SOPHARMA GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT FOR THE PERIOD JANUARY 1 TO JUNE 30, 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND INFORMATION ON THE GROUP

SOPHARMA GROUP (the Group) is comprised of the parent company and its twenty (2011: twenty one) subsidiaries. In addition, the Group has an investment in one joint venture (2011: one joint venture).

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 30 June 2012 were as follows:

- Sopharma Trading AD – a business entity registered in Bulgaria by Decision No. 3594/16.10.1998 of Varna District Court, with a seat and address of management: Sofia, 16, Rozhen Blvd.;
- Bulgarian Rose Sevtopolis AD – a business entity registered in Bulgaria by Decision No. 3912/1991 of Stara Zagora District Court, with a seat and address of management: Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;
- Pharmalogistica AD – a business entity registered in Bulgaria by Decision of Sofia City Court dated 12 August 2002, with a seat and address of management: Sofia, 16, Rozhen Blvd.;
- Elektroncommerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 24456 of 1991, with a seat and address of management: Sofia, 1, Samokovsko Shousse Str.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and address of management: Sliven, 75, Trakiya Blvd.;
- Momina Krepost AD – a business entity registered in Bulgaria by Decision No. 3426/1991 of Veliko Tarnovo District Court, with a seat and address of management: Veliko Tarnovo, 23, Magistralna Str.;
- Sopharma Buildings REIT – a business entity registered in Bulgaria by Decision No. 1/14.08.07 of Sofia City Court, with a seat and address of management:Sofia, 16, Iliensko Shousse Str.;
- Unipharm AD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 3685 of 1994, with a seat and address of management: Sofia, 3, Traiko Stanoev Str.;

- 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 has sold its investment in April 2012.
- Sopharma Poland OOD, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554 of 4 November 2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and address of management: Poland, Warsaw, 58, Shashkova Str.;
- Sopharma Warsaw EOOD – a business entity registered in Poland by Decision No. DSR 0000372245 of 17 December 2010 by XII Economic Division of the State Court Register of Warsaw, with a seat and address of management: Poland, Warsaw, 8, Halubinskiego Str.;
- Sopharma USA – a business entity registered in USA by Decision No. 97227599 of 25 April 1997 in California State Secretary Office, with a seat and address of management: USA, California, Los Angelis, 4622, Hollywood Blvd.;
- Extab Corporation USA – a business entity registered in USA by Decision No. 090292393 of 6 November 2008 in the Delaware State Secretary Office, with a seat and address of management: USA, Delaware, Wilmington, New Castle Region, 1209 Orange Street;
- Extab Pharma Limited, United Kingdom – a business entity registered in England by Decision No. 06751116 of 17 November 2008, with a seat and address of management: Oxfordshire, RG9 1AY, Henlay on Thames, 10 Station Road;
- PAO Vitamini – a business entity registered in Ukraine by Decision No. 133 dated 15 April 1994 of Uman City Court, with a seat and address of management: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri Str.;
- Ivanchich and Sons OOD – a business entity registered in Serbia by Fi-11350/91 on 14 October 1991 by the Commercial Court of Belgrade with a seat and address of management: Republic of Serbia, Belgrade, 13, Palmoticheva Str.;
- Briz OOD, Latvia – a business entity registered in Latvia by Decision No. 000302737 dated 18 September 1991 of the Commercial Registry of the Republic of Latvia, with a seat and address of management: Latvia, Riga, Rasas No. 5, LV – 1057;
- Brititrade SOOO, Belarus – a business entity registered in Belarus by Decision No. 1983 dated 24 September 2004 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 118, M. Bogdanomicha Str., office 303 – B;
- Tabina OOO, Belarus – a business entity registered in Belarus by Decision No. 1432 dated 29 December 1999 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 57, Kuybisheva Str., ap.1;
- ZAO Interpharm, Belarus - a business entity registered in Belarus in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 300000556, with a seat and address of

management: Belarus, Vitebsk, Stroitelei Square, bl. 3 ap. 2;

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

Joint venture

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

Associated companies

The company Vivaton OOO, Belarus was acquired through Briz, Latvia as at 30 June 2012.

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

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 30 June 2012 was as follows:

	%
Donev Investment Holding AD	24.61
Telecomplect Invest AD	20.42
Financial Consulting Company EOOD	16.24
Universal Pension Fund Doverie AD	6.72
Other legal persons	28.23
Physical persons	3.78

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 as at 30 June 2012 includes SOPHARMA AD as a parent company and the companies stated below:

Subsidiaries	**30.06.2012** ***Interest %***	**31.12.2011** ***Interest %***	***Acquisition of control date***
Companies in Bulgaria			
Sopharma Trading AD	81.31	81.33	08.06.2006
Bulgarian Rose Sevtopolis AD *	52.77	52.77	22.04.2004
Pharmalogistica AD	76.54	76.54	15.08.2002
Electroncommerce EOOD	100.00	100.00	09.08.2005
Biopharm Engineering AD	69.43	69.43	10.03.2006
Sopharma Buildings REIT	42.64	42.64	04.08.2008
Momina Krepost AD *	51.30	51.10	01.01.2008
Unipharm AD *	52.21	52.05	27.10.2010
Companies abroad			
Rostbalkanpharm ZAO	-	51.00	27.07.2001
Sopharma Poland OOD – in liquidation	60.00	60.00	16.10.2003
Sopharma USA	100.00	100.00	25.04.1997
Extab Corporation	80.00	80.00	05.08.2009
Extab Pharma Limited **	80.00	80.00	05.08.2009
Briz OOD	51.00	51.00	10.11.2009
Brititrade SOOO **	49.73	49.73	10.11.2009
PAO Vitamini	99.56	99.56	18.01.2008
Ivanchich and Sons OOD	51.00	51.00	10.04.2008
Sopharma Warsaw EOOD	100.00	100.00	23.11.2010
Tabina OOO **	50.49	50.49	08.04.2011
ZAO Interpharm **	49.27	49.27	17.12.2011
Superlats OOO **	-	31.24	20.05.2011

** efficient percentage of participation*
***indirect participation*

- Bulgarian Rose Sevtopolis AD is a subsidiary to SOPHARMA AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Bulgarian Rose Sevtopolis AD with 49.99% and the indirect participation of the parent company with 2.78% through the subsidiary Sopharma Trading AD holding 3.41% of the capital of Bulgarian Rose Sevtopolis AD;
- Momina Krepost AD is a subsidiary to SOPHARMA AD, the control thereon being acquired and exercised through the direct participation of the parent company in the

ownership of Momina Krepost AD with 49.94 % and the indirect participation of the parent company with 1.36% through the subsidiary Sopharma Trading AD holding 1.68 % of the capital of Momina Krepost AD;

- Unipharm AD is a subsidiary to SOPHARMA AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Unipharm AD with 49.99 % and the indirect participation of the parent company with 2.22% through the subsidiary Sopharma Trading AD holding 2.73 % of the capital of Unipharm AD;
- Sopharma Buildings REIT is a subsidiary by virtue of a written control agreement concluded between SOPHARMA AD and other shareholders;
- Extab Pharma Limited, United Kingdom, is a subsidiary through Extab Corporation, USA, the latter company being 100% capital holder of Extab Pharma Limited, United Kingdom;
- Brititrade SOO, Belarus, is a subsidiary of Briz OOD, Latvia – Briz OOD holds 97.50% of the capital of Brititrade SOO;
- Tabina OOO, Belarus, is a subsidiary through Briz OOD, Latvia – Briz OOD holds 99% of the capital of Tabina OOO;
- ZAO Interpharm, Belarus, is a subsidiary through Briz OOD, Latvia – Briz OOD holds 96.61% of the capital of ZAO Interpharm; and
- Superlats OOO, Latvia, is a subsidiary through Briz OOD, Latvia – Briz OOD holds 61.25% of the capital of Superlats OOO at the amount of BGN 3 thousand for the purpose of a future sale within 12 months. The Group sold its investment in Superlats OOO in February 2012 for BGN 4 thousand.

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

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

- SOPHARMA AD – production and trade in medicinal substances and finished drug forms; research and development activities in the field of medicinal products;
- Sopharma Trading AD – trade in pharmaceutical products;
- Bulgarian Rose Sevtopolis AD – production of finished drug forms;
- Biopharm Engineering AD – production and trade in infusion solutions;
- Pharmalogistica AD – secondary packaging of pharmaceutical products and real estate leases;
- Electroncommerce EOOD – trade, transportation and packaging of radioactive materials and nuclear equipment for medicinal use, household electronics and electrical equipment;

- Sopharma Buildings REIT – investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale;
- Momina Krepost AD – development, implementation and production of medical goods for human and veterinary medicine;
- Unipharm AD – production and trade in pharmaceuticals (a subsidiary as from 27 October 2010);
- PAO Vitamini – production and trade in pharmaceuticals;
- Rostbalkanpharm ZAO – production and trade in pharmaceuticals;
- Ivanchich and Sons OOD – production and trade in pharmaceuticals;
- Sopharma Poland OOD, in liquidation – market and public opinion research;
- Sopharma Warsaw EOOD – market and public opinion research (a subsidiary as from 23 November 2010);
- Sopharma USA – trade in pharmaceuticals and food supplements;
- Extab Corporation, USA – market and public opinion research;
- Extab Pharma Limited, United Kingdom – market and public opinion research;
- Briz OOD, Latvia – trade in pharmaceuticals;
- Brititrade SOOO, Belarus – trade in pharmaceuticals;
- Tabina OOO, Belarus – trade in pharmaceuticals;
- ZAO Interpharm, Belarus – trade in pharmaceuticals;
- Superlats OOO, Latvia – trade in furniture, lighting fixtures and other articles for domestic use.

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

As at 30 June 2012, the interest of the Group in the ***joint venture*** Sopharma Zdrovit AD – in liquidation, was 50.01% together with Natur Product Zdrovit OOD, Poland. The principle activities of the joint venture company 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 established on 27.09.2007.

As at 30 June 2012 the GROUP has an interest through its subsidiary Briz OOD, Latvia in the associated company Vivaton OOD, Belarus.

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

The average number of Group's personnel in 2012 was 3,881 workers and employees (2011: 3,889).

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the activities of the Group companies throughout the period 2010 – 2012, are presented in the table below:

Indicator	**2010**	**2011**	**2012**
USD/BGN average for the year	1.4779	1.4065	1.5088
USD/BGN at year-end	1.4728	1.5116	1.5535
PLN/BGN average for the year	0.4892	0.47590	0.4612
PLN/BGN at year-end	0.49327	0.43872	0.4603
RUB/BGN average for the year	0.04864	0.04787	0.0495
RUB/BGN at year-end	0.04824	0.04683	0.0498
RSD/BGN average for the year	0.01898	0.01918	0.01765
RSD/BGN at year-end	0.01854	0.01869	0.01689
UAH/BGN average for the year	0.18633	0.17660	0.1902
UAH/BGN at year-end	0.18498	0.18992	0.1962
GBP/BGN average for the year	2.27433	2.25443	2.3781
GBP/BGN at year-end	2.27369	2.34147	2.4242
LVL/BGN average for the year	2.75965	2.76943	2.8010
LVL/BGN at year-end	2.75555	2.79604	2.8073
1000 BYR/BGN average for the year	0.4946	0.1813	0.1833
1000 BYR/BGN at year-end	0.4923	0.1813	0.1887

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

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for the preparation of the consolidated financial statements

The consolidated financial statements of SOPHARMA Group have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2012 and have been accepted by the Commission of the European Union.

