1. BACKGROUND INFORMATION ON THE GROUP

SOPHARMA GROUP (the Group) is comprised of the parent company and its twenty two (31 December 2011: twenty one) subsidiaries. In addition, the Group has investments in two joint ventures (31 December 2011: one joint venture) and two associates (31 December 2011: none).

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 2012 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.;

- Phyto Palauzovo AD – a business entity registered in Bulgaria by Decision No. 20120924105551/24.09.2012 of the Registry Agency, with a seat and address of management: Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;
- 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 Ukraine EOOD – a business entity registered in Ukraine by Decision No. 10691020000029051 of 7.08.2012 in the Unified State Register of Legal Entities and Physical Entities-Entrepreneurs, with a seat and address of management: Ukraine, Kiev, Oblonski Region, prospect Moskovskii No. 9, unit 4, floor 2, office 4-203;
- 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 06.11.2008 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 Sinovi 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;
- Brizpharm SOOO, Belarus – a business entity registered in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 800007989 of 07.07.2009, with a seat and address of management: Belarus, Minsk, Esenina Str., d. 16, ap. 1H;

In 2012 the Group disposed of its interest in the following subsidiaries:

- 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. The Group sold its investment on 10 April 2012.
- 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 – sold on 15 February 2012.

Joint ventures

The joint ventures of the Group as at 31 December 2012 were as follows:

- 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.;
- Vivaton Plus OOO, Belarus – a business entity registered in Belarus by Decision No. 590004353 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, Kletskova Str., 13 B, office 2.

Associates

The associates of the Group as at 31 December 2012 were as follows:

- Vestpharm ODO, Belarus – a business entity registered in Belarus by Decision No. 590002202 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, Dombrovskogo Str., d. 47, k. 3. The company was acquired by the Group through Briz, Latvia, on 29 October 2012;

- Alean ODO, Belarus – a business entity registered in Belarus by Decision No. 100160720 of 29 May 2001 in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs, with a seat and address of management: Belarus, Minsk, Tashkentskaya Str., d. 16, k. 1. The company was acquired by the Group through Briz, Latvia, on 26 September 2012.

Vivaton Plus OOO, Belarus, acquired by the Group in 2012, initially had the status of an associate (from 1 June 2012 to 20 December 2012) but subsequently a joint control over it was obtained and its status was changed to 'joint venture' (Note 43).

ZAO Interpharm, Belarus, acquired by the Group in 2011, initially had 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 43).

1.1. Ownership and management of the parent company

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

The joint-stock capital structure of the parent company as at 31 December 2012 was as follows:

	%
Donev Investment Holding AD	24.53
Telecomplect Invest AD	20.42
Financial Consulting Company EOOD	13.80
Universal Pension Fond Doverie AD	6.73
Sopharma AD (treasury shares)	2.64
Other legal persons	28.02
Physical persons	3.86

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

Ognian Donev, PhD	Chairman
Vessela Stoeva	Member
Ognian Palaveev	Member
Alexander Chaushev	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 includes SOPHARMA AD as a parent company and the subsidiary companies stated below:

Subsidiaries	**31.12.2012** *Interest %*	**31.12.2011** *Interest %*	*Control acquisition date*	*Loss of control date*
Companies in Bulgaria				
Sopharma Trading AD	81.01	81.33	08.06.2006	-
Bulgarian Rose Sevtopolis AD *	52.77	52.77	22.04.2004	-
Pharmalogistica AD	76.54	76.54	15.08.2002	-
Electroncommerce EOOD	100	100	09.08.2005	-
Biopharm Engineering AD	97.15	69.43	10.03.2006	-
Sopharma Buildings ADSIC	42.64	42.64	04.08.2008	-
Momina Krepost AD *	51.3	51.1	01.01.2008	-
Unipharm AD *	52.21	52.05	27.10.2010	-
Phyto Palauzovo AD **	50.13	-	21.09.2012	-
Companies abroad				
Rostbalkanpharm ZAO	-	51	27.07.2001	10.04.2012
Sopharma Poland OOD – in liquidation	60	60	16.10.2003	-
Sopharma USA	100	100	25.04.1997	-
Extab Corporation	80	80	05.08.2009	-
Extab Pharma Limited **	80	80	05.08.2009	-
Briz OOD	51	51	10.11.2009	-
Brititrade SOOO **	50.24	49.73	10.11.2009	-
PAO Vitamini	99.56	99.56	18.01.2008	-
Ivanchich and Sinovi OOD	51	51	10.04.2008	-
Sopharma Warsaw EOOD	100	100	23.11.2010	-
Tabina OOO **	47.94	50.49	08.04.2011	-
ZAO Interpharm **	36.31	49.27	17.12.2011	-
Superlats OOO **	-	31.24	20.05.2011	15.02.2012
Brizpharm SOOO **	26.01	-	20.12.2012	-
Sopharma Ukraine	100	-	07.08.2012	-

** efficient percentage of interest*
*** indirect interest*

- 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 2.78% through the subsidiary Sopharma Trading AD holding 3.43% 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 49.94 % and the indirect participation of the parent company with 1.36% through the subsidiary Sopharma Trading AD holding 1.68% 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 2.22 % through the subsidiary Sopharma Trading AD holding 2.74% of the capital of Unipharm AD;
- Sopharma Buildings ADSIC is a subsidiary by virtue of a written agreement for control 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 SOOO, Belarus, is a subsidiary of Briz OOD, Latvia – Briz OOD holds 98.50% of the capital of Brititrade SOOO;
- Tabina OOO, Belarus, is a subsidiary through Briz OOD, Latvia – Briz OOD holds 94% of the capital of Tabina OOO;
- ZAO Interpharm, Belarus, is a subsidiary through Briz OOD, Latvia – Briz OOD holds 71.19% of the capital of ZAO Interpharm;
- Brizpharm SOOO, Belarus, is a subsidiary through Briz OOD, Latvia – Briz OOD holds 51 % of the capital of Brizpharm SOOO;
- Superlats OOO, Latvia, is a subsidiary through Briz OOD, Latvia - the latter holds 61.25% of the capital of Superlats OOO. The Group sold its investment in Superlats OOO on 15 February 2012.

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 (active ingredients) 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 ADSIC – 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;
- Phyto Palauzovo AD – production, collection, purchase, growing and trade in herbs and medicinal plants (a subsidiary as from 21 September 2012);

- PAO Vitamini – production and trade in pharmaceuticals;
- Rostbalkanpharm ZAO – production and trade in pharmaceuticals (a subsidiary until 10 April 2012);
- Ivanchich and Sinovi OOD – production and trade in pharmaceuticals;
- Sopharma Poland OOD, in liquidation – market and public opinion research;
- Sopharma Warsaw EOOD – market and public opinion research;
- Sopharma Ukraine EOOD – trade in pharmaceuticals and market and public opinion research (a subsidiary as from 7 August 2012);
- 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;
- Brizpharm SOOO, Belarus – trade in pharmaceuticals (a subsidiary as from 20 December 2012).

The parent company and the subsidiaries Sopharma Trading AD, Bulgarian Rose Sevtopolis AD, Pharmalogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Sopharma Buildings ADSIC, Momina Krepost AD, Unipharm AD, Phyto Palauzovo AD perform their activities in Bulgaria; Sopharma Poland OOD – in liquidation and Sopharma Warsaw EOOD operate in Poland, Rostbalkanpharm ZAO – in Russia, PAO Vitamini, Sopharma Ukraine EOOD – in Ukraine, Ivanchich and Sinovi OOD – in Serbia, Briz OOD – in Latvia, Brititrade SOOO , Tabina OOO, ZAO Interpharm and Brizpharm SOOO – in Belarus, Extab Pharma Limited – in the United Kingdom, and Sopharma USA and Extab Corporation, USA – in USA.

As at 31 December 2012, the interest of the Group in the ***joint ventures*** is as follows:

- Sopharma Zdrovit AD – in liquidation with 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.
- Vivaton Plus OOO, Belarus, with 50% interest with Apteka Group Holding and a physical person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 20 December 2012.

As at 31 December 2012 the Group has interest in the following ***associates:***

- Vestpharm ODO, Belarus – a business entity registered in Belarus by Decision No. 590002202 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, Dombrovskogo Str., d. 47, k. 3. The company was acquired by the Group through Briz, Latvia, on 29 October 2012;

- Alean ODO, Belarus – a business entity registered in Belarus by Decision No. 100160720 of 29 May 2001 in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs, with a seat and address of management: Belarus, Minsk, Tashkentskaya Str., d. 16, k. 1. The company was acquired by the Group through Briz, Latvia, on 26 September 2012.

From 1 June 2012 to 28 December 2012 the Group held indirectly 18.87 % of the associate Vivaton Plus OOOD and after that period it acquired joint control thereon.

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.

The average number of Group’s personnel in 2012 was 3,945 workers and employees (2011: 3,889).

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 2010 – 2012, are presented in the table below:

Indicator	**2010**	**2011**	**2012**
GDP in million levs (Bulgaria)	70,474	75,265	77,582
Actual growth of GDP (Bulgaria)	0.20%	1.70%	0.8%
Year-end inflation (Bulgaria)	4.50%	2.75%	4.25%
Year-end inflation (Belarus)	10.10%	108.70%	21.80%
USD/BGN average for the year	1.4779	1.4065	1.52314
USD/BGN at year-end	1.4728	1.5116	1.4836
PLN/BGN average for the year	0.4892	0.4759	0.46772
PLN/BGN at year-end	0.49327	0.43872	0.47926
RUB/BGN average for the year	0.04864	0.04787	0.04902
RUB/BGN at year-end	0.04824	0.04683	0.04862
RSD/BGN average for the year	0.01898	0.01918	0.0173
RSD/BGN at year-end	0.01854	0.01869	0.0172
UAH/BGN average for the year	0.18633	0.1766	0.19042
UAH/BGN at year-end	0.18498	0.18992	0.18561
GBP/BGN average for the year	2.27433	2.25443	2.41275
GBP/BGN at year-end	2.27369	2.34147	2.39406
LVL/BGN average for the year	2.75965	2.76943	2.80501
LVL/BGN at year-end	2.75555	2.79604	2.80285
1000 BRUB/BGN average for the year	0.4946	0.1813	0.18249
1000 BRUB/BGN at year-end	0.4923	0.1813	0.17256
Basic interest rate at the year-end (Bulgaria)	0.18%	0.22%	0.03%
Unemployment rate at the year-end (Bulgaria)	9.24%	10.40%	11.40%

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 2012 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 2012, has not resulted in changes in the Group's accounting policies – in the classification or valuation of individual reporting items and transactions.

These standards and interpretations include:

- *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; for the Republic of Bulgaria – practically applicable as from 1 January 2012).* 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.

At the date when these consolidated financial statements have been issued for approval, 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 2012, which have not been adopted by the Group for early application. Some of them are accepted as effective for 2012 but for annual periods starting after 1 January 2012 while others – for annual periods beginning on or after 1 January 2013.

The management of the parent company has concluded that out of them the following are likely to have a potential impact in the future for changes in the accounting policies and the classification and values of reporting items in the consolidated financial statements of the Group for subsequent reporting periods, namely:

A. Endorsed for periods beginning after 1 January 2012

- *IAS 1 (amended) "Presentation of Financial Statements" (in force for annual periods beginning on or after 1 July 2012 – endorsed by EC).* The amendment introduces a requirement for entities to present the components of other comprehensive income in the consolidated 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 consolidated income statement, including their tax effect. In addition, the name of the consolidated statement of comprehensive income has been changed to 'consolidated statement of profit or loss and other comprehensive income'.

B. Endorsed for periods beginning at least on 1 January 2013

- *IAS 12 (amended) "Income Taxes" (in force for annual periods beginning on or after 1 January 2013 – 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 – though 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;
- *IAS 19 (amended) "Employee Benefits" (in force for annual periods beginning on or after 1 January 2013 – 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 – endorsed by EC – for mandatory application, at the latest, for annual periods beginning on or after 1 January 2014).* 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 – endorsed by EC – for mandatory application, at the latest, for annual periods beginning on or after 1 January 2014).* 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 9 "Financial Instruments: Classification and Measurement" (in force 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 – endorsed by EC – for mandatory application, at the latest, for annual periods beginning on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC)* – regarding the first-time application of this standard. 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 for the term 'control' as comprising three elements, establishes control as the only basis for consolidation and provides more detailed rules for identifying existing relationship through control. 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 – endorsed by EC – for mandatory application, at the latest, for annual periods beginning on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC) – regarding the first-time application of this standard.* 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 – endorsed by EC – for mandatory application, at the latest, for annual periods beginning on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC)* – regarding the first-time application of this standard. 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 – 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;

- *IAS 32 (amended) "Financial Instruments: Presentation" (in force for annual periods beginning on or after 1 January 2014 – 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. They are mainly in four directions: (a) clarification of the meaning of 'current legally enforceable right of set-off'; (b) the application of the simultaneous realisation and settlement criterion; (c) offsetting of cash provided as collateral; (d) the unit of account for the application of the offsetting requirements;

- *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 – 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; and

- *IFRS Improvements (May 2012) – improvements in IAS 1, 16, 32, 34, IFRS 1 (in force for annual period beginning on or after 1 January 2013 – endorsed by EC).* These improvements introduce partial amendments to the respective standards primarily with a view to remove existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set up more precise terminology. These amendments are mainly focused on the following item or transactions: borrowing costs for qualifying assets for which the capitalisation commencement date is prior to the date of transition to IFRS (IFRS 1), clarifications about the requirements for presentation of comparative information (IAS 1), clarifications about the classification of servicing equipment (IAS 16), the accounting for the tax effect from distributions to holders of equity instruments according to the requirements of IAS 12 (IAS 32), interim reporting of segment information on total assets for achieving consistency with IFRS 8 (IAS 34).

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 or after 1 January 2012, the management of the parent company has concluded that the following would not have a potential impact for changes in the accounting policies, the classification and values of reporting items in the consolidated financial statements of the Group, namely:

- *IFRS 1 (amended) "First-time Adoption of International Financial Reporting Standards" – regarding government loans (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC).* This amendment reflects changes in IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" requiring an entity to measure government loans with a below-market rate of interest at fair value on initial recognition;
- *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 – 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 2/ 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 2.6, 2.10, 2.12, 2.17).

The Bulgarian companies of the Group maintain their accounting books in Bulgarian lev (BGN), which is accepted as being their functional ands presentation currency. The subsidiaries, associates and joint ventures abroad organise their accounting and reporting in accordance with the requirements of the respective local legislation (Rostbalkanpharm ZAO – Russia, Sopharma Ukraine EOOD and PAO Vitamini – Ukraine, Ivanchich and Sinovi OOD – Serbia, Extab Pharma Limited – United Kingdom, Briz OOD – Latvia, Brititrade SOO, Tabina OOO, ZAO Interpharm, Brizpharm SOOO, the joint venture Vivaton Plus OOS, the associates Vestpharm ODO and Alean ODO – 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 inflation 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 2.33.

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

These are companies, including such that are not 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 control agreement concluded 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 applied 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 (venturer) 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 venturer (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 venturer to third parties.

The joint ventures are: Sopharma Zdrovit AD – in liquidation, Poland, and Vivaton Plus OOO, Belarus (Note 1.2).

Associate

This 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.

The associates are: Vestpharm ODO, Belarus, and Alean ODO, Belarus (Note 1.2).

