SOPHARMA GROUP

CONDENSED CONSOLIDATED FINANCIAL STATEMENT FOR THE PERIOD 1 JANUARY TO 31 MARCH 2013

1. BACKGROUND INFORMATION ON THE GROUP

SOPHARMA GROUP (the Group) is comprised of the parent company and its twenty-three (31 December 2012: twenty-two) subsidiaries. In addition, the Group has an investment in one joint venture ((31 December 2012: two joint ventures) and three associated companies ((31 December 2012: two associated companies).

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 March 2013 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.;
- Electroncommerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 24456 of 1991, with a seat and 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 № 20120924105551 from 24 September 2012 of the Registry Agency and with a seat and address of management: Kazanluk, 110, "23 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 № 10691020000029051 from 07 August 2012 of Unified State Register Of Legal Entities and Physical Persons – Entrepreneurs and with a seat and address of management – Ukraine, Kiev, Obolonski district, 9, "Moskovskii" prospekt, corpus 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 6 November 2008 in the Delaware State Secretary Office, with a seat and address of management: USA, Delaware, Wilmington, New Castle Region, 1209 Orange Street;
- Extab Pharma Limited, United Kingdom – a business entity registered in England by Decision No. 06751116 of 17 November 2008, with a seat and address of management: Oxfordshire, RG9 1AY, Henlay on Thames, 10 Station Road;
- PAO Vitamini – a business entity registered in Ukraine by Decision No. 133 dated 15 April 1994 of Uman City Court, with a seat and address of management: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri Str.;
- Ivanchich and Sons OOD – a business entity registered in Serbia by Fi-11350/91 on 14 October 1991 by the Commercial Court of Belgrade with a seat and address of management: Republic of Serbia, Belgrade, 13, Palmoticheva Str.;
- Briz OOD, Latvia – a business entity registered in Latvia by Decision No. 000302737 dated 18 September 1991 of the Commercial Registry of the Republic of Latvia, with a seat and address of management: Latvia, Riga, Rasas No. 5, LV – 1057;
- Brititrade SOOO, Belarus – a business entity registered in Belarus by Decision No. 1983 dated 24 September 2004 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 118, M. Bogdanomicha Str., office 303 – B;

- Tabina OOO, Belarus – a business entity registered in Belarus by Decision No. 1432 dated 29 December 1999 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 57, Kuybisheva Str., ap.1;
- ZAO Interpharm, Belarus - a business entity registered in Belarus in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 300000556, with a seat and address of management: Belarus, Vitebsk, Stroitelei Square, bl. 3 ap. 2;
- Brizpharm SOOO, Belarus - a business entity registered in the Minsk City Executive Committee in the Unified State Register Of Legal Persons and Physical Persons - Entrepreneurs under Decision No.800007989 form 07 July 2009 and with a seat and address of management: Belarus, Minsk, "Esenina" Str., d.16, room 1 H;
- Alean ODO, Belarus – a business entity registered in Belarus with decision №100160720 from 29 May 2001 in the Minsk City Executive Committee in the Unified State Register Of Legal Persons and Physical Persons – Entrepreneurs and with seat and address of management – Belarus, Minsk, 16 Tashkentskaia Str., corpus 1. The company has been transformed from an associated company to a subsidiary through Briz, Latvia on 7 March 2013.

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

As at 31 March 2013 the joint venture of the Group is:

- Sopharma Zdrovit AD, in liquidation – a business entity registered in Poland by Decision KRS 0000298139 dated 27 September 2007 of Warsaw Republican Court Registry, with a seat and address of management: Poland, Warsaw, 31, Nochnitskego Str.
- Vivaton plus OOO, Belarus - a business entity registered in Belarus by Decision №590004353 of the Grodno City Executive Committee and with a seat and address of management – Belarus, Grodno, pr. "Kletskovo"., d.13 B, office 2;

Associated companies

As at 31 December 2012 the associated companies of the Group are:

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

1.1. Ownership and management of the parent company

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

The joint-stock capital structure of the parent company as at 31 March 2013 was as follows:

	%
Donev Investment Holding AD	26.52
Telecomplect Invest AD	20.42
Financial Consulting Company EOOD	9.62
Universal Pension Fund Doverie AD	6.75
Sopharma AD (treasury shares)	2.78
Other legal persons	30.12
Physical persons	3.79

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 subsidiaries listed below:

Subsidiaries	**31 March 2013** *Interest*	**31.12.2012** *Interest*	*Acquisition of control*	*Release of control*

	%	**%**	***date***	***date***
Companies in Bulgaria				
Sopharma Trading AD	76.74	81.01	08.06.2006	-
Bulgarian Rose Sevtopolis AD *	52.62	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	97.15	10.03.2006	-
Sopharma Buildings REIT	42.64	42.64	04.08.2008	-
Momina Krepost AD *	51.72	51.3	01.01.2008	-
Unipharm AD *	52.15	52.21	27.10.2010	-
Phyto Palauzovo AD **	50.13	50.13	21.09.2012	-
Companies abroad				
Rostbalkanpharm ZAO	-	-	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	50.24	10.11.2009	-
PAO Vitamini	99.56	99.56	18.01.2008	-
Ivanchich and Sons OOD	51	51	10.04.2008	-
Sopharma Warsaw EOOD	100	100	23.11.2010	-
Tabina OOO **	47.94	47.94	08.04.2011	-
ZAO Interpharm **	28.51	36.31	17.12.2011	-
Superlats OOO **	-	-	20.05.2011	15.02.2012
Brizpharm SOOO **	32.64	26.01	20.12.2012	-
Alean ODO **	29.07	-	07.02,2013	
Sopharma Ukraine	100	100	07.08.2012	-

** effective percentage of participation*
***indirect participation*

- Bulgarian Rose Sevtopolis AD is a subsidiary to SOPHARMA AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Bulgarian Rose Sevtopolis AD with 49.99% and the indirect participation of the parent company with 2.63% 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 51.35% and the indirect participation of the parent company with 0.37% through the subsidiary Sopharma Trading AD holding 0.49% 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 2.16% through the subsidiary Sopharma Trading AD holding 2.82% of the capital of Unipharm AD;

- Sopharma Buildings REIT is a subsidiary by virtue of a written control agreement concluded between SOPHARMA AD and other shareholders;
- Extab Pharma Limited, United Kingdom, is a subsidiary through Extab Corporation, USA, the latter company being 100% capital holder of Extab Pharma Limited, United Kingdom;
- Brititrade SOO, Belarus, is a subsidiary of Briz OOD, Latvia – Briz OOD holds 98.50% of the capital of Brititrade SOO;
- 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 55.9% of the capital of ZAO Interpharm;
- Brizfarm SOOO, Belarus is a subsidiary through Breeze OOD, Latvia - Breeze OOD holds 64% of the capital of Brizfarm SOOO;
- Alean ODO, Belarus is subsidiary through Briz OOD, Latvia – Briz OOD holds 57% of the capital of Alean ODO;
- Superlats OOO, Latvia, is a subsidiary through Briz OOD, Latvia – Briz OOD 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 REIT – investment of funds, accumulated by issuance of securities, in real estate (securitization 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, purchasing, harvesting and marketing of herbs and medicinal plants (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 Sons OOD – production and trade in pharmaceuticals;
- Sopharma Poland OOD, in liquidation – market and public opinion research;
- Sopharma Warsaw EOOD – market and public opinion research (a subsidiary as from 23 November 2010);
- Sopharma Ukraine EOOD – trade in pharmaceuticals and market and public opinion research (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 (subsidiary as from 20 December 2012);
- Alean ODO, Belarus – trade in pharmaceuticals (subsidiary as from 7 February 2012);

The parent company and the subsidiaries Sopharma Trading AD, Bulgarian Rose Sevtopolis AD, Pharmalogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Sopharma Buildings REIT, Momina Krepost AD, Unipharm AD, Phyto Palauzovo 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 Sons OOD – in Serbia, Briz OOD – in Latvia, Brititrade SOOO , Tabina OOO, ZAO Interpharm, Alean ODO and Brizpharm SOOO – in Belarus, Extab Pharma Limited – in the Great Britain, and Sopharma USA and Extab Corporation, USA – in USA.

As at 31 March 2013, the interest of the Group in the ***joint ventures*** is as follows:

- Vivaton plus OOO, Belarus together with 50% participation with Apteka Group Holding and a physical person. The principle activities of the joint venture is trade in pharmaceuticals and food supplements. The company is a joint venture of the Group as from 20 December 2012;
- Sopharma Zdrovit AD – in liquidation together with 50.01% participation with Nature Product Zdrovit OOD, Poland. The principle activities of the joint venture is R&D in the medical and pharmaceutical fields, wholesale of pharmaceutical product. Sopharma Zdrovit AD is in liquidation procedure and is a joint venture as from 27 September 2007. The company has been erased from the National Court Register of Poland on 25 February 2013.

As at 31 March 2013 the interest of the Group in associated companies is as follows:

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

BelAgroMed ODO, Belarus - a business entity registered in Belarus. The company has been acquired by the Group through Briz, Latvia.

The average number of Group's personnel in 2012 was 3,950 workers and employees (2012: 3,945).

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 2011 – March 2013, are presented in the table below:

Indicator	**2011**	**2012**	**2013**
USD/BGN average for the year	1.4065	1.52314	1.48212
USD/BGN at year-end	1.5116	1.4836	1.52740
PLN/BGN average for the year	0.4759	0.46772	0.47060
PLN/BGN at year-end	0.43872	0.47926	0.46786
RUB/BGN average for the year	0.04787	0.04902	0.04872
RUB/BGN at year-end	0.04683	0.04862	0.04919
RSD/BGN average for the year	0.01918	0.0173	0.01750
RSD/BGN at year-end	0.01869	0.0172	0.01747
UAH/BGN average for the year	0.1766	0.19042	0.18525
UAH/BGN at year-end	0.18992	0.18561	0.19109

GBP/BGN average for the year	2.25443	2.41275	2.30497
GBP/BGN at year-end	2.34147	2.39406	2.31295
LVL/BGN average for the year	2.76943	2.80501	2.79553
LVL/BGN at year-end	2.79604	2.80285	2.78727
1000 BRUB/BGN average for the year	0.1813	0.18249	0.17177
1000 BRUB/BGN at year-end	0.1813	0.17256	0.17634

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 2013 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 Group’s accounting policies, except for some new disclosures and expanding of those already established, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