For the current financial year the Group has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which are relevant to its activities. The adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2012, has not resulted in changes in Group's accounting policies, except for some new disclosures and expanding of those already established, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

These standards and interpretations include:

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

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

- *IAS 24 (amended) "Related Party Disclosures" (in force for annual periods beginning on or after 1 January 2011 – endorsed by EC).* The amendments are focused on improvement of the definition for the scope and types of related parties and introduce a specific rule for a partial exemption from full disclosure regarding related parties, controlled by or under significant influence by government bodies at international, national and local level and other entities owned thereby – with regard to the types of relations, accounts and balances and transactions with them.
- *IAS 32 (amended) "Financial Instruments: Presentation" (in force for annual periods beginning on or after 1 February 2010 – endorsed by EC as from 1 February 2010)* – regarding the classification of issued rights. The amendment is aimed as a clarification of the treatment of rights, options and warrants for acquisition of a fixed number of entity's equity instruments for a fixed amount of any currency as equity instruments if they are offered on pro rata basis to all existing owners of the same class non-derivative equity instruments.
- *IFRIC 14 "Prepayments of a Minimum Funding Requirement" under IAS 19 (in force for annual periods beginning on or after 1 January 2011 – endorsed by EC as from 1 January 2011).* The amendment provides clarifications on defining the existing economic benefit of prepayments of minimum funding requirements, available as a reduction in future contributions in the two cases of existence or non-existence of a minimum funding requirement for contributions relating to future service and the possibility such prepayments to be recognised as an asset.
- *IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (in force for annual periods beginning on or after 1 July 2010 – endorsed by EC as from 1 July 2010).* This interpretation sets out clarifications on the accounting treatment of transactions related to settlement, in full or in part, of financial liabilities to creditors through the issue of equity instruments by debtor – measurement of the equity instruments as a consideration paid and treatment of the resulting differences between the measurement of the equity instruments and that of the financial liability, as well as certain limitations of application.

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

- *IAS 1 (amended) "Presentation of Financial Statements" (in force for annual periods beginning on or after 1 July 2012 – not endorsed by EC).* The amendment introduces a requirement for entities to present the components of other comprehensive income in the statement of comprehensive income in two separate categories depending on whether they could be subsequently reclassified or not to current profit or loss in the income statement, including their tax effect.
- *IAS 12 (amended) "Income Taxes" (in force for annual periods beginning on or after 1 January 2012 – not endorsed by EC).* The amendment clarifies explicitly that the assessment of deferred tax (asset or liability) on the underlying asset should be based on the manner in which the respective entity intends to recover the investment in the carrying amount of the asset – though sale or through continuing use. It sets out specific rules for cases of non-current assets measured by applying the revaluation model in IAS 16 but mostly for investment properties measured by applying the fair value model in IAS 40, including those acquired in a business combination, i.e. a rebuttable presumption is introduced that deferred tax should be determined on the basis that the carrying amount will normally be recovered through sale. SIC-21 is incorporated in IAS 12 and therefore, it is to be withdrawn as of the date on which the amendment in IAS 12 becomes effective.
- *IAS 19 (amended) "Employee Benefits" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* The amendment changes the accounting for defined benefit plans and termination benefits. The fundamental change is the elimination of the 'corridor' approach and the introduction of the rule that all subsequent remeasurements (referred to so far as actuarial gains or losses) of defined benefit obligations and plan assets shall be recognised when occurred in a component of 'other comprehensive income', as well as the accelerated recognition of past service costs.
- *IAS 27 (as revised in 2011) "Separate Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* The standard was reissued with a changed title as the part of it referring to consolidated financial statement was entirely separated in a new standard – IFRS 10 "Consolidated Financial Statements". Thus the standard now includes only the rules on accounting for investments in subsidiaries, associates and joint ventures at the level of separate financial statements.
- *IAS 28 (as revised in 2011) "Investments in Associates and Joint Ventures" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* The title of the standard has been changed and the standard sets out rules for application of the equity method when accounting for investments in associates as well as in joint ventures, which were previously included in the scope of IAS 31 "Interests in Joint Ventures" in line with the new IFRS 11 and IFRS 12. IAS 31 becomes inapplicable starting from 1 January 2013.

- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding transfer of financial assets (in force for annual periods beginning on or after 1 July 2011 – endorsed by EC as from 1 July 2011).* These amendments are related to expanding the requirements for disclosure of data regarding transfer transactions of financial assets, including depending on the circumstances whether the reporting entity continues, at the reporting date, to have involvement in and responsibility to the respective financial asset by assuming certain risks, rights and benefits and regardless of whether the transferred assets are derecognised from the statement of financial position or not.
- *IFRS 9 (issued in November 2009 and October 2010) "Financial Instruments: Classification and Measurement" (in force for annual periods beginning on or after 1 January 2013 and revised effective date – for annual periods beginning on or after 1 January 2015 – not endorsed by EC).* This standard replaces parts of IAS 39 by establishing principles, rules and criteria for the classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. It introduces a requirement that financial assets are to be classified based on entity's business model for their management and the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for financial assets: amortised cost and fair value. The new rules will lead to possible changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated as at fair value through current profit or loss (for credit risk).
- *IFRS 10 "Consolidated Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* This standard replaces a significant part of IAS 27 ("Consolidated and Separate Financial Statements") and SIC-12 ("Consolidation - Special Purpose Entities"). Its main objective is to establish the principles and methods for the preparation and presentation of financial statements when an entity controls one or more other entities. It gives a new definition of control that contains three elements and establishes control as the sole basis for consolidation. The standard also sets out the main mandatory rules for the preparation of consolidated financial statements.
- *IFRS 11 "Joint Arrangements" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* This standard replaces IAS 31 "Interests in Joint Ventures", including SIC-13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers". It introduces only two types of joint arrangements – joint operations and joint ventures – whereas the classification criterion used is not the legal form but rather the rights and obligations of each party to an arrangement, i.e. whether they represent rights to the assets and liabilities and respectively, to the expenses and revenue from the joint arrangement (joint operation) or rights to the net assets of the joint arrangement (joint venture). The standard removes the option for

proportionate consolidation and requires application of the equity method for consolidation of jointly controlled entities.

- *IFRS 12 "Disclosing of Interest in Other Entities" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* This standard introduces obligations for disclosure in the financial statements and requirements to the information included therein with regard to all forms of interests of the reporting entity in other companies and entities, including both the effects and the risks of those interests.
- *IFRS 13 "Fair Value Measurement" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* This standard establishes a single source of methodological guidance by providing a precise definition of 'fair value', rules and methods for its measurement as well as more extensive disclosure requirements for fair value and its measurement for the purposes of all IFRSs. It applies to both financial instruments and non-financial assets and liabilities when fair value is required or permitted by IFRS.

Additionally, in regard of the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on 1 January 2011, the management of the parent company has judged that the following are rather unlikely to have potential impact resulting in changes in the accounting policies and the financial statements of the Group as far as its operations are not in the indicated business segments and the Group neither has such practice nor performs similar deals and transactions.

- *IAS 32 (amended) "Financial Instruments: Presentation" (in force for annual periods beginning on or after 1 January 2014 – not endorsed by EC)* – regarding the offsetting of financial assets and financial liabilities. These amendments relate to a clarification as to the application of the rules on offsetting financial instruments.
- *IFRS 1 (amended) "First-time Adoption of International Financial Reporting Standards" (in force for annual periods beginning on or after 1 July 2011 – not endorsed by EC).* The amendment provides relief for first-time adopters regarding transactions occurred before the date of transition to IFRS as well as guidance to entities after a period of hyperinflation – whether to resume their presentation of financial statements under IFRS or to present financial statements as first-time adopters of IFRS. The management of the Group performed research and concluded that these amendments may affect the accounting policy and the values of assets, liabilities, transactions and performance of the companies operating currently in the conditions of hyperinflation after the period of required presentation of restated financial statements for the effect of hyperinflation.

- *IFRS 1 (amended) "First-time Adoption of International Financial Reporting Standards" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* The amendment relates to unification of the approach for prospective application of IAS 20 for government loans received on or after the date of transition to IFRS.
- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the offsetting of financial assets and financial liabilities (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).;* These amendments are related to the enhanced disclosures for all financial instruments, which will be netted (offset) in accordance with IAS 32 (par. 42) as well as additional arrangements for offsetting outside the scope of IAS 32.
- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (in force for annual periods beginning on or after 1 January 2015 – not endorsed by EC);*
- *IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* This interpretation provides clarifications regarding the differentiation of the accounting treatment of the costs of mine waste materials removal (stripping) for the purposes of production and the costs of improved access to further quantities of material that will be mined in future periods.

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

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

The data in the consolidated financial statements and the notes thereto are presented in thousand 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 2.31.

2.2. Definitions

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

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

Subsidiary companies – companies, including non-legal entities, in which the parent holds directly or indirectly more than 50% of the voting rights in the General Meeting (in the joint-stock capital) and/or has the right to appoint more than 50% of the Board of Directors of the respective company or by virtue of a written control agreement concluded between the shareholders and can exercise control over their financial and operating policy (including by virtue of a concluded control agreement between shareholders). The subsidiary companies are consolidated as from the date on which the effective control over them has been acquired by the Group and are de-consolidated as from the date when the control over them ceases and is transferred outside the Group. The full consolidation method is used for their consolidation.

The subsidiary companies are presented in Note 1.2.

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

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

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

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

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

Associate

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

Significant influence is the right of participation in decision-taking with regard to financial and operation policies of the entity, subject to investment, but not control or joint control over these policies. Usually it exists in case of: (a) possession by the investor, directly or indirectly, of 20% to 50% of the shares in the capital of the investee company (including by virtue of an agreement between shareholders), and (b) in addition, the investor is represented in the managing body of the investee and/or participates in the decision-taking process with regard to the policy and strategy of the investee, and/or significant transactions exist between the investor and the investee.

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

2.3. Consolidation principles

The consolidated financial statements include the financial statements of the parent company and the subsidiaries, the joint venture and the associates. The 'economic entity' assumption has been applied in the consolidation except for the measurement of non-controlling interest in business combinations and other forms of acquisition of subsidiaries for which the 'proportionate share of net assets' method has been chosen.

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

2.3.1. Consolidation of subsidiaries

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

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

2.3.2. Acquisition of subsidiaries

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

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

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

2.3.3. Disposal of subsidiaries

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

- Assets and liabilities (including any goodwill) of the subsidiary are derecognised at their carrying amounts at the date when control is lost;
- The non-controlling interest in the subsidiary is derecognised at carrying amount in the consolidated statement of financial position at the loss of control date, including all components of other comprehensive income related thereto;
- The fair value of the consideration received from the transaction, event or operation that resulted in the lost of control is recognised;
- All components of equity, representing unrealised gains or losses in accordance with the respective IFRS under the provisions of which these components fall, are reclassified to profit or loss for the year or are transferred directly to retained earnings;
- Any resulting difference as a 'gain or loss from a disposal (sale) of a subsidiary' attributable to the parent is recognised in the consolidated statement of comprehensive income.
- The remaining shares held that form investments in associates or available-for-sale investments are initially measured at fair value at the date of sale and subsequently – following the accounting policy adopted by the Group (Notes 2.13 and 2.14).

