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1. BACKGROUND CORPORATE INFORMATION

Sopharma AD is a business entity registered in Bulgaria with a seat and registered address of management: Sofia, 16, Iliensko Shousse St. The Company was entered in the Commercial Registry on 11 April 2008 with UIC 831902088.

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

1.1. Ownership and management

Sopharma AD is a public company under the Public Offering of Securities Act.

As at 30 September 2019, the structure of Company's joint-stock capital was as follows:

	%
Donev Investments Holding AD	25.39
Telecomplex Invest AD	20.68
Rompharm Company OOD	6.21
CUPF Allianz Bulgaria	5.09
Sopharma AD (treasury shares)	6.59
Other legal persons	28.73
Natural persons	7.31

Sopharma AD has a one-tier management system with a five-member Board of Directors. Company's management in the form of Board of Directors is composed as at 30 September 2019 as follows:

Ognian Donev, PhD	Chairperson
Vessela Stoeva	Member
Ognian Palaveev	Member
Alexander Chaushev	Member
Ivan Badinski	Member

The Company is represented and managed by its Executive Director - Ognian Donev, PhD.

The Audit Committee supports the work of the Board of Directors and plays the role of those charged with governance that exercise monitoring and control over the internal control system, risk management and Company's system of financial reporting.

The composition of the Audit Committee is as follows:

Vasil Naidenov	Chairperson
Tsvetanka Zlateva	Member
Kristina Atanasova - Elliot	Member

The average number of Company's personnel for 2019 is 2,281 workers and employees (2018: 2,137).

1.2. Principal activities

The principal activities of the Company include the following types of transactions and deals:

- production and trade in medicinal substances and finished drug forms;
- research and development as well as engineering and implementation activities in the field of medicinal products.

The Company holds manufacturing / import authorisation for medicinal products № BG / MIA - 0081 dated 31 January 2019, issued by the Bulgarian Drug Agency (BDA).

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

The separate financial statements of SOPHARMA AD 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 2019 and have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

For the current financial year, the Company has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which have been relevant to its activities.

With regard to the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on 1 January 2019, the management has judged that they are unlikely to have a potential impact resulting in changes in the accounting policies and the classification and values of reportable items in the financial statements of the company, namely:

- IFRS 17 “Insurance Contracts” (in force for annual periods beginning on or after 1 January 2021 – not endorsed by EC). *This is an entirely new accounting standard on all types of insurance contracts, including some guarantees and financial instruments, and includes rules on recognition and measurement, presentation and disclosure. The standard will supersede the effective so far standard related to insurance contracts – IFRS 4. It establishes an entirely new overall model for insurance contracts’ accounting, covering all relevant accounting aspects. It is not applicable to the Company’s operations*
- IAS 28 (amended) “Investments in Associates and Joint Ventures” – regarding long term interests in associates and joint ventures (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC). *The amendment clarifies that an entity should apply*

IFRS 9 including its impairment requirements regarding long term interests in associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. A change in the intents and plans of the management are not regarded as evidence for a change in use.

- IFRS 10 (amended) “Consolidated Financial Statements” and IAS 28 (amended) “Investments in Associates and Joint Ventures” – regarding the sale or contribution of assets between an investor and its associates or joint ventures (postponed effective date, to be determined by the IASB). *These amendments address the accounting treatment of the sale or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the assets sold or contributed constitute in substance a business as defined in IFRS 3. If these assets as an aggregate do not meet the definition of a business, then the investor shall recognise gain or loss only to the extent of other unrelated investor's interests in the associate or joint venture. In cases of sale or contribution of assets, which as an aggregate constitute a business, the investor shall recognise the full gain or loss on the transaction. The amendments will be applied on a prospective basis. IASB postponed the initial date of application of these amendments for an indefinite period.*

The separate financial statements of the Company have been prepared on a historical cost basis except for property, plant and equipment, investment property and financial assets constituting equity investments through other comprehensive income, which are measured at revalued amount and respectively, at fair value.

The Company keeps its accounting books in Bulgarian Levs (BGN), which is accepted as being its presentation currency. The data in the separate financial statements and the notes thereto is presented in thousand Bulgarian Levs (BGN'000) except where it is explicitly stated otherwise.

The presentation of the financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the 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 financial statements, are disclosed in *Note 2.33, Note 13, Note 15 and Note 18.*

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated financial statements for the third quarter of 2019 in accordance with IFRS effective for year 2019 whereas these separate financial statements will be included therein. In accordance with the planned dates, the management expects that the

consolidated financial statements will be issued not later than 30 November 2019 and after this date the financial statements will be publicly made available to third parties.

2.3. Merger of Unipharm AD into Sopharma AD

(a) legal form of the mergers

The merger of Unipharm AD (transforming company) into Sopharma AD (receiving company) was made through the legal form of transformation regulated by the Commercial Act. The merger was entered in the Commercial Register at the Registry Agency on 13 September 2018. As a result of the transaction, the total assets of Unipharm AD were transferred to Sopharma AD while Unipharm AD was wound-up without liquidation.