A. Adopted for periods beginning on or after 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 value 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 value 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 measurements (referred to so far as actuarial gains or losses) of defined benefit obligations and plan assets shall be recognized 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, mandatory application for annual periods beginning on or after 1 January 2014 the latest).* 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, associated companies and joint ventures at the level of separate financial statements.
- *IAS 28 (as revised in 2011) "Investments in Associated companies and Joint Ventures" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC, mandatory application for annual periods beginning on or after 1 January 2014 the latest).* 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 associated companies 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: amortized 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, mandatory application for annual periods beginning on or after 1 January 2014 the latest). Transitional provisions (effective for annual periods beginning on or after 1 January 2013 - not endorsed by the EC) regarding the application of the standard for the first time.* This standard replaces a significant part of IAS 27 ("Consolidated and Individual Financial Statements") and SIC-12 ("Consolidation - Special Purpose Entities"). Its main objective is to establish the principles and methods for the preparation and presentation of

financial statements when an entity controls one or more other entities. It gives a new definition of control that contains three elements and establishes control as the sole basis for consolidation and provides more detailed rules for assessing the existence of relations through controlling. 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, mandatory application for annual periods beginning on or after 1 January 2014 the latest). Transitional provisions (effective for annual periods beginning on or after 1 January 2013 - not endorsed by the EC) regarding the application of the standard for the first time.* 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, mandatory application for annual periods beginning on or after 1 January 2014 the latest). Transitional provisions (effective for annual periods beginning on or after 1 January 2013 - not endorsed by the EC) regarding the application of the standard for the first time.* 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 realization 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.
- *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 capitalization 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 –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 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 and presentation currency. Subsidiaries, associated companies and joint ventures abroad organize their accounting and reporting in accordance with the requirements of the local legislation (Rostbalkanpharm ZAO – Russia, Sopharma Ukraine EOOD and PAO Vitamini – Ukraine, Ivanchich and Sons OOD – Serbia, Extab Pharma Limited – United Kingdom, Briz OOD – Latvia, Brititrade SOOO, Tabina OOO, ZAO Interpharm, Brizpharm SOOO, the joint venture Vivaton Plus OOS, the associated companies – Vestpharm ODO, 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 – Ruble (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 BGN (BGN'000), unless explicitly stated otherwise, and the BGN 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 BGN for the purposes of the consolidated financial statements (Note 2.5). The financial statements of the Group whose functional currency is a currency in hyperinflationary economy are restated with an inflationary index so that they are expressed in measurement units valid at the end of the reporting period and after that they are restated from the local currency to BGN 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).

Subsidiaries

These are companies, including non-legal entities, in which the parent holds directly or indirectly more than 50% of the voting rights in the General Meeting (in the joint-stock capital) and/or has the right to appoint more than 50% of the Board of Directors of the respective company or by virtue of a written control agreement concluded between the shareholders and can exercise control over their financial and operating policy (including by virtue of a concluded control agreement between shareholders). The subsidiaries 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 subsidiaries are presented in Note 1.2.

Joint venture

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

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

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

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

The joint ventures are Vivaton plus OOO, Belarus and Sopharma Zdrovit AD, Poland - in liquidation - until 25 February 2013 (Note 1.2).

Associated companies

An associated company 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 associated company 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 the associated company is transformed into a subsidiary or when it is accepted that the significant influence is transferred from the investor to third parties.

The associated companies are: Vestpharm ODO, Belarus, NPK Biotest OOO, Belarus and BelAgroMed ODO, Belarus (Note №1.2).

2.3. Consolidation principles

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

For the purposes of consolidation, the financial statements of the subsidiaries, the joint ventures and the associated companies 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 unrealized intra-group gains and losses, are eliminated in full. The effect of deferred taxes has been taken into account in these eliminating consolidation entries.

The shares of shareholders – third parties in the subsidiaries other than these of the shareholders of the parent company are presented separately in the consolidated statement of financial position, the consolidated statement of comprehensive income and the statement of changes in equity as 'non-controlling interest'. Non-controlling interest includes: (a) the combined share of the shareholders – third parties at the date of initial consolidation in the fair value (deemed cost) of all identifiable assets acquired, liabilities and contingent (crystallized) liabilities of the respective subsidiaries assumed, determined (on share basis) 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 recognized as current expenses when incurred except for the issue costs of debt or equity instruments, which are recognized as equity components.

All identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the date of exchange. Any excess over the sum of the consideration transferred (measured at fair value), the amount of non-controlling interest in the acquiree and the fair value at the acquisition date of any previous interest in the acquiree (in case of stepwise acquisition) over the acquired identifiable assets and assumed liabilities of the acquirer, is treated and recognized 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 recognized immediately in the consolidated statement of comprehensive income of the Group in the item 'gains/(losses) on acquisition and 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 recognized 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 derecognized at their carrying values at the date when control is lost;
- The non-controlling interest in the subsidiary is derecognized at carrying value in the consolidated statement of financial position at the loss of control date, including all components of other comprehensive income related thereto;
- The fair value of the consideration received from the transaction, event or operation that resulted in the loss of control is recognized;
- All components of equity, representing unrealized 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 recognized in the consolidated statement of comprehensive income.
- The remaining shares held that form investments in associated companies 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 value of net assets of the subsidiary is also directly recognized in the consolidated statement of changes in equity, usually to the 'accumulated profits' reserve.

When the Group ceases to have control and significant influence, any retained minority investment as interest in the capital of the respective entity is remeasured to its fair value, with the change in carrying value recognized in profit or loss. Respectively, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of all components related to the initial investment (in a subsidiary or associate).

2.3.5. Consolidation of a joint 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 controlling shareholder of the company Sopharma Zdrovit AD – in liquidation, Poland and respectively of the company Vivaton plus OOO, Belarus (as of 29 December 2012). In the proportionate consolidation method, the share of the controlling shareholder (the parent company) in each of the assets, liabilities, income and expenses in the jointly controlled company is combined (added) line-by-line with the analogous items in the financial statements of the controlling shareholder. The Group recognizes only the attributable portion of the recorded gains and losses on transactions for sale of assets by the Group to the joint venture, which refers to other investors and controlling shareholders. At the same time, all intra-group transactions and accounts with the joint venture are eliminated, including the unrealized 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 associated companies

Associated companies 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 recognized 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 recognized 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 recognized 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 recognizes 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 unrealized 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 BGN. The BGN 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 recognized 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 (Rostbalkanpharm ZAO) – the Russian Ruble, of the subsidiaries in Ukraine (PAO Vitamini and Sopharma Ukraine EOOD) – the Ukrainian Grivna, of the subsidiary in Serbia (Ivanchich and Sons OOD) – the Serbian Dinar, of the subsidiary in Latvia (Briz OOD) – Lat, of the subsidiaries in Belarus (Brititrade SOOO, Tabina OOO, Alean ODO, ZAO Interpharm and Brizpharm SOOO) - Belarusian 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 as at 31 December;

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

(c) all exchange differences resulting from the restatements are recognized and presented as a separate component of equity in the consolidated statement of financial position, net of deferred tax effects – “reserve from recalculation in the representation currency of foreign operations”, 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 recognized 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 recalculated in the representation currency at closing exchange rate.

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

The figures in the financial statements of subsidiaries operating in hyperinflationary economies are firstly restated on the basis of the general price index to the measuring unit at the end of the reporting period with the aim to reflect the changes in the purchasing power of the money for the period and secondly they are translated to the reporting representation 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 recognized 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 recognized when all significant risks and rewards of ownership have passed to the buyer.

Upon rendering of services, revenue is recognized 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 recognized 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 recognized 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 recognized 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 (conceptual) Framework and IFRS themselves).

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

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

Finance costs are included in the consolidated statement of comprehensive income when incurred separately from finance costs and comprise: interest expense under loans received, bank fees and charges on loans and guarantees, net losses on exchange differences under loans in foreign currency, expenses/losses on deals with investments in available-for-sale securities, operating cost of debt settlement, loss on valuation at fair value of securities at the 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 than 90% of the generated profit for the respective financial year adjusted in accordance with SPICA; and

- the distribution of the remaining 10% is determined by a decision of the General Meeting of Shareholders as per the common procedure of the Bulgarian Commercial Act, including for dividend payment.

The statutory dividend at an amount of not less than 90% of the generated profit is recognized 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 values 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 recognized 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 capitalized in the carrying value of the respective asset whereas the residual useful life is reviewed at the capitalization date. At the same time, the non-depreciated part of the replaced components is derecognized from the carrying value of the assets and is recognized 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 values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value might significantly differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying value, 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 recognized 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 derecognized 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 value of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' in the consolidated statement of comprehensive income (within profit or loss for the year). The part of 'revaluation reserve' attributable to the sold asset is directly transferred to 'retained earnings' in the consolidated statement of changes in equity.

2.11. Biological assets

Biological assets (perennial plants) are measured at fair value less the estimated costs to sell.

The fair value of biological assets is determined on the basis of their present location and condition based on a price quoted in an active market or other alternative sources of current prices. Gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and changes in fair value less estimated costs to sell is recognized 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 amortized.

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 associated companies’.

The goodwill on the acquisition of associated companies (entities) is tested as part of the total balance (amount) of the investment. The individually recognized 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 value of the goodwill relating to the entity sold (disposed of).

On the realization of a particular business combination, each recognized 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 amortization expense’.

Other intangible assets

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

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

The carrying values of all intangible assets (including goodwill) of the companies of the Group operating in economies under conditions of hyperinflation, measured initially at acquisition cost less accumulated depreciation (impairment) are recalculated to reflect the effects of hyperinflation using common price index – from the date of transaction /acquisition/ to the end of the current reporting period or from the date of the last revaluation of assets.

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

Intangible assets are derecognized 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 value 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 recognized 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 derecognized 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 value 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 recognized 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 value 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 associated companies

The long-term investments representing participations in subsidiaries are presented in the consolidated financial statements under the equity method – value that includes the acquisition price being the fair value of the consideration paid, including the direct costs on investment acquisition adjusted by investor's share of profits or losses and respectively the other reserves of the associate after the date of its acquisition.

The share of profits and losses after the date of acquisition of an associate is presented on a separate line in the consolidated statement of comprehensive income (within profit or loss for the year) while the share of other components of comprehensive income – on the respective line of the consolidated statement of comprehensive income (within other comprehensive income) and as a separate movement of the individual components of reserves in the consolidated statement of changes in equity.

The investments in associated companies 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 associated companies' (Note 2.33).

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

Investments in associated companies are derecognized 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 associated companies' 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 and interests in the capital of other companies (minority interest).

Initial measurement

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

Subsequent measurement

The Group's available-for-sale investments (financial assets) representing:

a) shares of foreign public companies, traded in a stock exchange, qualifying as active, are subsequently measured at fair value commonly determined based on the average prices of realized transactions for the last month of the year – direct exchange prices – level 1.

b) shares of Bulgarian public companies, traded on the Bulgarian stock market, which currently does not qualify as active due to the very limited volume of transactions and representation, as well as the economic situation in the country, are subsequently measured at fair value, as follows:

- for minority investments in the range from 0.01% to 10% stake in the respective company - by applying the adjusted stock prices - level 2, calculated using the market analog method ,insofar as the packages, held by the Company, are small in size and may be sold on the stock market;
- for minority investment in the range from 10.01% to 19.99% stake in the respective company - by applying of combined valuation approach, which includes level 2 valuation methods - market analog method, and level 3 method of discounted cash flows. Priority is given to evaluation results at level 3, as far as these stakes are held by the company with strategic long-term business objectives, and

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

Subsequent measurement to fair value is conducted with the professional assistance of an independent licensed 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 recognized in the consolidated statement of comprehensive income (within profit or loss for the year) on disposal of the respective investment by being stated as ‘finance income’ or ‘finance costs’.