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

2.3.4. Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The effects from sales of parent company's shares, without loss of control, to holders of non-controlling interests are not treated as components of the current profit or loss of the Group but as movements directly in its equity components, usually to the 'accumulated profit' reserve. And vice versa, when the parent company purchases additional shares from holders of non-controlling interest, without acquisition of control, the difference between the consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is also directly recognised in the consolidated statement of changes in equity, usually to the 'accumulated profits' reserve.

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

2.3.5. Consolidation of a joint venture

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

2.3.6. Consolidation of associates

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

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

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

2.4. Comparatives

In these consolidated financial statements, the Group presents comparative information for one prior year.

Where necessary, comparative data is reclassified (and restated) in order to achieve compatibility in view of the current year presentation changes.

2.5. Functional currency and recognition of exchange differences

The functional currency of the Group companies in Bulgaria being also presentation currency for the Group is the 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 recognised in the consolidated statement of comprehensive income in the period in which they arise and are presented net under ‘other operating income/(losses)’.

The functional currency of the companies in Poland (Sopharma Poland AD – in liquidation, Sopharma Warsaw EOOD and Sopharma Zdrovit AD – in liquidation) is the Polish Zloty, of the subsidiary in Russia (Rostbalkanpharma ZAO) – the Russian Ruble, of the subsidiary in Ukraine (PAO Vitamini) – the Ukrainian Grivna, of the subsidiary in Serbia (Ivanchich and Sons OOD) – the Serbian Dinar, of the subsidiary in Latvia (Briz OOD) – Lat, of the subsidiaries in Belarus (Brititrade SOOO, Tabina OOD and ZAO Interpharm) - Belarussian Ruble, of the subsidiary Extab Pharma Limited (United Kingdom) – the British Pound, and of the companies in USA (Sopharma USA and Extab Corporation) – the US Dollar.

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

(a) all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency;

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

(c) all exchange differences resulting from the restatements are recognised and presented as a separate component of equity in the consolidated statement of financial position, net of deferred tax effects, and

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

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

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

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

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

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

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

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

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

2.7. Revenue

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

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

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

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

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

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

The gains from revaluation of investment property to fair value are presented in the consolidated statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses), net'. Revenue from investment property leased-out under the terms of operating lease is also accounted for under this item of the consolidated financial statements.

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

Finance income is included in the consolidated statement of comprehensive income when earned and comprises: interest income on granted loans and term deposits, interest income on receivables under special contracts, interest income on past due receivables, income/gains from deals with investments in available-for-sale securities including dividends, net gains on exchange differences under loans in foreign currency, income from debt settlement transactions, gain on measurement of shares at fair value when a subsidiary is being acquired in stages. They are presented separately from of finance costs on the face of the consolidated statement of comprehensive income.

2.8. Expenses

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

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

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

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

2.9. Statutory dividend for distribution

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

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

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

2.10. Property, plant and equipment

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

Initial acquisition

Upon their initial acquisition, property, plant and equipment are valued at cost, which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition for its intended use. The directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes etc.

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

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

The carrying amounts of all items of property, plant and equipment of Group companies, operating in the environment of hyperinflationary economies, initially measured at cost less accumulated depreciation, are restated for the effects of hyperinflation by applying a general price index – from the date of the transaction (acquisition) to the end of the current reporting period or from the date of the last revaluation of the assets.

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

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

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- road facilities – 20 years;
- machinery and equipment – 7-15 years;
- installations – 7 - 10 years;
- computers – 2 - 5 years;
- motor vehicles – 7 - 17 years;
- furniture and fixtures – 6-7 years.

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

Impairment of assets

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might significantly differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) unless a revaluation reserve has been set aside for the respective asset. Then the impairment is treated as a decrease in this reserve (through other comprehensive income) unless it does not exceed its amount and the excess is included as expense in the consolidated statement of comprehensive income (within profit or loss for the year).

Gains and losses on disposal (sale)

Property, plant and equipment are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of property, plant and equipment are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' in the consolidated statement of comprehensive income (within profit or loss for the year). The part of 'revaluation reserve' attributable to the sold asset is directly transferred to 'retained earnings' in the consolidated statement of changes in equity.

2.11. Biological assets

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

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

2.12. Intangible assets

Goodwill

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

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

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

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

Impairment losses on goodwill are presented in the consolidated statement of comprehensive income (within profit or loss for the year) in the item ‘depreciation and amortisation expense’.

Other intangible assets

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

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

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

Intangible assets are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under ‘other operating income/(losses), net’ in the consolidated statement of comprehensive income (within profit or loss for the year).

2.13. Investment property

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

Investment property is derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of investment property are determined as the difference between the disposal proceeds and the carrying amount of the asset at the date of sale. They are presented under ‘other operating income/(losses), net’ in the consolidated statement of comprehensive income (within profit or loss for the year).

Transfers to, or from, the group of ‘investment property’ is made only when there is a change in the functional designation and the use of a particular property. In case of a transfer from ‘investment property’ to ‘owner-occupied property’, the asset is recognised in the new group at deemed cost, which is its fair value at the date of transfer. To the opposite, in case of a transfer from ‘owner-occupied property’ to ‘investment property’ the asset is measured at fair value at the date of transfer while the difference to its carrying amount is presented as a component of the consolidated statement of comprehensive income (within other comprehensive income) and within ‘revaluation reserve – property, plant and equipment’ in the statement of changes in equity.

2.14. Investments in associates

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

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

The investments in associates held by the Group together with the included goodwill are subject to review for impairment at the date of the financial statements. Where conditions for impairment are identified and its amount is determined, the impairment is included in the consolidated statement of comprehensive income (within profit or loss for the year) in the item ‘gains/(losses) from associates’ (Note 2.32).

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

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

2.15. Available-for-sale investments

Initial measurement

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

Subsequent measurement

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

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

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

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

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

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

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

2.16. Assets held for sale

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

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

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

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

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

2.17. Inventories

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

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

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

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

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

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

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

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

2.18. Trade and other receivables

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

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

2.19. Interest-bearing loans and other financial resources granted

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

Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) the Group has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period (Note 2.27).

2.20. Cash and cash equivalents

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

For the purposes of the consolidated statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on investment purpose loans received is reported as payments for financial activities while the interest on loans related to current activities (working capital) is included in the operating activities;
- short-term blocked funds (for up to 3 months) are treated as cash and cash equivalents. Long-term blocked funds (for more than 3 months) are not included as cash in the consolidated statement of cash flows but are stated as ‘other proceeds/(payments), net’;
- provided that bank deposits with original maturity of up to three months exist, they are treated as cash and cash equivalents and the interest received thereon is included in the cash from investing activities;
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line ‘Taxes paid’ while that paid on assets purchased from local suppliers is presented as ‘Cash paid to suppliers’ in the cash flows from operating activities as far as it represents a part of the operating flows of the Group companies and is recovered therewith in the respective period (month).

2.21. Trade and other payables

Trade and other current amounts payable are carried to the consolidated financial statements at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest rate method (Note 2.27).

2.22. Interest-bearing loans and other borrowings

All loans and other borrowings are initially recognised in the consolidated financial statements at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured and presented in the consolidated financial statements at amortised cost by applying the effective interest rate method. The amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement associated with these loans. Gains and losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortisation period, or when the liabilities are derecognised or reduced (Note 2.27).

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

2.23. Capitalisation of borrowing costs

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

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

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

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

2.24. Leases

Finance lease

Lessee

Finance leases, which transfer to the Group a substantial part of all risks and rewards incidental to ownership of the leased property, plant and equipment, are recognised as assets in the statement of financial position of the lessee and are presented as leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the consolidated statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate (Note 2.27).

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

Lessor

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

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

Operating lease

Lessee

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

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

Lessor

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

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

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

The employment and social security relations with workers and employees of the Group are based on the Labour Code and the provisions of the effective social security legislation for the companies operating in *Bulgaria*, the Polish Code – for the companies in *Poland*, the employment legislation and the Collective Labour Agreement – for the company in *Ukraine*, the employment legislation, the General Collective Labour Agreement and the effective Employment Rules and Regulations – for the company in *Serbia*, the Labour Act – for the company in *Latvia*, the employment legislation – for the company in *Belarus* and the Labour Code of the Russian Federation – for the company is *Russia*.

For Bulgaria

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

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

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

For companies abroad

The rates of the social security contributions in Poland are approved by the Law on the National Social Security System, in Russia – the Federal Law on Obligations for Pension Security in the Russian Federation and the Tax Code, in Ukraine – Law on Pension Provision, in Serbia – the Law on Labour in the Republic of Serbia, in Latvia – the Law on Social Security, and in Belarus – the Law on the Mandatory Contributions to the Fund for Social Security of the Population of the Ministry of

Labour and Social Security. The social security contributions are being apportioned between employer and employee at ratios regulated by the relevant local laws.

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

Short-term benefits

Short-term employee benefits in the form of remunerations, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or has met the required terms and requirements) are recognised as an expense in the consolidated statement of comprehensive income (within profit or loss for the year) in the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount. The payables of the Group for social security and health insurance are recognised as a current expense and liability at their undiscounted amount together with the respective benefits they relate to and within the period of their accrual.

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

Long-term retirement benefits

In accordance with the requirements of the Labour Code, the employer of the companies in *Bulgaria* is obliged to pay to its personnel upon retirement an indemnity, which depending on the length of service at the entity varies between two and six gross monthly salaries as at the termination date of the employment. In accordance with the Law on Labour in *Serbia*, the employer of the Serbian company is obliged to pay to its personnel on coming of age for retirement an indemnity at the amount of at least three average salaries calculated at the time of payment. In accordance with the employment legislation in *Ukraine* and the Collective labour Agreement of the Ukrainian company, the employer is obliged to pay to its personnel on coming of age for retirement an indemnity, which depending on the length of service with the entity may vary between UAH 100 and UAH 200 (between BGN 25 and BGN 50). Also, the company in Ukraine accrues social indemnities, which are paid after retirement of employees due to specific labour conditions. According to the employment legislation in Poland, the employer is obliged to pay upon retirement one gross monthly salary. According to the employment legislation, there are no obligations to the personnel on retirement in Latvia and Belarus.

In their nature these are defined benefit schemes.

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

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

At the date of issue of the consolidated financial statements, the companies of the Group assign certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds in the respective countries in which the companies of the Group operate.

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

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

Termination benefits

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

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

2.26. Share capital and reserves

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

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

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

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

The ***treasury shares*** are presented in the consolidated statement of financial position at cost and Group’s equity is decreased by their gross price. Gains or losses on sales of treasury shares are carried directly to Group’s equity in the ‘Retained earnings’ component.

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

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

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

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

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

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

The ***Translation of foreign operations reserve*** includes the effects of restating the financial statements of the companies abroad from local currency to the presentation currency of the Group. This reserve is recognised as a separate component of equity in the consolidated statement of financial position and as part of the profit or loss in the consolidated statement of comprehensive income on the line 'gains/(losses) on acquisition and disposal of subsidiaries, net' on disposal (sale) of a foreign operation (company) (Note 2.5).

