR plus a surplus of up to 6 points and loans in RSD – EURIBOR plus 3.3%).

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

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

- Real estate mortgages (Note 16);
- Special pledges on:
 - machinery and equipment (Note 16);
 - raw materials, consumables and finished products (Note 22);
 - trade receivables (Note 23).
- Pledge on the entire enterprise Momina Krepost AD. At April 2011 the pledge was deleted.

29. DEFERRED TAX ASSETS AND LIABILITIES

The *deferred tax assets and liabilities* of the Group at 31 December are related with the following items of the consolidated statement of financial position:

	<i>31.12.2011</i>	<i>31.12.2011</i>	<i>31.12.2010</i>	<i>31.12.2010</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
	<i>temporary</i>	<i>tax</i>	<i>temporary</i>	<i>tax</i>
	<i>difference</i>		<i>difference</i>	
Deferred tax assets				
Property, plant and equipment	1,219	(256)	-	-
Intangible assets	43	(9)	-	-
<i>Total deferred tax liabilities</i>	<u>1,262</u>	<u>(265)</u>	<u>-</u>	<u>-</u>
Payables to personnel	(329)	69	-	-
Inventories	(9,024)	1,895	-	-
Available-for-sale investments	(48)	10	-	-
<i>Total deferred tax assets</i>	<u>(9,401)</u>	<u>1,974</u>	<u>-</u>	<u>-</u>
Net balance of deferred income taxes – assets	<u>(8,139)</u>	<u>1,709</u>	<u>-</u>	<u>-</u>

	<i>31.12.2011</i>	<i>31.12.2011</i>	<i>31.12.2010</i>	<i>31.12.2010</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
	<i>temporary</i>	<i>tax</i>	<i>temporary</i>	<i>tax</i>
	<i>difference</i>		<i>difference</i>	
Deferred tax liabilities				
Property, plant and equipment	76,521	(7,873)	79,901	(8,381)
<i>including: revaluation reserve</i>	<i>36,635</i>	<i>(3,701)</i>	<i>34,085</i>	<i>(3,428)</i>
Intangible assets acquired in business combinations	7,036	(929)	7,001	(789)
<i>Total deferred tax liabilities</i>	<u>83,557</u>	<u>(8,802)</u>	<u>86,902</u>	<u>(9,170)</u>
Trade receivables	(7,258)	725	(6,012)	607
Payables to personnel	(3,945)	396	(3,457)	423
Intangible assets	(1,296)	117	(2,300)	230
Inventories	(9,791)	876	(9,768)	1,322
Liabilities with expired prescription period	(486)	49	(440)	44
Available-for-sale investments	(879)	88	(927)	100
Litigation provisions	(191)	20	(100)	11
<i>Total deferred tax assets</i>	<u>(23,846)</u>	<u>2,271</u>	<u>(23,004)</u>	<u>2,737</u>
Net balance of deferred income taxes – liabilities	<u>59,711</u>	<u>(6,531)</u>	<u>63,898</u>	<u>(6,433)</u>

On recognising deferred tax assets, the probability of a reversal of the individual differences and the abilities of the Group companies to generate sufficient taxable profit in the future, have been taken into account (Note 2.33.5).

Deferred tax assets for the following temporary differences have not been recognised:

	<i>31.12.2011</i>	<i>31.12.2011</i>	<i>31.12.2010</i>	<i>31.12.2010</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
	<i>temporary</i>	<i>tax</i>	<i>temporary</i>	<i>tax</i>
	<i>difference</i>		<i>difference</i>	
Tax loss carried forward	12,874	2,262	12,239	2,504
Impairment of investments in subsidiaries	13,041	1,381	12,265	1,227
Accruals for payables to personnel	280	28	243	24
<i>Total</i>	<u>26,195</u>	<u>3,671</u>	<u>24,747</u>	<u>3,755</u>

On the recognition of deferred tax assets the probability of future reversal of individual differences for the separate Group companies is taken into account (Note 2.33.5).

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The change in the balance of deferred tax assets for 2011 is as follows:

<i>Deferred tax (liabilities)/ assets</i>	<i>Balance at 1 January 2011</i>	<i>Acquired on purchase of a subsidiary</i>	<i>Recognised in profit or loss for the year</i>	<i>Recognised in other components of comprehensive income</i>	<i>Recognised in the statement of changes in equity and the current tax returns</i>	<i>Reserve from transformation in equity</i>	<i>Balance at 31 December 2011</i>
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Property, plant and equipment	-	-	33	-	-	(289)	(256)
Intangible assets on acquisitions	-	-	1	-	-	(10)	(9)
Available-for-sale investments	-	-	(2)	-	-	12	10
Inventories	-	-	1,494	-	-	401	1,895
Trade receivables	-	-	(10)	-	-	10	-
Retirement benefit obligation	-	-	(37)	-	-	106	69
	<u>-</u>	<u>-</u>	<u>1,479</u>	<u>-</u>	<u>-</u>	<u>230</u>	<u>1,709</u>

The change in the balance of deferred tax liabilities for 2011 is as follows:

<i>Deferred tax (liabilities)/ assets</i>	<i>Balance at 1 January 2011</i>	<i>Acquired on purchase of a subsidiary</i>	<i>Recognised in profit or loss for the year</i>	<i>Recognised in other components of comprehensive income</i>	<i>Recognised in the statement of changes in equity and the current tax returns</i>	<i>Reserve from transformation in equity</i>	<i>Balance at 31 December 2011</i>
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Property, plant and equipment	(8,380)	(54)	494	(356)	31	392	(7,873)
Intangible assets	230	-	(99)	-	-	(14)	117
Intangible assets acquired in business combinations	(790)	(304)	21	-	-	144	(929)
Available-for-sale investments	100	-	-	-	-	(12)	88
Inventories	1,322	-	(85)	-	-	(361)	876
Trade receivables	607	-	128	-	-	(10)	725
Retirement benefit obligations	423	-	99	-	-	(126)	396
Other current payables	55	-	14	-	-	-	69
	<u>(6,433)</u>	<u>(358)</u>	<u>572</u>	<u>(356)</u>	<u>31</u>	<u>13</u>	<u>(6,531)</u>

The change in the balance of deferred tax liabilities for 2010 is as follows:

<i>Deferred tax (liabilities)/ assets</i>	<i>Balance at 1 January 2010</i>	<i>Acquired on purchase of a subsidiary</i>	<i>Recognised in profit or loss for the year</i>	<i>Recognised in other components of comprehensive income</i>	<i>Recognised in the statement of changes in equity and the current tax returns</i>	<i>Reserve from transformation in equity</i>	<i>Balance at 31 December 2010</i>
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Property, plant and equipment	(7,733)	(929)	249	(5)	11	27	(8,380)
Intangible assets	269	-	(39)	-	-	-	230
Intangible assets acquired in business combinations	(198)	(518)	(90)	-	-	16	(790)
Available-for-sale investments	11	88	1	-	-	-	100
Inventories	1,373	-	(38)	-	-	(13)	1,322
Trade receivables	512	-	95	-	-	-	607
Retirement benefit obligations	239	50	153	-	-	(19)	423
Other current payables	66	-	(11)	-	-	-	55
	(5,461)	(1,309)	320	(5)	11	11	(6,433)

30. RETIREMENT BENEFIT OBLIGATIONS

The long-term payables to personnel include the present value of the obligation of the Group companies, operating mainly in *Bulgaria, Ukraine and Serbia*, 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 over the last 10 years for the same employer – six gross monthly salaries at the time of retirement (Note 2.33.8).

The obligations of the employer to the personnel on retirement for the companies abroad are as follows:

- *Serbia* – the employer is obliged to pay 3 average salaries;
- *Ukraine* – the employer is obliged to pay between BGN 25 and BGN 50 depending on the length of service as well as social pensions, which the company accrues after employees' retirement due to specific work conditions;
- *Russia, Latvia and Belarus* – the employer has no legal obligation to personnel upon retirement;
- *Poland, USA and United Kingdom* – the Group has no hired personnel and therefore, no obligation.

For the purpose of establishing the amount of these obligations to personnel, the Group companies have assigned an actuarial valuation by using the services of a certified actuary.