2.3. Consolidation principles

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

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

2.3.1. Consolidation of subsidiaries

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

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

2.3.2. Acquisition of subsidiaries

The acquisition (purchase) method of accounting is used on the acquisition of a subsidiary (entity) by the Group in business combinations. The consideration transferred includes the fair value at the date of exchange of the assets transferred, the incurred or assumed liabilities and the equity instruments issued by the acquirer in exchange of the control over the acquiree. It 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, liabilities and contingent (crystallised) 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/(disposal) of subsidiaries'. Any non-controlling interest in a business combination is measured based on the method of the 'proportionate share of the net assets' of the acquiree.

When a business combination for the acquisition of a subsidiary is achieved in stages, all previous investments held by the acquirer at the acquisition date are revalued to fair value and the effects of this revaluation are recognised in the current profit or loss of the Group, respectively in 'finance income' and 'finance costs' or 'gains/(losses) from 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 2.14 and 2.15).

The acquisition (purchase) method is applied also in transactions for mergers and/or transformation of companies under common control if they represent direct acquisitions from the perspective of the parent company.

2.3.4. Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with 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 profit' 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 joint ventures

The proportionate consolidation method is used for including the joint ventures in the consolidated financial statements. The parent company SOPHARMA AD has the status of a venturer for Sopharma Zdrovit AD – in liquidation, Poland, and respectively, for Vivaton Plus OOO, Belarus (as of 29 December 2012). In the proportionate consolidation method, the share of the venturer (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 venturer. 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 venturers. 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 subsidiaries in Ukraine (PAO Vitamini, Sopharma Ukraine EOOD) – the Ukrainian Grivna, of the subsidiary in Serbia (Ivanchich and Sinovi OOD) – the Serbian Dinar, of the subsidiary in Latvia (Briz OOD) – Lat, of the subsidiaries in Belarus (Brititrade SOOO, Tabina OOD, ZAO Interpharm and Brizpharm SOOO) - 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 due to 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 – 'translation of foreign operations reserve', and

(d) the exchange differences resulting from the restatement of the net investment in the companies abroad together with the loans and other currency instruments, accepted as hedge of these investments, are presented directly in equity.

On disposal (sale) of a foreign operation (company), the cumulative amount of exchange differences that have been directly stated as a separate component of equity, are recognised as part of the profit or loss in the consolidated statement of comprehensive income on the line 'gains/(losses) on acquisition and disposal of subsidiaries, net', obtained on disposal (sale).

Goodwill and adjustments to fair value arising on acquisition of a company abroad are treated analogously to the assets and liabilities of this company and are restated to the presentation currency by applying the 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 and presentation 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 income 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, expenses on debt settlement transactions, loss on measurement of shares to fair value on a stepwise acquisition of a subsidiary.

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 t6han 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 the ‘revaluation reserve’ component attributable to the sold asset is directly transferred to ‘retained earnings’ component of 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 company 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 end of the current reporting period. 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 amounts of all intangible assets (including goodwill) of Group companies, operating in the environment of hyperinflationary economies, initially measured at cost less accumulated depreciation (impairment), 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 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 associates 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 2.33).

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

Available-for-sale investments (financial assets) are non-derivative financial assets representing shares in the capital of other companies (minority interest).

Initial measurement

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

Subsequent measurement

The available-for-sale investments (financial assets) held by the Group and representing:

(a) shares in foreign public companies, traded in a stock-exchange market, assessed as an active one, are subsequently measured at fair value commonly determined based on 'average prices' of realised transactions for the last month of the year – direct stock-exchange prices – Level 1;

(b) shares in Bulgarian public companies traded in the Bulgarian stock-exchange market, which at this stage cannot be assessed as an active one due to the exceptionally limited volume of transactions and representativeness as well as the economic situation in the country, are subsequently measured at fair value as follows:

- for minority investments within the range of 0.01% to 10% interest in the respective company capital – by applying adjusted stock-exchange prices – Level 2, calculated under the market comparables (analogues) method as far as the packages held by the Company are of small volume and can be realised in the stock-exchange market;
- for minority investments within the range of 10.01% to 19.99% interest in the respective company capital –by applying a combined approach that includes valuation methods of Level 2 – market comparables (analogues) method and Level 3 – discounted cash flow method. Priority weight is given to Level 3 valuation results as far as these packages are being held for strategic long-term business purposes of the Group; and

(c) shares in other closed-end companies (minority interest), which are not traded in a stock-exchange 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 subsequent measurement to fair value is performed with the professional assistance of an independent certified appraiser.

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 (sale) of the respective investment by being stated as ‘finance income’ or ‘finance costs’.

Dividend income related with long-term investments (financial assets) representing shares in other companies (minority interest) is recognised as current income and presented in the consolidated statement of comprehensive income (within profit or loss for the year) within the item 'finance 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 (financial assets) is recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The available-for-sale investments (financial assets) are reviewed 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).

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.

When assets belonging to the groups 'property, plant and equipment' and 'intangible assets' are classified as 'non-current assets held for sale' their depreciation/amortisation is ceased for the time when they are included in 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 incomer (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 'finance 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, the amounts there being freely available for the companies of the Group in accordance with the agreements with the banks in the course of the deposit regardless of the original term (maturity) of the respective deposit (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';
- interest received from short-term bank deposits is included in the composition of cash flows from investing activities;
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line 'taxes paid' while that paid on assets purchased from local suppliers is presented as 'cash paid to suppliers' in the cash flows from operating activities as far as it represents a part of the operating flows of the Group companies and is recovered therewith in the respective period (month).

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

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

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.

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

2.25. 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.

Tantieme

In accordance with the Articles of Association of the parent company and the Articles of Association of the subsidiary Sopharma Trading AD, the Executive Directors of the respective companies are entitled to one-off payment (tantieme) at the amount of 1% of the respective company net profit as well as to distribution of up to 2% of the respective company net profit between the members of the higher managing personnel upon their own discretion and in line with the individual contribution thereof – in case of reported positive financial result for the past financial year and subject to a decision of the General Meeting of Shareholders of the respective company.

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 plans.

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 reserves)*** 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 purchase 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 2.18, 2.19 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 initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment.

The available-for-sale financial assets are subsequently measured at fair value except for the shares in closed-end companies not traded in a stock-exchange market (Note 2.15).

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 2012 was 10 % (2011: 10%).

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

Subsidiary company	***Country***	***Tax rate***	
		2012	***2011***
Rostbalkanpharm ZAO	Russia	20%	20%
Sopharma Poland OOD – in liquidation	Poland	19%	19%
Sopharma Warsaw EOOD	Poland	19%	19%
Sopharma Ukraine EOOD	Ukraine	21%	23%
PAO Vitamini	Ukraine	21%	23%
Ivanchich and Sinovi OOD	Serbia	10%	10%
Extab Corporation	USA	15.35%	15.35%
Extab Pharma Limited	United Kingdom	24%	26%
Briz OOD	Latvia	15%	15%
Tabina OOO	Belarus	18%	24%
ZAO Interpharm	Belarus	18%	24%
Brititrade SOOO	Belarus	18%	24%
Brizpharm SOOO	Belarus	18%	24%
Joint venture			
Sopharma Zdrovit AD – in liquidation	Poland	19%	19%
Vivaton Plus OOO	Belarus	18%	24%
Associate			
Vestpharm ODO	Belarus	18%	24%
Alean ODO	Belarus	18%	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 2012, the deferred income taxes of the Group companies are assessed at the rate valid for 2013, which for the Bulgarian companies is 10% while for the subsidiaries, joint ventures and associates abroad the respective rate is as follows:

Subsidiary company	***Country***	***Tax rate 2013***
Sopharma Poland OOD – in liquidation	Poland	19%
Sopharma Warsaw EOOD	Poland	19%
Sopharma Ukraine EOOD	Ukraine	19%
PAO Vitamini	Ukraine	19%
Ivanchich and Sinovi OOD	Serbia	15%
Extab Corporation	USA	15.35%
Extab Pharma Limited	United Kingdom	23%
Briz OOD	Latvia	15%
Tabina OOO	Belarus	18%
ZAO Interpharm	Belarus	18%
Brititrade SOOO	Belarus	18%
Brizpharm SOOO	Belarus	18%
Joint venture		
Sopharma Zdrovit AD – in liquidation	Poland	19%
Vivaton Plus OOO	Belarus	18%
Associate		
Vestpharm ODO	Belarus	18%
Alean ODO	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 the key 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'.

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.

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.

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.

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.

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 comparables (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 (cost)-based approach' through the 'method of amortised recoverable amount' – for special-purpose buildings for which neither actual market nor market/comparative sales of analogous assets existed – 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 ware, 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).

The Group management has analyzed the price changes of its key tangible fixed assets again as at 31 December 2012 and has concluded that no conditions and reasons exist for a new revaluation of the Group companies' assets before the expiry of adopted common period and that there are no actual indicators and grounds for impairment. In addition, it has considered the existing uncertainties affecting the price levels of assets and especially of real estate in the context of the applied by the Company fair values of property, plant and equipment, and is of the opinion that the used values reflect reliably the economic environment in the respective country and are adequate thereto (Note 2.10).

2.33.2. Goodwill impairment

Every reporting year, the management of the Group performs 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 Sinovi OOD, Sopharma Buildings ADSIC, Momina Krepost AD, Unipharm AD, Briz OOD, Extab Corporation USA, Tabina OOO, ZAO Interpharm, Brizpharm SOOO and Vivaton Plus OOO. For the purpose, it has accepted that each individual company is in the capacity of a 'cash generating unit'. The calculations are made by the management of the Group and the assistance of an independent certified appraiser is used. The (pre-tax) projected cash flows are based on the financial budgets developed by the management of the respective companies and of the Group as a whole that covers 3 to 5-year period as well as other medium-term and long-term plans and intents for the development and restructuring of the activities within the Group. The cash flows after 3-year period, and respectively, after 5-year period, are extrapolated at growth of 1-20 % against the prior year – the frames of the long-term forecast for inflation for the country and the limits of the industry. The recoverable amount of each cash generating unit is determined on the basis of the 'value in use'.

The key assumptions used in the calculations of recoverable amount are as follows:

- Growth rate – from 1 % to 20 % (2011: from 2 % to 5 %);
- Discount rate (based on the weighted average cost of capital – *WACC)*

  - from 9.4 % to 23.9 % (2011: from 9.8 % to 20.8%).

The discount rate has been 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 are applied as an alternative approach to determine the recoverable amount. The sources for determining these market values are 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 are made through the prism of its projections and intents as to the future economic benefits expected by the Group from its subsidiaries including through the use of their internally-created trademarks, commercial and industrial experience and the generated thereby and expected for the future volumes of revenue, ensuring position in the Bulgarian and international markets (development and retaining), the expectations for future sales and restructuring of the activities, etc. (Note 17).

As a result of analyses and forecasts, the Group management has concluded that as at 31 December 2012 there are conditions for impairment of the recognised goodwill totalling BGN 2,108 thousand (for the subsidiary ZAO Interpharm – BGN 669 thousand, Tabina OOO – BGN 543 thousand, Momina Krepost AD – BGN 364 thousand, Sopharma Buildings ADSIC – BGN 484 thousand and Extab Corporation USA – BGN 48 thousand). Goodwill impairment at the total amount of BGN 290 thousand was recognised and recorded as at 31 December 2011 (for the subsidiary Momina Krepost AD – BGN 254 thousand and for the subsidiaries Extab Corporation, USA, and Extab Pharma – totally BGN 36 thousand).

2.33.3. Subsequent measurement of available-for-sale investments (financial assets) to fair value and treatment of the results of revaluation deficit

As at 31 December 2012, the Group companies' managing bodies made a detailed comparative analysis of the changes and movements of stock-exchange prices in the national stock market with regard to the shares in public companies held thereby.

A. With regard to the investments in companies whose shares had been listed for trade in a foreign stock-exchange market, assessed as an active one, and the shares themselves were traded in sufficient volume of transactions: it was agreed and they were subsequently measured at fair value determined directly on the basis of 'average bid prices' of realised deals in the stock-exchange in the last month of the financial year (Level 1). The applied prices were additionally analyzed with regard to the trend in the behaviour of stock-exchange 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.

B. With regard to the investments in companies whose shares had been listed for trade in the Bulgarian Stock Exchange, it was agreed and they were subsequently measured as follows: (a) for minority interests of 0.01% to 10% – at fair value determined on the basis of adjusted stock-exchange prices (Level 2) – as far as the held packages in these companies were of small volumes and it was decided that they could be sold in this stock-exchange market; and (b) for minority interest of 10.1% to 19.99% – at fair value determined on the basis of a combined approach – adjusted stock-exchange prices (Level 2) and fair value determined by processing of non-observable input information and data (Level 3) as far as these packages were of larger volumes and held for long-term business purposes.

The following basic valuation methods were used for measuring the fair value of available-for-sale investments as at 31 December 2012: (a) comparable companies (analogues) valuation method (Level 2) by applying market multiples: value of the company to EBITDA; value of the company to net profit; value of the company to total assets; value of the company to equity and value of the company to operating revenue; and (b) discounted cash flow valuation method (Level 3) based on future cash flow projections by using financial budgets/forecasts covering 3- to 5-year periods, the publicly disclosed information about new products and services as well as the historical financial statements of the respective investee. The key assumptions used in the fair value calculations under this method are as follows:

- growth rate – from 2 % to 8.9 %;
- discount rate (based on WACC) – from 9.3 % to 12.10 %.

The key assumptions used in the calculations have been determined specifically for each company and in line with the characteristic features of its operations, the business environment and risks.

The management mandatory takes into account also the results from the alternative valuation methods for additional confirmation of the applied value as fair value for both reporting years – 2012 and 2011.

The calculations have been made by the management of the companies within the Group with the assistance of independent certified appraisers.

Specific analysis was also made with regard to all investments in available-for-sale securities of the behavioural graph of their stock-exchange prices and of their fair values determined also by other alternative valuation methods for a period of 18 months at 31 December in order to determine whether conditions existed for permanent and material impairment. As a result of this analysis, the following was found for part of the investments as at 31 December 2012: (a) a trend of maintaining low levels of share prices; (b) continuous decrease against the prior period; and/or (c) low prices of companies – analogues and/or other valuations of the held shares-investments, determined by alternative valuation methods (e.g. discounted cash flows method, market comparables), which are maintained or decreased levels 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 impairment for part of the investments, affected by the above trends, together with all previously accumulated losses (net) to the reserve in the statement of comprehensive income (within profit or loss for the year) as 'finance costs' – at the amount of BGN 1,071 thousand (2011: BGN 2,624 thousand). (Note 12). At the same time, with regard to another part of the available-for-sale investments the management has recognised a revaluation reserve at the amount of BGN 1,214 thousand (2011: BGN 55 thousand) (Notes 15, 20 and 28).

2.33.4. Group companies operating in the environment of hyperinflationary economies

As at 31 December 2012 the cumulative 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 a hyperinflationary economy. In addition, it has undertaken all necessary measures so that the subsidiaries in Belarus are maintained to operate under the going concern principle (Note 42).