2.27. Financial instruments

2.27.1. Financial assets

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

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

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

Loans and receivables

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

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

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

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at

- fair value – for companies whose shares are quoted in a stock exchange. The fair value of these assets is determined by applying average stock exchange bid price commonly for the last month at the date of the consolidated statement of financial position unless only an insignificant package of the capital of these companies is being traded and/or the volume of transactions with them is very limited – then stock exchange prices are adjusted by applying other valuation methods, or as an exception,

– at acquisition cost for closed-end companies for which it is difficult to find analogous market transactions data or due to the circumstance that the future operation of these companies is related to certain doubts so that reasonable and justifiable long-term assumptions are not possible for the calculation of the fair value of their shares through other alternative valuation methods.

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

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

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

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

The available-for-sale investments are reviewed at each date of the statement of financial position for events or circumstances indicating the existence of objective evidence for impairment of a particular financial asset or group of assets. Financial assets are impaired if their carrying amount is higher than the expected recoverable amount. The recognised impairment loss is equal to the difference between the acquisition cost less the repayments and their recoverable amount, which is accepted to be equal to the present value of the expected future cash flows, discounted at the current interest rate or through the yield for similar financial assets.

2.27.2. Financial liabilities and equity instruments

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

Financial liabilities

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

2.28. Provisions

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

2.29. Income taxes

Current income taxes of the Bulgarian companies of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for year 2012 was 10 % (2011: 10%).

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

Subsidiary company	***Country***	***Tax rate***	
		2012	***2011***
Rostbalkanpharm ZAO	Russia	20%	20%
Sopharma Poland OOD in liquidation	Poland	19%	19%
Sopharma Zdrovit AD – in liquidation	Poland	19%	19%
Sopharma Warsaw OOD	Poland	19%	19%
PAO Vitamini	Ukraine	21%	23%

Ivanchich and Sons OOD	Serbia	10%	10%
Extab Corporation	USA	15.35%	15.35%
Extab Pharma Limited	United Kingdom	20%	19%
Briz OOD	Latvia	15%	15%
Tabina OOD	Belarus	18%	24%
Interpharm AD	Belarus	18%	24%
Brititrade SOOO	Belarus	18%	24%

Deferred income taxes are determined using the liability method on all temporary differences of each consolidated company existing at the consolidated financial statements date, between the carrying amounts of the assets and liabilities and their tax bases, including for those arising from consolidation adjustments.

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

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

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

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

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

As at 30 June 2012, the deferred income taxes of the Group companies in Bulgaria were assessed at the rate of 10% valid for 2012 in Bulgaria while those of the subsidiaries abroad were as follows:

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

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

2.30. Grant from public institutions

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

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

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

2.31. Earnings per share

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

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

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

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

2.32. Segment reporting

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

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

Information by operating segments

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

Segment assets, liabilities, respective revenue, expenses and results include those that are and can be directly attributable to the respective segment as well as such that can be allocated on a reasonable basis, including inter-segment ones. Usually, these are: (a) for revenue – sales of finished products and goods; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration, carrying amount of goods sold; (c) for assets – property, plant and equipment, inventories, receivables from related parties, trade receivables; (d) for liabilities – current payables to personnel and for social security, payables to related parties and trade payables.

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

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

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

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

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

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

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

2.33.1. Revaluation of property, plant and equipment

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

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

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

The Group's management again analysed 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 amortised recoverable amount' – for special-purpose buildings for which no actual market existed, market/comparative sales of analogous assets; their amortised recoverable amount was accepted as their fair value and under the hypothesis of their common use in technologically-related production business process (including the term) and taking into account: physical ware, functional and economic impairment.

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

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

2.33.2. Goodwill impairment

The management of the Group performed the necessary procedures for the mandatory annual test for impairment of goodwill recognised in the consolidated statement of financial position on the acquisition of the subsidiaries Bulgarian Rose Sevtopolis AD, PAO Vitamini, Ivanchich and Sons OOD, Sopharma Buildings REIT, Momina Krepost AD, Unipharm AD, Briz OOD, Extab Corporation USA, Tabina

OOO and ZAO Interpharm. For the purpose, it was accepted that each individual company was in its capacity of a 'cash generating unit'. The calculations were made by the management of the Group and the assistance of an independent certified appraiser was used. The (pre-tax) projected cash flows were based on the financial budgets developed by the management of the respective companies and of the Group as a whole that covered a 5-year period as well as other medium-term and long-term plans and intents for the development and restructuring of the activities within the Group. The cash flows after the 5-year period were extrapolated at growth of 2-5 % against the prior year – the frames of the long-term prognosis of inflation for the country and the limits of the industry. The recoverable amount of each cash generating unit was determined on the basis of the 'value in use'.

The key assumptions used in the calculations of recoverable value are as follows as at 31 December 2011:

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

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

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

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

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

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

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

With regard to available-for-sale securities, which are not tradable in a stock exchange, analysis was performed of the change in the net assets and the results of the activities of the respective companies for the latest three years, the specifics and trends of the business environment in which the company operates. The accepted indicators for impairment are: the significant reduction of volumes, reporting of losses for a longer period of time (more than three years), reporting of negative figure for net assets and the specifics of the business environment in which the company operates.

2.33.4. Group companies operating in the environment of hyperinflationary economies

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

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

Inflation indices in the range from 1.0815 to 2.2998 for 2012 (1.708 to 2.087 for 2011) were used for the restatement of the figures in the financial statements of the subsidiaries in Belarus.

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

	2012	**2011**
	BGN '000	**BGN '000**
Brititrade	(2,511)	2,701
including: of goodwill	*(21)*	*93*
Interfarm	135	-
including: of goodwill	*50*	-
Tabina	(355)	1,425
including: of goodwill	*(194)*	*713*
Total:	**(2 731)**	**4 126**

2.33.5. Recognition of tax assets

On recognition of deferred tax assets, the management of the Group has assessed the probability the individual deductible temporary differences to reverse in the future and each of the Group companies' capability to generate sufficient taxable profit for their offset. The management of the Group has assessed at the date of issue of the consolidated financial statements the subsidiaries that continue to report losses in the last years with regard to existing significant uncertainties as to whether and to what extent within the final term, determined with the respective local tax regulations for tax loss carry forward, these companies would be able to generate sufficient taxable profit.

2.33.6. Inventories

Normal capacity

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

Allowance for impairment

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

2.33.7. Impairment of receivables

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

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

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

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

2.33.10. Operating lease

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

3. REVENUE

Group revenue includes:

	2012	*2011*
	BGN '000	*BGN '000*
Goods	208 834	196 928
Finished products	136 720	118 786
Total	**345 554**	**315 714**

Sales of goods by type	*2012*	*2011*
	BGN '000	*BGN '000*
Tablet dosage forms	110 213	105 850
Ampoule dosage forms	50 185	43 577
Consumables, dressing materials and apparatuses	12 314	5 817
Drops	11 144	12 713
Ointments	9 881	13 288
Syrup dosage forms	5 521	4 821
Food supplements and herbs	4 427	2 749
Food items	850	938
Isotopes	923	2 811
Other	3 376	4 364
Total	**208 834**	**196 928**

Sales of finished products by type	*2012*	*2011*
	BGN '000	*BGN '000*
Tablet dosage forms	96 736	86 070
Ampoule dosage forms	17 518	13 228
Syrup dosage forms	9 065	7 526
Ointments	4 038	3 151
Lyophilic products	2 722	2 284
Syringes	1 221	1 238
Infusion solutions	932	910
Suppositories	511	464
Blow-moulded articles	366	378
Drops	352	121
Other	3 259	3 416
Total	**136 720**	**118 786**

4. OTHER OPERATING INCOME AND LOSSES, NET

Other operating income and losses, net include:

Net gains (losses) on exchange rate differences on trade receivables and payables and current accounts	1 260	(1 699)
Income from adverticements	600	125
Gain/(loss) on sale of long-term assets	519	4
Services rendered	493	780
Rentals	334	215
Social activities and events	286	290
Income from financing	180	72
Distribution services	91	171
Gain/(loss) on sale of materials	(18)	(55)
Other	336	254
Total	**4 081**	**157**

5. RAW MATERIALS AND CONSUMABLES USED

Expenses on materials include*:*

	2012	***2011***
	BGN '000	***BGN '000***
Basic materials	33 714	29 870
Spare parts, laboratory and technical materials	3 057	2 541
Heat power	2 941	1 962
Electric energy	2 185	1 819
Fuels and lubricating materials	1 757	1 893
Water	478	467
Special working clothes	401	367
Office materials	368	256
Advertising materials	252	294
Rejects	26	14
Other	583	433
Total	**45 762**	**39 916**

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

	2012	***2011***
	BGN '000	***BGN '000***

Substances	16 360	15 263
Packaging materials	6 266	5 250
Liquid and solid chemicals	3 460	2 604
Aluminium foil	3 152	2 942
Ampoules	1 590	1 267
Polypropylene, polyethylene, polystyrene	619	494
Bags	532	514
Herbs	511	615
Other	1 224	921
Total	**33 714**	**29 870**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2012 ***BGN '000***	***2011*** ***BGN '000***
Advertising	7 345	6 266
Manufacture	3 396	6 115
Buildings and equipment maintenance	2 038	1 658
Forwarding and transportation services	1 933	1 725
Consulting services	1 854	1 119
Rentals	1 871	741
Services under civil contracts with physical persons	902	619
State and regulatory fees	811	1 420
Subscription fees	781	599
Insurance	754	703
Local taxes and charges	611	623
Communications	491	343
Security	477	416
Services related to registration of medicinal products	449	425
Fees for servicing of current accounts in bnks	380	333
Car repairs	367	264
Service fees	367	632
Logistics	365	497
Expense taxes	302	280
Medical services	252	241
Translation of documentation	228	235
Commissions	204	435

Drug destruction services	147	92
Delivery Services	113	64
License fees and taxes	74	198
Analysis	44	103
Clinical trials	13	479
Other	845	538
Total	**27 414**	**27 163**

7. EMPLOYEE BENEFITS EXPENSE

Personnel costs include:	***2012*** ***BGN '000***	***2011*** ***BGN '000***
Current wages and salaries	25 353	24 083
Social security/health insurance contributions	5 234	4 959
Social benefits and payments	1 599	1 274
Profit-based bonuses	1 224	-
Accruals for unused paid leaves	853	833
Social security/health insurance contributions on leaves	186	173
Accruals for long-term benefits to personnel upon retirement	250	309
Total	**34 699**	**31 631**

8. CARRYING AMOUNT OF GOODS SOLD

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

	2012	*2011*
	BGN '000	*BGN '000*
Tablet dosage forms	104 909	99 405
Ampoule dosage forms	48 144	40 755
Consumables, dressing materials and apparatuses	11 212	4 660
Drops	10 093	10 220
Ointments	8 374	11 805
Syrup dosage forms	5 154	4 153
Food supplements and herbs	3 831	2 299
Food items	740	275
Isotopes	682	2 086
Other	3 054	5 505
Total	**196 193**	**181 163**

9. OTHER OPERATING EXPENSES

Other operating expenses include:

	2012	*2011*
	BGN '000	*BGN '000*
Entertainment allowances	1 162	1 201
Business trips	826	634
Scrap and shortages of goods	821	182
Charged/(reversed) impairment of current assets, net (Note 10)	401	537
Scrapping of long terms assets	239	55
Donations	220	167
Training	164	134
Payments to the budget	76	83
Scrap and shortages of finished products and work in progress	34	129
Unrecognized VAT credit	32	19
Receivables written-off	7	39
Fines to suppliers	-	9
Other	193	76
Total	**4 175**	**3 265**