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
<i>Present value of the obligations at 1 January</i>	2,801	1,770
<i>Unrecognised actuarial loss at 1 January</i>	(191)	(107)
Liability recognised in the consolidated statement of financial position at 1 January	2,610	1,663
Expense recognised in the statement of comprehensive income for the period (Note 7)	219	1,072
Payments for the period	(440)	(357)
Effect of restatement of the financial statements of subsidiaries abroad	-	(6)
Acquired liabilities on acquisition of a subsidiary (Note 42)	-	238
Liability recognised in the consolidated statement of financial position at 31 December	2,389	2,610
<i>Present value of the obligations at 31 December</i>	2,426	2,801
<i>Unrecognised actuarial loss at 31 December</i>	(37)	(191)

The change in the present value of retirement benefit obligations to personnel and the calculation of actuarial (gain)/loss is as follows:

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Present value of the obligations at 1 January	2,801	1,770
Interest expense for the year	132	127
Current service costs for the year	154	826
Payments for the year	(440)	(357)
Effect of restatement of the financial statements of subsidiaries abroad	-	(6)
Acquired liabilities on acquisition of a subsidiary	-	238
Actuarial (gain)/loss for the year	(221)	203
Present value of the obligation at 31 December	2,426	2,801

Accruals for long-term benefits to personnel upon retirement include:

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Current service costs	154	826
Interest expense	130	127
Net actuarial (gain)/loss recognised for the year	(65)	119
	<u>219</u>	<u>1,072</u>

The following actuarial assumptions were used in calculating the present value of the liabilities for the companies in Bulgaria as at 31 December 2011:

- The discount factor is calculated by using 5.7 % annual interest rate as basis (2010: 6.5%). The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of the salaries is based on the information provided by the Company's management and amounts to 5 % annual growth compared to the prior reporting period (2010: 5 %);
- Mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2008 - 2010 (2010: 2007 – 2009);
- Staff turnover rate – from 0 % to 16 % for the five age groups formed (2010: from 0% to 20 %).

31. FINANCE LEASE LIABILITIES

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

<i>Term</i>	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Up to one year (Note 38)	610	265
Over one year	1,534	415
Total	<u>2,144</u>	<u>680</u>

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

<i>Term</i>	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Up to one year	796	405
From one to three years	1,836	498
From three to five years	-	83
	<u>2,632</u>	<u>986</u>
Future finance costs under finance leases	<u>(488)</u>	<u>(306)</u>
	<u>2,144</u>	<u>680</u>

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

32. OTHER NON-CURRENT LIABILITIES

As at 31 December 2011, the amount of BGN 1,330 thousand represents government grants under concluded contracts for gratuitous financial aid (31 December 2010: BGN 772 thousand).

The amount of other non-current liabilities as at 31 December 2011 includes also the amount of BGN 38 thousand - a payable for purchase of available-for-sale investments with maturity 30 March 2017 (31 December 2010: BGN 26 thousand).

33. SHORT-TERM BANK LOANS

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

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>31.12.2011 BGN'000</i>	<i>31.12.2010 BGN'000</i>
<i>Bank loans</i>	<i>' 000</i>			
EUR	20,000	31.05.2012	39,095	-
EUR	12,000	27.01.2012	23,595	-
EUR	10,000	31.12.2012 *	19,558	19,011
EUR	8,434	31.12.2012 *	15,983	15,983
EUR	12,500	14.01.2012 *	15,127	22,879
BGN	10,000	31.12.2012	10,003	-
EUR	5,000	30.11.2012 *	8,789	9,789
USD	4,000	31.01.2012	6,027	-
EUR	3,000	28.09.2012 *	5,864	2,931
EUR	5,000	31.01.2012 *	3,508	9,777
EUR	2,947	31.01.2012	2,405	-
UAH	7,000	07.06.2012	1,329	-
RUB	3,000	15.07.2012 *	145	145
EUR	66	31.12.2012 *	129	129
EUR	2,000	30.06.2012	108	-
BGN	500	20.12.2012 *	100	328
EUR	12,000	31.01.2011	-	23,717
EUR	5,000	30.09.2011	-	9,776
			151,765	114,465

* - renegotiated in 2011

The obtained bank loans in Euro are mainly contracted at interest rate determined on the basis of EURIBOR plus a surplus of 4.5 points, loans in BGN – monthly SOFIBOR plus a surplus of 2 points and in RUB – fixed interest rate of 16% (2010: EURIBOR plus a surplus of up to 4.5 points and fixed interest rate of up to 16% while for those in BGN – monthly SOFIBOR plus a surplus of up to 2.92 points). The loans are intended for 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 16);
- raw materials, consumables and finished products (Note 22);
- trade receivables (Note 23).

34. TRADE PAYABLES

<i>Trade payables</i> include:	31.12.2011	31.12.2010
	BGN '000	BGN '000
Payables to suppliers	62,605	58,435
Advances from clients	3,427	792
Provisions for payables to suppliers	102	99
	66,134	59,326
The <i>payables to suppliers</i> refer to:	31.12.2011	31.12.2010
	BGN '000	BGN '000
Suppliers outside Bulgaria	33,061	31,124
Suppliers from Bulgaria	29,544	27,311
	62,605	58,435

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

The payables to suppliers are denominated as follows:

- in EUR: BGN 27,302 thousand (31 December 2010: BGN 26,187 thousand);
- in BGN: BGN 27,184 thousand (31 December 2010: BGN 26,368 thousand);
- in USD: BGN 4,076 thousand (31 December 2010: BGN 3,981 thousand);
- in other foreign currency: BGN 4,043 thousand (31 December 2010: BGN 1,899 thousand).

35. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.12.2011	31.12.2010
	BGN '000	BGN '000
Payables to companies under common control	1,650	1,529
Payables to main shareholding companies	1,540	934
Payables to other related parties	170	142
	3,360	2,605

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

	31.12.2011	31.12.2010
	BGN '000	BGN '000
Payables for supplies of services	2,377	2,492
Payables for supplies of goods and materials	930	15
Other	53	98
	<u>3,360</u>	<u>2,605</u>

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

36. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security include:

	31.12.2011	31.12.2010
	BGN '000	BGN '000
Payables to personnel, including:	4,339	2,965
<i>current wages and salaries</i>	2,477	2,030
<i>accruals on unused compensated leaves</i>	1,051	935
<i>tantieme</i>	811	-
Payables for social security/health insurance, including:	1,148	985
<i>current payables for social security/health insurance</i>	984	842
<i>contributions</i>	164	143
<i>accruals on unused compensated leaves</i>	<u>5,487</u>	<u>3,950</u>

37. TAX PAYABLES

Tax payables include:

	31.12.2011	31.12.2010
	BGN '000	BGN '000
VAT	2,183	2,327
Individual income taxes payable	419	334
Income tax	322	492
Withholding taxes	100	43
Other	22	4
	<u>3,046</u>	<u>3,200</u>

SOPHARMA GROUP**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

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

Company	Full-scope tax audit	VAT inspection	Inspection under the social security legislation
Sopharma AD	31.12.2007	31.10.2008	31.10.2008
Sopharma Trading AD	31.12.2008	30.06.2009	31.12.2004
Bulgarian Rose Sevtopolis AD	31.12.2009	31.01.2010	31.12.2008
Biopharm Engineering AD	31.12.2009	31.10.2010	30.04.2009
Momina Krepost AD	31.12.2005	31.10.2006	31.10.2006
Pharmalogistica AD	up to 31.12.2005	up to 31.03.2007	none
Sopharma Buildings REIT	none	up to 31.01.2011	none
Electroncommerce EOOD	up to 31.12.2005	up to 30.04.2006	none
Unipharm AD	31.12.2005	30.04.2006	31.03.2007
Ivanchich and Sons OOD	31.08.2011	31.08.2011	31.08.2011
Vitamina AD	30.06.2010	31.07.2010	31.12.2010
Rostbalkanpharm AD	31.12.2005	31.12.2005	30.09.2009
Sopharma Zdrovit AD – in liquidation	30.09.2011	30.09.2011	30.09.2011
Briz OOD	20.07.2007	19.08.2010	30.12.2011
Briti SOOO	30.06.2011	30.06.2011	30.06.2011
Tabina OOO	30.09.2010	30.09.2010	30.09.2006
ZAO Interpharm	31.10.2007	31.10.2007	30.06.2006

The companies Sopharma Poland OOD – in liquidation, Poland, Sopharma Warsaw EOOD – Poland, Extab Corporation USA, Extab Pharma Limited, United Kingdom, have not been subject to tax inspections or audits related to the social security legislation.