Because of these circumstances, for the purposes of these consolidated financial statements the figures in the 2012 financial statements of the companies operating in Belarus – Brititrade SOOO, Tabina OOO, ZAO Interpharm, Brizpharma SOOO, Vivaton Plus OOO, Alean ODO and Vestpharm ODO – were restated for the effects of hyperinflation. The prior year comparatives are not restated again but those already restated with the relevant inflation index (for year 2011) were used. 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 2012 is as follows:

Year	**2008**	**2009**	**2010**	**2011**	**2012**
Consumer price index compared to prior period (%)	13.4	9.8	10.1	108.7	21.8

2012

Q 1	***%***	***Q 2***	***%***	***Q 3***	***%***	***Q 4***	***%***
January	1.9	April	1.7	July	1.3	October	1.8
February	1.5	May	1.6	August	2.3	November	1.7
March	1.5	June	1.8	September	1.3	December	1.4

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

**Q - quarter*

Inflation indices in the range from 1.01 to 1.22 were used for the restatement of the figures in the financial statements of the subsidiaries in Belarus (2011: from 1.71 to 2.09).

The gain on the net monetary position from restatements for hyperinflationary economy is from the following subsidiaries:

	2012 BGN '000	2011 BGN '000
ZAO Interpharm	790	-
including: from goodwill	*121*	-
Tabina OOO	471	1,425
including: from goodwill	*1,027*	*713*
Brititrade SOOO	(438)	2,701
including: from goodwill	*129*	*93*
	823	**4,126**

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 3,850 thousand (2011: BGN 3,671 thousand) (Note 30).

2.33.6. Inventories

Normal capacity

The normal production capacity of the Group companies is determined using the following bases: (a) man-hours worked-out (weighted average per month); (b) machine-hours worked-out (weighted average per month); (c) production volume in quantitative terms, in kind (weighted average per month).

The normal capacity is determined by type of production and based on observations of the respective indicator movement within a period between three to five years.

The choice of a specific base depends on the characteristic features of the organisation of production, including the labour intensity and machinery performance.

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 2012, impairment of inventories at the amount of BGN 967 thousand has been recognised in the consolidated statement of comprehensive income (within profit or loss for the year) (2011: BGN 1,557 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 assessment of the 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, including the potential for collecting interest for compensating delays. 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 concluded 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 24 and 25).

The amount of recognised impairment losses for 2012 (net of the reversals) is BGN 2,201 thousand (2011: BGN 1,572 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 a discount factor (Note 31).

2.33.9. Litigation provisions

There are no provisions for liabilities under litigations as at 31 December 2012 recognised in the consolidated financial statements.

As at 31 December 2011, with regard to the pending 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 current moment exceeded 50% (Note 35) while for the remaining cases no liability provision was recognised in the consolidated statement of financial position (Note 40).

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’ of the consolidated statement of financial position. 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:

	2012	*2011*
	BGN'000	*BGN'000*
Goods	422,317	397,196
Finished products	266,262	247,535
	688,579	**644,731**

	2012	*2011*
	BGN'000	*BGN'000*
Sales of goods by type		
Tablet dosage forms	204,399	209,367
Ampoule dosage forms	115,617	100,634
Consumables, dressing materials and apparatuses	34,549	23,665
Drops	20,478	22,151
Syrup dosage forms	10,220	9,482
Ointments	10,077	9,418
Food supplements and herbs	8,916	4,703
Other	18,061	17,776
	422,317	**397,196**

	2012	*2011*
	BGN ‘000	*BGN ‘000*
Sales of finished products by type		
Tablet dosage forms	185,081	176,134
Ampoule dosage forms	33,434	28,477
Syrup dosage forms	15,163	17,001
Ointments	8,138	4,941
Lyophilic products	5,164	5,943
Drops	5,007	3,709
Syringes	2,375	2,191
Infusion solutions	1,763	1,986
Blow-moulded articles	1,033	1,015
Veterinary vaccines	876	806
Other	8,228	5,332
	266,262	**247,535**

4. OTHER OPERATING INCOME AND LOSSES, NET

Other operating income and losses, net include:

	2012	*2011*
	BGN'000	***BGN'000***
Services rendered	2,394	1,854
Rentals	735	405
Income from penalties	705	782
Social activities and events	598	559
Grants from public institutions	563	433
Income from sale of a right of construction	416	-
Gain/(loss) from changes in the fair value of investment property	116	(109)
Insurance indemnities received	43	103
Liabilities written-off	12	764
Net loss from exchange differences under trade receivables and payables and current accounts	(3,683)	(3,789)
Loss from sales of materials	(171)	(3)
(Loss)/gain on sales of non-current assets	(88)	173
Other	688	603
	2,328	**1,775**

5. RAW MATERIALS AND CONSUMABLES USED

Expenses on raw materials and consumables include:

	2012	*2011*
	BGN'000	***BGN'000***
Basic materials	64,725	64,194
Spare parts, laboratory and technical materials	6,985	5,858
Heating power	4,994	4,501
Electric energy	4,866	4,262
Fuels and lubricating materials	3,737	3,246
Water	947	909
Labour safety measures	138	729
Scrapped materials	119	101
Impairment of materials	88	446
Other	2,976	2,278
	89,575	**86,524**

Expenses on ***basic materials*** include:

	2012	***2011***
	BGN'000	***BGN'000***
Substances (active ingredients)	31,792	31,827
Packaging materials	11,969	11,858
Liquid and solid chemicals	6,822	5,995
Aluminium foil	5,883	5,832
Ampoules	2,593	2,495
Polypropylene, polyethylene, polystyrene	1,464	1,511
Herbs	1,178	1,430
Liquid solution bags	1,100	1,137
Other	1,924	2,109
	64,725	**64,194**

6. HIRED SERVICES EXPENSE

Expenses on hired services include:

	2012	***2011***
	BGN'000	***BGN'000***
Advertising	16,698	14,696
Consulting services	4,969	2,643
Manufacture	4,773	13,830
Rentals	4,438	1,625
Buildings and equipment maintenance	3,712	3,735
Forwarding and transportation services	3,335	3,181
Services under civil contracts	1,794	1,732
Bank and regulatory charges	1,638	2,003
Subscription fees	1,497	1,213
Insurance	1,403	1,397
Services on drug registration	1,241	958
Local taxes and charges	1,171	912
Security	1,118	883
Communication services	1,102	824
Logistic services	952	1,137
Motor vehicles repair	724	784
Taxes on expenses	644	554
Documentation translation	630	511
Medical service	609	510
Commission fees	344	3,081
Drug destruction services	305	344
Other	2,395	2,783
	55,492	**59,336**

7. EMPLOYEE BENEFITS EXPENSE

Personnel costs include:	***2012***	***2011***
	BGN'000	***BGN'000***
Current wages and salaries	51,964	49,190
Social security/health insurance contributions	10,785	9,981
Social benefits and payments	3,631	3,196
Tantieme	1,288	1,280
Accruals for unused paid leaves	727	552
Social security/health insurance contributions on leaves	190	164
Accruals for long-term benefits to personnel upon retirement (Note 31)	387	219
	68,972	**64,582**

8. CARRYING AMOUNT OF GOODS SOLD

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

	2012	***2011***
	BGN'000	***BGN'000***
Tablet dosage forms	203,744	198,925
Ampoule dosage forms	111,594	92,930
Consumables, dressing materials and apparatuses	26,752	21,264
Drops	18,913	20,280
Syrup dosage forms	9,479	10,210
Ointments	9,435	8,914
Food supplements and herbs	8,051	4,415
Other	12,567	14,053
	400,535	**370,991**

9. OTHER OPERATING EXPENSES

Other operating expenses include:	***2012*** ***BGN'000***	***2011*** ***BGN'000***
Charged/(reversed) impairment of current assets, net (Note 10)	3,080	2,683
Entertainment allowances	2,778	2,541
Business trips	1,741	1,446
Scrap and shortages of goods	1,115	557
Awarded amounts under litigations	766	50
Donations	519	470
Trainings	318	356
Scrapping of non-current assets	226	226
Taxes and interest on taxes payable	225	567
Unrecognised input tax	200	109
Scrap and shortages of finished products and work in progress	189	231
Receivables written-off	146	178
Other	245	316
	11,548	**9,730**

10. IMPAIRMENT OF ASSETS

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

	2012 ***BGN'000***	***2011*** ***BGN'000***
Impairment of receivables	*2,514*	*1,792*
Reversed impairment of receivables	*(313)*	*(220)*
Net change in the impairment of receivables (Notes 9, 24, 25 and 26)	2,201	1,572
Impairment of finished products (Note 9)	727	900
Impairment of goods (Note 9)	147	209
Impairment of materials (Note 5)	88	446
Impairment of work-in-progress (Note 9)	5	2
	3,168	**3,129**

Impairment losses on non-current assets include:

	2012	***2011***
	BGN'000	***BGN'000***
Impairment of goodwill (Note 17)	2,108	290
Impairment of property, plant and equipment (Note 16)	-	1,683
	2,108	**1,973**

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

11. FINANCE INCOME

Finance income includes:

	2012	***2011***
	BGN'000	***BGN'000***
Interest income on loans granted	4,109	4,638
Interest income on past due payments	1,246	1,467
Net gain from exchange differences on loans in foreign currency	433	388
Income from equity investments (dividends)	184	80
Interest income on deposits	71	440
	6,043	**7,013**

12. FINANCE COSTS

Finance costs include:

	2012	***2011***
	BGN'000	***BGN'000***
Interest expense on loans received	7,338	8,298
Impairment of available-for-sale investments	1,071	2,624
Bank fees and charges on loans and guarantees	520	529
Interest expense on finance lease	381	256
Expenses on investments in securities	31	6
	9,341	**11,713**

13. LOSSES FROM ASSOCIATES

Losses from associates include:	***2012***	***2011***
	BGN'000	***BGN'000***
Share in the loss for the year	56	133
Goodwill impairment	-	273
	56	**406**

14. INCOME TAX EXPENSE

Consolidated statement of comprehensive income (profit or loss for the year)	***2012***	***2011***
	BGN '000	***BGN '000***
Taxable profit of the Group companies for the year	58,932	64,230
Revaluation reserve included as an increase in the annual tax return	(588)	(196)
Taxable profit for the year	58,344	64,034
Current income tax expense for the year – 10 %, 15%, 15.35%, 18%, 19%, 20%, 21 %, 24% (2011: 10%, 15%, 15.35%, 19%, 20%, 23%, 24%, 26%)	(6,194)	(6,655)
Prior periods tax expense	(62)	(35)
Deferred income taxes		
Occurrence and reversal of temporary differences	1,586	2,128
Tax rate change – Ukraine, Belarus (2011: Ukraine)	(264)	(58)
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	**(4,934)**	**(4,620)**

Reconciliation of income tax expense applicable to the consolidated accounting profit or loss	***2012***	***2011***
	BGN '000	***BGN '000***
Accounting profit for the year	42,900	45,045
Income tax – 10 %, 15%, 15.35%, 18%, 19%, 20 %, 21% , 24% (2011: 10 %, 15%, 15.35%, 19%, 20%, 23 %, 24%, 26%)	(4,125)	(3,959)
Unrecognised amounts under the tax return		
Related to increases	(1,020)	(959)
Related to decreases	806	517
Tax loss for the current year on which no deferred tax assets are recognised	(269)	(126)
Prior periods tax expense	(62)	(35)
Tax rate change – Ukraine, Belarus (2011: Ukraine)	(264)	(58)
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	**(4,934)**	**(4,620)**

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

	2012			***2011***		
		BGN'000			***BGN'000***	
	Pre-tax amount	**Tax expense**	**Amount net of tax**	**Pre-tax amount**	**Tax expense**	**Amount net of tax**
Net change in the fair value of available-for-sale financial assets	1,214	-	1,214	283	-	283
Gain/(loss) on revaluation of property, plant and equipment	18	(2)	16	3,099	(325)	2,774
Exchange differences from restating foreign operations	(507)	-	(507)	(826)	-	(826)
Total other comprehensive income for the year	**725**	**(2)**	**723**	**2,556**	**(325)**	**2,231**

15. OTHER COMPREHENSIVE INCOME

The other components of ***comprehensive income*** include:

	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**	
	2012 BGN'000	***2011 BGN'000***	***2012 BGN'000***	***2011 BGN'000***	***2012 BGN'000***	***2011 BGN'000***
Change in the fair value of available-for-sale financial assets						
Gains earned during the year	1,113	61	101	(6)	1,214	55
Recycled amounts to current profit or loss	-	228	-	-	-	228
Gain on revaluation of property, plant and equipment	18	2,787	-	312	18	3,099
Exchange differences from restating foreign operations						
Losses incurred during the year	(347)	(1,028)	(158)	202	(505)	(826)
Recycled amounts to current profit or loss	(2)	-	-	-	(2)	-
Income tax relating to components of other comprehensive income	(2)	(286)	-	(39)	(2)	(325)
Other comprehensive income for the year, net of tax	**780**	**1,762**	**(57)**	**469**	**723**	**2,231**

The revaluation to fair value of the available-for-sale financial assets existing as at 31 December 2012 was based on the policy for subsequent measurement of investments adopted by the Group. (Notes 2.15 and 2.33.3).

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: 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).

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2012	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Book value										
Balance at 1 January	**137,359**	**133,274**	**116,151**	**105,731**	**32,938**	**27,389**	**36,467**	**17,986**	**322,915**	**284,380**
Additions	3,176	909	2,647	2,542	5,097	3,755	65,484	35,029	76,404	42,235
Assets in newly acquired subsidiaries and joint ventures	16	8	18	90	29	41	-	-	63	139
Effect of revaluation to fair value	-	446	-	(109)	-	-	-	-	-	337
Effects of foreign currency and hyperinflationary restatements	(337)	118	(153)	(25)	(201)	5	(198)	47	(889)	145
Disposals	(616)	(57)	(1,295)	(1,045)	(1,995)	(712)	(338)	(10)	(4,244)	(1,824)
Written-off book value of assets on sale of subsidiaries	(502)	-	(544)	-	(61)	-	(181)	-	(1,288)	-
Allowance for impairment	-	(2,510)	-	19	-	(6)	-	-	-	(2,497)
Transfer to property, plant and equipment	2,597	5,171	11,379	8,948	5,312	2,466	(19,288)	(16,585)	-	-
Transfer to investment property	(236)	-	(171)	-	(12)	-	-	-	(419)	-
Balance at 31 December	**141,457**	**137,359**	**128,032**	**116,151**	**41,107**	**32,938**	**81,946**	**36,467**	**392,542**	**322,915**
Accumulated depreciation and impairment										
Balance at 1 January	**10,575**	**8,275**	**59,685**	**54,474**	**16,317**	**13,081**	**-**	**-**	**86,577**	**75,830**
Depreciation charge for the year	3,504	3,258	9,305	8,766	4,740	3,704	-	-	17,549	15,728
Allowance for impairment	-	(839)	-	25	-	-	-	-	-	(814)
Effect of revaluation to fair value	-	(127)	-	(2,635)	-	-	-	-	-	(2,762)
Effects of foreign currency and hyperinflationary restatements	5	16	24	1	(21)	(1)	-	-	8	16
Depreciation written-off	(17)	(8)	(1,076)	(946)	(1,779)	(467)	-	-	(2,872)	(1,421)
Written-off depreciation of assets on sale of subsidiaries	(174)	-	(559)	-	(61)	-	-	-	(794)	-
Balance at 31 December	**13,893**	**10,575**	**67,379**	**59,685**	**19,196**	**16,317**	**-**	**-**	**100,468**	**86,577**
Carrying amount at 31 December	**127,564**	**126,784**	**60,653**	**56,466**	**21,911**	**16,621**	**81,946**	**36,467**	**292,074**	**236,338**
Carrying amount at 1 January	**126,784**	**124,999**	**56,466**	**51,257**	**16,621**	**14,308**	**36,467**	**17,986**	**236,338**	**208,550**

As at 31 December 2012, the tangible fixed assets of the Group include: land amounting to BGN 42,012 thousand (31 December 2011: BGN 40,754 thousand) and buildings of carrying amount BGN 85,552 thousand (31 December 2011: BGN 86,030 thousand).