Gains from dividends, related to long-term investments (financial assets) representing shares in other companies (minority interest), are recognized as current income and are presented in the consolidated statement of comprehensive income (within profit or loss for the year) under “financial income”.

The delisting of shares upon sale is conducted by the weighted average price method as at the end of the month of delisting.

All purchases and sales of available-for-sale investments (financial assets) are recognized on the “trade date” of the transaction, i.e. the date, on which the Group commits to purchase or sell the asset.

The owned available-for-sale investments (financial assets) are reviewed for impairment at the date of each reporting period and if conditions for permanent impairment are identified, the latter is recognized 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 value and the recoverable value of the investment and is recognized 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 values 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 value (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.

The depreciation of assets belonging to the groups 'property, plant and equipment' and 'intangible assets' when classified as 'non-current assets held for sale' ceases until they are classified as such.

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 realizable 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 labor 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 labor valued on the basis of labor 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 realizable 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 recognized 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 amortized 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 recognized 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 amortized cost by applying the effective interest rate method. Amortized cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognized in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income (interest) or costs throughout the amortization period, or when the receivables are settled, derecognized 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 bank deposits the funds in which are freely available to the companies of the Group under the terms of the agreements with the banks for the duration of the deposit, regardless of the original term /maturity/ of the 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';
- the interest received from short-term bank deposits is included in the cash from investing activities;
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line 'Taxes paid' while that paid on assets purchased from local suppliers is presented as 'Cash paid to suppliers' in the cash flows from operating activities as far as it represents a part of the operating flows of the Group companies and is recovered therewith in the respective period (month).

2.21. Trade and other payables

Trade and other current amounts payable are carried to the consolidated financial statements at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortized 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 recognized 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 amortized cost by applying the effective interest rate method. The amortized 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 recognized in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortization period, or when the liabilities are derecognized 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. Capitalization of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized 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 capitalization to the value of a qualifying asset is determined by applying a capitalization rate. The capitalization 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 capitalization 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 recognized as assets in the statement of financial position of the lessee and are presented as leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the consolidated statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate (Note 2.27).

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

Lessor

Finance lease where a substantial portion of all risks and rewards incidental to the ownership of the leased asset is transferred outside the Group, is written-off from the goods of the lessor and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the non-earned financial income. The difference between the carrying value of the leased asset and the immediate (fair selling) value is recognized 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 recognized as expenses in the consolidated statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

Lessor

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

Lease income from operating leases is recognized 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 value of the leased asset and recognized on a straight-line basis over the lease term.

2.25. Pensions and other payables to personnel under the social security and labor legislation

The employment and social security relations with workers and employees of the Group are based on the Labor 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 Labor Agreement – for the company in *Ukraine*, the employment legislation, the General Collective Labor Agreement and the effective Employment Rules and Regulations – for the company in *Serbia*, the Labor Act – for the company in *Latvia*, the employment legislation – for the company in *Belarus* and the Labor 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 Labor 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 Labor 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 Labor 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 recognized 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 recognized 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.

Profit-based bonuses

According to the Articles of Association the Executive Director is entitled to receive a one-time remuneration (bonus) amounting to 1% of the net profit of the Company and in their sole discretion and subject to the individual contribution to distribute among the members of senior management up to 2% of the net profit of the Company – when a positive financial results for the past financial year is reported and a decision by the Annual General Meeting of Shareholders is taken.

Long-term retirement benefits

In accordance with the requirements of the Labor 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 Labor 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 labor 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 labor conditions. According to the employment legislation in Poland, the employer is obliged to pay upon retirement one gross monthly salary. According to the employment legislation, there are no obligations to the personnel on retirement in Latvia and Belarus.

In their nature these are defined benefit schemes.

The calculation of the amount of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they are included in the consolidated statement of financial position, adjusted with the amount of the unrecognized actuarial gains and losses, and respectively, the change in their value including the recognized actuarial gains and losses is included in the consolidated statement of comprehensive income (within profit or loss for the year).

Past service costs are recognized 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 recognized 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 recognized actuarial gains or losses, are recognized 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 recognizes 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 mark-up between the carrying value of property, plant and equipment and their fair values at the revaluation date;
- the positive difference between the carrying value 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 derecognized 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 value 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 recognized 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 recognize 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 derecognized 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 recognize the transferred asset in its consolidated statement of financial position but also recognizes 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 amortized 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 recognized 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 measured at acquisition price, which is the fair value of paid amount, including acquisition cost, included in the investment.

The subsequent of the available-for-sale financial assets is at fair value, except for shares/interests in closed companies, which are not traded on a stock exchange (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 recognized 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 unrealized gains accumulated in the reserve are recognized 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 recognized 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 value is higher than the expected recoverable amount. The recognized 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 recognized in the consolidated statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method (Note 2.21, 2.22 and 2.24).

2.28. Provisions

Provisions are recognized 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 recognizes a receivable if it is virtually certain that reimbursement will be received, its amount can be reliably measured and income (credit) is recognized 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 2013 was 10 % (2012: 10%).

The subsidiaries, joint ventures and associated companies 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***	
		2013	***2012***
Rostbalkanpharm ZAO	Russia	20%	20%
Sopharma Poland OOD – in liquidation	Poland	19%	19%
Sopharma Warsaw EOOD	Poland	19%	19%
Sopharma Ukraine EOOD	Ukraine	19%	21%
PAO Vitamini	Ukraine	19%	21%
Ivanchich and Sons OOD	Serbia	15%	10%
Extab Corporation	USA	15.35%	15.35%
Extab Pharma Limited	United Kingdom	23%	24%
Briz OOD	Latvia	15%	15%
Tabina OOO	Belarus	18%	18%
ZAO Interpharm	Belarus	18%	18%
Brititrade SOOO	Belarus	18%	18%
Brizpharm SOOO	Belarus	18%	18%
Alean ODO	Belarus	18%	-
Joint ventures			
Sopharma Zdrovit AD – in liquidation – until 25 February 2013	Poland	19%	19%
Vivaton Plus OOO	Belarus	18%	18%
Associated companies			

Subsidiary company	***Country***	***Tax rate***	
Vestpharm ODO	Belarus	18%	18%
NPK Biotest ODO	Belarus	18%	-
BelAgroMed ODO	Belarus	18%	-
Alean ODO	Belarus	-	18%

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

Deferred tax liabilities are recognized 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 recognized 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 value 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 realized 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 realized.

As at 31 March 2013 the deferred income taxes of the Group companies were valuated at a rate, valid for 2013, which for the Bulgarian companies is 10% and for the subsidiaries, the joint ventures and the associated companies abroad is as follows:

Subsidiary	***Country***	***Tax rate 2013***
Sopharma Poland OOD – in liquidation	Poland	19%
Sopharma Warsaw EOOD	Poland	19%
Sopharma Ukraine EOOD	Ukraine	19%

Subsidiary	***Country***	***Tax rate 2013***
PAO Vitamini	Ukraine	19%
Ivanchich and Sons OOD	Serbia	15%
Extab Corporation	USA	15.35%
Extab Pharma Limited	United Kingdom	23%
Briz OOD	Latvia	15%
Tabina OOD	Belarus	18%
ZAO Interpharm AD	Belarus	18%
Brititrade SOOO	Belarus	18%
Brizpharm SOOO	Belarus	18%
Alean ODO	Belarus	18%
Joint venture		
Sopharma Zdrovit AD – in liquidation – until 25 February 2013	Poland	19%
Vivaton Plus OOO	Belarus	18%
Associated company		
Vestpharm ODO	Belarus	18%
NPK Biotest ODO	Belarus	18%
BelAgroMed 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 recognized 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 recognized in current profit or loss on a systematic basis in the same period in which the expenses are recognized.

A grant from public institutions that compensates investment expenses incurred to acquire an asset is recognized in current profit or loss on a systematic basis over the useful life of the asset usually proportionately to the amount of the recognized 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 organizational 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 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 amortization and production staff remuneration, carrying value 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, realized and unrealized 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 associated companies 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.

Additionally, the Group discloses information about important clients, when the revenue generated by each customer exceed 10% of the total consolidated revenues of the Group.

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.

The Group's management again analyzed its key assets price changes occurred as at 31 December 2011 by the cooperation of independent licensed appraiser.

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

- 'Market-based approach" through the 'Market analogues method' – with regard to land and buildings for which actual market, market analogous property and deals and basis for comparison existed and their market value determined by the comparative method was accepted as fair value;
- 'Assets (expenses)-based approach' through the 'Method of amortized recoverable amount' – for special-purpose buildings for which no actual market existed, market/comparative sales of analogous assets; their amortized 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.

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).

As at 31 December 2012 the management of the Group has once again performed an analysis of price changes of key long-term assets and has determined that there are no conditions and justification for a new revaluation of the assets of the Group companies before the expiration of the approved normal period, and that there are no real indicators and grounds for impairment. In addition, the management 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 for property, plant and equipment, and is of the opinion that the used values reflect reliably and are adequate to the economic environment in the respective country. (Note 2.10).

2.33.2. Goodwill impairment

The management of the Group has performed for each reporting year the necessary procedures for the mandatory annual test for impairment of goodwill recognized in the consolidated statement of financial position on the acquisition of the subsidiaries Bulgarian Rose Sevtopolis AD, PAO Vitamini, Ivanchich and Sons OOD, Sopharma Buildings REIT, Momina Krepost AD, Unipharm AD, Briz OOD, Extab Corporation USA, Tabina OOO, ZAO Interpharm, Brizpharm SOOO and Vivaton Plus OOO. For the purpose, it was accepted that each individual company was in its capacity of a 'cash generating unit'. The calculations were made by the management of the Group and the assistance of an independent certified appraiser was used. The (pre-tax) projected cash flows were based on the financial budgets developed by the management of the respective companies and of the Group as a whole that covered a three-to-five-year period as well as other medium-term and long-term plans and intents for the development and restructuring of the activities within the Group. The cash flows after the 3-, respectively 5-year period were extrapolated at growth of 1-20 % against the prior year – the frames of the long-term prognosis of inflation for the country and the limits of the industry. The recoverable amount of each cash generating unit was determined on the basis of the 'value in use'.

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

- growth rate – from 1% to 20% (2011: from 2% to 5%);
- discount rate (based on WACC) – from 9.4% to 23.9% (2011: from 9.8 % to 20.8%).

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

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

The tests and assumptions of the management of the Group for impairment of recognized goodwill are made through the prism of its projections and intents on the future economic benefits, which the Group expects to gain from its subsidiaries, including through the use of their internally created trademarks, trade and industrial experience and generated and expected future revenues, ensuring positions on the Bulgarian and foreign markets, expectations for future sales and business restructuring, etc..