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 finally the tax liability of the respective company-tax liable person except in the cases explicitly stated by law.

For the companies outside Bulgaria the tax audit is performed as follows: in Ukraine, Russia, Latvia and Belarus – within a term of three years, in Poland – within a term of five years, and in Serbia – within a term of ten years.

38. OTHER CURRENT LIABILITIES

<i>Other current liabilities</i> include:	31.12.2011 BGN '000	31.12.2010 BGN '000
Dividends payable	952	122
Liabilities under sold rights from shares issue	884	887
Finance lease liabilities (Note 30)	610	265
Grants under European projects	346	376
Deductions from work salaries	245	129
Other	195	353
	3,232	2,132

39. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

Sopharma AD

On 28 July 2011, Sopharma started arbitrary proceedings before the International Chamber of Commerce in Paris against a client in relation with unpaid supplies of goods at the amount of EUR 1,034 thousand (BGN 2,022 thousand). On 15 April 2012, the Company supplemented its initial claim with a claim for lost benefits for the amount of EUR 1,770 thousand (BGN 3,462 thousand). On his part, the client filed a counter-claim for damages caused by unjustifiable termination of a distribution contract by Sopharma at the amount of EUR 2,426 thousand (BGN 4,745 thousand). According to Company's lawyers, the claim of Sopharma is well-grounded and it is supposed to be confirmed in favour of the Company while the counter-claim will be rejected and therefore, no provision has been included under this case.

At the date of the consolidated annual financial statements, Sopharma AD was a defendant under a case initiated by a supplier for unpaid supplies received by its subsidiary at the amount of BGN 597 thousand (USD 352 thousand principal and USD 43 thousand – interest for delay). The Company lodged higher claims against the claimant related to intellectual property protection, for violations under Art.76 of the Trademarks and Geographical Names Act in particular, i.e. unlawful use of trademarks belonging to the Company. In accordance with the information from Company's lawyers, the prospects are that the case will be closed with a final rejection of the claim and therefore, no provisions were recognised.

Bulgarian Rose Sevtopolis AD

As at 31 December 2011, Bulgarian Rose Sevtopolis AD was a party under the following trade litigation – claim from year 2006 for the ownership of 254 kg rose oil or alternatively, its cost of USD 355 thousand, jointly to DL Bulgarian Rose EOOD and the company on the part of BL Finance Company AG, Switzerland. By a court decision of 18 March 2011, the claims against Bulgarian Rose Sevtopolis AD were rejected in full. The decision under this case became legally effective in April 2011 due to the lack of appeal by the claimant.

Biopharm Engineering AD

In 2010, the company was a subject of full-scope tax audit, including under the application of VATA for periods from 1 February 2007 to 31 October 2010. In the issued tax assessment bill, dated 23 June 2011, the tax authorities assessed tax liabilities to the state budget at the amount of BGN 282 thousand (principal and interest) under the VATA for previous reporting periods.

The company appealed entirely the results of the tax audit before the Administrative Court in Burgas through the Appeal and Enforcement Management Directorate - Burgas at the Central Administration of

the National Revenue Agency (NRA). In this relation the company provided collateral – restraint over a tangible fixed asset. At the first session held on 15 February 2012 the case was put off for 16 May 2012.

The management of the Group believes that the amounts are not due including due to a contradiction with the rules and the concept of the European Directive regarding VAT. Therefore, no provisions have been included in these consolidated financial statements with regard to this court dispute.

Unipharm AD

As at 31 December 2011, there was a claim against Unipharma AD under a tax assessment bill at the amount of BGN 96 thousand. The management of the Group believes that the amounts are not due and therefore, no provisions have been included in these consolidated financial statements with regard to this court dispute.

Issued and granted guarantees

Sopharma AD

The parent company is a co-debtor under received bank loans and a guarantor of the following companies outside the Group before banks:

	Maturity	Currency	Amount		Status of the debt
			Original currency	BGN'000	31.12.2011 BGN'000
Sopharma Properties REIT	29.12.2020	EUR	30,000	58,675	58,675
SCS Franchise AD	30.06.2012	EUR	2,500	4,889	4,889
Energoinvestment AD	28.08.2012	BGN	2,000	2,000	500
Mineralcommerce AD	20.03.2017	EUR	100	196	196
Mineralcommerce AD	19.01.2014	EUR	25	49	49
				65,809	64,309

Bank guarantees

Sopharma Trading AD

The bank guarantees issued for the Company amount to BGN 7,277 thousand (31 December 2010: BGN 6,745 thousand) and are to guarantee payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medical products to hospitals under concluded contracts, customs office guarantees and tender participation.

The bank guarantees have been issued by:

	31.12.2011	31.12.2010
	BGN '000	BGN '000
SG Expressbank AD	3,637	3,750
BNP Paribas – Bulgaria Branch	2,442	2,512
Alpha Bank – Bulgaria Branch	1,043	483
UniCredit Bulbank	155	-
	<u>7,277</u>	<u>6,745</u>

The collateral for issued bank guarantees is as follows:

- Special pledge on receivables from clients at the amount of BGN 3,912 thousand (2010: BGN 1,956 thousand);
- Special pledge on goods in circulation at the amount of BGN 8,801 thousand (2010: BGN 2,934 thousand);
- Special pledge on TFA (motor vehicles) with a carrying amount of BGN 1,001 thousand (2010: none);
- Ordinary dematerialised securities within the meaning of the Public Offering of Securities Act (number of shares issued by Sopharma AD – 144,388, Bulgarian Rose Sevtopolis AD – 411,802, Unipharm AD – 151,828, Momina Krepost AD – 26,050).

Unipharm AD

The company has the following bank guarantees issued:

- from UBB AD in favour of the Ministry of Economy at the amount of BGN 530 thousand with a term – 9 April 2012, collateral – inventories at the amount of BGN 1,060 thousand, future receivables at the amount of BGN 530 thousand and a future item – a machine for primary and secondary packaging;
- from Eurobank EFG in favour of third parties for the issue of a good performance guarantee at the amount of BGN 19 thousand with a term – 22 February 2013, collateral – combination of goods on stock at the amount of EUR 50 thousand;
- from DSK Bank EAD in favour of four Multi-profile Hospitals for Active Treatment (Lovech, Veliko Tarnovo, Botevgrad and Varna) at the total amount of BGN 12 thousand with terms February-March 2012, collateral – cash at the amount of BGN 7 thousand.

Assets held under safe custody

Sopharma Trading AD

According to concluded pre-distribution contracts, the Company received goods for safe custody amounting to BGN 965 thousand as at 31 December 2011 (31 December 2010: BGN 2,983 thousand).

Significant irrevocable agreements and commitments

Sopharma AD

Sopharma AD concluded a contract with a supplier for the purchase and implementation of an integrated information system Microsoft Dynamics AX for the amount of BGN 3,700 thousand (EUR 1,892 thousand). The final term for implementation of the information system is 2012.

In 2011, the Company assumed a self-participation commitment at the amount of BGN 3,997 thousand under a contract for financing under Operating Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 - 2013. The execution of the contract is envisaged to last 24 months and is related with financing the purchase of machinery and equipment.

Bulgarian Rose Sevtopolis AD

The company undertook an engagement under a contract for granting gratuitous financial aid for a period of 5 years after the completion of the project for technological renovation and modernisation of tablets production. The term commenced on 9 February 2011 and according to the contract the product 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 preparation of the financial statements, all contractual requirements were being fulfilled.

Biopharm Engineering AD

In 2011, the company assumed a self-participation commitment at the amount of BGN 2,708 thousand under a contract for financing under Operating Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 - 2013. The execution of the contract is envisaged to last 20 months and is related with financing the purchase of property, plant and equipment.

Other

The Group has met its obligations under the Waste Management Act (WMA) and therefore, has not included a product charge liability in the statement of financial position as at 31 December 2011 regardless of the fact that the official document evidencing that Ecobulpack (the organization in which it is a member) has fulfilled its commitments under WMA, has not been issued yet at the date of preparation of these financial statements.

40. SEGMENT REPORTING

The segment reporting in the Group is organised on the basis of two main business segments 'production of pharmaceuticals' and 'distribution of pharmaceuticals (goods)'. The group 'other' includes mainly production and distribution of non-pharmaceutical products.