10. IMPAIRMENT OF ASSETS

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

	2012	***2011***
	BGN '000	***BGN '000***
Impairment of receivables	546	*232*
Reversed impairment of receivables	*(145)*	-
Net change in the impairment of receivables (Note 9)	401	232
Impairment of materials (Note 9)	-	305
Total	**401**	**537**

11. FINANCE INCOME

Finance income includes:

	2012	***2011***
	BGN'000	***BGN'000***
Interest income on loans granted	2 017	2 455
Interest income on past due payments	361	778
Net income from exchange rate differences on loans	199	-
Income from equity investments	162	342
Interest income from deposits	35	45
Interest on receivables under specific contracts	9	-
Total	**2 783**	**3 620**

12. FINANCE COSTS

Finance costs include:

	2012	***2011***
	BGN'000	***BGN'000***
Interest expense on loans received	3 422	4 140
Bank fees and charges on loans and guarantees	318	294
Interest expense on finance lease	159	113
Investment operations expenses	7	9
Net loss from exchange rate differences on loans	-	398
Total	**3 906**	**4 954**

13. OTHER COMPREHENSIVE INCOME

	2012 BGN' 000			2011 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	2	-	2	178	-	178
Exchange differences from restating foreign operations	980	-	980	(1194)	-	(1 194)
Other comprehensive income for the year, net of tax	**982**	**-**	**982**	**(1016)**	**-**	**(1 016)**

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2012 BGN '000	*2011 BGN '000*	*2012 BGN '000*	*2011 BGN '000*	*2012 BGN '000*	*2011 BGN '000*	*2012 BGN '000*	*2011 BGN '000*	*2012 BGN '000*	*2011 BGN '000*
Book value										
Balance at 1 January	**137 359**	**133274**	**116 151**	**105731**	**32 938**	**27 389**	**36 467**	**17 986**	**322915**	**284380**
Additions	465	909	886	2 542	1 529	3 755	28 803	35 029	31 683	42 235
Acquired assets in a newly acquired subsidiary		8		90		41			0	139
Effect of revaluation to fair value		446		(109)					-	337
Effects of foreign currency and hyperinflationary restatements	(216)	118	(131)	(25)	(226)	5	98	47	(475)	145
Disposals		(57)	(54)	(1 045)	(577)	(712)	(11)	(10)	(642)	(1 824)
Disposed carrying amount of assets upon sale of subsidiaries	(502)	-	(544)	-	(61)	-	(181)	-	(1 288)	-
Impairment		(2 510)		19		(6)			-	(2 497)
Transfer to property, plant and equipment	616	5 171	1 223	8 948	2 777	2 466	(4 616)	(16585)	-	-
Balance at 30 June / 31 December	**137 722**	**137 359**	**117 531**	**116 151**	**36 380**	**32 938**	**60 560**	**36 467**	**352 193**	**322 915**

Accumulated depreciation										
Balance at 1 January	**10 575**	**8 275**	**59 685**	**54 474**	**16 317**	**13 081**	**-**	**-**	**86 577**	**75 830**
Depreciation charge for the year	1 695	3 258	4 457	8 766	2 034	3 704			8 186	15 728
Allowance for impairment		(8)	(58)	(946)	(518)	(467)	-	-	(576)	(1 421)
Allowance for impairment of assets upon sale of subsidiaries	(174)	-	(559)	-	(61)	-		-	(794)	-
Impairment		(839)		25		-			-	(814)
Effects of foreign currency and hyperinflationary restatements	37	16	53	1	(17)	(1)			73	16
Effect of revaluation to fair value		(127)		(2 635)	-				-	(2 762)
Balance amount at 30 June /December	**12 133**	**10 575**	**63 578**	**59 685**	**17 755**	**16 317**	**-**	**-**	**93 466**	**86 577**
Carrying amount at 30 June /December	**125 589**	**126 784**	**53 953**	**56 466**	**18 625**	**16 621**	**60 560**	**36 467**	**258 727**	**236 338**
Carrying amount at 1 January	**126 784**	**124 999**	**56 466**	**51 257**	**16 621**	**14 308**	**36 467**	**17 986**	**236 338**	**208 550**

At 30 June 2012, the fixed assets of the Group include: land 41,084 thousand BGN (31.12.2011: 40.754 thousand BGN) and buildings with a carrying value of 84,505 thousand BGN (31.12.2011: 86.030 thousand BGN).

The acquisition costs of tangible assets include:

• cost of construction of new buildings – 38,493 thousand BGN (31 December 2011: 27,844 thousand BGN);

• Reconstruction of buildings – 2,879 thousand BGN (31 December 2011: 2,834 thousand BGN);

• Delivery of equipment – 3,356 thousand BGN (31 December 2011: 1,376 thousand BGN);

• Advance payments - 16,164 thousand BGN (31 December 2011: 4,171 thousand BGN);

• Other – 468 thousand BGN (31 December 2011: 242 thousand BGN)

At 30 June 2012, there were encumbrances on tangible fixed assets of the Group in connection with borrowing as follows:

• Land and buildings with a carrying value of 15,447 thousand BGN respectively and 53,550 thousand BGN (31 December 2011: respectively 15,519 and 55,032 thousand BGN);

• Pledged equipment with a carrying value – 711 thousand BGN (31 December 2011: 734 thousand BGN);

• Pledged equipment – 31,423 thousand BGN (31 December 2011: 27,286 thousand BGN);

• Vehicles with a carrying value - none (31 December 2011: 1 076 thousand BGN);

• Fixtures with a carrying value - none (31 December 2011: 115 thousand BGN);

• Fixed assets in course of construction - none (31 December 2011: 159 thousand BGN).

The carrying value of tangible fixed assets (vehicles) of the Group obtained under a finance lease as at 30 June 2012 amounts to 2,751 thousand BGN (31 December 2011: 2,578 thousand BGN).

Operating leases

As at 30.06.2012 the Group has rented long-term fixed assets to related parties at a carrying amount of 392 thousand BGN (31 December 2011: 2,167 thousand BGN). The Group has also rented long-term fixed assets to third parties at a carry amount of 56 thousand BGN (31 December 2011: 435 thousand BGN).

15. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Other*		*Assets in progress*		*Total*	
	2012	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*
Book value	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance at 1 January	**21 602**	**19425**	**9 263**	**7912**	**5 181**	**4499**	**1 966**	**1681**	**2 062**	**516**	**40074**	**34033**
Additions		2 588	136	41	119	687			1 381	1 874	1 636	5 190
Acquired assets in a subsidiary				1031				460			-	1 491
Effects of foreign currency and hyperinflationary restatements	369	(411)	30	(35)	(1)		48	(175)	(4)		442	(621)
Transfer			706	314	143				(849)	(314)	-	-
Disposals				-		(5)			(190)	(14)	(190)	(19)
Balance at 30 June /31 December	**21 971**	**21602**	**10 135**	**9263**	**5 442**	**5181**	**2 014**	**1966**	**2 400**	**2062**	**41962**	**40074**
Accumulated amortisation and impairment												
Balance at 1 January	**6 821**	**6 531**	**2 511**	**1315**	**2 213**	**1452**	**550**	**378**	**-**	**-**	**12095**	**9 676**
Amortisation charge for the year			733	1195	451	766	69	170			1253	2 131
Allowance for impairment			(46)									

				1			3	2			(43)	3
Effects of foreign currency and hyperinflationary restatements		290									-	290
Amortisation written-off				-		(5)					-	(5)
Balance at 30 June /December	**6 821**	**6 821**	**3 198**	**2511**	**2 664**	**2213**	**622**	**550**	**-**	**-**	**13305**	**12095**
Carrying amount 30 June /December	**15 150**	**14781**	**6 937**	**6752**	**2 778**	**2968**	**1 392**	**1416**	**2 400**	**2062**	**28657**	**27979**
Carrying amount at 1 January	**14 781**	**12894**	**6 752**	**6597**	**2 968**	**3047**	**1 416**	**1303**	**2 062**	**516**	**27979**	**24357**

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

Within the total intellectual property, owned by the Group, the largest share belongs to internally created trademarks, which have not been capitalised in the consolidated statement of financial position. These trademarks grant exceptional rights on the names of pharmaceuticals while those with biggest relative share in the sales of the Group are: Carsil, Tempalgin, Broncholitin, Tabex, Analgin, Tribestan, Vicetin, Sydnopharm, Antistenocardin, Spasmalgon, Softensif, Chlofadon, Chlofasolin, Sofafailin, Sopral, Vasopren, Buscolisin, Nivalin, Maraslavin, Dimex, Allergosan, Aminalon.

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

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

As a result of the analysis, valuations and projections performed, the management of the Group recognised in 2011 impairment of part of the goodwill of the subsidiary Momina Krepost AD at the amount of BGN 254 and Extab companies at the amount of BGN 36 thousand.

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

16. INVESTMENT PROPERTY

Balance at 1 January	**6 555**	**6 821**
Additions		37
Disposals		(210)
Fair value measured as at 31 December, carried to the statement of comprehensive income (within profit or loss for the year)		(109)
Effect of restatement	4	16
Balance at 30 June/December	**6 559**	**6 555**

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

17. AVAILABLE-FOR-SALE INVESTMENTS

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

	Country	*30.06.2012 BGN '000*	Interest %	*31.12.2011 BGN '000*	Interest %
Doverie United Holding AD	Bulgaria	12 886	14.97	12 870	14.86
Medica AD	Bulgaria	2 421	10.13	2 420	10.13
Krimgas OAO	Ukraine	2 167	9.07	2 098	9.07
Lavena AD	Bulgaria	732	8.58	732	8.58
Olainfarm AD	Latvia	703	0.77	703	0.77
Elpharma AD	Bulgaria	665	19.00	665	19.00
Sopharma Properties REIT	Bulgaria	168	0.52	115	0.36
Maritzatex AD	Bulgaria	262	6.01	146	3.68
CF Elana Fund Money Market	Bulgaria	100	0.01	-	-
Hydroizomat AD	Bulgaria	98	6.82	51	3.74
Alean OOO	Belarus	79	19.00	-	-
Balkanpharma Razgrad AD	Bulgaria	70	0.33	70	0.33
Todorov AD	Bulgaria	47	4.97	47	4.97
HIF Doverie AD	Bulgaria	15	0.50	15	0.50
CF Status New Shares	Bulgaria	12	0.30	12	0.30
Ecobulpack AD	Bulgaria	7	1.48	7	1.48
Aik Banka AD	Serbia	4	0.002	4	0.002
Bulgarian Stock Exchange	Bulgaria	4	0.03	4	0.03
Privredna Banka AD	Serbia	3	0.019	3	0.019
UniCredit Bulbank AD	Bulgaria	3	0.001	3	0.001
Balkanpharma Dupnitsa AD	Bulgaria	2	0.01	2	0.01
Agrobank AD	Serbia	2	0.01	2	0.01
Metals Banka AD	Serbia	1	0.008	1	0.008
Dunav Insurance AD	Serbia	1	0.012	1	0.012
Aroma	Bulgaria	1	0.03	1	0.03

Total	**20 453**	**19 972**
Paid but not registered increase of capital of the companies in Bulgaria	2 081	-
	22 534	**19 972**

18. LOANS GRANTED TO RELATED PARTIES

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Companies under a common indirect control through key managing personnel	743	729
	743	**729**

The Group granted a loan to a company under a common indirect control through key managing personnel under the following terms and conditions::

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Contracted ammount:	1,100 thousand BGN	1,100 thousand BGN
Interest rate:	8.08%	8.08%
Maturity:	31.12.2014 г.	31.12.2014 г.
Collateral:	None	None
Purpose of the loan:	Working capital	Working capital
Balance at 30 June/31 Deember	743 thousand BGN	729 thousand BGN
Including interest	*20* thousand BGN	*1* thousand BGN

19. OTHER NON-CURRENT ASSETS

The ***other current assets*** of the Group as include:

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Loans granted	678	520

Guarantee deposits	272	320
Other	46	8
	996	**848**

The two largest loans granted by the Group as at 30 June 2012 were at the amount of 396 thousand BGN (31 December 2011: 394 thousand BGN) to F.D. Alimentari, Italy, at an interest rate of 8% (31 December 2011: 8%) and term for repayment - year 2021 (31 December 2011: 2021), and at the amount of 282 thousand BGN (31 December 2011: 112) to Brizpharm, at interest rate of 6% (31 December 2011: 6%) and term for repayment – year 2017 (31 December 2011: 2017).