Tangible fixed assets in progress as at 31 December include:

- expenses on new buildings construction – BGN 56,353 thousand (31 December 2011: BGN 27,844 thousand);
- supply of equipment – BGN 20,271 thousand (31 December 2011: BGN 1,376 thousand);
- advances granted – BGN 4,332 thousand (31 December 2011: BGN 4,171 thousand);

- buildings reconstruction - BGN 775 thousand (31 December 2011: BGN 2,834 thousand);
- other - BGN 215 thousand (31 December 2011: BGN 242 thousand).

The following encumbrances were constituted on tangible fixed assets of the Group as at 31 December 2012 in relation to received loans (Notes 29 and 34) as follows:

- Land and buildings with carrying amount of BGN 15,973 thousand and BGN 53,128 thousand, respectively (31 December 2011: respectively, BGN 15,519 thousand and BGN 55,032 thousand);
- Pledge on facilities with carrying amount of BGN 1,214 thousand (31 December 2011: BGN 734 thousand);
- Pledges on equipment – BGN 32,150 thousand (31 December 2011: BGN 27,286 thousand);
- Motor vehicles – none (31 December 2011: BGN 1,076 thousand);
- Furniture and fixtures – none (31 December 2011: BGN 115 thousand);
- Tangible fixed assets in progress – none (31 December 2011: BGN 159 thousand).

The carrying amount of the tangible fixed assets (motor vehicles) of the Group obtained under finance lease as at 31 December 2012 was BGN 3,789 thousand (31 December 2011: BGN 2,578 thousand).

Operating lease

The Group has leased fixed tangible assets with carrying amount of BGN 1,138 thousand as at 31 December 2012 to related parties (31 December 2011: BGN 2,167 thousand). In addition, tangible fixed assets at carrying amount of BGN 492 thousand were leased to third parties as at 31 December 2012 (31 December 2011: BGN 435 thousand).

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

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
Buildings	1,495	2,536
Machinery and equipment	135	66
	1,630	**2,602**

17. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Other*		*Assets in progress*		*Total*	
	2012	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Book value												
Balance at 1 January	**21,602**	**19,425**	**9,263**	**7,912**	**5,181**	**4,499**	**1,966**	**1,681**	**2,062**	**516**	**40,074**	**34,033**
Additions	55	2,588	184	41	380	687	32	-	1,486	1,874	**2,137**	**5,190**
Acquired assets in subsidiaries and joint ventures	-	-	-	1,031	-	-	679	460	-	-	**679**	**1,491**
Effects of foreign currency and hyperinflationary restatements	189	(411)	72	(35)	(1)	-	20	(175)	(4)	-	**276**	**(621)**
Transfer	-	-	731	314	116	-	(12)	-	(835)	(314)	-	-
Disposals	-	-	(1)	-	-	(5)	-	-	(150)	(14)	**(151)**	**(19)**
Balance at 31 December	**21,846**	**21,602**	**10,249**	**9,263**	**5,676**	**5,181**	**2,685**	**1,966**	**2,559**	**2,062**	**43,015**	**40,074**
Accumulated amortisation and impairment												
Balance at 1 January	**6,821**	**6,531**	**2,511**	**1,315**	**2,213**	**1,452**	**550**	**378**	**-**	**-**	**12,095**	**9,676**
Amortisation charge for the year	-	-	1,493	1,195	898	766	141	170	-	-	**2,532**	**2,131**
Allowance for impairment	2,108	290	-	-	-	-	-	-	-	-	**2,108**	**290**
Effects of foreign currency and hyperinflationary restatements	-	-	(56)	1	(2)	-	(42)	2	-	-	**(100)**	**3**
Amortisation written-off	-	-	-	-	-	(5)	-	-	-	-	-	**(5)**
Balance at 31 December	**8,929**	**6,821**	**3,948**	**2,511**	**3,109**	**2,213**	**649**	**550**	**-**	**-**	**16,635**	**12,095**
Carrying amount at 31 December	**12,917**	**14,781**	**6,301**	**6,752**	**2,567**	**2,968**	**2,036**	**1,416**	**2,559**	**2,062**	**26,380**	**27,979**
Carrying amount at 1 January	**14,781**	**12,894**	**6,752**	**6,597**	**2,968**	**3,047**	**1,416**	**1,303**	**2,062**	**516**	**27,979**	**24,357**

The rights on intellectual property include mainly products of development activities related to medicinal substances (active ingredients) 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, Aminalon.

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 the exclusive contracts with suppliers, licences and distribution networks acquired in business combinations.

As a result of the analysis, valuations and projections made, the management of the Group recognised in 2012 impairment of part of the goodwill of the following subsidiaries: ZAO Interpharm at the amount of BGN 669 thousand, Tabina at the amount of BGN 543 thousand, Momina Krepost AD at the amount of

BGN 364 thousand, Sopharma Buildings ADSIC at the amount of BGN 484 thousand and Extab Corporation at the amount of BGN 48 thousand (2011: Momina Krepost AD at the amount of BGN 254 and Extab companies at the amount of BGN 36 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

	2012	*2011*
	BGN'000	*BGN'000*
Balance at 1 January	**6,555**	**6,821**
Additions	-	37
Disposals	-	(210)
Effect of restatement	2	16
Fair value measured as at 31 December, carried to the consolidated statement of comprehensive income (within profit or loss for the year) (Note 4)	116	(109)
Transfer from property, plant and equipment (Note 16)	419	-
Fair value measured at transfer, carried to the revaluation reserve (Note 15)	18	-
Balance at 31 December	**7,110**	**6,555**

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. INVESTMENTS IN ASSOCIATES

Alean ODO, Belarus, and Vestpharm ODO, Belarus, are the associated companies of the Group as at 31 December 2012 with principal activities being trade in pharmaceuticals.

Company	**Acquisition cost**		**Date of acquisition of shares**
	% interest	***BGN'000***	
Alean ODO	38	185	26.09.2012
Vestpharm ODO	38	398	29.10.2012
		583	

The movement of the investments in associates is presented below:

	Alean ODO ***BGN'000***	***Vestpharm ODO*** ***BGN'000***	***Total*** ***BGN'000***
Balance at 1 January	**-**	**-**	**-**
Acquisition of shares	185	398	583
Share in the (loss)/profit for the year	(4)	3	(1)
Balance at 31 December	**181**	**401**	**582**

The share of the Group in the results of the associates and its aggregated assets (including goodwill) and liabilities is as follows:

	Share of the assets	**Share of the liabilities**	**Share of revenue**	**Share of profit/(loss)**	**Interest**
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***%***
Alean ODO	398	157	183	(4)	38
Vestpharm ODO	548	291	226	3	38

The investments in associates as at 31 December 2012 include recognised goodwill at the amount of BGN 21 thousand for Alean ODO and BGN 74 thousand for Vestpharm ODO.

20. AVAILABLE-FOR-SALE INVESTMENTS

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

		31.12.2012 ***BGN'000***	Interest %	***31.12.2011*** ***BGN'000***	Interest %
Doverie Obedinen Holding AD	Bulgaria	15,036	18.80	12,870	14.87
OAO Krimgas	Ukraine	2,734	9.07	2,098	9.07
Medica AD	Bulgaria	2,574	10.20	2,420	10.13
Olainfarm AD	Latvia	1,078	0.77	703	0.77
OOO NPK Biotest	Belarus	491	19.00	-	-
Lavena AD	Bulgaria	399	8.47	732	8.58
Hydroizomat AD	Bulgaria	374	9.38	51	3.74
Sopharma Imoti ADSIC	Bulgaria	234	0.70	115	0.36
Elpharma AD	Bulgaria	158	19.00	665	19.00
CF Elana Money Market Fund	Bulgaria	104	0.76	-	-
ODO BelAgroMed	Belarus	92	19.00	-	-
Balkanpharma Razgrad AD	Bulgaria	70	0.33	70	0.33
Todorov AD	Bulgaria	33	5.10	47	4.97
Maritzatex AD	Bulgaria	-	6.20	146	3.68
Other		48	-	55	-
		23,425		**19,972**	

The other available-for-sale financial assets, amounting to BGN 48 thousand (31 December 2011: BGN 55 thousand), include very small minority interests of the Group in the capital of nine companies (31 December 2011: twelve companies).

The investments are measured at fair value based on: (a) for company shares traded in foreign stock-exchange markets – average stock-exchange prices of shares for December (Level 1); (b) for minority interests (from 0.01% to 10.%) traded in the Bulgarian Stock Exchange – adjusted stock-exchange prices of shares (Level 2); and (c) for minority interests (from 10.01% to 19.99%) traded in the Bulgarian Stock Exchange – combined approach) (Level 2 and Level 3) (Notes 2.33 and 15). The shares of OAO Krimgas as at 31 December 2012 are measured to fair value based on share sale agreement (Note 46). The shares in non-public companies: OOO NPK Biotest – Belarus, ODO BelAgroMed – Belarus, Elpharma AD – Bulgaria, Balkanpharma Razgrad AD as well as the minority interests included on the line 'other' of the available-for-sale investments are measured at acquisition cost as far as the shares of these companies are not traded in a stock exchange 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.

As at 31 December 2012 the Group performed a review for impairment of available-for-sale investments and as a result finance costs were recorded in the consolidated statement of comprehensive income within the current profit or loss at the amount of BGN 1,071 thousand (2011: BGN 2,624 thousand) (Note 12).

As at 31 December 2012, the available-for-sale investments measured at fair value are as follows:

	31.12.2012			*31.12.2011*		
	Number of shares held	*Fair value per share*	*Fair value as per the statement of financial position*	*Number of shares held*	*Fair value per share*	*Fair value as per the statement of financial position*
		BGN	*BGN'000*		*BGN*	*BGN'000*
Doverie Obedinen Holding AD	3,521,003	4.27	15,036	2,081,067	6.18	12,870
OAO Krimgas	1,335,175	2.05	2,734	1,335,175	1,57	2,098
Medica AD	1,026,969	2.51	2,574	1,019,550	2.37	2,420
Olainfarm AD	108,500	9.94	1,078	108,500	6.48	703
Lavena AD	16,959	23.53	399	17,174	42.63	732
Hydroizomat AD	280,437	1.33	373	48,572	1.04	51
Sopharma Imoti ADSIC	90,870	2.59	235	46,866	2.46	115
CF Elana Money Market Fund	742	139.75	104	-	-	-
Todorov AD	173,469	0.19	33	0.27	0.27	46
Maritzatex AD	29,062	-	-	16,270	8.96	146
			22,566			**19,181**

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The *long-term receivables from related parties* as at 31 December refer to companies under a common indirect control through key managing personnel and include:

	31.12.2012	*31.12.2011*
	BGN '000	*BGN '000*
Long-term loans granted to related parties	748	729
Long-term rental deposit granted	435	272
	1,183	**1,001**

As at 31 December, 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 2012	BGN 748 thousand (31 December 2011: BGN 729 thousand)
including interest	*BGN 25 thousand (31 December 2011: BGN 1 thousand)*

The deposit receivable related with a rent under a concluded rental contract for administrative offices with validity term on 1 August 2022.

22. OTHER NON-CURRENT RECEIVABLES

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

	31.12.2012 ***BGN'000***	***31.12.2011*** ***BGN'000***
Loans granted	1,314	520
Guarantee deposits	30	48
Other	116	8
	1,460	**576**

The *loans granted* by the Group as at 31 December 2012 are to third parties, without collateral and with agreed annual interest from 7% to 8.08% (31 December 2011: from 6 % to 8 %).

23. INVENTORIES

Inventories include:	***31.12.2012*** ***BGN'000***	***31.12.2011*** ***BGN'000***
Goods	55,012	53,256
Finished products	38,954	38,409
Materials	29,228	26,142
Semi-finished products	3,182	3,813
Work-in-progress	4,574	4,402
	130,950	**126,022**

Goods by type are as follows:	***31.12.2012***	***31.12.2011***
	BGN'000	***BGN'000***
Tablet dosage forms	26,986	28,719
Ampoule dosage forms	10,379	10,717
Syrups	2,314	2,176
Drops	2,177	1,830
Ointments	1,472	1,385
Goods in transit	883	521
Isotopes	15	3
Other	10,786	7,905
	55,012	**53,256**

Finished products existing at 31 December include:	***31.12.2012***	***31.12.2011***
	BGN'000	***BGN'000***
Tablet dosage forms	26,146	23,659
Ampoule dosage forms	6,969	6,091
Syrups	2,418	3,490
Other	3,421	5,169
	38,954	**38,409**

Materials by type are as follows:	***31.12.2012***	***31.12.2011***
	BGN'000	***BGN'000***
Basic materials	25,235	22,006
Materials in transit	1,909	2,333
Auxiliary materials	484	451
Technical materials	426	466
Spare parts	389	285
Other	785	601
	29,228	**26,142**

Basic materials by type are as follows:	***31.12.2012***	***31.12.2011***
	BGN'000	***BGN'000***
Substances (active ingredients)	15,573	13,188
Vials, tubes and ampoules	3,695	3,805
Chemicals	2,108	1,561
Packaging materials	1,351	1,387
PVC and aluminium foil	1,279	934
Herbs	648	540
Other	581	591
	25,235	**22,006**

As at 31 December 2012, there were established special pledges on inventories at the amount of BGN 91,199 thousand (31 December 2011: BGN 85,001 thousand) as collateral under bank loans received by the Group and issued bank guarantees (Notes 29, 34 and 40).

24. TRADE RECEIVABLES

Trade receivables include:	***31.12.2012***	***31.12.2011***
	BGN'000	***BGN'000***
Receivables from clients	*158,129*	*134,789*
Impairment of uncollectable receivables	*(3,345)*	*(3,296)*
Receivables from clients, net	154,784	131,493
Advances to suppliers	*5,816*	*5,315*
Impairment of advances	*(42)*	*(52)*
Advances granted, net	5,774	5,263
	160,558	**136,756**

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 within the range of 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:

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
up to 30 days	*38,510*	37,022
from 31 to 90 days	*47,308*	46,713
from 91 to 180 days	*23,154*	19,986
from 180 to 360 days	*3,401*	4,573
from 1 to 2 years	*891*	205
over 2 years	-	652
	113,264	**109,151**

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

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
from 31 to 90 days	*11,485*	5,459
from 91 to 180 days	*3,507*	1,513
from 180 to 365 days	*7,131*	4,148
from 1 to 2 years	*3,102*	2,830
over 2 years	*1,291*	1,333
	26,516	**15,283**

Past due but not impaired receivables are commonly subject to agreements already contracted 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:

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
from 31 to 90 days	*390*	216
from 91 to 180 days	*1,788*	1,013
from 180 to 365 days	*5,041*	1,711
over 1 years	*11,130*	7,415
allowance for impairment	*(3,345)*	(3,296)
	15,004	**7,059**

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 assessed a need only for a partial impairment of the above receivables.