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

As at 31 December 2012, the management of the Group 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 investments in companies whose shares are registered for trading on foreign stock exchanges, qualifying as active markets, and whose shares are traded in sufficient volume of transaction in the capital market: it is accepted and they are measured at fair value determined directly on the basis of average purchase prices of realized deals in the stock exchange in the last month of the financial year (Level 1). The applied prices were additionally analyzed for trends in the behavior of stock prices of the respective securities at least for the last three months of the year and respectively, to the date of issue of the financial statements.

B. With regard to investments in companies whose shares are registered for trading on the Bulgarian Stock Exchange, it is accepted and they are subsequently measured as follows: a) for minority investments in the range from 0.01% to 10% - at fair value, determined on the basis of adjusted stock prices (level 2), insofar as the packages, held by the Company, are small in size and may be sold on the stock market; and b) for minority investment in the range from 10.01% to 19.99% - at fair value, determined on the basis of a combined valuation approach – adjusted stock prices (level 2) and fair value, determined by the analysis of unobservable baseline information and data (Level 3), insofar as these packages have larger volumes and are kept as part of long-term business objectives by the Company.

For the measurement of the fair value of available-for-sale investments as at 31 December 2012 the following basic valuation methods have been applied: a) the analogical companies method (Level 2) through derivation of market factors: company value to EBITDA; company value to net income; company value to total assets; company value to equity and company value to operating income, and b) the method of discounted cash flows (level 3) on the basis of estimates of future cash flows using financial budgets / forecasts covering a three- to five-year period, disclosed information about new products and services, as well as the historical financial statements of the respective company, in which it has invested. The key assumptions used in the calculation of the fair value by this method are:

- 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 are defined specifically for each company and according to its specific operations, business environment and risks.

The calculations are conducted by the management of the Company with the assistance of an independent licensed appraiser.

Specific analysis was also made with regard to all investments in available-for-sale securities of the behavioral graph of their stock exchange prices and the fair values determined by other alternative valuation methods for a period of 18 months at 31 December in order to determine whether conditions exist for permanent and significant impairment. As a result of this analysis, the following it was found for part of the investments as at 31 December 2012: a) a trend of retaining of low level of share prices; b) continuous decrease against the prior period; and/or c) low prices of analogous companies and/or other valuations of the held shares-investments, determined by alternative valuation methods (e.g. discounted cash flows method, market analogues), which are maintained or decreased compared to the values at the end of the prior year.

2.33.4. Group companies operating in the environment of hyperinflationary economies

As at 31 December 2012 the total inflation in Belarus for the last three years exceeded 100%. Therefore, the management of the parent company has defined the Group companies performing their business activities in Belarus as companies operating in the environment of hyperinflationary economy. In addition, it undertakes all necessary measures so that the subsidiaries in Belarus are maintained to operate under the going concern principle.

Because of these circumstances, for the purposes of these consolidated financial statements were made restatements under hyperinflation of the figures in the financial statements of the companies operating in Belarus – Brititrade SOOO, Tabina OOO, ZAO Interpharm, Brizpharm SOOO, Vivaton Plus OOO, Alean ODO, Vestpharm ODO, NPK Biotest OOO and BelAgroMed ODO. For the previous period the comparatives were not restated, but were used the already restated ones with the relevant inflation rate for the respective period (2012). 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 2009 to 2013 is as follows:

Year	**2009**	**2010**	**2011**	**2012**	***Q 1*** **2013**
Consumer price index compared to previous period (%)	9.8	10.1	108.7	21.8	5.4

2013

Q 1	***%***	***Q 2***	***%***	***Q 3***	***%***	***Q 4***	***%***
January	3.0	April		July		October	
February	1.2	May		August		November	
March	1.1	June		September		December	

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

Inflation indices in the range from 1.023 to 1.053 (2012: from 1.01 to 1.22) were used for the restatement of the figures in the financial statements of the subsidiaries in Belarus.

Gain on the net monetary position from restatements for hyperinflationary economy from the following subsidiaries:

	2013	**2012**
	BGN '000	**BGN '000**
ZAO Interpharm	*43*	*406*
including: of goodwill	*15*	*23*
Tabina OOO	247	100
including: of goodwill	*1,354*	*91*
Alean ODO	11	-
including: of goodwill	33	-
Brititrade SOOO	(679)	(2,729)
including: of goodwill	*230*	*9*
Total:	**(378)**	**(2,223)**

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.

2.33.6. Inventories

Normal capacity

The normal production capacity of the companies of the Group is determined on the following basis: a) monthly weighted average man-hours worked; b) monthly weighted average capital-hours worked; c) monthly weighted average production volume in quantitative, natural indicators.

Normal capacity is determined by type of production and on the basis of observations on the movement of the respective index over a period of three to five years.

The choice of the specific basis for the respective company depends on the specifics of the organization of production, including its labor intensity, respectively capital intensity.

Allowance for impairment

The companies of 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 realized at their current carrying value in the following reporting periods, the Group companies impair the inventories to net realizable value.

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 recognized in the consolidated statement of comprehensive income (within profit or loss for the year) as impairment (Note №10).

After 180 days of delay it is already considered that indicators for impairment may exist. In the judgment of collectability of receivables, the management of the Group companies perform analysis of the total exposure of each counterparty in order to establish the actual possibility for their collection and not only at the level of past due individual receivables from the total amount due by the counterparty, including potential possibilities for collecting of possible compensation interest. 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 realization of the collateral or guarantee payment). Where the management has judged that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are impaired to 100%.

For 2013 the amount of recognized impairment (net of recoveries) was 388 thousand BGN (31 March 2012: 270 thousand BGN) (Note № 10).

2.33.8. Actuarial calculations

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

2.33.9. Litigation provisions

As at 31 March 2013 no litigation provisions for accrued liabilities on lawsuits were recorded in the consolidated statement of financial position.

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 'property, plant and equipment' section of the consolidated statement of comprehensive income. 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:

	2013	*2012*
	BGN '000	***BGN '000***
Goods	109 565	105 671
Finished products	78 043	67 496
Total	**187 608**	**173 167**

Sales of goods by type	***2013***	***2012***
	BGN '000	***BGN '000***
Tablet dosage forms	54 611	57 018
Ampoule dosage forms	31 007	22 654
Consumables, dressing materials and apparatuses	7 007	6 304
Drops	5 690	4 842
Syrup dosage forms	3 069	3 802
Ointments	2 278	2 406
Food supplements and herbs	1 925	2 440
Isotopes	449	459
Food products	361	461
Other	3 168	5 285
Total	**109 565**	**105 671**

Sales of finished products by type	***2013***	***2012***
	BGN '000	***BGN '000***
Tablet dosage forms	51 945	47 391
Ampoule dosage forms	10 740	9 041
Syrup dosage forms	6 832	4 325
Ointments	1 670	1 716
Syringes	1 336	620
Drops	1 229	56
Lyophilic products	1 047	1 890
Infusion solutions	508	434
Suppositories	232	268
Blow-molded articles	94	171
Other	2 410	1 584
Total	**78 043**	**67 496**

4. OTHER OPERATING INCOME AND LOSSES, NET

Other operating income and losses, net include:

	2013	***2012***
	BGN '000	***BGN '000***
Services rendered	1 398	423
Net gains (losses) on exchange rate differences on commercial receivables and payables and current accounts	431	(441)
Rentals	257	159
Social services and events	123	108
Income from financing	97	90
Gain/(loss) on sale of materials	(22)	41
Gain/(loss) on sale of long-term assets	(3)	228
Other	80	179
Total	**2 361**	**787**

5. RAW MATERIALS AND CONSUMABLES USED

Expenses on materials include:

	2013	*2012*
	BGN '000	***BGN '000***
Basic materials	15 258	18 506
Heat power	1 768	2 076
Electric energy	1 345	1 079
Spare parts, laboratory and technical materials	1 276	1 644
Fuels and lubricating materials	866	897
Water	243	262
Office supplies	170	162
Working clothes	102	155
Advertising materials	101	69
Impairment of materials	2	19
Other	353	297
Total	**21 484**	**25 166**

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

	2013	*2012*
	BGN '000	***BGN '000***
Substances	7 159	9 008
Packaging materials	2 899	3 572
Liquid and solid chemicals	1 611	1 911
Aluminum foil	1 368	1 720
Ampoules	648	822
Bags	343	214
Polypropylene, polyethylene, polystyrene	302	122
Herbs	281	479
Other	647	658
Total	**15 258**	**18 506**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2013	*2012*
	BGN '000	*BGN '000*
Advertising	3 684	3 132
Rentals	1 422	988
Consulting services	957	582
Forwarding and transportation services	894	909
Manufacture	838	2 297
Buildings and equipment maintenance	565	852
Insurance	361	433
State and regulatory taxes	359	388
Subscription fees	347	416
Security	306	234
Services under civil contracts with physical persons	305	410
Services related to the registration of medicines	255	134
Local taxes and fees	228	298
Communications	199	238
Fees on current accounts in banks	197	194
Car repairs and maintenance	194	193
Medicines destruction services	173	67
Medical services	148	119
Service fees	143	176
Logistics	136	213
Expense taxes	115	135
Commissions	73	129
Translation of documentation	71	108
License fees and charges	54	31
Analysis	40	5
Courier services	34	66
Other	2 121	488
Total	**14 219**	**13 235**

7. EMPLOYEE BENEFITS EXPENSE

Personnel costs include:	*2012*	*2011*
	BGN '000	*BGN '000*
Current wages and salaries	13 147	12 417
Social security/health insurance contributions	2 711	2 647

Social benefits and payments	803	631
Accruals for unused paid leaves	423	444
Social security/health insurance contributions on leaves	88	95
Accrued provisions for long-term benefits to personnel upon retirement	104	76
Total	**17 276**	**16 310**

8. CARRYING VALUE OF GOODS SOLD

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

	2013	*2012*
	BGN '000	*BGN '000*
Tablet dosage forms	53 243	54 000
Ampoule dosage forms	30 701	20 512
Consumables, dressing materials and apparatuses	6 407	5 610
Drops	5 390	4 710
Syrup dosage forms	2 927	3 549
Ointments	2 149	2 290
Food supplements and herbs	1 615	2 152
Isotopes	318	340
Food products	216	368
Other	2 969	4 064
Total	**105 935**	**97 595**

9. OTHER OPERATING EXPENSES

	2013	*2012*
	BGN '000	*BGN '000*
Entertainment allowances	432	487
Charged/(reversed) impairment of current assets, net (Note 10)	393	274
Business trips	325	280
Scrap and shortages of finished products and work in progress	265	4
Scrap and shortages of goods	149	160
Donations	107	97
Training	70	92
Payments to the budget for taxes and interest on taxes	66	38
Unrecognized tax credit	47	21
Other	1 579	311
Total	**3 433**	**1 764**