The guarantee deposits include mainly receivables at the amount of BGN 272 thousand (31 December 2011: 272 thousands) under guarantees granted in relation with a long-term rental contract with ultimate term in 2016.

20. INVENTORIES

	30.06.2012 ***BGN '000***	***31.12.2011*** ***BGN '000***
Goods	43 992	53 256
Finished products	36 749	38 409
Materials	26 791	26 142
Semi-finished products	5 491	4 402
Work-in-progress	3 670	3 813
Total	**116 693**	**126 022**

Goods by type are as follows:

	30.06.2012 ***BGN '000***	***31.12.2011*** ***BGN '000***
Tablet dosage forms	20 698	28 719
Ampoule dosage forms	9 993	10 717
Syrups	1 453	2 176
Ointments	1 022	1 385
Drops	696	1 830
Goods in a process of delivery	-	521
Other	10 130	7 908
Total	**43 992**	**53 256**

Finished products existing at 31 March include:

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Tablet dosage forms	22 647	23 659
Ampoule dosage forms	6 752	6 091
Syrups	2 232	3 490
Other	5 118	5 169
Total	**36 749**	**38 409**

Materials by type are as follows:

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Basic materials	24 992	22 006
Auxiliary materials	612	451
Technical materials	382	466
Spare parts	307	285
Materials in the process of delivery	-	2 333
Other	498	601
Total	**26 791**	**26 142**

Basic materials by type are as follows:

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Substances	15 804	13 188
Vials, tubes and ampoules	3 778	3 805
Chemicals	1 815	1 561
Packaging materials	1 659	1 387
PVC and aluminium foil	1 049	934
Herbs	242	540
Other	645	591
Total	**24 992**	**22 006**

As at 30 June 2012, there were established special pledges on inventories at the amount of 86,162 thousand BGN (31 December 2011: 85,001 thousand BGN) as collateral under received by the Group bank loans and issued bank guarantees.

21. TRADE RECEIVABLES

Trade receivables include:

	30.06.2012 ***BGN '000***	***31.12.2011*** ***BGN '000***
Receivables from clients	155 774	134 789
Impairment of uncollectible receivables	(3 296)	(3 296)
	152 478	131 493
Advances to suppliers	11 333	5 315
Impairment of advances	(48)	(52)
Advances granted, net	11 285	5 263
Total	**163 763**	**136 756**

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

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

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

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

	30.06.2012 ***BGN '000***	***31.12.2011*** ***BGN '000***
up to 30 days	50 124	37 022
from 31 to 90 days	39 031	46 713
from 91 to 180 days	25 124	19 986
from 180 to 360 days	4 407	4 573
from 1 to 2 years	317	205
over 2 years	-	652
Total	**119 003**	**109 151**

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

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
from 31 to 90 days	6 266	5 459
from 91 to 180 days	5 505	1 513
from 180 to 365 days	10 276	4 148
from 1 to 2 years	3 437	2 830
over 2 years	1 176	1 333
Total	**26 660**	**15 283**

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:

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
from 31 to 90 days	-	216
from 91 to 180 days	-	1 013
from 180 to 365 days	2 439	1 711
from 1 to 2 years	3 099	7 415
over 2 years	4 573	-
allowance for impairment	(3 296)	(3 296)
	6 815	**7 059**

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

As at 30 June 2012, there were established special pledges on trade receivables at the amount of BGN 54,872 thousand (31 December 2011: BGN 54,872 thousand) as collateral under received by the Group bank loans and issued bank guarantees.

Movement of the allowance for impairment

	30.06.2012	*31.12.2011*
	BGN '000	*BGN '000*
Balance at the beginning of the year	**3 296**	**2 732**
Impairment amount	-	865
Amounts written-off as uncollectable	-	(113)
Reversal of impairment	-	(180)
Transferred impairment of litigations	-	(8)
Balance at the end of the year	**3 296**	**3 296**

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

	30.06.2012	*31.12.2011*
	BGN '000	*BGN '000*
Raw and other materials	2 426	2 501
Goods	7 819	1 618
Services	1 082	1 123
Other	6	73
Allowance for impairment	(48)	(52)
	11 285	**5 263**

22. RECEIVABLES FROM RELATED PARTIES

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

	30.06.2012	*31.12.2011*
	BGN '000	*BGN '000*
Receivables from companies under a common indirect control through key managing personnel	49 799	36 088
Receivables from main shareholding companies	8 874	14 898
Receivables from companies under a common indirect control	14 141	12 127
Total	**72 814**	**63 113**

The receivables from related parties by type are as follows:

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Trade loans granted	70 687	62 040
Receivables on sales of finished products and materials	1 923	1 073
Advance payments	200	-
Dividends	4	
Total	**72 814**	**63 113**

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

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Companies under a common indirect control through key managing personnel	49 715	36 088
Main shareholding companies	8 589	14 861
Companies under a common indirect control	12 383	11 091
Total	**70 687**	**62 040**

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

Currency	***Contracted amount '000***	***Maturity***	***Interest***	***30.06.2012***		***31.12.2011***	
				BGN'000	***BGN'000 including interest***	***BGN'000***	***BGN'000 including interest***
to companies under a common indirect control through key managing personnel							
EUR	7 200	25.10.2012	4.50%	16 779	*400*	14 164	*82*
BGN	14 287	31.12.2012	8.30%	15 668	*1 249*	14 492	*662*
BGN	18 495	31.08.2012	8.08%	11 841	*319*	-	-
EUR	1 581	31.12.2012	5.50%	794	-	3 387	*295*
BGN	2 477	31.12.2012	8.08%	2 765	*384*	2 669	*288*

	BGN	945	31.12.2012	8.08%	1 042	243	1 011	211
	BGN	190	31.12.2012	8.08%	219	29	211	21
	BGN	120	10.07.2012	8.08%	-	-	101	-
	BGN	1 050	31.12.2012	8.08%	607	7	53	3
to main shareholding companies								
	EUR	4 035	30.09.2012	4.80%	8 180	*287*	7 991	*99*
	BGN	18 495	31.08.2012	8.08%	-	-	6 467	-
	BGN	300	31.12.2012	8.08%	409	*109*	403	*103*
to companies under a common indirect control								
	EUR	7 000	28.12.2012	4.50%	11 321	*156*	10 604	-
	BGN	1 140	15.03.2012	8.08%	920	-	350	
	BGN	120	10.02.2012	8.08%	142	*22*	137	*17*
					70 687	**3 205**	**62 040**	**1 781**

The loans were granted for working capital of the respective counterparts. As at 30 June 2012, the loans were not additionally secured with special pledge or guarantee.

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

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

The Group has set a maximum credit period of up to 365 days for which no interest is charged to sales counterparts – related parties. Any delay after this period is regarded by the Group as an indicator for impairment. The management of the Group companies assess collectability by analysing the specific receivables and the position of the debtor company as well as the circumstances for the delay and the opportunities for repayment and after that, they take a decision on whether impairment shall be recognised and charged on individual basis and at what amount.

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

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
up to 30 days	913	564
from 31 to 90 days	174	103

from 91 to 180 days	6	1
Total	**1 093**	**668**

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

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
from 31 to 90 days	389	11
from 91 to 180 days	74	-
from 1 to 2 years	367	394
Total	**830**	**405**

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

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
over 1 year	427	399
Allowance for impairment	(427)	(399)
	-	-

Movement of the allowance for impairment

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Balance at 1 January	**399**	**343**
Impairment amount	28	56
Written-off impairment	-	-
Balance at 31 December	**427**	**399**

23. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments of the Group include:

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***

Court and awarded receivables	14 795	14 998
Impairment of court receivables	*(1 671)*	*(496)*
	13 124	14 502
Court and awarded receivables, net	7 536	5 657
Taxes refundable	1 395	1 930
Prepayments	1 058	1 239
Loans granted to third parties	560	508
Receivables on deposits placed as guarantees	138	197
Amounts granted to an investment intermediary	-	24
Other	331	275
Total	**24 142**	**24 332**

Taxes refundable include:	***30.06.2012***	***31.12.2011***
	BGN '000	***BGN '000***
VAT	3 153	2 346
Excise duties	3 431	2 856
Income tax	723	350
Withholding taxes	229	105
Total	**7 536**	**5 657**

Prepayments include:	***30.06.2012***	***31.12.2011***
	BGN '000	***BGN '000***
Insurance	423	620
Licence and patent fees	4	190
Vouchers	219	203
Subscriptions	465	354
Advertising	7	189
Rentals	20	141
Other	257	233
Total	**1 395**	**1 930**

Guarantee deposits include:	***30.06.2012***	***31.12.2011***

	BGN '000	*BGN '000*
Guarantees related to successful completion of contracts	356	239
Guarantees related to contracts for fuel supply	113	128
Guarantees related to contracts for supply of communication services	31	31
Guarantees related to contracts for supply of electricity	18	18
Other	42	92
Total	**560**	**508**

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 1,058 thousand BGN (31 December 2011: 1,239 thousand BGN) are provided to seven companies - contractors for working capital. The annual agreed interest rate on these loans in 2012 is between 6% and 12% (2011: 6% and 12%).

24. CASH AND CASH EQUIVALENTS

	30.06.2012	*31.12.2011*
	BGN '000	*BGN '000*
Cash at current bank accounts	27 881	18 754
Short-term deposits	2 840	13 114
Cash in hand	615	292
Blocked funds	87	75
Total	**31 423**	**32 235**

Cash and cash equivalents of the Group are mainly in BGN and EUR (31.12.2011: BGN and EUR).

As at 30 June 2012 blocked cash for guarantees amouns to 87 thousand BGN (31.12.2011: 75 thousand BGN).

25. EQUITY

Primary share capital

As at 30 June 2012 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 number of ***trasury shares*** is 3,509,336 amounting to 12,787 thousand BGN (31 December 2011: 2,934,163 shares in the amount of 11,463 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 2011: 21,855 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 26.662 thousand BGN (31 December 2011: 26,662 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 63 thousand BGN – negative figure (31 December 2011: 65 thousand – negative 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 2,961 thousand – negative figure (31 December 2011: 3,455 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.