As at 31 December 2012, there were established special pledges on trade receivables at the amount of BGN 32,562 thousand (31 December 2011: BGN 54,872 thousand) as collateral under bank loans received by the Group and issued bank guarantees (Notes 29, 34 and 40).

Movement of the allowance for impairment

	2012	***2011***
	BGN'000	***BGN'000***
Balance at the beginning of the year	**3,296**	**2,732**
Impairment amount	*274*	865
Amounts written-off as uncollectible	*(29)*	(113)
Reversed impairment	*(156)*	(180)
Transferred impairment of litigations	*(30)*	(8)
Effect of restatement	*(10)*	-
Balance at the end of the year	**3,345**	**3,296**

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

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
Goods	*3,368*	1,618
Raw materials and consumables	*1,932*	2,501
Services	*419*	1,123
Other	*97*	73
Allowance for impairment	*(42)*	(52)
	5,774	**5,263**

25. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:	***31.12.2012*** ***BGN'000***	***31.12.2011*** ***BGN'000***
Receivables from companies under a common indirect control through key managing personnel	39,981	36,088
Receivables from companies under a common indirect control	12,359	12,127
Receivables from main shareholding companies	8,531	14,898
	60,871	**63,113**

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

	31.12.2012 ***BGN'000***	***31.12.2011*** ***BGN'000***
Trade loans granted	56,553	62,040
Receivables on sales of finished products and materials	4,318	1,073
	60,871	**63,113**

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

	31.12.2012 ***BGN'000***	***31.12.2011*** ***BGN'000***
Companies under a common indirect control through key managing personnel	37,156	36,088
Companies under a common indirect control	10,866	11,091
Main shareholding companies	8,531	14,861
	56,553	**62,040**

The ***granted loans*** are as follows:

Currency	*Contracted amount*	*Maturity*	*Interest*	*31.12.2012*		*31.12.2011*	
	'000		*%*	*BGN '000*	*BGN '000 including interest*	*BGN '000*	*BGN '000 including interest*
to companies under a common indirect control through key managing personnel							
BGN	18,478	31.12.2013	8.30%	14,932	*324*	14,492	*662*
EUR	8,630	31.12.2013	4.50%	12,257	*62*	14,164	*82*
BGN	25,550	31.08.2013	8.08%	9,230	-	-	-
BGN	1,300	31.12.2013	8.08%	510	*9*	53	*3*
BGN	190	31.12.2013	8.08%	227	*37*	211	*21*
EUR	1,581	31.12.2012	5.50%	-	-	3,387	295
BGN	2,477	31.12.2012	8.08%	-	-	2,669	*288*
BGN	945	31.12.2012	8.08%	-	-	1,011	*211*
BGN	120	10.07.2012	8.08%		-	101	-
to main shareholding companies							
EUR	4,035	31.12.2013	4.80%	8,170	*278*	7,991	*99*
BGN	300	31.12.2012	8.08%	361	*61*	403	*103*
BGN	18,495	31.08.2012	8.08%	-	-	6,467	-
to companies under a common indirect control							
EUR	7,556	31.12.2013	4.50%	10,010	-	10,604	-
BGN	1,330	31.12.2013	8.08%	710	-	350	-
BGN	120	10.02.2012	8.08%	146	*26*	137	*17*
				56,553	**797**	**62,040**	**1,781**

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 - active ingredients).

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:

	31.12.2012	*31.12.2011*
	BGN'000	*BGN'000*
up to 30 days	506	564
from 31 to 90 days	373	103
from 91 to 180 days	2,824	1
	3,703	**668**

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

	31.12.2012	*31.12.2011*
	BGN'000	*BGN'000*
from 31 to 90 days	275	11
from 181 to 365 days	2	-
from 1 to 2 years	-	394
	277	**405**

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

	31.12.2012	*31.12.2011*
	BGN'000	*BGN'000*
Over 1 year	816	399
Allowance for impairment	(478)	(399)
	338	**-**

Movement of the allowance for impairment

	2012	*2011*
	BGN'000	*BGN'000*
Balance at 1 January	**399**	**343**
Impairment amount	79	56
Balance at 31 December	**478**	**399**

26. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments of the Group include:

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
Court and awarded receivables	*13,067*	*14,998*
Impairment of court receivables	*(2,736)*	*(496)*
Court and awarded receivables, net	10,331	14,502
Taxes refundable	7,824	5,657
Prepayments	1,519	1,930
Guarantees under litigations (Note 39)	846	-
Receivables on deposits placed as guarantees	664	508
Amounts granted to an investment intermediary	652	197
Loans granted to third parties	482	1,239
Other	203	299
	22,521	**24,332**

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

Taxes refundable include:	***31.12.2012***	***31.12.2011***
	BGN'000	***BGN'000***
Excise duties	3,878	2,856
VAT	2,309	2,346
Income tax	1,527	350
Withholding taxes	110	105
	7,824	**5,657**

Prepayments include:	***31.12.2012***	***31.12.2011***
	BGN'000	***BGN'000***
Insurance	587	620
Subscriptions	544	354
Advertising	148	189
Rentals	111	141
Licence and patent fees	23	190
Vouchers	8	203
Other	98	233
	1,519	**1,930**

The loans granted to third parties amounted to BGN 482 thousand (31 December 2011: BGN 1,239 thousand) and were granted to nine entities (2011: seven entities) – counterparts for working capital. The annual agreed interest on these loans for 2012 was between 6 % and 8.08 % (2011: 6 % and 12%).

27. CASH AND CASH EQUIVALENTS

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
Cash at current bank accounts	11,847	18,754
Short-term deposits	2,718	13,114
Cash in hand	1,129	292
Blocked funds	73	75
	15,767	**32,235**

The cash and cash equivalents of the Group are mainly denominated in BGN and in EUR (31 December 2011: BGN and EUR).

The average level of the annual interest on current accounts in BGN and foreign currency is within the range from 0.10% to 0.11% (2011: from 0.1% to 0.2%) and that on deposit accounts in BGN and foreign currency is within the range from 0.43 % to 5.5 % (2011: from 1.05 % too 6.5 %).

The blocked funds as at 31 December 2012 amounting to BGN 73 thousand (31 December 2011: BGN 75 thousand) represent mainly performance guarantees.

28. EQUITY

Share capital

As at 31 December 2012, 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 3,853,735 at the amount of BGN 13,594 thousand (31 December 2011: 2,934,163 at the amount of BGN 11,463 thousand), based on a decision of the General Meeting of Shareholders of 23 June 2010.

The ***statutory reserves*** amounting to BGN 25,934 thousand (31 December 2011: BGN 21,855 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 26,395 thousand (31 December 2011: BGN 26,662 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 1,048 thousand – a positive figure (31 December 2011: BGN 65 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 3,804 thousand – a negative figure (31 December 2011: BGN 3,455 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 the component “other reserves”, which contains the amounts distributed from profits of the Group companies generated in prior years, and the component “retained earnings”.

Basic earnings per share

	2012	***2011***
Weighted average number of shares	128,557,606	129,935,685
Net profit for the year (BGN’000)	35,196	38,404
Basic earnings per share (BGN)	**0.27**	**0.30**

29. LONG-TERM BANK LOANS

	Contracted loan amount	*Maturity*	*31.12.2012*			*31.12.2011*		
			Non-current portion	*Current portion*	*Total*	*Non-current portion*	*Current portion*	*Total*
	'000		*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Credit lines and working capital loans								
EUR	1,452	31.12.2017	2,188	614	2,802	-	-	-
EUR	500	07.04.2014	301	677	978	-	-	-
EUR	450	31.12.2017	690	191	881	-	-	-
EUR	300	28.06.2014	-	303	303	-	-	-
EUR	113	30.11.2015	130	74	204	-	-	-
EUR	12,000	31.01.2012	-	(Note 34)	-	-	22,583	22,583
EUR	530	28.02.2012	-	-	-	-	86	86
Investment-purpose loans								
EUR	32,000	15.04.2021	51,779	5,888	57,667	18,737	37	18,774
EUR	1,800	25.07.2014	542	960	1,502	2,480	960	3,440
EUR	1,617	30.01.2015	519	479	998	998	479	1,477
EUR	800	09.12.2015	695	348	1,043	1,043	348	1,391
EUR	1,675	30.06.2013	-	25	25	22	42	64
			56,844	**9,559**	**66,403**	**23,280**	**24,535**	**47,815**

The Group has gradually established a policy for annual re-negotiation of the terms and conditions of initially agreed long-term credit lines, including maturity terms. Starting from the date of re-negotiation, the extended credit lines are presented as short-term bank loans (Note 34).

The bank loans received in Euro are mainly agreed at interest rate based on EURIBOR plus a mark-up of 5 points (2011: EURIBOR plus a mark-up of 5.5 points).

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

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

- Real estate mortgages (Note 16);
- Special pledges on:
    - machinery and equipment (Note 16);
    - raw materials, consumables and finished products (Note 23);
    - trade receivables (Note 24).

30. DEFERRED TAX ASSETS AND LIABILITIES

The total change in ***deferred tax assets and liabilities*** of the Group for the respective financial year is as follows:

	2012 *BGN'000*	2011 *BGN'000*
Balance at 1 January	**(4,822)**	**(6,433)**
Acquired on purchase of a subsidiary	(70)	(358)
Recognised in the profit or loss for the year	1,322	2,070
Recognised in other comprehensive income	6	(356)
Recognised in the equity statement and the current tax returns	33	31
Derecognised on disposal of a subsidiary	299	-
Reserve from translation into presentation currency	(23)	224
Balance at 31 December	**(3,255)**	**(4,822)**

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 have not been recognised for the following temporary differences:

	31.12.2012 ***BGN'000*** *temporary difference*	***31.12.2012*** ***BGN'000*** *tax*	***31.12.2011*** ***BGN'000*** *temporary difference*	***31.12.2011*** ***BGN'000*** *tax*
Tax loss carried forward	10,575	1,957	12,874	2,262
Impairment of assets	13,361	1,856	13,041	1,381
Other	374	37	280	28
	24,310	**3,850**	**26,195**	**3,671**

The change in the balance of ***deferred tax assets*** for 2012 by item of temporary differences is as follows:

Deferred tax assets (by temporary differences)	*Balance at 1 January 2012*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Reserve from restatement into presentation currency*	*Balance at 31 December 2012*
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Inventories	2,771	-	642	-	-	(54)	3,359
Trade receivables	725	-	207	-	-	-	932
Retirement benefit obligations	465	-	70	-	-	(43)	492
Intangible assets	117	-	61	-	-	22	200
Available-for-sale investments	98	53	48	-	-	-	199
Other current liabilities	69	-	-	-	(2)	-	67
	4,245	**53**	**1,028**	**-**	**(2)**	**(75)**	**5,249**

The change in the balance of ***deferred tax liabilities*** for 2012 by item of temporary differences is as follows:

Deferred tax (liabilities) (by temporary differences)	*Balance at 1 January 2012*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Reserve from restatement into presentation currency*	*Balance at 31 December 2012*
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Property, plant and equipments	(8,129)	-	129	(2)	301	51	(7,650)
Intangible assets on business combinations	(938)	(123)	165	8	-	34	(854)
	(9,067)	**(123)**	**294**	**6**	**301**	**85**	**(8,504)**

The change in the balance of ***deferred tax assets*** for 2011 by item of temporary differences is as follows:

Deferred tax assets (by temporary differences)	*Balance at 1 January 2011*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Reserve from restatement into presentation currency*	*Balance at 31 December 2011*
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Inventories	1,322	-	1,428	-	-	21	2,771
Trade receivables	607	-	118	-	-	-	725
Retirement benefit obligations	423	-	62	-	-	(20)	465
Intangible assets	230	-	(99)	-	-	(14)	117
Available-for-sale investments	100	-	(1)	-	-	(1)	98
Other current liabilities	55	-	14	-	-	-	69
	2,737	**-**	**1,522**	**-**	**-**	**14**	**4,245**

The change in the balance of ***deferred tax liabilities*** for 2011 by item of temporary differences is as follows:

Deferred tax (liabilities) (by temporary differences)	*Balance at 1 January 2011*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Reserve from restatement into presentation currency*	*Balance at 31 December 2011*
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Property, plant and equipments	(8,380)	(54)	526	(356)	-	135	(8,129)
Intangible assets on business combinations	(790)	(304)	22	-	-	134	(938)
	(9,170)	**(358)**	**548**	**(356)**	**-**	**269**	**(9,067)**

31. 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.

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
Present value of the obligations at 1 January	*2,426*	*2,801*
Unrecognised actuarial loss at 1 January	*(37)*	*(191)*
Liability recognised in the consolidated statement of financial position at 1 January	**2,389**	**2,610**
Expense recognised in the consolidated statement of comprehensive income for the period (Note 7)	387	219
Payments for the year	(435)	(440)
Effect of restatement of the financial statements of subsidiaries abroad	(10)	-
Liability recognised in the consolidated statement of financial position at 31 December	**2,331**	**2,389**
Present value of the obligations at 31 December	*2,614*	*2,426*
Unrecognised actuarial loss at 31 December	*(283)*	*(37)*

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

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
Present value of the obligations at 1 January	**2,426**	**2,801**
Interest expense for the period	118	132
Current service costs for the year	259	154
Payments for the year	(435)	(440)
Effect of restatement of the financial statements of subsidiaries abroad	(10)	-
Actuarial loss/(gain) for the year	256	(221)
Present value of the obligation at 31 December	**2,614**	**2,426**

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

	2012	***2011***
	BGN'000	***BGN'000***
Current service costs	259	154
Interest expense	118	132
Net actuarial loss/(gain) recognised for the year	10	(67)
	387	**219**

The following actuarial assumptions were used in calculating the present value of the liabilities for the companies in Bulgaria as at 31 December 2012:

- The discount factor is calculated by using 4.5 % annual interest rate as basis (2011: 5.7 %). 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 (2011: 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 2009 - 2011 (2011: 2008 - 2010);
- Staff turnover rate – from 0 % to 16 % for the five age groups formed (2011: from 0% to 16%).

The management of the parent company is still in a process of research, calculation and assessment of the effects of the changes in *IAS 19 (amended) "Employee Benefits" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC)* together with the actuaries whose professional services it uses with regard to the application of IAS 19. The management has concluded that this amendment will affect Group's accounting policies and the value and classification of its liabilities and performance with regard to the recognising of subsequent remeasurements directly in other comprehensive income (equity component) and not in the consolidated income statement as well as prior period restatements for such subsequent remeasurements reported through the consolidated income statement. The specific calculation of the amounts of the effects by individual components affected by the eventual retrospective restatement as at 1 January 2012 are related with certain practical actions for collection of information from prior reporting periods, which are in a process of performance.

32. 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:

Term	***31.12.2012***	***31.12.2011***
	BGN'000	***BGN'000***
Up to one year (Note 39)	1,011	610
Over one year	2,509	1,534
	3,520	**2,144**

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

Term	***31.12.2012*** ***BGN'000***	***31.12.2011*** ***BGN'000***
Up to one year	1,512	796
From one to three years	3,583	1,836
	5,095	2,632
Future finance costs under finance leases	(1,575)	(488)
	3,520	**2,144**

The lease payments due within the next 12 months are presented in the consolidated statement of financial position as ‘other current liabilities’ (Note 39).