10. IMPAIRMENT OF ASSETS

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

	2013	*2012*
	BGN '000	*BGN '000*
Impairment of receivables (Note 9)	388	270
Impairment of finished products (Note 9)	5	4
Total	**393**	**274**

11. FINANCE INCOME

Finance income includes:

	2013	*2012*
	BGN'000	*BGN'000*
Interest income on loans granted	952	1 054
Interest income on past due payments	658	110
Net income from exchange rate differences on loans	176	-
Interest on receivables from special contracts	50	-
Interest income from deposits	16	21
Income from shares	6	-
Total	**1 858**	**1 185**

12. FINANCE COSTS

Finance costs include:

	2013	*2012*
	BGN'000	*BGN'000*
Interest expense on loans received	1 713	1 615
Net loss from exchange rate differences on loans	173	119
Bank fees and charges on loans and guarantees	114	175
Interest expense on finance lease	38	81
Investment operations expenses	13	7
Total	**2 051**	**1 997**

13. OTHER COMPREHENSIVE INCOME

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

	2013 BGN' 000			2012 BGN' 000		
	Value before tax	**Savings from/ (expense) from tax**	**Net from tax value**	**Value befor e tax**	**Savings from/ (expense) from tax**	**Net from tax value**
Net change in the fair value of available-for-sale financial assets	64	-	64	-	-	-
Net gain from revaluation of property, plant and equipment	4	-	4	-	-	-
Exchange differences from restating foreign operations	598	-	598	458	-	458
Other comprehensive income for the year, net of tax	**666**	**-**	**666**	**458**	**-**	**458**

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2013 BGN '000	*2012 BGN '000*	*2013 BGN '000*	*2012 BGN '000*	*2013 BGN '000*	*2012 BGN '000*	*2013 BGN '000*	*2012 BGN '000*	*2013 BGN '000*	*2012 BGN '000*
Book value										
Balance at 1 January	**141 457**	**137 359**	**128 032**	**116 151**	**41 107**	**32 938**	**81 945**	**36 467**	**392 541**	**322 915**
Additions	1 482	3 176	2 360	2 647	570	5 097	11 204	65 484	15 616	76 404
Acquired assets in a newly acquired subsidiary		16	7	18		29			7	63
Effect of revaluation to fair value									-	0
Effects of foreign currency and hyperinflationary restatements	184	(337)	218	(153)	72	(201)	6	(198)	480	(889)
Disposals		(616)	(28)	(1295)	(1038)	(1995)		(338)	(1 066)	(4244)
Disposed carrying value of assets upon sale of subsidiaries		(502)		(544)		(61)		(181)		(1288)
Impairment									-	-
Transfer to investment properties		-236		-171		-12			-	(419)
Transfer to property, plant and equipment	212	2 597	9 058	11 379	202	5 312	(9 472)	(19289)	-	(1)
Balance at 31 March/December	**143 335**	**141 457**	**139 647**	**128 032**	**40 913**	**41 107**	**83 683**	**81 945**	**407 578**	**392 541**

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Accumulated depreciation										
Balance at 1 January	**13 893**	**10 575**	**67 378**	**59 685**	**19 196**	**16 317**	**-**	**-**	**100 467**	**86 577**
Depreciation charge for the year	869	3 504	2 419	9 304	1 289	4 740			4 577	17 548
Allowance for impairment		(17)	(45)	(1076)	(276)	(1779)	-	-	(321)	(2872)
Allowance for impairment of assets upon sale of subsidiaries		(174)		(559)		(61)				(794)
Impairment									-	-
Effects of foreign currency and hyperinflationary restatements	7	5	15	24	7	(21)			29	(8)
Effect of revaluation to fair value					-	-			-	-
Balance at 31 March/December	**14 769**	**13 893**	**69 767**	**67 378**	**20 216**	**19 196**	**-**	**-**	**104 752**	**100 467**
Carrying value at 31 March/December	**128 566**	**127 564**	**69 880**	**60 654**	**20 697**	**21 911**	**83 683**	**81 945**	**302 826**	**292 074**
Carrying value at 1 January	**127 564**	**126 784**	**60 654**	**56 466**	**21 911**	**16 621**	**81 945**	**36 467**	**292 074**	**236 338**

At 31 March 2013, the fixed assets of the Group include: land 43,464 thousand BGN (31 December 2012: 42,012 thousand BGN) and buildings with a carrying value of 85,102 thousand BGN (31 December 2012: 85,552 thousand BGN).

The acquisition costs of tangible assets as at 31 March 2013 include:

- Expenses for construction of new buildings – 62,668 thousand BGN (31 December 2012: 56,353 thousand BGN);
- Delivery of equipment – 16,621 thousand BGN (31 December 2012: 20,271 thousand BGN);
- Advance payments – 3,181 thousand BGN (31 December 2012: 4,332 thousand BGN);
- Reconstruction of buildings – 998 thousand BGN (31 December 2012: 775 thousand BGN);
- Other – 215 thousand BGN (31 December 2012: 215 thousand BGN)

As at 31 March 2013, there were encumbrances on tangible fixed assets of the Group in connection with borrowing as follows:

- Land and buildings with a carrying value of 18,116 thousand BGN respectively and 51,979 thousand BGN (31 December 2012: respectively 15,973 and 53,128 thousand BGN);
- Pledged equipment with a carrying value – 1,086 thousand BGN (31 December 2012: 1,214 thousand BGN);
- Pledged equipment – 38,872 thousand BGN (31 December 2012: 32,150 thousand BGN);

• Transport vehicles - none (31 December 2012: none);
• Fixtures – none (31 December 2012: none);
• Fixed assets in course of construction - none (31 December 2012: none).

The carrying value of tangible fixed assets (vehicles) of the Group obtained under a finance lease as at 31 March 2013 amounts to 3,155 thousand BGN (31 December 2012: 3,789 thousand BGN).

Operating leases

As at 31 March 2013 the Group has rented long-term fixed assets to related parties at a carrying value of 16,950 thousand BGN (31 December 2011: 1,138 thousand BGN). The Group has also rented long-term fixed assets to third parties at a carry amount of 898 thousand BGN as at 31 March 2013 (31 December 2012: 492 thousand BGN).

The carrying value of long-term fixed assets of the Group under operating leases by types of assets is as follows:

	31.03.2013	***31.12.2012***
	BGN'000	***BGN'000***
Building	17,316	1,495
Machinery and equipment	532	135
	17,848	**1,630**

15. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Other*		*Assets in progress*		*Total*	
Book value	*2013 BGN '000*	*2012 BGN '000*	*2013 BGN '000*	*2012 BGN '000*	*2013 BGN '000*	*2012 BGN '000*	*2013 BGN '000*	*2012 BGN '000*	*2013 BGN '000*	*2012 BGN '000*	*2013 BGN '000*	*2012 BGN '000*
Balance at 1 January	**21 878**	**21602**	**10 249**	**9263**	**5 676**	**5181**	**2 653**	**1966**	**2 559**	**2062**	**43015**	**40074**
Additions	31	87		184	102	380			(15)	1 486	118	2 137
Acquired assets in a subsidiary		189		72			416	679			416	940
Effects of foreign currency and hyperinflationary restatements	299		35		1	(1)	79	20	5	(4)	419	15
Transfer			77	731		116		-12	(77)	(835)	-	-
Disposals				(1)						(150)	-	(151)
Balance at 31 March/December	**22 208**	**21878**	**10 361**	**10249**	**5 779**	**5676**	**3 148**	**2653**	**2 472**	**2559**	**43968**	**43015**
Accumulated amortization and impairment												
Balance at 1 January	**8 929**	**6 821**	**3 948**	**2 511**	**3 109**	**2213**	**649**	**550**	**-**	**-**	**16635**	**12095**
Amortization charge for the year			387	1 493	234	898	61	141			682	2 532
Allowance for impairment			14	(56)		(2)		(42)			14	(100)
Effects of foreign currency and hyperinflationary restatements		2 108									-	2 108

Amortization written-off			(7)	-							(7)	-
Balance at 31 March/December	**8 929**	**8 929**	**4 342**	**3 948**	**3 343**	**3109**	**710**	**649**	**-**	**-**	**17324**	**16635**
Carrying value 31 March/December	**13 279**	**12949**	**6 019**	**6 301**	**2 436**	**2567**	**2 438**	**2004**	**2 472**	**2559**	**26644**	**26380**
Carrying value at 1 January	**12 949**	**14781**	**6 301**	**6 752**	**2 567**	**2968**	**2 004**	**1416**	**2 559**	**2062**	**26380**	**27979**

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 capitalized 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.

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

The other intangible assets include mainly exclusive contracts with counterparts acquired in business combinations, licenses and distribution network.

As a result of the analysis, valuations and projections performed, the management of the Group recognized in 2012 impairment of part of the goodwill of the subsidiaries – ZAO Interpharm by 669 thousand BGN, Tabina OOO by 543 thousand BGN, Momina Krepost AD by BGN 364 thousand BGN, Sopharma Buildings REIT by 484 thousand BGN and Extab Corporation USA by BGN 48 thousand BGN.

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

16. INVESTMENT PROPERTY

	31.03.2013	*31.12.2012*
	BGN '000	*BGN '000*
Balance at 1 January	**7 110**	**6 555**
Additions	1	-
Effect of restatement	(6)	2
Transfer of property, plant and equipment	-	419
Fair value measured as at 31 December, recorded in the statement of comprehensive income (within profit or loss for the year)	-	116
Fair value measured as at 31 December, recorded in the statement of changes in owner’s equity	-	18
Balance at 31 December	**7 105**	**7 110**

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.

17. INVESTMENT IN ASSOCIATED COMPANIES

As at 31 March 2013 the associated companies of the Group are: NPK Biotest OOO, Belarus, BelAgroMed ODO, Belarus and Vestpharm ODO, Belarus with principal activity trade in pharmaceutical products.

The movement of investments in associated companies is presented below:

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
Balance at 1 January	**582**	**-**
Acquisition of shares/(interests)	1 141	583
Share in change of components of other comprehensive income	(1)	-
Share in profit/(loss) for the period	4	(1)
Balance at 31 March / 31 December	**1 726**	**582**

18. AVAILABLE-FOR-SALE INVESTMENTS

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

	Country	*31.03.2013 BGN '000*	*Interest %*	*31.12.2012 BGN '000*	*Interest %*
Doverie United Holding AD	Bulgaria	14 966	18.70	15 036	18.80
Krimgas OAO	Ukraine	2 815	9.07	2 734	9.07
Medica AD	Bulgaria	2 579	10.22	2 574	10.20
Olainfarm AD	Latvia	1 306	0.77	1 078	0.77
Pharmacist Plus	Belarus	627	17.00	-	-
CF Elana Fund Money Market	Bulgaria	506	3.23	104	0.76
Lavena AD	Bulgaria	399	8.47	399	8.47
Hydroizomat AD	Bulgaria	387	9.93	374	9.38
Spetz Pharmacy	Belarus	332	19.00	-	-
Sopharma Properties REIT	Bulgaria	308	0.93	234	0.70
Elpharma AD	Bulgaria	158	19.00	158	19.00
Maritzatex AD	Bulgaria	80	8.80	-	6.20
Balkanpharma Razgrad AD	Bulgaria	70	0.33	70	0.33
Todorov AD	Bulgaria	30	4.63	33	5.10
NPK Biotest	Belarus	-	0.00	491	19.00
BelAgroMed	Belarus	-	19.00	92	19.00
Other		43		48	
Total		**24 606**		**23 425**	

As at 31 March 2013 the value of the other available-for-sale investments amounting to 43 thousand BGN (31 December 2012: 48 thousand BGN) includes very small minority interests of the Group in the capital of ten companies (31 December 2012: nine companies).