The *items of income, expenses and result of business segments* determined in the Group include:

	<i>Production of pharmaceutical products</i>		<i>Distribution of pharmaceutical products (goods)</i>		<i>Other</i>		<i>Elimination</i>		<i>Consolidated</i>	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<i>External sales</i>	130,758	157,411	502,696	430,339	11,277	12,584	-	-	644,731	600,334
<i>Intersegmental sales</i>	109,014	92,714	-	-	314	175	(109,328)	(92,889)	-	-
Total revenue	239,772	250,125	502,696	430,339	11,591	12,759	(109,328)	(92,889)	644,731	600,334
Segment result (margin)	118,603	115,582	40,408	32,705	3,418	3,503	(9,646)	(1,049)	152,783	150,741
Non-allocated operating income									1,775	2,648
Non-allocated operating expenses									(108,533)	(97,706)
Profit from operations									46,025	55,683
Finance (costs)/income, net									(4,700)	(7,937)
Gains/(losses) on acquisition and disposal of subsidiaries, net									-	1,181
Losses from associates, net									(406)	(965)
Gain on net monetary position from restatement for hyperinflation									4,126	-
Profit before income tax									45,045	47,962
Income tax expense									(4,620)	(5,500)
Net profit for the year before statutory dividend for distribution									40,425	42,462
Statutory dividend for distribution									(89)	-
Net profit for the year									40,336	42,462
Attributable to equity holders of the parent									38,404	41,958
Non-controlling interest									1,932	504

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The *assets and liabilities* of the business segments include:

<i>Assets by business segment</i>	<i>Production of pharmaceutical products</i>		<i>Distribution of pharmaceutical products (goods)</i>		<i>Other</i>		<i>Total</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</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>
Property, plant and equipment	83,298	84,422	38,855	38,029	7,844	2,175	129,997	124,626
Inventories	70,072	50,683	54,571	57,405	1,383	525	126,026	108,613
Receivables from related parties	62,065	44,468	382	1,061	-	-	62,447	45,529
Trade receivables	36,956	43,925	93,714	100,732	6,194	819	136,864	145,476
Segment assets	252,391	223,498	187,522	197,227	15,421	3,519	455,334	424,244
Non-allocated assets							221,254	200,946
Total assets							676,588	625,190

<i>Liabilities by business segment</i>	<i>Production of pharmaceutical products</i>		<i>Distribution of pharmaceutical products (goods)</i>		<i>Other</i>		<i>Total</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</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>
Payables to personnel and for social security	1,059	1,136	1,259	1,042	233	191	2,551	2,369
Trade payables	21,725	16,505	43,375	41,666	970	78	66,070	58,249
Payables to related parties	2,192	1,725	1,353	824	-	41	3,545	2,590
Segment liabilities	24,976	19,366	45,987	43,532	1,203	310	72,166	63,208
Non-allocated liabilities							238,610	214,703
Total liabilities							310,776	277,911

The *capital expenditures, depreciation/amortisation and non-monetary expenses other than depreciation/amortisation by business segment* include:

	<i>Production of pharmaceutical products</i>		<i>Distribution of pharmaceutical products (goods)</i>		<i>Other</i>		<i>Total</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</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>
Capital expenditures	31,431	14,860	2,548	1,298	629	25	34,608	16,183
Depreciation and amortisation	8,084	5,789	2,221	2,160	198	171	10,503	8,120
Non-monetary expenses, other than depreciation and amortisation	1,348	687	1,464	1,403	-	-	2,812	2,090

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The distribution of Group revenue *by type and by geographic area* is as follows:

	<i>Bulgaria</i>		<i>Europe</i>		<i>Other countries</i>		<i>Total</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</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>
Sales of finished products	88,960	74,315	141,167	144,103	17,408	15,453	247,535	233,871
Sales of goods	371,765	335,458	25,431	31,005	-	-	397,196	366,463
	460,725	409,773	166,598	175,108	17,408	15,453	644,731	600,334

The carrying amount as at 31 December 2011 of Group's non-current assets other than financial instruments, *distributed by geographic area*, is as follows:

	<i>Bulgaria</i>		<i>Europe</i>		<i>Other countries</i>		<i>Total</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</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>
Property, plant and equipment	217,561	196,188	18,489	12,075	288	287	236,338	208,550
Intangible assets	17,251	16,622	10,642	7,650	86	85	27,979	24,357
Investment property	5,355	5,699	1,200	1,122	-	-	6,555	6,821
	240,167	218,509	30,331	20,847	374	372	270,872	239,728

The total revenue from transaction with the largest clients of the Group and the respective business segment is as follows:

	<i>2011</i>	<i>%</i>	<i>2010</i>	<i>%</i>	<i>business segment</i>
	<i>BGN '000</i>		<i>BGN '000</i>		
Client 1	77,968	12%	81,972	14%	Production of pharmaceutical products
Client 2	68,072	11%	68,426	11%	Distribution of pharmaceutical products (goods)

Client 2 is an association of a group of enterprises with similar business characteristics, which are under common control by the Bulgarian state.

41. 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 management 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 is as follows:

<i>Financial assets</i>	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
	264,673	263,872
Loans and receivables, including:	244,701	242,945
<i>Receivables and loans (Notes 20, 21, 23, 24 and 25)</i>	212,466	197,876
<i>Cash and cash equivalents (Note 26)</i>	32,235	45,069
Available-for-sale financial assets	19,972	20,927
<i>Available-for-sale investments (Note 19)</i>	19,972	20,927
<i>Financial liabilities</i>	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Financial liabilities at amortised cost	287,909	259,527
<i>Short-term and long-term bank loans</i> <i>(Notes 28 and 33)</i>	217,695	196,442
<i>Other loans and liabilities</i> <i>(Notes 31, 32, 34, 35 and 38)</i>	70,214	63,085

Currency risk

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

Significant volume of Group's revenue is gained mainly through the parent company from export of finished products contracted as payable in USD. At the same time, the Group again through the parent company supplies part of its basic raw materials consumables also in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies.

The companies abroad perform sales mainly to the local markets, which leads to currency risk to their currencies as well – Ukrainian Grivna (UAH), Serbian Dinar (RSD), Russian Ruble (RUB), Latvian Lat (LVL), Belarus Ruble (BYR).

As at 31 December 2011, the total inflation in Belarus for the last three years exceeded 100% and Belarus was regarded a hyperinflationary economy, which to a large degree resulted in increased volatility of the functional currency exchange rate of the companies operating in such environment to Group's presentation currency. As far as all of these macroeconomic effects were beyond the control of the Group companies operating in Belarus the management of the Group undertook actions to control this currency risk by regulating currently the working capital of these companies and making efforts to maintain a reasonable balance of their current assets and liabilities whereby to regulate on timely basis the significant adverse effects for the Group as a whole.

The remaining part of Group companies' operations are usually denominated in BGN or EUR.

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. Bulgarian Rose Sevtopolis AD maintains assets and liabilities in foreign currencies (cash, payables to suppliers) originated in prior periods, which are denominated in USD and as at 31 December 2011 it expanded its net exposure to currency risk towards USD compared to prior period. The exposures of the other subsidiaries in Bulgaria to the currency risk are insignificant because almost all sales are performed to the local market in Bulgarian Levs (BGN). The import of goods is performed entirely in Euro (EUR). The loans denominated in foreign currency have been granted mainly in EUR.