26. LONG-TERM BANK LOANS

Currency	*Contracted loan amount '000*	*Maturity*	*30.06.2012 Long-term part BGN'000*	*Short-term part BGN'000*	*Total BGN'000*	*31.12.2011 Long-term part BGN'000*	*Short-term part BGN'000*	*Total BGN'000*
Credit lines and working capital loans								
BGN	23 470	31.01.2013	-	21 479	**21 479**	-	22 583	**22 583**
EUR	5 000	31.08.2013	9 779	-	**9 779**	-	9 774	**9 774**
BGN	18 000	15.02.2013	-	7 695	**7 695**	-	286	**286**
EUR	3 000	25.08.2013	5 868	-	**5 868**	-	5 863	**5 863**
EUR	2 500	31.08.2013	4 429	-	**4 429**	-	2 192	**2 192**
EUR	1 617	30.01.2015	998	239	**1 237**	999	479	**1 478**
EUR	300	28.06.2014	537	-	**537**			
EUR	1 675	30.06.2013	-	42	**42**	21	42	**63**
EUR	530	28.02.2012	-	-	**-**	-	86	**86**

Investment-purpose loans

EUR	32 000	15.04.2021	33 321	4 909	**38 230**	18 737	37	**18 774**
EUR	2 000	29.07.2015	1 023	960	**1 983**	2 480	960	**3 440**
EUR	1 577	09.12.2015	857	348	**1 205**	1 043	348	**1 391**
			56 812	**35 672**	**92 484**	**23 280**	**42 650**	**65 930**

The bank loans received in Euro were mainly agreed at interest rate based on EURIBOR plus a surplus of 5.5 points for BGN loans – SOFIBOR plus 2 points and for RUB – fixed rate of 16 %(2011: EURIBOR plus a surplus of up to 5.5 points).

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

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

- Real estate mortgages (Note 14);
- Special pledges on:
  - machinery and equipment (Note 14);
  - raw materials, consumables and finished products (Note 20);
  - trade receivables (Note 21).

27. RETIREMENT BENEFIT OBLIGATIONS

The long-term payables to personnel include the present value of the obligation of the Group companies, operating mainly in *Bulgaria, Ukraine and Serbia*, to pay indemnities to the hired personnel at the date of the statement of financial position on coming of age for retirement.

In accordance with the Labour Code *in Bulgaria* each employee is entitled to indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked over the last 10 years for the same employer – six gross monthly salaries at the time of retirement (Note 2.33.8).

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

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

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

	30.06.2012	*31.12.2011*
	BGN '000	*BGN '000*
Present value of the obligations at 1 January	*2 426*	*2 801*
Unrecognised actuarial loss at 1 January	*(37)*	*(191)*
Liability recognised in the consolidated statement of financial position at 1 January	**2 389**	**2 610**
Expense recognised in the statement of comprehensive income for the period	96	219
Payments for the period	(74)	(440)
Effect of restatement of the financial statements of subsidiaries abroad	7	-
Liability recognised in the consolidated statement of financial position at 30 June /December	**2 418**	**2 389**
Unrecognised actuarial loss at 30 June /December	-	*(37)*
Present value of the obligations at 30 June / December	*2 455*	*2 426*

	30.06.2012	*31.12.2011*
	BGN '000	*BGN '000*
Present value of the obligations at 1 January	**2 426**	**2 801**
Interest expense for the year	-	132
Current service costs for the year	96	154
Payments for the year	(74)	(440)
Effect of restatement of the financial statements of subsidiaries abroad	7	-
Actuarial (gain)/loss for the year	-	(221)
Present value of the obligations at 30 June / December	**2 455**	**2 426**

The following actuarial assumptions were used in calculating the present value of the liabilities for the companies in Bulgaria**:**

- The discount factor is calculated by using 5.7 % annual interest rate as **basis (2011: 5.7%).** The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of the salaries is based on the information provided by the Company's management and amounts to 5 % annual growth compared to the prior reporting **period (2011: 5 %);**

- Mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2008 - 2010 (2010: **2008 – 2010);**
- Staff turnover rate – from 0 % to 16 % for the five age groups formed **(2011: from 0% to 16 %).**

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	***30.06.2012*** ***BGN '000***	***31.12.2011*** ***BGN '000***
Up to one year	650	610
Over one year	1 655	1 534
Total	**2 305**	**2 144**

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

Term	***30.06.2012*** ***BGN '000***	***31.12.2011*** ***BGN '000***
Up to one year	905	796
Over one year	2 161	1 836
	3 066	2 632
Future finance costs under finance leases	(761)	(488)
Present value of finance lease payments	**2 305**	**2 144**

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

29. OTHER NON-CURRENT LIABILITIES

As at 30 June 2012, the amount of BGN 2,840 thousand represents government grants under concluded contracts for gratuitous financial aid (31 December 2011: BGN 1,330 thousand).

The amount of other non-current liabilities as at 30 June 2012 includes also the amount of 39 thousand BGN - a payable for purchase of available-for-sale investments with maturity 30 March 2017 (31 December 2011: 38 thousand BGN).

30. SHORT-TERM BANK LOANS

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

Currency	*Contracted amount*	*Maturity*	*30.06.2012*	*31.12.2011*
	'000		*BGN'000*	*BGN'000*
Bank loans				
EUR	20 000	31.05.2013	38 971	39 095
EUR	12 500	17.02.2013	24 128	15 127
EUR	10 000	31.12.2012	19 558	19 558
EUR	8 434	31.12.2012	15 983	15 983
BGN	10 000	31.12.2012	10 000	-
EUR	5 000	01.05.2013	9 779	3 508
EUR	5 000	30.11.2012	8 779	8 789
EUR	4 000	31.05.2013	7 824	-
USD	4 000	01.05.2013	6 212	6 027
EUR	3 000	25.04.2013	5 868	-
EUR	3 000	28.09.2012	5 864	5 864
EUR	3 927	31.01.2013	3 717	2 405
EUR	1 825	01.05.2013	3 501	-
EUR	2 000	30.06.2013	2 474	108
UAH	6 000	20.09.2012	1 177	-
BGN	500	20.12.2012	144	100
EUR	66	31.12.2012	129	129
EUR	12 000	01.05.2012	-	23 595
EUR	10 000	31.12.2012	-	10 003
UAH	7 000	07.06.2012	-	1 329
RUB	3 000	15.07.2012	-	145
			164 108	**151 765**

The obtained bank loans in Euro are mainly contracted at interest rate determined on the basis of EURIBOR plus a surplus of 4.5 points, loans in BGN – monthly SOFIBOR plus a surplus of 2 points and in RUB – fixed interest rate of 16% (2011: EURIBOR plus a surplus of up to 4.5 points, for loans in

BGN – monthly Sofibor plus a surplus of 2 points and fixed interest rate of up to 16% while for those in RUB).The loans are intended for working capital.

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

- machinery and equipment (Note 14);
- raw materials, consumables and finished products (Note 20);
- trade receivables (Note 21).

31. TRADE PAYABLES

Trade payables include:

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Payables to suppliers	47 693	62 605
Advances from clients	2 449	3 427
Provisions for payables to suppliers	106	102
Total	**50 248**	**66 134**

	30.06.2012	***31.12.2011***
The ***payables to suppliers*** refer to:	***BGN '000***	***BGN '000***
Suppliers from Bulgaria	25 532	29 544
Suppliers outside Bulgaria	22 161	33 061
Total	**47 693**	**62 605**

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

32. PAYABLES TO RELATED PARTIES

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

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Payables to main shareholding companies	4 213	1 540

Payables to companies under common indirect control trough key management personnel	1 855	-
Payables to companies under common indirect control	1 206	1 650
Payables to other related parties	84	170
Total	**7 358**	**3 360**

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

	30.06.2012 ***BGN '000***	***31.12.2011*** ***BGN '000***
Payables for dividend	4 704	-
Payables for supplies of services	2 000	2 377
Payables for supplies of goods and materials	630	930
Other	24	53
Total	**7 358**	**3 360**

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:

	30.06.2012 ***BGN '000***	***31.12.2011*** ***BGN '000***
Payables to personnel, including:	6 451	4 339
current wages and salaries	*2 673*	*2 477*
accruals on unused compensated leaves	*1 743*	*1 051*
tantieme	*2 035*	*811*
Payables for social security/health insurance, including:	1 313	1 148
current payables for social security/health insurance contributions	*1 025*	*984*
accruals on unused compensated leaves	*288*	*164*
Total	**7 764**	**5 487**

34. TAX PAYABLES

Tax payables include:

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***

VAT	2 938	2 183
Income tax	989	322
Individual income taxes payable	369	419
Withholding taxes	148	100
Local taxes and fees	44	22
Total	**4 488**	**3 046**

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

Company	Full-scope tax audit	VAT inspection	Inspection under the social security legislation
Sopharma AD	31.12.2007	31.10.2008	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	30.04.2009
Momina Krepost AD	31.12.2005	31.10.2006	31.10.2006
Pharmalogistica AD	31.12.2005	31.03.2007	none
Sopharma Buildings REIT	none	29.02.2012	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	31.08.2011	31.03.2012
Rostbalkanpharm AD	31.12.2005	31.12.2005	30.09.2009
Sopharma Zdrovit AD – in liquidation	30.09.2011	30.09.2011	30.09.2011
Briz OOD	20.07.2007	19.08.2010	30.12.2011
Briti SOOO	30.06.2011	30.06.2011	30.06.2011
Tabina OOO	30.09.2010	30.09.2010	30.09.2006
ZAO Interpharm	31.10.2007	31.10.2007	30.06.2006

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

Tax audit of the companies in Bulgaria is performed within a 5-year period after the end of the year when the tax return for the respective liability has been submitted. The tax audit confirms finally the tax liability of the respective company-tax liable person except in the cases explicitly stated by law.

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

35. OTHER CURRENT LIABILITIES

Other current liabilities include:

	30.06.2012	***31.12.2011***
	BGN '000	***BGN '000***
Dividend due	7 453	952
Dividends payable	882	884
Liabilities under sold rights from shares issue	650	610
Finance lease liabilities (Note 30)	480	346
Deductions from work salaries	240	245
Other	140	195
Total	**9 845**	**3 232**

36. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

Sopharma AD

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

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

Biopharm Engineering AD

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

The company appealed entirely the results of the tax audit before the Administrative Court in Burgas through the Appeal and Enforcement Management Directorate - Burgas at the Central Administration of the National Revenue Agency (NRA). In this relation the company provided collateral – restraint over a tangible fixed asset. At the first session held on 15 February 2012 the case was put off for 16 May 2012.