33. OTHER NON-CURRENT LIABILITIES

The non-current liabilities as at 31 December 2012 include:

	31.12.2012 ***BGN'000***	***31.12.2011*** ***BGN'000***
Government grants (financing) on concluded agreements for gratuitous financial aid under European programs	2,567	1,330
Obligation for purchase of available-for-sale investments	45	38
	2,612	**1,368**

The current portion of the grants at the amount of BGN 463 (31 December 2011: BGN 346 thousand) will be recognised as current income over the 12 months following the date of the consolidated statements of financial position and is presented under 'Other current liabilities' (Note 39).

34. SHORT-TERM BANK LOANS

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

Currency	*Contracted amount '000*	*Падеж*	*31.12.2012 BGN'000*	*31.12.2011 BGN'000*
Bank loans (overdrafts)				
EUR	20,000	31.05.2013	39,091	39,095
EUR	12,500	17.02.2013	24,384	15,127
EUR	10,000	31.01.2013	19,558	19,558
BGN	10,000	31.01.2013	10,003	10,003
EUR	5,000	01.05.2013	9,785	23,595
USD	4,000	01.05.2013	5,936	6,027
EUR	3,000	25.04.2013	5,859	-
EUR	1,968	01.05.2013	3,632	3,508
EUR	4,000	31.05.2013	3,359	-
EUR	3,000	28.09.2013	2,858	5,864
EUR	2,050	31.07.2013	2,252	108
BGN	500	20.09.2013	285	100
EUR	5,000	30.11.2012	-	8,789
UAH	7,000	07.06.2012	-	1,329
RUB	3,000	15.07.2012	-	145
			127,002	**133,248**
Credit lines				
BGN	23,470	31.01.2013	19,772	See Note 29.
EUR	8,434	31.01.2013	15,909	15,983
BGN	18,000	31.07.2013	15,028	286
EUR	5,000	31.08.2013	9,772	9,774
EUR	3,000	25.08.2013	5,863	5,863
EUR	2,500	20.11.2013	4,851	-
EUR	2,500	06.09.2013	3,865	2,405
EUR	2,500	31.08.2013	1,803	2,192
EUR	66	31.01.2013	129	129
			76,992	**36,632**
Total			**203,994**	**169,880**

The bank loans obtained in Euro are contracted at interest rate determined on the basis of EURIBOR plus a mark-up of up to 4.09 points, loans in BGN – monthly SOFIBOR plus a mark-up of up to 3.75 points and in USD – LIBOR plus a mark-up of up to 3.85 (2011: EURIBOR plus a mark-up of up to 4.5 points, loans in BGN – monthly SOFIBOR plus a mark-up of 2 points and in RUB – fixed interest rate of 16%). Loans are intended for providing working capital.

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

- machinery and equipment (Note 16);
- raw materials, consumables and finished products (Note 23);
- trade receivables (Note 24).

35. TRADE PAYABLES

Trade payables include:	***31.12.2012 BGN'000***	***31.12.2011 BGN'000***
Payables to suppliers	53,760	62,109
Advances from clients	1,482	3,427
	55,242	**65,536**

The ***payables to suppliers*** refer to:	***31.12.2012 BGN'000***	***31.12.2011 BGN'000***
Suppliers outside Bulgaria	38,988	32,656
Suppliers from Bulgaria	14,772	29,544
	53,760	**62,109**

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 up to 180 days.

The payables to suppliers are denominated as follows:

- in EUR – BGN 32,907 thousand (31 December 2011: BGN 27,302 thousand);
- in BGN: BGN 14,499 thousand (31 December 2011: BGN 27,184 thousand);
- in USD: BGN 1,467 thousand (31 December 2011: BGN 3,580 thousand);
- in other foreign currency: BGN 4,887 thousand (31 December 2011: BGN 4,043 thousand).

36. PAYABLES TO RELATED PARTIES

The ***payables to related parties*** refer to:

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
Payables to companies under a common indirect control through key managing personnel	1,237	-
Payables to companies under a common control	250	1,650
Payables to main shareholding companies	19	1,540
Payables to other related parties	18	170
	1,560	**3,360**

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

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
Payables for supplies of goods and materials	1,501	930
Payables for supplies of services	39	2,377
Other	20	53
	1,560	**3,360**

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

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security include:

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
Payables to personnel, including:	5,366	4,339
current wages and salaries	*2,478*	*2,477*
accruals on unused compensated leaves	*1,261*	*1,051*
tantieme	*1,627*	*811*
Payables for social security/health insurance, including:	1,258	1,148
current payables for social security/health insurance contributions	*1,071*	*984*
accruals on unused compensated leaves	*187*	*164*
	6,624	**5,487**

38. TAX PAYABLES

Tax payables include:

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
VAT	1,603	2,183
Income tax	397	322
Individual income taxes payable	367	419
Withholding taxes	14	100
Other	27	22
	2,408	**3,046**

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	31.12.2010	30.11.2011	31.10.2008
Sopharma Trading AD	31.12.2011	31.12.2011	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	29.02.2008
Momina Krepost AD	31.12.2005	31.10.2006	31.10.2006
Pharmalogistica AD	31.12.2005	31.03.2007	none
Sopharma Buildings ADSIC	none	30.09.2012	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none
Unipharm AD	31.12.2005	30.04.2006	31.03.2007
Ivanchich and Sinovi OOD	31.08.2011	31.08.2011	31.08.2011
Vitamina AD	30.06.2010	14.09.2011	31.03.2012
Sopharma Zdrovit AD – in liquidation	30.09.2011	30.09.2011	30.09.2011
Briz OOD	20.07.2007	19.08.2010	31.12.2012
Brititrade SOOO	31.12.2011	31.12.2011	31.12.2011
Tabina OOO	30.09.2010	30.09.2010	30.09.2006
ZAO Interpharm	31.10.2007	31.10.2007	30.06.2006
Vivaton Plus OOO	29.02.2012	29.02.2012	29.02.2012

The companies Sopharma Poland OOD – in liquidation – Poland Sopharma Warsaw EOOD – Poland, Sopharma Ukraine OOD – Ukraine, Extab Corporation USA, Extab Pharma Limited – United Kingdom and Phyto Palauzovo AD - Bulgaria 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 a 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.

39. OTHER CURRENT LIABILITIES

Other current liabilities include:	***31.12.2012 BGN'000***	***31.12.2011 BGN'000***
Awarded amounts under litigations	1,339	602
Finance lease liabilities (Note 32)	1,011	610
Liabilities under sold rights from shares issue	882	884
Dividends payable	539	952
Government grants (Note 33)	463	346
Deductions from work salaries	219	245
Other	137	195
	4,590	**3,830**

40. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

Sopharma AD

In 2011, Sopharma AD 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 its part, the client filed a counter-claim for the amount of EUR 2,426 thousand (BGN 4,745 thousand) for damages caused by unjustifiable termination of a distribution contract by Sopharma AD. By ruling of the Court of Arbitration in Paris dated 23 October 2012, the claim of Sopharma AD was satisfied and the counter-claim was rejected.

In 2013 the Court of Arbitration in Paris will try the complementary claim of Sopharma AD for compensation on loss of business suffered as a result of damage on the image of the Company for the amount of EUR 1,770 thousand. The Court ruling on the arbitration costs is also pending.

Bulgarian Rose Sevtopolis AD

According to a ruling of the Appellate Court in Sofia (ACS) as an instance for appeal the Company was ordered to pay liabilities to a foreign supplier. The principal, interest and expenditures at the amount of USD 713 thousand (BGN 1,058 thousand), including the initial payable under the supply, are recognised in full in the statement of financial position of the Group. In 2012, additional expenses on interest, penalties and litigation expenditures at the total amount of BGN 481 thousand were charged. As at 31 December 2011 the litigation was not finalised. The Group recognised litigation provision at the amount of BGN 102 thousand in this regard.

At the date of issue of these consolidated financial statements, cassation appeals were lodged to the Supreme Court of Cassation (SCC) and a guarantee at the amount of BGN 577 thousand (USD 389 thousand) was paid to the SCC account without the interest and expenditures for stopping the execution of the ACS ruling. By an order of 11 January 2013 the SCC ruled that the implementation of the appellate ruling of ACS of 8 November 2012 shall be stopped.

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 notice, dated 23 June 2011, the tax authorities assessed tax liabilities to the state budget at the amount of BGN 288 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.

By Decision No 394/19.02.2012 the Administrative Court in Bulgas rejected the additional liabilities assessed to the company. The decision has not been appealed by the regulatory bodies and has been accepted as final in favour of the company.

PAO Vitamini

The company is subject to two administrative legal proceedings, started after 1 January 2013, and are related to an appeal of administrative acts – customs rules from 2012 regarding import of pharmaceutical products on Ukrainian territory. They are related to customs sanctions imposed for a total of UAH 3,411 thousand (BGN 622 thousand).

The management of the group considers that these amounts are not payable and the appeal of the customs rules would be successful and the court cases would be concluded in PAO Vitamini, Ukraine's favor. Therefore, in the consolidated financial statements no provision is recognized in regards to the court cases in progress.

Issued and granted guarantees

Sopharma AD

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

	Maturity	Currency	Amount in original currency		Status of the debt 31.12.2012
				BGN'000	BGN'000
Sopharma Properties ADSIC	29.12.2020	EUR	30,000	58,675	54,763
Energoinvestment AD	28.08.2013	BGN	2,000	2,000	518
Mineralcommerce AD	20.09.2017	EUR	100	196	186
Mineralcommerce AD	19.12.2013	EUR	25	49	43
				60,920	**55,510**

The company has provided inventories at the amount of BGN 2,583 thousand in favour of a bank as collateral under a bank loan received by a subsidiary.

Bank guarantees

Sopharma Trading AD

The bank guarantees issued for the company amount to BGN 7,382 thousand (31 December 2011: BGN 7,277 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:

	31.12.2012	**31.12.2011**
	BGN'000	***BGN'000***
SG Expressbank AD	3,746	3,637
BNP Paribas – Bulgaria Branch	1,019	2,442
Raiffeisenbank (Bulgaria) EAD	2,617	-
Alpha Bank - Bulgaria Branch	-	1,043
UniCredit Bulbank	-	155
	7,382	**7,277**

The collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 8,801 thousand (31 December 2011: BGN 8,801 thousand) (Note 23).
- Special pledge on TFA (motor vehicles) with a carrying amount of BGN 487 thousand (31 December 2011: BGN 1,001 thousand) (Note 16).
- As at 31 December 2011 - special pledge on receivables from clients at the amount of BGN 3,912 thousand (Note 24).

- As at 31 December 2011 – pledge on ordinary dematerialised securities within the meaning of the Public Offering of Securities Act (shares issued by Sopharma AD, Bulgarian Rose Sevtopolis AD, Unipharm AD, Momina Krepost AD) at the amount of BGN 2,087 thousand.

Unipharm AD

Bank guarantees at the amount of BGN 29 thousand were issued as at 31 December 2012 within the limits of loan agreements stating collateral as follows:

- Pledge on inventories at the amount of EUR 50 thousand (BGN 98 thousand);
- Promissory Note for the amount of EUR 59 thousand (BGN 115 thousand) together with the annual interest at the rate of 6%.

The following collateral has been provided under an agreement for the issue of multiple bank guarantees of 23 February 2012:

- Pledge on current and future movables (materials, finished products, goods) with carrying amount of BGN 200 thousand;
- Pledge on receivables under current and future current accounts opened in DSK Bank EAD.

Assets held under safe custody

Sopharma Trading AD

According to concluded pre-distribution contracts, the company has received goods for safe custody amounting to BGN 449 thousand as at 31 December 2012 (31 December 2011: BGN 965 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 deadline for implementation of the information system is the first half of 2013.

In 2011, the Company assumed a self-participation commitment at the amount of BGN 3,997 thousand under a contract for gratuitous financial aid under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 - 2013. The execution of the contract is related with acquisition of machinery and equipment. At the date of preparation of the consolidated financial statements, the company has purchased the machinery and equipment subject of the financing at the amount of BGN 7,574 thousand and filed a request for refund of BGN 3,787 thousand to the contracting authority of the Operational Programme – Directorate-General European Funds for Competitiveness at the Ministry of Economy, Energy and Tourism.

Unipharm AD

The company is beneficiary under two agreements for gratuitous financial aid with the Bulgarian Small and Medium Enterprises Promotion Agency and the National Innovation Fund . The commitments of the company under these agreements are for a period of five years.

According to the clauses of the agreements, the tangible fixed and intangible assets acquired using funds under the projects should remain within the assets of the beneficiary and in the region of the recipient (the territory of the Republic of Bulgaria) for a term of minimum five years after the total investment project is executed. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the consolidated financial statements, all contractual requirements were being fulfilled.

Under the project "Modernisation and Development of Unipharm AD", concluded with the Bulgarian Small and Medium Enterprises Promotion Agency, the term of the engagement started in November 2011 while under the project "Development of a New Haemodialysis Solution and Proving its Therapeutic Effect" to the National Innovation Fund the term of the engagement started in 2010.

As at 31 December 2012, the funding obligation related with the project "Modernisation and Development of Unipharm AD" amounts to BGN 1,866 thousand (2011: BGN 2,168 thousand) while that for the project "Development of a New Haemodialysis Solution and prove its Therapeutic Effect" – BGN 184 thousand (2011: BGN 242 thousand) (Notes 33 and 39).

Bulgarian Rose Sevtopolis AD

The company undertook an engagement under a contract for granting gratuitous financial aid, concluded with the Bulgarian Small and Medium Enterprises Promotion Agency at the Ministry of Economy and Energy under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 in relation with a project for technological renovation and modernisation of tablets production. The term of the contract is 5 years.

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 (Notes 33 and 39). At the date of preparation of the consolidated financial statements, all contractual requirements were being fulfilled.

Biopharm Engineering AD

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 as of 11

November 2011 and is related with financing the purchase of property, plant and equipment. At the date of these consolidated financial statements no amounts have been drawn under this project.