The investments are valuated at fair value based on: a) for shares of companies, traded on foreign stock exchanges – average stock prices for December (level 1); b) for minority interests (between 0.01% to 10%), traded on the Bulgarian Stock Exchange – adjusted stock exchange prices (Level 2), and c) for minority interests (from 10.01% to 19.99%), traded on the Bulgarian Stock Exchange – combined approach (level 2 and level 3). (Note №2.33). Shares in the non-public companies: OOO NPK Biotest, Belarus, ODO Bel Agro Med, Belarus, Elpharma AD, Bulgaria, Balkanpharma Razgrad AD and the minority interests, included in "Other" of available-for-sale investments, are valued at acquisition cost, since shares of these companies are not traded on the stock market and there are no quoted market prices and the assumptions for the application of alternative valuation methods are associated with a high level of uncertainty in order to achieve a reliable measurement of the fair value.

19. LOANS GRANTED TO RELATED PARTIES

Loans granted to related parties are from companies under a common indirect control through key managing personnel and include:

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
Loans granted to related parties	742	748
Receivables from deposits on long-term rentals	435	435
	1 177	**1 183**

As at 31 March 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:	1,100 thousand EUR
Interest rate:	8.08%
Maturity:	31.12.2014 г.
Collateral:	None
Purpose of the loan:	Working capital
Balance at 31 March 2013 / 31 December 2012	748 thousand BGN (31 December 2012: 748 thousand BGN)
Including interest	*20 thousand BGN* *(31 December 2012: 25 thousand BGN)*

The receivable on the long-tern deposit is related to a rental contract of administrative offices with a term until 1 August 2022.

20. OTHER LONG-TERM RECEIVABLES

The ***other long-term receivables*** of the Group as include:

	31.03.2013	*31.12.2012*
	BGN '000	*BGN '000*
Loans granted	1 773	1 314
Guarantee deposits	31	30
Other	120	116
	1 924	**1 460**

The loans granted by the Group are to third parties, unsecured and with a contractual annual interest rate of 7% to 8.08% (31 December 2012: from 7% to 8.08%).

21. INVENTORIES

Inventories include:

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
Goods	50 148	55 012
Finished products	38 381	38 954
Materials	30 938	29 228
Semi-finished products	4 785	4 574
Work-in-progress	2 460	3 182
Total	**126 712**	**130 950**

Goods by type are as follows:

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
Tablet dosage forms	24 170	26 986
Ampoule dosage forms	9 965	10 379
Syrups	1 937	2 314
Goods in a process of delivery	1 800	883
Drops	1 584	2 177
Ointments	1 211	1 472
Isotopes	28	15
Other	9 453	10 786
Total	**50 148**	**55 012**

Finished products include:

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
Tablet dosage forms	24 872	26 146
Ampoule dosage forms	7 521	6 969
Syrups	2 060	2 418
Other	3 928	3 421
Total	**38 381**	**38 954**

Materials by type are as follows:

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
Basic materials	28 952	25 235
Auxiliary materials	475	484
Spare parts	427	389
Technical materials	420	426
Materials in the process of delivery	123	1 909
Other	541	785
Total	**30 938**	**29 228**

Basic materials by type are as follows:

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
Substances	19 051	15 573
Vials, tubes and ampoules	4 492	3 695
Chemicals	1 921	2 108
Packaging materials	1 264	1 351
PVC and aluminum foil	1 223	1 279
Herbs	419	648
Other	582	581
Total	**28 952**	**25 235**

As at 31 March 2013, there were established special pledges on inventories at the amount of 88,324 thousand BGN (31 December 2012: 91,199 thousand BGN) as collateral under received by the Group bank loans and issued bank guarantees.

22. TRADE RECEIVABLES

Trade receivables include:

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
Receivables from clients	183 763	158 129
Impairment of uncollectible receivables	(3 928)	(3 345)
	179 835	154 784
Advances to suppliers	8 649	5 816
Impairment of advances	(42)	(42)
Advances to suppliers	8 607	5 774
Total	**188 442**	**160 558**

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

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

The Group has set a common credit period of 180 days for which no interest is charged to clients. Any delay after this period is regarded by the Group as an indicator for impairment. The management of the Group companies assess collectability by analyzing 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:

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
up to 30 days	49 518	38 510
from 31 to 90 days	44 934	47 308
from 91 to 180 days	35 788	23 154
from 180 to 360 days	4 706	3 401
from 1 to 2 years	916	891
over 2 years	0	0
Total	**135 862**	**113 264**

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

	31.3.2013	*31.12.2012*
	BGN '000	***BGN '000***
from 31 to 90 days	6 696	11 485
from 91 to 180 days	8 398	3 507
from 180 to 365 days	10 796	7 131
from 1 to 2 years	3 862	3 102
over 2 years	1 173	1 291
Total	**30 925**	**26 516**

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

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

	31.3.2013	*31.12.2012*
	BGN '000	***BGN '000***
from 31 to 90 days	0	390
from 91 to 180 days	305	1 788
from 180 to 365 days	4 131	5 041
over 1 year	12 540	11 130
allowance for impairment	(3 928)	(3 345)
	13 048	**15 004**

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

As at 31 March 2013, there were established special pledges on trade receivables at the amount of 32,562 thousand BGN (31 December 2012: 32,562 thousand BGN) as collateral on bank loans received by the Group and issued bank guarantees.

Movement of the allowance for impairment

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
Balance at the beginning of the year	**3 345**	**3 296**
Impairment amount	583	274
Amounts written-off as uncollectable	-	(29)
Recovered impairment	-	(156)
Transferred impairment on court cases	-	(30)
Recalculations	-	(10)
Balance at the end of the year	**3 928**	**3 345**

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

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
Raw and other materials	1 665	1 932
Goods	6 069	3 368
Services	794	419
Other	121	97
Allowance for impairment	(42)	(42)
	8 607	**5 774**

23. RECEIVABLES FROM RELATED PARTIES

	31.03.2013	*31.12.2012*
	BGN '000	*BGN '000*
Receivables from companies under a common indirect control through key managing personnel	43 201	39 981
Receivables from companies under a common indirect control	11 719	12 359
Receivables from main shareholding companies	7 676	8 531
Receivables from associated companies	152	0
Total	**62 748**	**60 871**

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

	31.3.2013	***31.12.2012***
	BGN '000	***BGN '000***
Trade loans granted	60 805	56 553
Receivables on sales of finished products and materials	1 943	4 318
Total	**62 748**	**60 871**

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

	31.3.2013	***31.12.2012***
	BGN '000	***BGN '000***
Companies under a common indirect control through key managing personnel	42 842	37 156
Companies under a common indirect control	10 270	10 866
Main shareholding companies	7 676	8 531
Associated companies	17	0
Total	**60 805**	**56 553**

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

Currency	***Contracted amount '000***	***Maturity***	***Interest***	***31.03.2013***		***31.12.2012***	
				BGN'000	***BGN'000 including interest***	***BGN'000***	***BGN'000 including interest***
companies under a common indirect control through key managing personnel							
BGN	18 478	31.12.2013	8.30%	17 773	*645*	14 932	*324*
EUR	8 630	31.12.2013	4.50%	12 393	*197*	12 257	*62*
BGN	25 550	31.08.2013	8.08%	9 414	*184*	9 230	-
BGN	2 500	31.08.2013	8.30%	2 511	*11*	-	-
BGN	1 300	31.12.2013	8.08%	520	*19*	510	*9*

BGN	190	31.12.2013	8.08%	231	41	227	37
main shareholding companies							
EUR	4 035	31.12.2013	4.80%	7 310	*4*	8 170	*278*
BGN	300	31.12.2013	8.08%	366	*66*	361	*61*
companies under a common indirect control							
EUR	7 556	31.12.2013	4.50%	10 121	*111*	10 010	-
BGN	1 330	31.12.2013	8.08%	-	-	710	-
BGN	120	10.02.2013	8.08%	149	*29*	146	*26*
associated companies							
BGN	6	30.06.2013	12.00%	17			
				60 788	**1 307**	**56 553**	**797**

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 analyzing 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 recognized and charged on individual basis and at what amount.

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

	31.3.2013	***31.12.2012***
	BGN '000	***BGN '000***
up to 30 days	963	506
from 31 to 90 days	434	373
from 91 to 180 days	13	2 824
Total	**1 410**	**3 703**

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

	31.3.2013	***31.12.2012***
	BGN '000	***BGN '000***
from 31 to 90 days	286	275
From 180 to 365 days	49	2
from 1 to 2 years	198	-
Total	**533**	**277**

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

	31.3.2013	***31.12.2012***
	BGN '000	***BGN '000***
over 1 year	492	816
Allowance for impairment	(492)	(478)
	-	**338**

Movement of the allowance for impairment

	31.3.2013	***31.12.2012***
	BGN '000	***BGN '000***
Balance at 1 January	**478**	**399**
Impairment amount	14	79
Written-off impairment		-
Balance at 31 December	**492**	**478**

24. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments of the Group include:

	31.3.2013	***31.12.2012***
	BGN '000	***BGN '000***
Court and awarded receivables	11 264	13 067
Impairment of court receivables	*(2 956)*	*(2 736)*
	8 308	10 331
Taxes refundable	7 879	7 824
Prepayments	1 354	1 519
Provided guarantees on court cases	846	846
Loans granted to third parties	701	482
Receivables on deposits placed as guarantees	683	664
Provided funds to investment intermediaries	396	652
Other	311	203
Total	**20 478**	**22 521**

Refundable taxes include:	***31.3.2013***	***31.12.2012***
	BGN '000	***BGN '000***
Excise duties	4 099	3 878
VAT	3 215	2 309
Profit tax	348	1 527
Withholding taxes	215	110
Local taxes and charges	2	0
Total	**7 879**	**7 824**

Prepayments include:	***31.3.2013***	***31.12.2012***
	BGN '000	***BGN '000***
Insurance	588	587
Subscriptions	459	544
Rentals	53	111
License and patent fees	21	23
Medical services	16	0
Vouchers	15	8
Advertising	9	148
Other	193	98
Total	**1 354**	**1 519**

Guarantee deposits include:	***31.3.2013***	***31.12.2012***
	BGN '000	***BGN '000***
Guarantees related to successful completion of contracts	339	332
Guarantees related to contracts for fuel and energy supply	115	131
Guarantees related to contracts for supply of communication services	33	31
Other	196	170
Total	**683**	**664**

Court receivables result primarily in connection with sales to state hospitals. In most cases repayment plans are contracted or being negotiated and therefore the Group's management has decided to only partial impair those receivables.