The assets and liabilities of the Group denominated in BGN and foreign currency are presented as follows:

<i>31 December 2011</i>	<i>in BGN</i>	<i>in EUR</i>	<i>in USD</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>
Available-for-sale financial assets	17,160	-	-	2,812	19,972
Loans and receivables, including:	149,384	82,117	2,011	11,189	244,701
<i>Receivables and loans</i>	<i>131,193</i>	<i>70,783</i>	<i>993</i>	<i>9,497</i>	<i>212,466</i>
<i>Cash and cash equivalents</i>	<i>18,191</i>	<i>11,334</i>	<i>1,018</i>	<i>1,692</i>	<i>32,235</i>
Total financial assets	166,544	82,117	2,011	14,001	264,673
Short-term and long-term bank loans	10,389	199,805	6,027	1,474	217,695
Other loans and liabilities	31,752	29,311	4,353	4,798	70,214
Total financial liabilities	42,141	229,116	10,380	6,272	287,909
<i>31 December 2010</i>	<i>in BGN</i>	<i>in EUR</i>	<i>in USD</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>
Available-for-sale financial assets	18,243	-	-	2,684	20,927
Loans and receivables, including:	163,265	68,100	5,452	6,128	242,945
<i>Receivables and loans</i>	<i>131,129</i>	<i>60,351</i>	<i>2,530</i>	<i>3,866</i>	<i>197,876</i>
<i>Cash and cash equivalents</i>	<i>32,136</i>	<i>7,749</i>	<i>2,922</i>	<i>2,262</i>	<i>45,069</i>
Total financial assets	181,508	68,100	5,452	8,812	263,872
Short-term and long-term bank loans	328	190,076	5,893	145	196,442
Other loans and liabilities	30,694	25,827	3,992	2,572	63,085
Total financial liabilities	31,022	215,903	9,885	2,717	259,527

Foreign currency sensitivity analysis

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

Foreign currency sensitivity analysis

		USD	
		2011	2010
		BGN '000	BGN '000
Financial result	+	(753)	(399)
Accumulated profits	+	(753)	(399)
Financial result	-	753	399
Accumulated profits	-	753	399

On 10% increase in the exchange rate of USD to BGN, the ultimate impact on Group's (post-tax) profit for 2011 would be a decrease by BGN 753 thousand (-2.0%) and for 2010 – a decrease by BGN 399 thousand (-0.94%). The effect in terms of value on Group's equity – through the component 'retained earnings' – would be the same.

On 10% decrease in the exchange rate of USD to BGN, the ultimate impact on the (post-tax) profit of the Group would be equal and reciprocal of the stated above.

The impact of the remaining currencies (other than USD) on 10% increase in their exchange rates to BGN on Group's (post-tax) profit is in increase by BGN 696 thousand (for 2010: increase by BGN 549 thousand). The effect on equity is of the same amount and in a direction of a decrease and reflects in the component 'retained earnings'.

Group's management is of the opinion that the presented above currency sensitivity analysis based on the balance sheet structure of foreign currency denominated assets and liabilities is representative for the usual currency sensitivity of the Group for the reporting year.

Price risk

The Group companies are exposed to price risk of inventories based on three main factors:

- (a) (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, including as a result of hyperinflation for the subsidiaries in Belarus; and
- (c) the growing competition on the Bulgarian pharmaceutical market is also reflected in drug prices.

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 available-for-sale 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, because of the economic and financial crisis, the management has taken a decision for a significant reduction in its operations on stock markets, retaining of the purchased shares for longer periods with current monitoring of the reported by the respective issuer financial and business indicators as well as the development of the operations in the environment of crisis.

The sensitivity analysis of the Group of the stock exchange prices of the shares in which it has invested is based on the state and structure of the available-for-sale investments as at 31 December.

The effect of 25% increase in prices would result in increase directly in other components of the statement of comprehensive income and respectively, in equity (available-for-sale financial assets reserve) of the Group, by BGN 4,993 thousand (2010: BGN 4,709 thousand). On 25% decrease, the ultimate effect on other components in the statement of comprehensive income and respectively, Group's equity, would be equal and reciprocal to the stated above.

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 latter are presented in the statement of financial position at net value after deducting the impairment related to doubtful and bad debts. Such impairment is made where and when events have existed identifying loss due to uncollectability as per previous experience.

In the years of its trade experience, the Group has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts. The Group works on its main markets with counterparts with history of their relations on main markets, which include a big number of licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the National Health Insurance Fund (until June 2011) and the state hospitals also require the implementation of deferred payments policy. There is a concentration of significant credit

risk in this type of counterparts that form 40% of Group's trade receivables (31 December 2010: 21%). Its is mitigated through implemented procedures for selection and current monitoring of the liquidity and financial stability of these trade partners. On delay in payments of the receivables from these counterparts, the Group has set a period of 30 days after which it starts activities for collection of receivables. With regard to hospitals, in case of 30 days of delay after the date on which the credit period expires, interest for delay is being charged and if delays persist after further 30 days, a meeting with the management is arranged for the purpose of signing rescheduling agreement. If the agreement is not complied with, legal proceedings are initiated. With regard to clients – pharmacies, on a 5-day delay after the expiry of the credit period, the sales under deferred payment terms are suspended. If delinquencies continue, on the 45th day all sales are ceased and negotiations are held for concluding an agreement. If the agreement is not complied with, legal proceedings are initiated.

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

The credit policy of the Group envisages that every new client shall be investigated with regard to its creditworthiness prior to being offered the standard terms of supply and payment. The analysis, performed by the Group, includes but is not limited to visit to clients premises, collection of information on monthly turnovers and in some cases a promissory note is required in favour of the Group company for 130% - 135% of the credit granted. These limits are reviewed on a monthly basis. The clients that cannot cover the creditworthiness criteria may perform purchases in cash.

Collectability of receivables is controlled directly by the Executive Director, the Finance and Trade Director of the parent company and, respectively, by the management of the subsidiaries. Their responsibility is to provide operating control and regulate receivables in conformity with the actual market situation and the needs of the Group.

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

The financial resources of the Group as well as the settlement operations are concentrated in different first-class banks. To distribute cash flows among them, the management of the parent company and the subsidiaries take into consideration a great deal of factors, as the amount of capital, reliability, liquidity, the credit potential and rating of the bank etc.

Liquidity risk

Liquidity risk is the adverse situation when the Group encounters difficulty in meeting unconditionally its obligations within their maturity, including because of the existence of hyperinflation and the indexation of the trade accounts of the companies operating in such environment.

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. Group's liquidity could be significantly affected by USD exchange rate fluctuations with regard to our US dollar positions on the Russian market and market dynamics, if this rate deviates from our forecasts. Existing net items in Belarusian Roubles (BYR) and the hyperinflation in this market in 2011 represented another significant source of risk. To isolate any possible 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 assets and liabilities of the Group, classified by remaining term to maturity, determined against the contractual maturity at the consolidated financial statements date. The table is prepared on the basis of undiscounted cash flows and the earliest date on which the receivable and respectively, the payable become due for payment. The amounts include principal and interest.

<i>31 December 2011</i>	<i>no maturity</i>	<i>up to 1 month</i>	<i>from 1 to 3 months</i>	<i>from 3 to 6 months</i>	<i>from 6 to 12 months</i>	<i>from 1 to 2 years</i>	<i>from 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>	<i>BGN '000</i>
Available-for-sale financial assets	-	-	-	-	-	17,102	2,870	-	19,972
Loans and receivables	-	92,900	48,346	29,008	71,862	3,977	2,464	671	249,228
<i>including:</i>									
<i>Receivables and loans</i>	-	62,264	46,740	29,008	71,862	3,977	2,464	671	216,986
<i>Cash and cash equivalents</i>	-	30,636	1,606	-	-	-	-	-	32,242
Total assets	-	92,900	48,346	29,008	71,862	21,079	5,334	671	269,200
Short-term and long-term bank loans	-	74,365	1,226	48,506	74,805	2,772	5,199	21,394	228,267
Other loans and liabilities	-	28,959	22,672	14,188	2,895	583	1,275	108	70,680
Total liabilities	-	103,324	23,898	62,694	77,700	3,355	6,474	21,502	298,947

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<i>31 December 2010</i>	<i>no maturity</i>	<i>up to 1 month</i>	<i>from 1 to 3 months</i>	<i>from 3 to 6 months</i>	<i>from 6 to 12 months</i>	<i>from 1 to 2 years</i>	<i>from 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>	<i>BGN '000</i>
Available-for-sale financial assets	2,067	-	-	-	-	18,771	89	-	20,927
Loans and receivables	-	122,996	56,498	9,100	54,422	4,791	115	-	247,922
<i>including:</i>									
<i>Receivables and loans</i>	-	79,173	55,252	9,100	54,422	4,791	115	-	202,853
<i>Cash and cash equivalents</i>	-	43,823	1,246	-	-	-	-	-	45,069
Total assets	2,067	122,996	56,498	9,100	54,422	23,562	204	-	268,849
Short-term and long-term bank loans	-	47,673	8,069	15,269	88,133	40,382	3,306	-	202,832
Other loans and liabilities	-	23,178	28,986	8,860	1,732	460	83	108	63,407
Total liabilities	-	70,851	37,055	24,129	89,865	40,842	3,389	108	266,239