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

Unipharm AD

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

<u>Significant irrevocable agreements and commitments</u>

Sopharma AD

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

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

Bulgarian Rose Sevtopolis AD

The company undertook an engagement under a contract for granting gratuitous financial aid for a period of 5 years after the completion of the project for technological renovation and modernisation of tablets production. The term commenced on 9 February 2011 and according to the contract the product should not suffer significant changes referring to its nature, the conditions of its performance or leading to unjustifiable benefits for the company as well as changes resultant from modification in the nature of ownership of infrastructural component or discontinuance of production activities. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Biopharm Engineering AD

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

Other

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

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	***30.06.2012***	***31.12.2011***
	BGN '000	***BGN '000***
Financial assets	**294 508**	**264 673**
Loans and receivables, including:	271 974	244 701
Receivables and loans	*240 551*	*212 466*
Cash and cash equivalents	*31 423*	*32 235*
Available-for-sale investments	22 534	19 972

Financial liabilities	***30.06.2012***	***31.12.2011***
	BGN '000	***BGN '000***
Financial liabilities at amortised cost	**322 541**	**287 909**
Short-term and long-term bank loans	*256 592*	*217 695*
Other loans and liabilities	*65 949*	*70 214*

Currency risk

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

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

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

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

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

To control foreign currency risk, there is an implemented system in the whole Group for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rates and control on pending payments. Bulgarian Rose Sevtopolis AD maintains assets and liabilities in foreign currencies (cash, payables to suppliers) originated in prior periods, which are denominated in USD and as at 31 March 2012 it expanded its net exposure to currency risk towards USD compared to prior period. The exposures of the other subsidiaries in Bulgaria to the currency risk are insignificant because almost all sales are performed to the local market in Bulgarian Levs (BGN). The import of goods is performed entirely in Euro (EUR). The loans denominated in foreign currency have been granted mainly in EUR.

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

30 June 2012	*in BGN*	*in EUR*	*in USD*	*in other currency*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	-	-	19 574	2 960	22 534
Loans and receivables, including:	1 178	72 520	156 525	10 328	240 551
Receivables and loans	3 544	7 912	18 389	1 578	31 423
Cash and cash equivalents	**4 722**	**80 432**	**194 488**	**14 866**	**294 508**
Total financial assets					
Short-term and long-term bank loans	6 211	209 886	39 318	1 177	256 592
Other loans and liabilities	2 090	25 278	32 149	6 432	65 949
Total financial liabilities	**8 301**	**235 164**	**71 467**	**7 609**	**322 541**

31 December 2011	**USD**	**EUR**	**BGN**	*in other currency*	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*

Available-for-sale financial assets	-	-	17 160	2 812	19 972
Loans and receivables, including:	2 011	82 117	149 384	11 189	244 701
Receivables and loans	1 018	11 334	18 191	1 692	32 235
Cash and cash equivalents	**3 029**	**93 451**	**184 735**	**15 693**	**296 908**
Total financial assets					
Short-term and long-term bank loans	6 027	199 805	10 389	1 474	217 695
Other loans and liabilities	4 353	29 311	31 752	4 798	70 214
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 optimisation of production costs, validation of alternative suppliers that offer beneficial commercial conditions, expanding product range by means of new generic products development and last but not least, adoption of a flexible marketing and price policy. Price policy is a function of three main factors – structure of expenses, prices of competitors and purchasing capacity of customers.

The Group is exposed to a significant price risk also with regard to the shares held thereby, classified as available-for-sale investments, mostly through the parent company. For this purpose, the management monitors and analyses all changes in security markets and also uses consulting services of one of the most authoritative in the country investments intermediaries. In addition, at this stage, because of the economic and financial crisis, the management has taken a decision for a significant reduction in its operations on stock markets, retaining of the purchased shares for longer periods with current monitoring of the reported by the respective issuer financial and business indicators as well as the development of the operations in the environment of crisis.

Credit risk

Credit risk is the risk that any of the Group's clients will fail to discharge in full and within the normally envisaged terms the amounts due under trade receivables. The latter are presented in the statement of financial position at net value after deducting the impairment related to doubtful and bad debts. Such impairment is made where and when events have existed identifying loss due to uncollectability as per previous experience.

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

The cooperation with the National Health Insurance Fund also requires the implementation of deferred payments policy. 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.

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

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

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

Liquidity risk

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

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is its main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. Group’s liquidity could be significantly affected by USD exchange rate fluctuations with regard to our US dollar positions on the Russian market and market dynamics, if this rate deviates from our forecasts. Another big source of risk is the presence of net items in Belarusian Roubles (BYR) and the hyperinflation in this market.

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.

30 June 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	-	-	-	-	22 140	394	-	**22 534**
Loans and	82 902	70 023	79 870	6 038	574	2 180	1 238	**242 825**

receivables								
Cash and cash equivalents	31 383	-	-	40	-	-	-	**31 423**
Total assets	**114285**	**70 023**	**79 870**	**6 078**	**22 714**	**2 574**	**1 238**	**296 782**
Short-term and long-term bank loans	3 119	9 112	60 847	137 040	16 076	15 511	30 546	**272 251**
Other loans and liabilities	35 333	21 962	7 249	689	554	277	-	**66 064**
Total liabilities	**38 452**	**31 074**	**68 096**	**137 729**	**16 630**	**15 788**	**30 546**	**338 315**

31 December 2011	*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	-	-	-	-	17 102	2 870	-	**19 972**
Loans and receivables	62 264	46 740	29 008	71 862	3 977	2 464	671	**216 986**
Cash and cash equivalents	30 636	1 606	-	-	-	-	-	**32 242**
Total assets	**92 900**	**48 346**	**29 008**	**71 862**	**21 079**	**5 334**	**671**	**269 200**
Short-term and long-term bank loans	74 365	1 226	48 506	74 805	2 772	5 199	21 394	**228 267**
Other loans and liabilities	28 959	22 672	14 188	2 895	583	1 275	108	**70 680**
Total liabilities	**103324**	**23 898**	**62 694**	**77 700**	**3 355**	**6 474**	**21 502**	**298 947**

Risk of interest-bearing cash flows

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

(a) optimisation of resources and structure of credit resources for achieving relatively lower price of attracted funds; and

(b) combined structure of interest rates on loans comprising two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and maintained in a proportion favourable for the Group companies. The permanent component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

The management of the Group companies together with that of the parent company currently monitor and analyse the exposure of the respective company to the changes in interest levels.

30 June 2012	*interest-free*	*with floating interest %*	*with fixed interest %*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	22 534	-	-	22 534
Loans and receivables	161 669	-	78 882	240 551
Cash and cash equivalents	674	27 890	2 859	31 423
Total assets	**184 877**	**27 890**	**81 741**	**294 508**
Short-term and long-term bank loans	-	256 055	537	256 592
Other loans and liabilities	63 629	2 320	-	65 949
Total liabilities	**63 629**	**258 375**	**537**	**322 541**

31 December 2011	*interest-free*	*with floating interest %*	*with fixed interest %*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	19 972	-	-	19 972
Loans and receivables	142 309	-	70 157	212 466
Cash and cash equivalents	6 230	12 982	13 023	32 235
Total assets	**168 511**	**12 982**	**83 180**	**264 673**
Short-term and long-term bank loans	419	217 276	-	217 695
Other loans and liabilities	68 055	2 121	38	70 214
Total liabilities	**68 474**	**219 397**	**38**	**287 909**

Capital risk management

The capital management objectives of the Group are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital. Analogous approach is applied also at the level of a separate Group company with regard to its capital structure and financing.

The Group currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital amount. Net debt is calculated as total borrowings (current and non-current ones) as presented in the balance sheet less cash and cash equivalents. Total employed capital is calculated as the sum of equity and net debt.

In 2012, the strategy of the parent company management was to maintain the ratio within 35 - 40 % at Group level (2011: 35-40 %). The table below shows the gearing ratios based on capital structure:

	2012	***2011***
	BGN '000	***BGN '000***
Total borrowings, including:	**258 897**	**219 839**
Bank loans	*256 592*	*217 695*
Loans and finance lease liabilities	*2 305*	*2 144*
Less: Cash and cash equivalents	**(31 423)**	**(32 235)**
Net debt	**227 474**	**187 605**
Total equity of the Group	**334 730**	**319 999**
Total capital of the Group	**562 204**	**507 604**
Gearing ratio	**0.40**	**0.37**

Fair values

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

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

The fair value concept presumes realisation of the financial instruments through sales. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits with banks, the

Group expects to realise these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at their amortised cost.

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the statement of financial position at market value (deposits placed with banks, investments in securities) and therefore, their fair value is almost equal to their carrying amount. Part of the investments in other companies as non-controlling interests represent an exception to this rule, since neither market nor objective conditions exist so that their fair value could be reliably determined. Therefore, they are presented at acquisition cost (cost).

As far as no sufficient market experience, stability and liquidity exist in regards of purchases and sales of certain financial assets and liabilities, still no adequate and reliable quotes of market prices are available thereof.

The management of the parent company is of the opinion that the estimates of the financial assets and liabilities presented in the statement of financial position are as reliable, adequate and trustworthy as possible for financial reporting purposes under the existing circumstances.

38. RELATED PARTY TRANSACTIONS

Related parties	***Relation type***	***Relation period***
Telecomplect Invest AD	Main shareholding company	*2012*
Telecomplect AD	Main shareholding company	*2011*
Donev Investments Holding AD	Main shareholding company	*2012 and 2011*
NIHFI AD	Company under a common indirect control	*and until 05.08.2011*
Kaliman RT AD	Company under a common indirect control	*2012 and 2011*
Seiba Pharmacies and Drugstores AD	Company under a common indirect control	*2012 and 2011*
SCS Franchise AD / Sanita Franchising AD/	Company under a common indirect control	*2012 and 2011*
Sopharma Properties REIT	Company under a common indirect control	*2012 and 2011*
Sofia Inform AD	Company under a common indirect control	*2012 and 2011*
Sofprint Group AD	Company under a common indirect control	*2012 and 2011*
Sofconsult Group AD	Company under a common indirect control	*2012 and 2011*
Elpharma AD	Company under a common indirect control	*2012 and 2011*
Telso AD	Company under a common indirect control through key managing personnel	*2012 and 2011*
Telecomlect AD	Company under a common indirect control through key managing personnel	*2012*
DOH Group	Company under a common control through key managing personnel	*2012 and 2011*

Supplies from related parties:	***2012***	***2011***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies under a common indirect control	5 163	4 920
Companies under a common indirect control through key managing personnel	37	19
Main shareholding companies	7	-
Shareholding companies with substantial influence	-	64
	5 207	**5 003**
Supply of services from:		
Companies under a common indirect control	837	80
Companies under a common indirect control through key managing personnel	827	224
Main shareholding companies	219	-
Shareholding companies with substantial influence	-	1 024
	1 883	**1 328**
Supply of long-term fixed assets from:		
Companies under a common indirect control through key managing personnel	8	-
Main shareholding companies	-	36
	8	**36**
Supply fof acquisition of long-term fixed assets from:		
Companies under a common indirect control through key managing personnel	12 817	-
Shareholding companies with substantial influence		7 727
	12 817	**7 727**
Total	**19 915**	**14 094**

Sales to related parties	***2012***	***2011***
	BGN '000	***BGN '000***
Sales of services to:		
Companies under a common indirect control	78	89
Companies under a common indirect control through key managing personnel	26	-
Shareholding companies with substantial influence	-	25
	104	**114**
Sales of inventories to:		
Companies under a common indirect control	2 086	1 326

Companies under a common indirect control through key managing personnel	44	-
Shareholding companies with substantial influence	-	31
	2 130	**1 357**
Other sales to:		
Main shareholding companies	58	-
Companies under a common indirect control through key managing personnel	5	-
	63	-
Total	**2 297**	**1 471**

The accounts and balances with related parties are disclosed in Notes 18, 22 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 2,911 thousand BGN (30 June 2011: 1,128 thousand BGN), including:

* profit-based bonuses – 1,224 thousand BGN (30 June 2011: none)

* current wages – 1,687 thousand BGN (30 June 2011: 1,128 thousand BGN)

39. EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period.