Operating lease liabilities

Sopharma Trading AD

The significant revocable contracts as at 31 December for the assets obtained under operating lease are as follows:

31 December 2012	***31 December 2011***
Lease contract for real estate (SFBT): contract term: until 1 September 2021 annual lease payment: BGN 682 thousand	Lease contract for real estate (SFBT): contract term: until 15 November 2016 annual lease payment: BGN 682 thousand
Lease contract for real estate: • contract term: until 1 November 2016 annual lease payment: BGN 68 thousand	Lease contract for real estate: • contract term: until 1 November 2016 annual lease payment: BGN 68 thousand
Other lease contracts for: • machinery and equipment - 2 with total annual lease payment of BGN 40 thousand	Other lease contracts for: • machinery and equipment - 2 with total annual lease payment of BGN 40 thousand

The future minimum rental payments due under all operating lease contracts are as follows:

	31.12.2012	***31.12.2011***
	BGN'000	***BGN'000***
Up to 1 year	790	790
From 1 to 3 years	1,500	1,500
From 3 to 5 years	1,426	1,500
Over 5 years	2 614	-
	6,330	**3,790**

Other

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

41. SEGMENT REPORTING

The segment reporting in the Group is organised on the basis of two basic business segments – 'production of pharmaceutical products' and 'distribution of pharmaceutical products (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:

	Production of pharmaceutical products		*Distribution of pharmaceutical products (goods)*		*Other*		*Elimination*		*Consolidated*	
	2012	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
External sales	*123,488*	*130,758*	*550,587*	*502,696*	*14,504*	*11,277*	*-*	*-*	*688,579*	*644,731*
Intersegmental sales	*113,969*	*109,014*	*67*	*-*	*223*	*314*	*(114,259)*	*(109,328)*	*-*	*-*
Total revenue	**237,457**	**239,772**	**550,654**	**502,696**	**14,727**	**11,591**	**(114,259)**	**(109,328)**	**688,579**	**644,731**
Segment result (margin)	**114,592**	**118,603**	**52,603**	**40,408**	**4,493**	**3,418**	**(22,693)**	**(9,646)**	**148,995**	**152,783**
Non-allocated operating income									2,328	1,775
Non-allocated operating expenses									(105,855)	(108,533)
Profit from operations									**45,468**	**46,025**
Finance (costs)/income, net									(3,298)	(4,700)
Losses on disposal of subsidiaries									(37)	-
Losses from associates, net									(56)	(406)
Gain on net monetary position from restatement for hyperinflation									823	4,126
Profit before income tax									**42,900**	**45,045**
Income tax expense									(4,934)	(4,620)
Net profit for the year before statutory dividend for distribution									**37,966**	**40,425**
Statutory dividend for distribution									(6)	(89)
Net profit for the year									**37,960**	**40,336**
Attributable to equity holders of the parent									35,196	38,404
Non-controlling interest									2,764	1,932

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

Assets by business segment	***Production of pharmaceutical products***		***Distribution of pharmaceutical products (goods)***		***Other***		***Total***	
	2012	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Property, plant and equipment	92,309	83,298	39,848	38,855	8,115	7,844	140,272	129,997
Inventories	71,487	70,072	58,028	54,571	1,435	1,383	130,950	126,026
Receivables from related parties	57,915	62,065	3,653	382	-	-	61,568	62,447
Trade receivables	26,231	36,956	126,462	93,714	7,814	6,194	160,507	136,864
Segment assets	**247,942**	**252,391**	**227,991**	**187,522**	**17,364**	**15,421**	**493,297**	**455,334**
Non-allocated assets							252,121	221,254
Total assets							**745,148**	**676,588**

Liabilities by business segment	***Production of pharmaceutical products***		***Distribution of pharmaceutical products (goods)***		***Other***		***Total***	
	2012	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Payables to personnel and for social security	1,601	1,059	1,348	1,259	218	233	3,167	2,551
Trade payables	11,178	21,127	43,336	43,375	636	970	55,150	65,472
Payables to related parties	29	2,192	1,525	1,353	-	-	1,554	3,545
Segment liabilities	**12,808**	**24,378**	**46,209**	**45,987**	**854**	**1,203**	**59,871**	**71,568**
Non-allocated liabilities							294,194	239,200
Total liabilities							**354,065**	**310,776**

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

	Production of pharmaceutical products		***Distribution of pharmaceutical products (goods)***		***Other***		***Total***	
	2012	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Capital expenditures	61,157	31,431	5,002	2,548	63	629	66,222	34,608
Depreciation/amortisation	9,016	8,084	2,434	2,221	420	198	11,870	10,503
Non-monetary expenses, other than depreciation and amortisation	818	1,348	1,108	1,464	-	-	1,926	2,812

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

	Bulgaria		*Europe*		*Other countries*		*Total*	
	2012	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Sales of finished products	85,702	88,960	160,765	141,167	19,795	17,408	266,262	247,535
Sales of goods	387,722	371,765	34,595	25,431	-	-	422,317	397,196
	473,424	**460,725**	**195,360**	**166,598**	**19,795**	**17,408**	**688,579**	**644,731**

The carrying amount as at 31 December 2012 of Group's non-current assets other than financial instruments, *distributed by geographic area*, is as follows:

	Bulgaria		*Europe*		*Other countries*		*Total*	
	2012	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Property, plant and equipment	268,031	217,561	23,730	18,489	313	288	292,074	236,338
Intangible assets	16,068	17,251	10,312	10,642	-	86	26,380	27,979
Investment property	5,905	5,355	1,205	1,200	-	-	7,110	6,555
	290,004	**240,167**	**35,247**	**30,331**	**313**	**374**	**325,564**	**270,872**

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

	2012	***%***	***2011***	***%***	***business segment***
	BGN'000		***BGN'000***		
Client 1	69,868	10%	77,968	12%	Production of pharmaceutical products
Client 2	79,299	12%	68,072	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.

42. 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:

Financial assets	***31.12.2012***	***31.12.2011***
	BGN '000	***BGN '000***
	269,170	**264,673**
Loans and receivables, including:	**245,745**	**244,701**
Receivables and loans (Notes 21, 22, 24, 25 and 26)	*229,978*	*212,466*
Cash and cash equivalents (Note 27)	*15,767*	*32,235*
Available-for-sale financial assets	**23,425**	**19,972**
Available-for-sale investments *(Note 20)*	23,425	19,972

Financial liabilities	***31.12.2012***	***31.12.2011***
	BGN '000	***BGN '000***
Financial liabilities at amortised cost	**331,225**	**287,909**
Short-term and long-term bank loans (Notes 29 and 34)	*270,397*	*217,695*
Other loans and liabilities (Notes 32, 33, 35, 36 and 39)	*60,828*	*70,214*

Currency risk

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

The Group through the parent company supplies part of its basic raw materials consumables 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 (BRUB).

As at 31 December 2012, 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 more of Group companies' operations is 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. The exposures of almost all subsidiaries in Bulgaria to the currency risk are insignificant because most of the 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. 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 2012 it expanded its net exposure to currency risk towards USD compared to prior period.

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

31 December 2012	*in BGN*	*in EUR*	*in BRUB*	*in USD*	*in other currency*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	19,021	-	3	-	4,401	23,425
Loans and receivables, including:	170,745	61,984	2,110	1,242	9,664	245,745
Receivables and loans	*160,323*	*59,288*	*1,861*	-	*8,506*	229,978
Cash and cash equivalents	*10,422*	*2,696*	*249*	*1,242*	*1,158*	15,767
Total financial assets	**189,766**	**61,984**	**2,113**	**1,242**	**14,065**	**269,170**
Short-term and long-term bank loans	83,915	180,546	-	5,936	-	270,397
Other loans and liabilities	17,533	32,795	3,423	2,213	4,864	60,828
Total financial liabilities	**101,448**	**213,341**	**3,423**	**8,149**	**4,864**	**331,225**

31 December 2011	*in BGN*	*in EUR*	*in BRUB*	*in USD*	*in other currency*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	17,160	-	-	-	2,812	19,972
Loans and receivables, including:	149,384	82,117	1,683	2,011	9,506	244,701
Receivables and loans	*131,193*	*70,783*	*1419*	*993*	*8,078*	*212,466*
Cash and cash equivalents	*18,191*	*11,334*	*264*	*1,018*	*1,428*	*32,235*
Total financial assets	**166,544**	**82,117**	**1,683**	**2,011**	**12,318**	**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	1,193	4,353	3,605	70,214
Total financial liabilities	**42,141**	**229,116**	**1,193**	**10,380**	**5,079**	**287,909**

Foreign currency sensitivity analysis

The foreign currency sensitivity of the Group exposures is mainly related the US Dollar (USD) and the Belarus Ruble (BRUB) as a currency in hyperinflationary economy. The foreign currency risk of the Group is limited with regard to the other foreign currencies in which certain Group companies operate – Latvian Lat, Ukrainian Grivna, Serbian Dinar and Polish Zloty – because the exposures in these companies are relatively small and are more easily regulated by the managing bodies of the respective subsidiaries. The effect of foreign currency sensitivity to 10 % increase/decrease in current exchange rates of BGN to US Dollar, Belarus Ruble and in general 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	
		2012	2011
		BGN ‘000	BGN ‘000
Financial result	+	(622)	(753)
Accumulated profits	+	(622)	(753)
Financial result	-	622	753
Accumulated profits	-	622	753

Foreign currency sensitivity analysis		BRUB	
		2012	2011
		BGN '000	BGN '000
Financial result	+	(118)	44
Accumulated profits	+	(118)	44
Financial result	-	118	(44)
Accumulated profits	-	118	(44)

On 10% increase in the exchange rate of USD to BGN, the ultimate impact on Group’s (post-tax) profit for 2012 would be a decrease by BGN 622 thousand (-1.7%) and for 2011 – a decrease by BGN 753 thousand (-2.0%). 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.

On 10% increase in the exchange rate of BRUB to BGN, the ultimate impact on Group’s (post-tax) profit for 2012 would be a decrease by BGN 118 thousand (-0.33%) and for 2011 – an increase by BGN 44 thousand (0.1%). 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 rates of USD and BRUB 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 US Dollar, Belarus Ruble and Latvian Lat) on 10% increase in their exchange rates to BGN on Group’s (post-tax) profit is in increase by BGN 721 thousand (for 2011: increase by BGN 715 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 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, affecting the prices of pharmaceuticals.

For the purpose of mitigating this influence, the management of the Group applies a strategy aimed at optimisation of production costs, validation of alternative suppliers that offer beneficial commercial conditions, expanding product range by means of new generic products development and last but not least, adoption of a flexible marketing and price policy. Price policy is a function of three main factors – structure of expenses, prices of competitors and purchasing capacity of customers.

The Group is exposed to a significant price risk also with regard to the shares held thereby, classified as 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.

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 consolidated 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 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 48 % of Group's trade receivables (31 December 2011: 40%). 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 cased 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 Directors 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 management of the Group currently monitors and regulates the concentration of receivables by client and counterpart.

As at 31 December 2012, the Group has no concentration in trade receivables from a single counterpart that exceeds 10% of the total amount of trade receivables as presented in the consolidated statement of financial position. The concentration of the first five clients with regard to trade receivables of the Group is as follows:

	31.12.2012	*% credit exposure against the total amount of trade receivables*	*31.12.2011*	*% credit exposure against the total amount of trade receivables*
	BGN'000		***BGN'000***	
Client 1	11,935	7%	7,144	5%
Client 2	11,870	7%	19,390	14%
Client 3	9,589	6%	7,005	5%
Client 4	6,129	4%	5,252	4%
Client 5	5,144	3%	4,229	3%

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. The existing open positions in Belarusian Rubles (BRUB) and the hyperinflation in this market in 2011 and 2012 represented an additional source of liquidity risk. In order to isolate any possible general liquidity risk, the Group implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is supplemented by current monitoring of the maturities of assets and liabilities, control over cash outflows and ensuring their current balancing with inflows, including renegotiation of maturities and optimisation of debt structure, increase and internal restructuring of self-generated funds and their investment.

Maturity analysis

The table below presents the financial non-derivative 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.

31 December 2012	*up to 1 month BGN '000*	*from 1 to 3 months BGN '000*	*from 3 to 6 months BGN '000*	*from 6 to 12 months BGN '000*	*from 1 to 2 years BGN '000*	*from 2 to 5 years BGN '000*	*over 5 years BGN '000*	*Total BGN '000*
Available-for-sale financial assets	-	-	2,734	-	20,691	-	-	**23,425**
Loans and receivables, including:	94,831	40,187	31,202	73,662	6,387	3,833	911	**251,013**
Receivables and loans	*81,188*	*38,050*	*31,202*	*73,662*	*6,387*	*3,833*	*911*	**235,233**
Cash and cash equivalents	*13,643*	*2,137*	-	-	-	-	-	**15,780**
Total assets	**94,831**	**40,187**	**33,936**	**73,662**	**27,078**	**3,833**	**911**	**274,438**
Short-term and long-term bank loans	66,397	26,273	77,549	47,762	12,387	29,062	24,064	**283,494**
Other loans and liabilities	29,213	23,900	3,194	2,295	814	2,987	-	**62,403**
Total liabilities	**95,610**	**50,173**	**80,743**	**50,057**	**13,201**	**32,049**	**24,064**	**345,897**

31 December 2011	*up to 1 month BGN '000*	*from 1 to 3 months BGN '000*	*from 3 to 6 months BGN '000*	*from 6 to 12 months BGN '000*	*from 1 to 2 years BGN '000*	*from 2 to 5 years BGN '000*	*over 5 years BGN '000*	*Total BGN '000*
Available-for-sale financial assets	-	-	-	-	17,102	2,870	-	**19,972**
Loans and receivables, including:	92,900	48,346	29,008	71,862	3,977	2,464	671	**249,228**
Receivables and loans	*62,264*	*46,740*	*29,008*	*71,862*	*3,977*	*2,464*	*671*	**216,986**
Cash and cash equivalents	*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**

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 favorable 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.

Interest analysis 31 December 2012	*interest-free*	*with floating interest %*	*with fixed interest %*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	23,425	-	-	23,425
Loans and receivables, including:	150,359	11,548	83,838	245,745
Receivables and loans	*148,841*	-	*81,137*	229,978
Cash and cash equivalents	*1,518*	*11,548*	*2,701*	15,767
Total financial assets	**173,784**	**11,548**	**83,838**	**269,170**
Short-term and long-term bank loans	334	269,760	303	270,397
Other loans and liabilities	57,311	3,517	-	60,828
Total financial liabilities	**57,645**	**273,277**	**303**	**331,225**

Interest analysis 31 December 2011	*interest-free*	*with floating interest %*	*with fixed interest %*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	19,972	-	-	19,972
Loans and receivables, including:	148,539	12,982	83,180	244,701
Receivables and loans	*142,309*	-	*70,157*	*212,466*
Cash and cash equivalents	*6,230*	*12,982*	*13,023*	*32,235*
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**

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.

2012	***Increase / decrease in interest rate***	***Impact on post-tax financial result – profit/(loss)***	***Impact on equity - increase/(decrease)***
EUR	increase	(992)	(992)
BGN	increase	(203)	(203)
USD	increase	(27)	(27)
EUR	decrease	992	992
BGN	decrease	203	203
USD	decrease	27	27

2011	***Increase / decrease in interest rate***	***Impact on post-tax financial result – profit/(loss)***	***Impact on equity - increase/(decrease)***
EUR	increase	(949)	(949)
USD	increase	(26)	(26)
BGN	increase	46	46
EUR	decrease	949	949
USD	decrease	26	26
BGN	decrease	(46)	(46)

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 consolidated statement of financial position 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 2012, the strategy of the parent company management was to maintain the ratio within 35 - 45 % at a Group level (2011: 30-35 %). The table below shows the gearing ratios based on capital structure as at 31 December:

	2012 BGN'000	*2011 BGN'000*
Total borrowings, including:	**273,917**	**219,840**
Bank loans	270,397	*217,695*
Loans and finance lease liabilities	3,520	*2,145*
Less: Cash and cash equivalents	**(15,767)**	**(32,235)**
Net debt	**258,150**	**187,605**
Total equity of the Group	**345,879**	**319,999**
Total capital of the Group	**604,029**	**507,604**
Gearing ratio	**0.43**	**0.37**

The liabilities shown in the table are disclosed in Notes 29, 32, 34 and 39.

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 in 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 consolidated 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 minority 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.

43. ACQUISITIONS AND INCREASES OF INTEREST IN SUBSIDIARIES

43.1. Acquisition of subsidiaries

In 2012, the Group acquired the following subsidiaries:

	date of acquisition	**% interest**	**acquired net assets at fair value**
			BGN '000
Brizpharm SOOO, Belarus	20.12.2012	26.01%	(4)
Sopharma Ukraine EOOD, Ukraine	04.08.2012	100.00%	198
Phyto Palauzovo AD	21.09.2012	50.13%	95

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

Brizpharm SOOO, Belarus, was acquired through the purchase of 51% of the capital by the subsidiary Briz OOD, Latvia.