Risk of interest-bearing cash flows

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

- (a) optimisation of resources and structure of credit resources for achieving relatively lower price of attracted funds; and
- (b) 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, can be achieved and maintained in a proportion favourable for the Group companies. The permanent component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

The management of the Group companies together with that of the parent company currently monitor and analyse the exposure of the respective company to the changes in interest levels. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating</i>	<i>with fixed</i>	<i>Total</i>
<i>31 December 2011</i>		<i>interest %</i>	<i>interest %</i>	
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	19,972	-	-	19,972
Loans and receivables, including:	148,539	12,982	83,180	244,701
<i>Receivables and loans</i>	<i>142,309</i>	<i>-</i>	<i>70,157</i>	<i>212,466</i>
<i>Cash and cash equivalents</i>	<i>6,230</i>	<i>12,982</i>	<i>13,023</i>	<i>32,235</i>
Total financial assets	168,511	12,982	83,180	264,673
Short-term and long-term bank loans	419	217,276	-	217,695
Other loans and liabilities	68,055	2,121	38	70,214
Total financial liabilities	68,474	219,397	38	287,909
<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating</i>	<i>with fixed</i>	<i>Total</i>
<i>31 December 2010</i>		<i>interest %</i>	<i>interest %</i>	
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Available-for-sale financial assets	20,927	-	-	20,927
Loans and receivables, including:	148,991	40,495	53,459	242,945
<i>Receivables and loans</i>	<i>147,961</i>	<i>-</i>	<i>49,915</i>	<i>197,876</i>
<i>Cash and cash equivalents</i>	<i>1,030</i>	<i>40,495</i>	<i>3,544</i>	<i>45,069</i>
Total financial assets	169,918	40,495	53,459	263,872
Short-term and long-term bank loans	499	195,798	145	196,442
Other loans and liabilities	62,434	651	-	63,085
Total financial liabilities	62,933	196,449	145	259,527

The table below demonstrates the Group's sensitivity to possible changes in interest rates by 50 points based on the structure of assets and liabilities as at 31 December and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and respectively, on equity.

<i>2011</i>	<i>Increase / decrease in interest rate</i>	<i>Impact on post-tax financial result – profit/(loss)</i>	<i>Impact on equity - increase/(decrease)</i>
EUR	Increase	(949)	(949)
USD	Increase	(26)	(26)
BGN	Increase	46	46
EUR	decrease	949	949
USD	decrease	26	26
BGN	decrease	(46)	(46)
<i>2010</i>	<i>Increase / decrease in interest rate</i>	<i>Impact on post-tax financial result – profit/(loss)</i>	<i>Impact on equity - increase/(decrease)</i>
EUR	Increase	(772)	(772)
USD	Increase	(27)	(27)
BGN	Increase	(85)	(85)
EUR	decrease	772	772
USD	decrease	27	27
BGN	decrease	85	85

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 total capital amount. Net debt is calculated as total borrowings (current and non-current ones) as presented in the balance sheet less cash and cash equivalents. Total employed capital is calculated as the sum of equity and net debt.

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). In 2011, the strategy of the parent company management was to maintain the ratio within 35 - 40 % at Group level (2010: 30-35 %). The table below shows the gearing ratios based on capital structure as at 31 December:

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Total borrowings, including:	219,840	197,122
<i>Bank loans</i>	<i>217,695</i>	<i>196,442</i>
<i>Loans and finance lease liabilities</i>	<i>2,145</i>	<i>680</i>
Less: Cash and cash equivalents	(32,235)	(45,069)
Net debt	187,605	152,053
Total equity of the Group	319,999	298,232
Total capital of the Group	507,604	450,285
Gearing ratio	0.37	0.34

The liabilities shown in the table are disclosed in Notes 28, 31, 33 and 38.

Fair values

Fair value is generally the amount for which an asset could be exchanged, or a liability settled in an arm's length transaction between independent, willing and knowledgeable parties. The Group's policy is to disclose in its financial statements mostly the fair value of these assets and liabilities for which market quotations are available.

The fair value of financial instruments, which are not traded on active markets, is determined through other valuation methods based on various valuation techniques and management assumptions made in accordance with the market circumstances as at the end of the reporting period.

The fair value concept presumes realisation of the financial instruments through sales. 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 their 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 statement of financial position at market value (deposits placed with banks, investments in securities) and therefore, their fair value is almost equal to their carrying amount. Part of the investments in other companies as non-controlling interests represent an exception to this rule, since neither market nor objective conditions exist so that their fair value could be reliably determined. Therefore, they are presented at acquisition cost (cost).

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.

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.

42. ACQUISITIONS AND INCREASES OF INTEREST IN SUBSIDIARIES**42.1. Acquisition of subsidiaries**

In 2011, the Group acquired the following subsidiaries:

	date of acquisition	% interest	acquired net assets at fair value
			<i>BGN '000</i>
Tabina, Belarus	08.04.2011	50.49%	697
Interpharm, Belarus	17.12.2011	49.27%	1,233

The principal activities of the acquired subsidiaries are disclosed in Note 1.

Tabina OOO, Belarus, and ZAO Interpharm, Belarus, were acquired through the purchase of respectively 99% and 96.61% interest by the subsidiary Briz OOD, Latvia.

The acquisition of these subsidiaries in Belarus is intended for a future expansion of Group's market share in Belarus and the region.

In 2011, the Group acquired through its subsidiary Briz OOD, Latvia, also the company Superlats, Latvia, with the purpose to sell it within 12 months (Note 2.19).

In 2010, the Group acquired the following subsidiaries:

	date of acquisition	% interest	acquired net assets at fair value
			<i>BGN '000</i>
Unipharm AD, Bulgaria	27.10.2010	49.87%	14,543
Sopharma Warsaw EOOD, Poland	23.11.2010	100%	-
Sopharma Logistica AD	04.09.2010	83.76% ¹	5,010

Unipharm AD was acquired by purchase of capital shares through the Bulgarian Stock Exchange. Sopharma Warsaw was established by the parent company.

The purpose of the acquisition of Unipharm AD is a future merger of the company into Sopharma AD while that of Sopharma Warsaw – optimisation of the sales of goods to the Polish market through 100% owned company.

Additionally, SOPHARMA AD acquired also Sopharma Logistica AD through the merger of the latter into its subsidiary. On 13 January 2010, by virtue of a merger contract (and Annex thereto dated 3 March 2010) concluded between Sopharma Logistica AD and Sopharma Trading AD, the latter was transformed through a merge-in of Sopharma Logistica AD (Art. 262e of the Commercial Act). As a result of the

* through a merger in Sopharma Trading AD

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transformation, the total assets of Sopharma Logistica AD was transferred to Sopharma Trading AD and Sopharma Logistica AD was wound-up without liquidation. As a result of the merger all shareholders of Sopharma Logistica AD acquired shares in the capital of Sopharma Trading by obtaining at nominal value 0.5313 shares of Sopharma Trading AD against each of their own shares. As a result of the above circumstances, the parent company acquired through an exchange additional 849,144 shares from the capital of Sopharma Trading AD. The purpose of this transformation of both companies was to lead to optimisation and expanding the distribution and logistic activities of the acquirer as well as improvement of the quality of service in the area of pre-distribution and competitiveness.