Loans to third parties amounted to 701 thousand BGN (31 December 2012: 482 thousand BGN) are provided to nine companies (2012: nine companies) – counterparties for working capital. The agreed annual interest rate on these loans is between 6% and 8.08% (2012: 6% and 8.08%).

25. CASH AND CASH EQUIVALENTS

Cash equivalents include:

	31.3.2013	***31.12.2012***
	BGN '000	***BGN '000***
Cash at current bank accounts	21 816	11 847
Short-term deposits	1 828	2 718
Cash in hand	1 066	1 129
Blocked funds	85	73
Total	**24 795**	**15 767**

Cash and cash equivalents of the Group are mainly in BGN and EUR (31 December 2012: BGN and EUR).

As at 31 December 2012 blocked cash amounts to 85 thousand BGN (31 December 2012: 73 thousand BGN) and is mainly guarantees for execution.

26. EQUITY

Primary share capital

As at 31 March 2013 the registered share capital of Sopharma AD amounts to 132,000 thousand BGN, divided into 132,000,000 shares with nominal value one lev per share.

The ***treasury shares*** are 4,033,851 amounting to 14,000 thousand BGN (31 December 2012 3, 853,735 shares amounting to 13,594 thousand BGN) based on the decision of the General Meeting of Shareholders held on 31 June 2010.

Statutory reserves amount to 25,934 thousand BGN (31 December 2012: 25,934 thousand BGN) and are formed by the profit sharing of the parent company and fully include the "Reserve Fund".

Revaluation reserve - property, plant and equipment amounted to 26, 393 thousand BGN (31 December 2012: 26,395 thousand BGN) is formed by the positive difference between the carrying value of property, plant and equipment of the Group companies and their fair values at the dates of the regular revaluations. The effect of deferred taxes on revaluation is recognized directly by the other components of comprehensive income for the year

Reserve of available-for-sale financial assets amounted to 1,112 thousand BGN - positive figure (31 December 2012: 1,048 thousand – positive figure) is formed by the effects of subsequent valuation of available-for-sale investments at fair value (including the consolidated share of the change of this reserve in associated companies at valuation under the equity method).

Reserve from recalculation in the presentation currency of foreign operations amounted to 3,355 thousand BGN – negative figure (31 December 2012: 3,804 thousand - negative) is formed by exchange rate differences resulting from recalculation of the currency of the financial statements of foreign companies in the currency of the Group.

Reserve "Retained earnings" includes the component "other reserves", which includes amounts distributed from the profits from past years of the companies of the Group and the component “retained earnings”.

27. LONG-TERM BANK LOANS

Currency	*Contracted loan amount '000*	*Maturity*	*31.3.2013 Long-term part BGN'000*	*Short-term part BGN'000*	*Total BGN'000*	*31.12.2012 Long-term part BGN'000*	*Short-term part BGN'000*	*Total BGN'000*
Credit lines and working capital loans								
EUR	1 452	31.12.2017	2 046	567	**2 613**	2 188	614	**2 802**
EUR	1 050	31.12.2017	1 574	411	**1 985**	0	0	**0**
EUR	800	9.12.2015	705	364	**1 069**	695	348	**1 043**
EUR	450	31.12.2017	646	176	**822**	690	191	**881**

EUR	1 617	30.1.2015	399	479	**878**	519	479	**998**
EUR	300	28.6.2014	365	0	**365**	0	303	**303**
EUR	500	7.4.2014	307	677	**984**	301	677	**978**
EUR	113	30.11.2015	114	68	**182**	130	74	**204**
EUR	1 675	30.6.2013	-	10	**10**	0	25	**25**
Investment-purpose loans								
EUR	32 000	15.4.2021	54 008	7 709	**61 717**	51 779	5 888	**57 667**
EUR	2 000	25.7.2014	302	960	**1 262**	542	960	**1 502**
			60 466	**11 421**	**71 887**	**56 844**	**9 559**	**66 403**

The Company has gradually established a policy of annual renegotiation of the initial contract term of long-term credit lines, incl. maturities. From the date of renegotiation the extended credit lines are presented as short-term bank loans (Note № 30).

The bank loans received in Euro were agreed mainly at interest rate based on EURIBOR plus a mark-up of up to 5 points, (2012: EURIBOR plus a mark-up of up to 5 points).

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

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

- Real estate mortgages (Note 14);
- Special pledges on:
    - machinery and equipment (Note 14);
    - raw materials, consumables and finished products (Note 21);
    - trade receivables (Note 22).

28. FINANCE LEASE LIABILITIES

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	***31.3.2013***	***31.12.2012***
	BGN '000	***BGN '000***
Up to one year	869	1 011
Over one year	2 081	2 509
Total	**2 950**	**3 520**

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

Term	***31.3.2013 BGN '000***	***31.12.2012 BGN '000***
Up to one year	1 305	1 512
Over one year	2 891	3 583
	4 196	5 095
Future finance costs under finance leases	(1 246)	(1575)
Present value of finance lease payments	**2 950**	**3 520**

The lease payments due within the next 12 months are presented in the consolidated statement of financial position as ‘other current liabilities’ (Note №35).

29. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities include:

	31.3.2013 BGN'000	***31.12.2012 BGN'000***
Government grants (funding) for contracts for grants under European programs	2 475	2 567
Obligation for purchase of available-for-sale investments	47	45
	2 522	**2 612**

The short-term part of the grants at the amount of 462 thousand BGN (31 December 2013: 463 thousand BGN) will be recognized 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 35).

30. SHORT-TERM BANK LOANS

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

Currency	***Contracted amount '000***	***Maturity***	***31.3.2013 BGN'000***	***31.12.2012 BGN'000***
Bank loans				
EUR	20 000	31.5.2013	39 039	39 091
EUR	12 500	17.2.2013	24 218	24 384
EUR	10 000	31.3.2014	19 558	19 558
BGN	10 000	31.3.2014	10 000	10 003

Currency	*Contracted amount*	*Maturity*	*31.3.2013*	*31.12.2012*
	'000		*BGN'000*	*BGN'000*
Bank loans				
EUR	5 000	1.5.2013	9 779	9 785
UAH	49 128	25.3.2014	9 388	-
EUR	4 000	31.5.2013	6 326	3 359
USD	4 000	1.5.2013	6 098	5 936
EUR	3 000	25.4.2013	5 859	5 859
EUR	1 968	1.5.2013	3 703	3 632
EUR	3 000	28.9.2013	2 841	2 858
EUR	2 050	31.7.2013	2 301	2 252
BGN	500	20.9.2013	319	285
EUR	62	31.12.2013	62	-
			139 491	**127 002**
Credit lines				
BGN	23 470	31.1.2014	23 454	19 772
BGN	18 000	31.7.2013	17 922	15 028
EUR	8 434	31.3.2014	15 909	15 909
EUR	5 000	31.8.2013	9 779	9 772
EUR	3 000	25.8.2013	5 867	5 863
EUR	2 500	20.11.2013	4 836	4 851
EUR	3 436	6.9.2013	3 807	3 865
EUR	2 500	31.8.2013	1 315	1 803
EUR	66	31.3.2014	129	129
			83 018	**76 992**
Total			**222 509**	**203 994**

The received bank loans in Euro are mainly contracted at interest rate determined on the basis of EURIBOR plus a mark-up of up to 4.09 point, loans in BGN – one-month SOFIBOR plus a mark-up of up to 3.75 points and for USD – LIBOR plus a mark-up of up to 3.85 (2012: EURIBOR plus a mark-up of up to 4.09 points, for loans in BGN – one-month SOFIBOR plus a mark-up of up to 3.75 points and for USD – LIBOR plus a mark-up of up to 3.85). The loans are intended for working capital.

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

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

31. TRADE PAYABLES

Trade payables include:

	31.3.2013	*31.12.2012*
	BGN '000	***BGN '000***
Payables to suppliers	53 189	53 760
Advances from clients	486	1 482
Commercial loans	63	-
Total	**53 738**	**55 242**

	31.3.2013	***31.12.2012***
The ***payables to suppliers*** refer to:	***BGN '000***	***BGN '000***
Foreign suppliers	32 360	38 988
Bulgarian suppliers	20 829	14 772
Total	**53 189**	**53 760**

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.

Payables to suppliers are denominated in the following currencies:

- in EUR – 30,458 thousand BGN (31 December 2012: 32,907 thousand BGN);

- in BGN – 17,491 thousand BGN (31 December 2012: 14,499 thousand BGN);

- in USD – 2,350 thousand BGN (31 December 2012: 1,467 thousand BGN);

- in other currencies – 2,890 thousand BGN (31 December 2012: 4,887 thousand BGN).

32. PAYABLES TO RELATED PARTIES

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

	31.3.2013	***31.12.2012***
	BGN '000	***BGN '000***
Payables to companies under common indirect control trough key management personnel	1 096	1 273
Payables to companies under common indirect control	998	250
Payables to other related parties	106	18
Payables to main shareholding companies	21	19
Total	**2 221**	**1 560**

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

	31.3.2013	***31.12.2012***
	BGN '000	***BGN '000***
Payables for building of new production capacities	851	-
Payables for supplies of services	898	39
Payables for supplies of goods and materials	452	1 501
Other	20	20
Total	**2 221**	**1 560**

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

33. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security include:

	31.3.2013	***31.12.2012***
	BGN '000	***BGN '000***
Payables to personnel, including:	5 643	5 366
current wages and salaries	*2 393*	*2 478*
accruals on unused compensated leaves	*1 623*	*1 261*
profit-based bonuses	*1 627*	*1 627*
Payables for social security/health insurance, including:	1 407	1 258
current payables for social security	*1 151*	*1 071*
accruals on unused compensated leaves	*256*	*187*
Total	**7 050**	**6 624**

34. TAX PAYABLES

Tax payables include:

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
VAT	2 928	1 603
Income tax	631	397
Individual income taxes payable	319	367
Withholding taxes	102	14
Other	111	27
Total	**4 091**	**2 408**

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 REIT	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 Sons 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
Alean ODO	30.09.2010	30.09.2010	30.09.2006
Vivaton Plus ODO	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 the tax audit is performed as follows: in Ukraine, Russia, Latvia and Belarus – within a term of three years, in Poland – within a term of five years, and in Serbia – within a term of ten years.

35. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.3.2013	*31.12.2012*
	BGN '000	*BGN '000*
Liabilities under sold rights from shares issue	881	882
Finance lease liabilities	869	1011
Dividends payable	536	539
Government donations	462	463
Awards on litigations	281	1339
Deductions from work salaries	217	219
Other	137	137
Total	**3 383**	**4 590**

36. 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 recognized 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.