Phyto Palauzovo AD was established by Bulgarian Rose Sevtopolis AD with interest of 95% in the capital of the company amounting to BGN 95 thousand.

Sopharma Ukraine EOOD, Ukraine, was established by Sopharma AD through a contribution in-kind of non-current assets at the amount of BGN 198 thousand.

In 2011, the Group acquired the following subsidiaries:

	date of acquisition	**% interest**	**acquired net assets at fair value**
			BGN '000
Tabina OOO, Belarus	08.04.2011	50.49%	697
ZAO 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 2.16).

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

In 2012:

	Brizpharm	
	fair value **20.12.2012**	***carrying amount*** **20.12.2012**
	BGN'000	***BGN'000***
Property, plant and equipment (Note 16)	16	14
Intangible assets (Note 17)	435	-
Inventories	190	192
Other receivables and assets	49	346
Cash and cash equivalents	12	12
Loans	(421)	(421)
Trade payables	(249)	(249)
Other current liabilities	(48)	(22)
Net assets	**(16)**	**(128)**
Non-controlling interest (%)	**73.99%**	**73.99%**
Share of non-controlling interest (BGN'000)	**(12)**	**(95)**
Net assets acquired by the Group	**(4)**	**(33)**

In 2011:

	Tabina		**Interpharm**		**Total**	
	fair value **08.04.2011**	***carrying amount*** **08.04.2011**	***fair value*** **17.12.2011**	***carrying amount*** **17.12.2011**	***fair value***	***carrying amount***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Property, plant and equipment (Note 16)	84	84	55	64	139	148
Intangible assets (Note 17)	660	-	831	-	1491	0
Inventories	671	671	788	788	1459	1459
Trade receivables	2	2	3	3	5	5
Other receivables and assets	473	473	12	12	485	485
Cash and cash equivalents	30	30	45	45	75	75
Trade payables	(1,027)	(1,027)	(211)	(211)	(1,238)	(1,238)
Other current liabilities	(196)	(38)	(290)	(90)	(486)	(128)
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**
Net assets acquired by the Group	**352**	**98**	**607**	**301**	**959**	**399**

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 2012

	Brizpharm
	BGN'000
Acquisition cost	
Amounts paid in current period	146
Share of the non-controlling interest in the investment on indirect acquisition	(71)
Measurement to fair value of previous interest by the date of acquisition of control	(33)
Total acquisition cost	**42**
Fair value of the acquired net assets	**(4)**
Goodwill	**46**

Sopharma Ukraine EOOD, Ukraine, and Phyto Palauzovo AD were established by Sopharma AD and Bulgarian Rose Sevtopolis AD.

The cash outflows from acquisition of control were as follows:

Cash flows on acquisition of control	**Brizpharm**
	BGN'000
Monetary payment	146
Cash and cash equivalents in the acquired companies	(12)
Cash outflow on acquisition of control	**134**

The capital of Sopharma Warsaw at the amount of BGN 316 thousand and that of Phyto Palauzovo AD at the amount of BGN 95 thousand were paid in 2012.

In 2011:

	Tabina	**Interpharm**	**Total**
	BGN'000	*BGN'000*	*BGN'000*
Acquisition 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**

Cash flows on acquisition of control	**Tabina**	**Interpharm**	**Total**
	BGN'000	***BGN'000***	***BGN'000***
Monetary payment	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**

43.2. Increasing interest (purchases from non-controlling interest)

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

In 2012:

Increases of interest (purchases from non-controlling interest)	**transaction date**	**% change in interest**	**acquired net assets**
			BGN '000
Biopharm Engineering AD	31.12.2012	27.72%	2,719
Unipharm AD	31.12.2012	0.16%	44
Momina Krepost AD	31.12.2012	0.20%	9
Brititrade	31.12.2012	0.51%	9
Bulgarian Rose AD	31.12.2012	0.01%	-
			2,781

In 2011:

Increases of interest (purchases from 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%	26
			925

The acquisition cost of the purchased additional shares in 2012, the effects and the cash outflows, relating to these transactions, were as follows:

Increases of interest (purchases from non-controlling interest)	**Biopharm Engineering AD**	**Unipharm AD**	**Bulgarian Rose AD**	**Momina Krepost AD**	**Brititrade**	**Total**
	Bulgaria	**Bulgaria**	**Bulgaria**	**Bulgaria**		
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	***BGN'000***	***BGN'000***
Acquisition cost (cost)						
Paid through issue of capital	(1,536)	-	-	-	-	(1,536)
Monetary payment	-	(52)	(3)	(12)	(132)	(199)
Share of non-controlling interest on indirect acquisition	(401)-	-	-	-	65	(336)
Total acquisition cost	**(1,937)-**	**(52)**	**(3)**	**(12)**	**(67)**	**(2,071))**
Fair value of the acquired net assets	2,719	44	-	9	9	**2,781**
Effects assumed by the Group at the account of Group's reserve 'accumulated profit'	782	(8)	(3)	(3)	(58)	**710**
Cash outflow on increase of interest (purchases from non-controlling interest)	**-**	**(52)**	**(3)**	**(12)**	**(132)**	**(199)**

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

Increases of interest (purchases from non-controlling interest)	**Unipharm AD**	**Bulgarian Rose AD**	**Momina Krepost AD**	**Sopharma Buildings REIT**	**Total**
	Bulgaria	**Bulgaria**	**Bulgaria**	**Bulgaria**	
	BGN '000	*BGN'000*	*BGN'000*	*BGN'000*	***BGN'000***
Acquisition cost					
Monetary payment	(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 profit'	(279)	(30)	(23)	(9)	**(341)**
Cash outflow on increase of interest (purchases from non-controlling interest)	**(870)**	**(249)**	**(112)**	**(35)**	**(1,266)**

43.3. Acquisition of a share in a joint venture

In 2012 the Group acquired shares in a joint venture:

	date of acquisition	**% interest**	**acquired net assets at fair value**
			BGN '000
Vivaton Plus OOO, Belarus	20.12.2011	25.50%	(4)

	Vivaton Plus	
	fair value **20.12.2012**	***carrying amount*** **20.12.2012**
	BGN'000	***BGN'000***
Property, plant and equipment (Note 16)	47	47
Intangible assets (Note 17)	244	-
Inventories	197	197
Trade receivables	3	3
Other receivables and assets	121	121
Cash and cash equivalents	20	20
Trade payables	(245)	(245)
Other payables and liabilities	(132)	(88)
Net assets	**255**	**55**
Non-controlling interest (%)	**49%**	**49%**
Share of non-controlling interest (BGN'000)	**125**	**27**
Net assets acquired by the Group	**130**	**28**

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

Vivaton Plus OOD, Belarus, was acquired through the purchase of 50% interest by the subsidiary Briz OOD, Latvia.

	Vivaton Plus
	BGN'000
Acquisition cost	
Amounts paid in current period	314
Share of the non-controlling interest in the investment on indirect acquisition	(157)
Measurement to fair value of previous interest by the date of acquisition of control	(18)
Total acquisition cost	**139**
Fair value of the acquired net assets	**130**
Goodwill	**9**

The cash outflows from acquisition of control were as follows:

Cash flows on acquisition of shares in a joint venture	**Vivaton Plus**
	BGN'000
Monetary payment	314
Cash and cash equivalents in the acquired companies	(20)
Cash outflow on acquisition of control	**294**

44. DISPOSAL OF SUBSIDIARIES AND DECREASING THE INTEREST IN SUBSIDIARIES

44.1. Total disposal of subsidiaries

In 2012 the Group disposed of its total interest in the following subsidiary:

Subsidiary company	**Date of sale**	**% interest**
Rostbalkanpharm ZAO	04.04.2012	51.00%

The net assets of the disposed of company are presented as follows:

Disposal with loss of control	**100%**
Date of disposal of interest	**04.04.2012**
	BGN'000
Property, plant and equipment	494
Inventories	14
Trade receivables	146
Other receivables and assets	35
Cash and cash equivalents	29
Loans	(326)
Other payables and liabilities	(874)
Total net assets	**(482)**
Losses assumed by the Group	(327)
Total disposal of share of net assets and losses assumed by the Group	**(809)**

The financial result from the disposal of the subsidiary is as follows:

	BGN'000
Fair value of the consideration received	5
Recycling of reserve from transformation	(2)
	3
Less:	
Disposed of share of net assets (51%)	246
Assumed losses by the Group related with the disposed of subsidiary	(286)
Loss on disposal of subsidiaries	**(37)**

Net cash flows on disposal of subsidiaries	***BGN'000***
Cash received	5
Less:	
Cash in disposed of subsidiaries	29
Net cash flows on disposal of subsidiaries	**(24)**

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

44.2 Decreasing interests (sales to non-controlling interests)

In 2012:

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 to non-controlling interest)	**transaction date**	**% change in interest**	**acquired net assets**
			BGN '000
ZAO Interpharm	31.12.2012	-0.79%	(152)
Tabina OOO	31.12.2012	-0.79%	(17)
Sopharma Trading AD	31.12.2012	-0.32%	(181)
			(350)

Decrease in interests (sales to non-controlling interest)	**ZAO Interpharm Belarus**	**Tabina OOO Belarus**	**Sopharma Trading AD Bulgaria**	**Total**
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Proceeds from partial disposal of subsidiaries	1,119	45	179	1,343
Share of non-controlling interest on indirect acquisition	(548)	(22)	-	(570)
Proceeds from partial disposal of subsidiaries for the Group	**571**	**23**	**179**	**773**
Carrying amount of the net assets at the date of partial disposal of subsidiaries	(152)	(17)	(181)	(350)
Effects assumed by non-controlling interests at the account of Group's reserve 'accumulated profits'	419	6	(2)	423
Cash inflow on partial disposal of subsidiaries	**1,119**	**45**	**179**	**1,343**

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 to 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 to non-controlling interest)	**Bulgarian Rose AD Bulgaria**	**Momina Krepost AD Bulgaria**	**Sopharma Trading AD Bulgaria**	**Total**
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
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**

45. RELATED PARTY TRANSACTIONS

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2012
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
Donev Investments AD	Main shareholding company	2011 and 2012
Pharmachim Holding EAD	Company under a common indirect control	2011 and 2012
NIHFI AD	Company under a common indirect control	until 05.08.2011
Kaliman RT AD	Company under a common indirect control	2011 and 2012
SCS Franchise AD	Company under a common indirect control	2011 and 2012
Seiba Pharmacies and Drugstores AD	Company under a common indirect control	2011 and 2012
Mineralcommerce AD	Company under a common indirect control	2011 and 2012
Sopharma Properties ADSIC	Company under a common indirect control	2011 and 2012
Sofia Inform AD	Company under a common indirect control	2011 and 2012
Sofprint Group AD	Company under a common indirect control	2011 and 2012
Sofconsult Group AD	Company under a common indirect control	2011 and 2012
Elpharma AD	Company under a common indirect control	2011 and 2012
Riton P AD	Company under a common indirect control through key managing personnel	2011 and 2012
Telso AD	Company under a common indirect control through key managing personnel	2011 and 2012
Telecomplect AD	Company under a common indirect control through key managing personnel	2012
Media Group Bulgaria Holding	Company under a common indirect control through key managing personnel	from 09.04.2011 and 2012
DOH Group	Company under a common indirect control through key managing personnel	2011 and 2012
OOO Farmacevt Plus	Company under a common indirect control through key managing personnel	2012

** 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.

As at 31 December 2011 the transfer of the shares to Telecomplect Invest AD had not yet been registered 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.

Related party transactions are as follows:

Supplies from related parties:	***2012*** ***BGN '000***	***2011*** ***BGN '000***
Supply of inventories from:		
Companies under a common indirect control	10,761	10,754
Companies under a common indirect control through key managing personnel	4,761	23
Main shareholding companies	-	243
	15,522	**11,020**
Supply of services from:		
Companies under a common indirect control through key managing personnel	3,026	470
Companies under a common indirect control	2,452	367
Main shareholding companies	625	2,796
	6,103	**3,633**
Supply of tangible fixed assets from:		
Companies under a common indirect control through key managing personnel	313	-
Companies under a common indirect control	18	-
Main shareholding companies	-	56
	331	**56**
Supplies for acquisition of non-current assets:		
Companies under a common indirect control through key managing personnel	29,188	-
Main shareholding companies	-	16,549
Companies under a common indirect control	-	488
	29,188	**17,037**
	51,144	**31,746**

Sales to related parties	*2012*	*2011*
	BGN '000	*BGN '000*
Sales of inventories to:		
Companies under a common indirect control	7,322	8,340
Companies under a common indirect control through key managing personnel	3,624	5
Main shareholding companies	-	56
	10,946	**8,401**
Sales of services to:		
Companies under a common indirect control	170	169
Companies under a common indirect control through key managing personnel	120	-
Main shareholding companies	-	51
	290	**220**
Other sales to:		
Main shareholding companies	58	5
Companies under a common indirect control through key managing personnel	5	-
Companies under a common indirect control	1	9
	64	**14**
Interest on loans granted:		
Companies under a common indirect control through key managing personnel	2,902	1,356
Companies under a common indirect control	663	612
Main shareholding companies	403	2,567
	3,968	**4,535**
	15,268	**13,170**

The accounts and balances with related parties are disclosed in Notes 21, 25 and 36.

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 3,866 thousand (2011: BGN 3,637 thousand), including:

* current wages and salaries – BGN 3,394 thousand (2011: BGN 3,231 thousand);
* tantieme – BGN 472 thousand (2011: BGN 406 thousand).

46. EVENTS AFTER THE REPORTING PERIOD

At 25 April 2013, the share participation of Financial Consulting Company EOOD in the capital of the parent company was 9.62% (12,699,038 shares).

At 25 April 2013, the share participation of Donev Investments Holding in the capital of the parent company was 26.31 % (34,731,663 shares).

On 25 February 2013 the liquidation procedure of the joint venture Sopharma Zdrovit – in liquidation, Poland, was finalised and it was deleted from the National Court Registry in Poland.

For the period after the end of the reporting period to the date of the financial statements the Group performed the following transactions with shares of Group companies (through Briz, Latvia):

- sale of 5% of the shares of OOO Tabina (remains a subsidiary company);
- sale of 15.3% of the shares ZAO Interpharm (remains a subsidiary company);
- purchase of 13% of the shares SOOO Brizpharm (remains a subsidiary company);
- purchase of 5% of the shares ODO Vestpharm (remains an associated company);
- purchase of 19% of the shares of ODO Alean (changed from an associate to a subsidiary company).

For the period after the end of the reporting period to the date of the financial statements the Group performed the following transactions with shares of companies classified as available-for-sale investment as at 31 December 2012 (through Briz, Latvia):

- purchase of 19% of the shares of OOO NPK Biotest (changed from an available-for-sale investment to an associated company);
- purchase of 19% of the shares of OOO BelAgroMed (changed from an available-for-sale investment to an associated company).

By virtue of a contract for sale of shares, dated 24 April 2013, the Group sold the whole package of shares in OAO Krimgas - 1,335,175 shares for BGN 2,734 thousand.