The carrying amounts and fair values of the net assets on acquisition of subsidiaries (Note 2.3) are presented below:

In 2011

	Tabina		Interpharm		Total	
	<i>fair value</i>	<i>carrying amount</i>	<i>fair value</i>	<i>carrying amount</i>	<i>fair value</i>	<i>carrying amount</i>
	08.04.2011	08.04.2011	17.12.2011	17.12.2011		
	1	11	1	11		
	BGN'000	BGN'00	BGN'000	BGN'00	BGN'00	BGN'00
Property, plant and equipment (Note 16)	84	84	55	64	139	148
Intangible assets (Note 17)	660	-	831	-	1,491	-
Other non-current assets	432	432	2	2	434	434
Inventories	671	671	788	788	1,459	1,459
Trade receivables	2	2	3	3	5	5
Other current receivables	41	41	10	10	51	51
Cash and cash equivalents	30	30	45	45	75	75
Deferred tax liabilities	(158)	-	(200)	-	(358)	-
Trade payables	(1,027)	(1,027)	(211)	(211)	(1,238)	(1,238)
Payables to related parties	-	-	(10)	(10)	(10)	(10)
Payables to personnel and for social security	(34)	(34)	(69)	(69)	(103)	(103)
Other current liabilities	(4)	(4)	(11)	(11)	(15)	(15)
Net assets	697	195	1,233	611	1,930	806
Non-controlling interest %/	49.51%	49.51%	50.73%	50.73%		
Share of non-controlling interest /BGN'000/	345	97	626	310	971	407
Acquired net assets from the Group	352	98	607	301	959	399

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In 2010

	Unipharm AD		Sopharma Logistica through Sopharma Trading AD		Total	
	<i>fair value</i>	<i>carrying</i>	<i>fair value</i>	<i>carrying</i>	<i>fair value</i>	<i>carrying</i>
	27.10.2010	27.10.2010	4.09.2010	4.09.2010		
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Property, plant and equipment (Note 16)	18,927	9,815	5,064	318	23,991	10,133
Intangible assets (Note 17)	5,528	658	-	-	5,528	658
Investment property	-	-	-	4,762	-	4,762
Investments in associates	24	879	-	-	24	879
Available-for-sale investments	1,595	1,611	1,677	1,677	3,272	3,288
Deferred tax assets	-	38	-	2	-	40
Inventories	2,302	2,302	-	-	2,302	2,302
Receivables from related parties	3,416	3,416	40	40	3,456	3,456
Trade receivables	1,366	1,366	-	-	1,366	1,366
Other current receivables	292	292	11	9	303	301
Cash and cash equivalents	1,032	1,032	132	147	1,164	1,179
Deferred tax liabilities	(1,309)	-	-	-	(1,309)	-
Lease liabilities	(34)	(34)	-	-	(34)	(34)
Long-term bank loans	(1,074)	(1,074)	-	-	(1,074)	(1,074)
Retirement benefit obligations (Note 30)	(238)	(238)	-	-	(238)	(238)
Other non-current liabilities	(865)	(865)	-	-	(865)	(865)
Trade payables	(415)	(415)	(28)	(28)	(443)	(443)
Payables to related parties	(208)	(208)	-	-	(208)	(208)
Liabilities under sold rights from shares issue	-	-	(887)	(887)	(887)	(887)
Payables to personnel and for social security	(577)	(577)	(3)	(3)	(580)	(580)
Other current liabilities	(602)	(601)	(24)	(24)	(626)	(625)
Net assets	29,160	17,397	5,982	6,013	35,142	23,410
Non-controlling interest /%/	50.13%	50.13%	16.24%	16.24%		
Share of non-controlling interest /BGN'000/	14,618	8,721	972	977	15,590	9,698
Acquired net assets from the Group	14,542	8,676	5,010	5,036	19,552	13,712

Sopharma Warsaw EOOD was established by Sopharma AD and the subscribed capital has not been paid-in yet as far as the term for payment has not expired according to the Polish legislation.

The investment price on the acquisition of subsidiaries and the resulting goodwill at the date of the transaction for acquisition of control by the parent company itself were as follows:

In 2011

	Tabina	Interpharm	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Acquisition cost (cost)			
Amounts paid in current period	4,607	3,142	7,749
Share of the non-controlling interest in the investment on indirect acquisition	(2,257)	(1,539)	(3,796)
Measurement to fair value of previous interest by the date of acquisition of control	-	(406)	(406)
Total acquisition cost	2,350	1,197	3,547
Fair value of the acquired net assets	352	607	959
Goodwill	1,998	590	2,588

The cash outflows from acquisition of control were as follows:

Cash flows on acquisition of control	Tabina	Interpharm	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Payment with cash	4,607	3,142	7,749
Cash and cash equivalents in the acquired companies	(30)	(45)	(75)
Cash outflow on acquisition of control	4,577	3,097	7,674

In 2010

	Unipharm AD	Sopharma Logistica AD through Sopharma Trading AD	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Acquisition cost (cost)			
Amounts paid in current period	17,692	27	17,719
Amounts paid in prior periods	1,607	1,825	3,432
Measurement at fair value of previous interest by the date of acquisition of control	490	(680)	(190)
Exchange of additional capital issue of the subsidiary on the merger operation	-	2,657	2,657
Indirectly acquired investment in a subsidiary	6	-	6
Total acquisition cost	19,795	3,829	23,624
Fair value of the acquired net assets	14,542	5,010	19,552
Goodwill/(gain from a bargain purchase)	5,253	(1,181)	4,072

Sopharma Warsaw EOOD was established by Sopharma AD and therefore, no goodwill or gain from a bargain purchase had been recognised.

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The cash outflows/(inflows) from acquisition of control were as follows:

Cash flows on acquisition of control	Unipharm AD	Sopharma Logistica through Sopharma Trading AD	Total
	BGN '000	BGN'000	BGN'000
Payment with cash	(17,692)	(27)	(17,719)
Cash and cash equivalents in the acquired companies	<u>1,032</u>	<u>132</u>	<u>1,164</u>
Cash outflow on acquisition of control	<u>(16,660)</u>	<u>(105)</u>	<u>(16,555)</u>

The capital of Sopharma Warsaw EOOD was paid-in in 2011.

42.2. Increase in interests (purchases of non-controlling interest)

The Group performed the following transactions for purchase of additional shares of non-controlling interest:

In 2011

Increase in interests (purchases of non-controlling interest)	transaction date	% change in interest	acquired net assets
			BGN '000
Unipharm AD	31.12.2011	2.04%	591
Bulgarian Rose AD	31.12.2011	0.95%	219
Momina Krepost AD	31.12.2011	1.80%	89
Sopharma Buildings REIT	31.12.2011	0.05%	<u>26</u>
			<u>925</u>

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The acquisition cost of the purchased additional shares in 2011, the effects and the cash outflows, relating to these transactions, were as follows:

Increase in interests (purchases of non-controlling interest)	Unipharm AD	Bulgarian Rose AD	Momina Krepost AD	Sopharma Buildings REIT	Total
	Bulgaria	Bulgaria	Bulgaria	Bulgaria	
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Acquisition cost (cost)					
Payment with cash	(870)	(249)	(112)	(35)	(1,266)
Total acquisition cost	(870)	(249)	(112)	(35)	(1,266)
Fair value of the acquired net assets	591	219	89	26	925
Effects assumed by the Group at the account of Group's reserve 'accumulated profits'	(279)	(30)	(23)	(9)	(341)
Cash outflow on increase in interests (purchases of non-controlling interests)	(870)	(249)	(112)	(35)	(1,266)

In 2010

Increase in interests (purchases of non-controlling interest)	transaction date	% change in interest	acquired net assets
			<i>BGN '000</i>
Bulgarian Rose Sevtopolis AD, Bulgaria	04.09.2010	1.79%	339
Momina Krepost AD, Bulgaria	04.09.2010	0.44%	22
Sopharma Buildings REIT, Bulgaria	31.12.2010	0.13%	2
Unipharm AD	31.12.2010	0.14%	40
			403

The acquisition cost of the purchased additional shares in 2010, the effects and the cash outflows, relating to these transactions, were as follows:

Increase in interests (purchases of non-controlling interest)	Unipharm AD	Bulgarian Rose Sevtopolis AD	Momina Krepost AD	Sopharma Buildings REIT	Total
	Bulgaria	Bulgaria	Bulgaria	Bulgaria	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Acquisition cost (cost)					
Payment with cash	45	-	-	3	48
Paid by issue of shares in a subsidiary	5	426	14	-	445
Total acquisition cost	50	426	14	3	493
Fair value of the acquired net assets	(40)	(340)	(22)	(2)	(403)
Effects assumed by the Group at the account of Group's reserve 'accumulated profits'	10	81	(8)	1	84
Cash outflow on increase in interest (purchases of non-controlling interests)	(45)	-	-	(3)	(48)

43. DISPOSAL OF SUBSIDIARIES AND DECREASING THE INTEREST IN SUBSIDIARIES

43.1. Total disposal of subsidiaries

In 2011 and 2010, the Group did not dispose totally of any subsidiary.