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 594 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 Burgas 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 favor 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.

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 collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 8,801 thousand (31 December 2012: BGN 8,801 thousand).
- Special pledge on TFA (motor vehicles) with a carrying amount of BGN 487 thousand (31 December 2012: BGN 487 thousand).

Unipharm AD

Bank guarantees at the amount of BGN 29 thousand were issued as at 31 March 2013 within the limits of loan agreements stating collateral as follows:

- Pledge on inventories at the amount of EUR 50 thousand (BGN 50 thousand);
- Promissory Note for the amount of EUR 59 thousand (BGN 59 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.

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 Program "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 Program – 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 "Modernization 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 Hemodialysis 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 "Modernization and Development of Unipharm AD" amounts to BGN 1,489 thousand (2012: BGN 1,866 thousand) while that for the project "Development of a New Hemodialysis Solution and prove its Therapeutic Effect" – BGN 111 thousand (2012: BGN 184 thousand) (Notes 29 and 35).

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 Program "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 in relation with a project for technological renovation and modernization 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 29 and 35). 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 Program "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.

37. 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	***31.3.2013 BGN '000***	***31.12.2012 BGN '000***
	304 599	**269 170**
Loans and receivables, including:	**279 993**	**245 745**
Receivables and loans	*255 198*	*229 978*
Cash and cash equivalents	*24 795*	*15 767*
Available-for-sale financial assets	**24 606**	**23 425**
Available-for-sale investments	24 606	23 425

Financial liabilities	***31.3.2013 BGN '000***	***31.12.2012 BGN '000***
Financial liabilities at amortized cost	**353 915**	**331 225**
Short-term and long-term bank loans	*294 396*	*270 397*
Other loans and liabilities	*59 519*	*60 828*

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 a part of its basic raw materials and 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 recognized assets and liabilities denominated in foreign currency and as to the net investments in foreign companies.

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

As at 31 December 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 most of the Group companies' operations are usually denominated in BGN or EUR.

To control foreign currency risk, there is an implemented system in the whole Group for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rates and control on pending payments. Bulgarian Rose Sevtopolis AD maintains assets and liabilities in foreign currencies (cash, payables to suppliers) originated in prior periods, which are denominated in USD and as at 31 March 2012 it expanded its net exposure to currency risk towards USD compared to prior period. The exposures of almost all subsidiaries in Bulgaria to the currency risk are insignificant because almost all sales are performed to the local market in Bulgarian Lev (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 March 2013	*in BGN*	*in EUR*	*In BYR*	*in USD*	*in other currency*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	19 517		-		5 089	24 606
Loans and receivables, including:	192 064	66 631	2 541	1 464	17 293	279 993
Receivables and loans	*178 874*	*64 722*	*2 162*	*525*	*8 915*	255 198
Cash and cash equivalents	*13 190*	*1 909*	*379*	*939*	*8 378*	24 795
Total financial assets	**211 581**	**66 631**	**2 541**	**1 464**	**22 382**	**304 599**
Short-term and long-term bank loans	93 487	185 361	62	6 098	9 388	294 396
Other loans and liabilities	17 566	32 720	4 424	2 350	2 459	59 519
Total financial liabilities	**111 053**	**218 081**	**4 486**	**8 448**	**11 847**	**353 915**

31 December 2012	*in BGN*	*in EUR*	*In BYR*	*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	**10 380**	**229 116**		**42 141**	**6 272**	**287 909**

Price risk

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

(a) (a) a possible increase of purchase prices of raw materials and consumables, since a significant portion of the raw materials used are imported and they represent a significant share of production costs;

(b) a possible increase in supplier prices of goods, including as a result of hyperinflation for the subsidiaries in Belarus; and

(c) the growing competition on the Bulgarian pharmaceutical market is also reflected in drug prices.

For the purpose of mitigating this influence, the management of the Group applies a strategy aimed at optimization 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 49% of Group's trade receivables (31 December 2012: 48%). It 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 favor of the Group company for 130% - 135% of the credit granted. These limits are reviewed on a monthly basis. The clients that cannot cover the creditworthiness criteria may perform purchases in cash.

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

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

The management of the Group currently monitors and regulates the concentration of receivables by client and counterpart.

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, 2012 and 2013 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 optimization 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 March 2013	***up to 1 month***	***from 1 to 3 months***	***from 3 to 6 months***	***from 6 to 12 months***	***from 1 to 2 years***	***from 2 to 5 years***	***over 5 years***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***

Available-for-sale financial assets	2 815	-	-	-	21 508	283	-	**24 606**
Loans and receivables, including:	117 050	51 999	44 536	60 688	2 829	5 983	1 051	**284 136**
Loans and receivables	*94 352*	*50 299*	*44 132*	*60 674*	*2 829*	*5 983*	*1 051*	***259 320***
Cash and cash equivalents	*22 698*	*1 700*	*404*	*14*	*-*	*-*	*-*	***24 816***
Total assets	**119 865**	**51 999**	**44 536**	**60 688**	**24 337**	**6 266**	**1 051**	**308 742**
Short-term and long-term bank loans	9 613	72 227	42 539	116 195	12 922	31 407	24 796	**309 699**
Other loans and liabilities	30 301	20 680	5 296	1 702	822	1 998	-	**60 799**
Total liabilities	**39 914**	**92 907**	**47 835**	**117 897**	**13 744**	**33 405**	**24 796**	**370 498**

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**
Loans and receivables	*81 188*	*38 050*	*31 202*	*73 662*	*6 387*	*3 833*	*911*	***235 233***
Cash and cash equivalents	*13 643*	*2 137*	*0*	*0*	*-*	*-*	*-*	***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	0	**62 403**
Total liabilities	**95 610**	**50 173**	**80 743**	**50 057**	**13 201**	**32 049**	**24 064**	**345 897**

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) optimization 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 unfavorable 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 analyze 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.

31 March 2013	***interest-free***	***with floating interest %***	***with fixed interest %***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	24 606	-	-	24 606
Loans and receivables, including:	184 167	16 795	79 031	279 993
Loans and receivables	*178 590*	-	*76 608*	*255 198*
Cash and cash equivalents	*5 577*	*16 795*	*2 423*	*24 795*
Total assets	**208 773**	**16 795**	**79 031**	**304 599**
Short-term and long-term bank loans	-	294 031	365	294 396
Other loans and liabilities	56 512	2 944	63	59 519
Total liabilities	**56 512**	**296 975**	**428**	**353 915**

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
Loans and receivables	*148 841*	-	*81 137*	*229 978*
Cash and cash equivalents	*1 518*	*11 548*	*2 701*	*15 767*
Total 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 liabilities	**57 645**	**273 277**	**303**	**331 225**

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 2013, the strategy of the parent company management was to maintain the ratio within 35 - 45 % at a Group level (2012: 35-45 %). The table below shows the gearing ratios based on capital structure as at 31 December:

	2013	*2012*
	BGN '000	*BGN '000*
Total borrowings, including:	**297 346**	**273 917**
Bank loans	*294 396*	*270 397*
Loans and finance lease liabilities	*2 950*	*3 520*
Less: Cash and cash equivalents	**(2 495)**	**(1 567)**
Net debt	**272 551**	**258 150**

Total equity of the Group	**363 670**	**345 879**
Total capital of the Group	**636 221**	**604 029**
Gearing ratio	**0.43**	**0.43**

The liabilities shown in the table are disclosed in Notes №25, №27, №28, №30 and №35.

Fair values

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

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

The fair value concept presumes realization 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 realize these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at their amortized 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 value. 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.

38. RELATED PARTY TRANSACTIONS

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2012 and 2013
Donev Investments AD	Main shareholding company	2012 and 2013
Pharmachim Holding EAD	Company under a common indirect control	2012 and 2013
Kaliman RT AD	Company under a common indirect control	2012 and 2013
SCS Franchise AD	Company under a common indirect control	2012 and 2013
Seiba Pharmacies and Drugstores AD	Company under a common indirect control	2012 and 2013
Mineralcommerce AD	Company under a common indirect control	2011 and 2012
Sopharma Properties REIT	Company under a common indirect control	2012 and 2013
Sofia Inform AD	Company under a common indirect control	2012 and 2013
Sofprint Group AD	Company under a common indirect control	2012 and 2013
Sofconsult Group AD	Company under a common indirect control	2012 and 2013
Elpharma AD	Company under a common indirect control	2012 and 2013
Riton P AD	Company under a common indirect control through key managing personnel	2012 and 2013
Telso AD	Company under a common indirect control through key managing personnel	2012 and 2013
Telecomlect AD	Company under a common indirect control through key managing personnel	2012 and 2013
Media Group Bulgaria Holding	Company under a common indirect control through key managing personnel	2012 and until 25 April 2013
DOH Group	Company under a common control through key managing personnel	2012 and 2013
OOO Pharmacist Plus	Company under a common indirect control through key managing personnel	2012 and 2013

Related party transactions are as follows:

Supplies from related parties:	***31.03.2013***	***31.03.2012***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies under a common indirect control	2 380	2 768
Main shareholding company	-	30
Companies under a common indirect control through key managing personnel	125	2
	2 505	**2 800**
Supply of services from:		
Main shareholding companies	9	1 012
Companies under a common indirect control	534	506
Companies under a common indirect control through key managing personnel	794	118
Associated companies	66	-
	1 403	**1 636**

Supply of long-term tangible assets from:		
Companies under a common indirect control through key managing personnel	184	-
	184	**-**
Supply for acquisition of long-term tangible assets from:		
Companies under a common indirect control through key managing personnel	5 659	-
Main shareholding companies	-	4 616
	5 659	**4 616**
Total	**9 751**	**9 052**

Sales to related parties	***31.03.2013***	***31.03.2012***
	BGN '000	***BGN '000***
Sales of services for:		
Companies under a common indirect control	47	40
Main shareholding companies		16
Companies under a common indirect control through key managing personnel	15	-
	62	**56**
Sales of inventories for:		
Companies under a common indirect control	1 774	1 270
Associated companies	265	
Main shareholding companies		2
Companies under a common indirect control through key managing personnel		1
	2 039	**1 273**

Other sales to:		
Companies under a common indirect control	1	-
Main shareholding companies	-	58
	1	**58**
Interest on loans granted:		
Companies under a common indirect control	2	-
Main shareholding companies	6	-
	8	**-**
Total	**2 110**	**1 387**

The accounts and balances with related parties are disclosed in Notes 19, 23 and 32.

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 888 thousand BGN (31 March 2012: 793 thousand BGN), including:

* current wages – 888 thousand BGN (31 March 2012: 793 thousand BGN)

* profit-based bonuses – none (2012: none)

39. EVENTS AFTER THE REPORTING PERIOD

On 29 April 2013 Sopharma AD sold 20,000 shares of the capital of Doverie United Holding AD, through which transaction the share of Sopharma AD in the capital of Doverie United Holding AD decreased to 14,93%.