43.2 Decreasing interests (sales of non-controlling interests)

In 2011

The decrease (partial disposals of) in interest (shares) in subsidiaries without loss of control, the effects and cash flows, relating to the transactions, were as follows:

Decrease in interests (sales of non-controlling interest)	transaction date	% change in interest	acquired net assets
			BGN '000
Bulgarian Rose AD	31.12.2011	-0.79%	(43)
Momina Krepost AD	31.12.2011	-0.79%	(39)
Sopharma Trading AD	31.12.2011	-1.16%	(662)
			(744)

Decrease in interests (sales of non-controlling interest)	Bulgarian	Momina	Sopharma	Total
	Rose AD	Krepost AD	Trading AD	
	Bulgaria	Bulgaria	Bulgaria	
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Proceeds from partial disposal of subsidiaries	56	46	688	790
Carrying amount of the net assets at the date of partial disposal of subsidiaries	(43)	(39)	(662)	(744)
Effects assumed by non-controlling interests at the account of Group's reserve 'accumulated profits'	13	7	26	46
Net cash inflow on partial disposal of subsidiaries	56	46	688	790

In 2010

The decrease (partial disposals of) in interest (shares) in subsidiaries without loss of control, the effects and cash flows, relating to the transactions, were as follows:

	Sold interest %	Sopharma Trading AD
		<i>BGN '000</i>
Proceeds from partial disposal of subsidiaries		1,681
Carrying amount of the net assets at the date of partial disposal of subsidiaries	9.06%	(1,991)
Effects assumed by non-controlling interests at the account of Group's reserve 'accumulated profits'		(310)
		Sopharma Trading AD
		<i>BGN '000</i>
Net cash inflow on partial disposal of subsidiaries		1,681

44. RELATED PARTY TRANSACTIONS

<i>Related parties</i>	<i>Relation type</i>	<i>Relation period</i>
Telecomplect AD* (formal holder of the shares as per the Registry at the Central Depository (CD) until the entry of Telecomplect Invest AD in the CD Registry)	Main shareholding company	2011
Telecomplect AD	Main shareholding company	2010
Donev Investments AD	Main shareholding company	2010 and 2011
Sopharma Logistica AD	Associate	until 03.09.2010
	Company under a common indirect control	from 04.09.2010 and 2011
Unipharm AD	Company under a common indirect control	until 26.10.2010
Pharmachim Holding EAD	Company under a common indirect control	2010 and 2011
NIHFI AD	Company under a common indirect control	2010 and until 05.08.2011
Kaliman RT AD	Company under a common indirect control	2010 and 2011
Seiba Pharmacies and Drugstores AD	Company under a common indirect control	2010 and 2011
Mineralcommerce AD	Company under a common indirect control	2010 and 2011
SCS Franchise AD / Sanita Franchising AD/	Company under a common indirect control	until 03.05.2010
Sopharma Properties REIT	Company under a common indirect control	2010 and 2011
Sofia Inform AD	Company under a common indirect control	2010 and 2011
Sofprint Group AD	Company under a common indirect control	2010 and 2011
Sofconsult Group AD	Company under a common indirect control	2010 and 2011
Elpharma AD	Company under a common indirect control	2010 and 2011
	Company under a common indirect control through key managing personnel	2010 and 2011
Telso AD	Companies under a joint indirect control through key managing personnel	from 09.04.2011
Media Group Bulgaria Holding	Company under a common control through key managing personnel	2010 and 2011
DOH Group		

* According to the plan for transformation of Telecomplect AD under the procedure of the Commercial Act (Art. 262a, para 2) through spin-off by establishing a new company - Telecomplect Invest AD (entered in the Commercial Register under No 164905 of 29 July 2011), the title on 26,948,052 shares of the capital of Sopharma AD is transferred to the newly established company.

At the date of issue of these consolidated annual financial statements, the transfer of the shares to Telecomplect Invest AD has not been registered yet in Central Depository AD.

For the purpose of disclosing the deals, transactions and balances with related parties, the Group has accepted the rule of giving priority to the formal legal criteria for ownership and disposal of shares held by a particular person, regardless of the economic substance and the intents of the parties. For this reason, the transactions and balances with Telecomplect AD for the whole year 2011 are presented as type of relationship "main shareholding company".

In 2011, Sopharma Group did not perform deals with Telecomplect Invest AD and had no outstanding balances therewith as at 31 December 2011.

<i>Supplies from related parties:</i>	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
 <i>Supply of inventories from:</i>		
Companies under a common indirect control	10,754	18,426
Main shareholding companies	243	222
Companies under a common control through key managing personnel	23	23
	<u>11,020</u>	<u>18,671</u>
 <i>Supply of services from:</i>		
Main shareholding companies	2,796	2,795
Companies under a common control through key managing personnel	470	450
Companies under a common indirect control	367	7,291
Associates	-	243
	<u>3,633</u>	<u>10,779</u>
 <i>Supply of tangible fixed assets from:</i>		
Main shareholding companies	56	295
Companies under a common indirect control	-	5
	<u>56</u>	<u>300</u>
 <i>Supplies for acquisition of non-current assets:</i>		
Main shareholding companies	16,549	5,856
Companies under a common indirect control	488	-
	<u>17,037</u>	<u>5,856</u>
	<u>31,746</u>	<u>35,606</u>
<i>Sales to related parties</i>	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
 Sales of inventories to:		
Companies under a common indirect control	8,340	10,815
Main shareholding companies	56	28
Companies under a common indirect control through key managing personnel	5	-
	<u>8,401</u>	<u>10,843</u>
 Sales of services to:		
Companies under a common indirect control	169	514
Main shareholding companies	51	64
	<u>220</u>	<u>578</u>
 Other sales to:		
Companies under a common indirect control	9	171
Main shareholding companies	5	8
	<u>14</u>	<u>179</u>

Interest on loans granted:

Main shareholding companies	2,567	762
Companies under a common indirect control through key managing personnel	1,356	861
Companies under a common indirect control	612	887
	<u>4,535</u>	<u>2,510</u>
	<u>13,170</u>	<u>14,110</u>

The terms and conditions of these transactions do not deviate significantly from the market ones for similar transactions.

The accounts and balances with related parties are disclosed in Notes 19, 23 and 34.

The composition of key management personnel of the Group includes the disclosed in Note 1 Executive Director and the members of the Board of Directors of the parent company. Additionally, it includes the Executive Directors, the members of Boards of Directors and the General Managers of the subsidiaries in the Group.

Salaries and other short-term benefits of key managing personnel amount to BGN 3,637 thousand (2010: BGN 2,218 thousand), including:

- * current wages and salaries – BGN 3,231 thousand (2010: BGN 2,218 thousand);
- * tantieme – BGN 406 thousand (2010: none).

45. EVENTS AFTER THE REPORTING PERIOD

On 31 January 2012, the subsidiary company Briz OOD – Latvia acquired 18 % of the capital of OOO Vivaton Plus in Belarus. The prospects are that the remaining 57 % shall be acquired in line with a concluded contract in the period 2012 – 2013.

On 15 February 2012, the Group through its subsidiary Briz OOD – Latvia sold its interest in the subsidiary OOO Superlats in Belarus.

On 10 April 2012, the Board of Directors of the parent company took a decision to sell all of its shares in the subsidiary ZAO Rostbalkanpharm in Russia.

On 8 May 2012, the Board of Directors of the parent company took a decision to establish a company Sopharma Ukraine OOD with a seat in the Ukrainian capital Kiev and share capital of UAH 1 million (about BGN 200 thousand).

On 18 April 2012, Notifications for the revealing of shareholding interests under Art. 145 of the Public Offering of Securities Act were lodged by Gramercy Select Master Fund, Georgetown, USA for the sale of 6.51% of the capital to Sopharma AD and by Gramercy Emerging Markets Fund, Georgetown, USA for the sale of 6.05% of the capital to Sopharma AD whereby both funds closed their positions in the Company. The transactions were registered in the Central Depository on 9 April 2012.

At a session, held on 2 May 2012, the Board of Directors of the parent company took a decision for summoning of the General Meeting of Shareholders on 19 June 2012 with an agenda including a proposal to the shareholders for taking the following decisions: a/ for the distribution of the profit of Sopharma AD for 2011 /BGN 40,791 thousand/ for dividends to the amount of BGN 6,450 thousand after the mandatory transfer of 10% to the Reserve fund, and the remainder - in the other reserves of the Company; b/ for the payment of additional remuneration to the Executive Director at the amount of 1% of parent company's profit generated in 2011 as well as a proposal for distribution of 2% of the profit for 2011, upon the discretion of the Executive Director, among the members of the upper management staff of the parent company (according to the Articles of Association of the parent company the decision for the payment of such remuneration is only within the powers of the General Meeting of Shareholders).