On 17 May 2018, a contract was signed for transformation through merger between Sopharma AD (receiving company) and Unipharm AD (transforming company), which settles the terms and conditions for conducting the transformation. The fair price of shares in the companies involved in the merger was determined based on generally adopted valuation methods, based on which the exchange ratio of 0,951317 was set.

The Transformation Agreement and Examiner's Report were approved by the General Meeting of the receiving company on 1 August 2018.

The purpose of the transaction for transformation of both companies was as follows:

- restructuring of the companies in Sopharma Group in order to eliminate overlapping activities;
- focus of the efforts on production and trade activities, and respectively, optimisation of administrative expenses;
- enhancing efficiency and achieving synergy in both management and production and trade activities as well as costs optimisation.

(b) method of accounting for the mergers

Upon the merger of Unipharm AD, the merger date was set for accounting purposes to be 1 January 2018.

Upon to the moment of the merger, Unipharm AD was a subsidiary of Sopharma AD. Transactions were treated as a restructuring of the two companies' operations. The merger was accounted for by applying the 'uniting of interests' method. In line with the requirements and rules of this method, the operations and the assets of the companies are presented in these financial statements as if they have always been united, regardless of the legal events and procedures and their effect on the legal status and life of the receiving and the transforming company. The effects of all business operations between the receiving and the transforming company, including the outstanding balances, are eliminated regardless of whether arisen prior to or after the restructuring. All differences arising on the mergers operation are stated in the equity – within 'retained earnings' component (*Note 26*).

2.4. Comparatives

The Company usually presents comparative information for one prior year in its financial statements.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

The effects on retained earnings from the original application (01.01.2018) of IFRS 9 *Financial Instruments* are as follows:

	Notes	BGN'000
Final balance of retained earnings as at December 31, 2017 (recalculated with Unifarm aggregates (Note 2.3))		45,831
Accrual of provision for impairment of expected credit losses on trade receivables from related parties	22	(305)
Accrual of provision for impairment of expected credit losses on trade receivables from third parties	23	(575)
Accrual of provision for impairment of expected credit losses on long-term loans granted to related parties	19	(119)
Accrual of provision for impairment of expected credit losses on short-term loans granted to related parties	22	(87)
Accrual of provision for impairment of expected credit losses on long-term loans granted to third parties	20	(6)
Accrual of provision for impairment of expected credit losses on short-term loans granted to third parties	24 (a)	(66)
Accrual of provisions on financial guarantees	37	(297)
Increase in deferred tax assets related to accrued provisions for expected credit losses	28	146
Overall effect on retained earnings		(1,309)
Initial balance of retained earnings on 1 January 2018, after recalculation from the application of IFRS 9 for the first time		44,522

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

An exception to this rule is the presentation of the effects of the application for the first time on IFRS 16 *Leasing*. The Company chose a modified retrospective application for the first time of IFRS 16 *Leasing*. Comparative data for the year (2018) before the initial application of IFRS 16 *Leases* will not be recalculated.

2.5. Functional currency and recognition of exchange differences

The functional and reporting (presentation) currency of the Company is the Bulgarian Lev. Starting from 1 July 1997 the Bulgarian Lev was fixed under the Bulgarian National Bank Act to the German Mark at the ratio of BGN 1 : DEM 1, and with the introduction of the Euro as the official currency of the European Union, it has been fixed to the Euro at a ratio of 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 a foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

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 statement of financial position, which have been initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the transaction date and are not subsequently revalued at the closing exchange rate.

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

2.6. Revenue**Revenue from contracts with customers**

The Company's usual revenue is from the activities disclosed in *Note 3.1*.

2.6.1. Recognition of revenue from contracts with customers

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

Measurement of contracts with customers

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

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

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

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

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

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

When another (third) party is involved in the performance of obligations, the Company determines whether it acts in its capacity as principal or agent, by assessing the nature of its promise to the customer: to provide the finished goods or services on its own (principal) or to arrange for another party to provide them (agent). The Company is a principal and recognises as revenue the gross amount of remuneration if it controls the promised finished goods and/or services prior to their transfer to the customers. If however the Company does not obtain control over the promised goods and/or services and its obligation is only to organise for a third party to provide these finished goods and/or services, the Company is an agent and recognises as revenue the net amount it retains for the services granted in its capacity as agent.

2.6.2. Measurement of revenue under contracts with customers

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

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

The change in the scope or price (or both) of the contract is accounted for as a separate contract and/or as part of the existing contract, depending on whether the change is related to the addition of goods and/or services which are distinct, and on the price determined for them.

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

2.6.3. Performance obligations under contracts with customers

Revenue from the sale of products

Wholesales of medical substances and medical forms are made in the country and abroad, both based on the Company's specification (technology) and based on the customer's specification (technology). As a whole, the Company has concluded that it acts as principal in its contracts with customers, unless it has been

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explicitly stated otherwise for certain transactions, since usually the Company controls its goods and/or services prior to their transfer to the customer.

Sales of products based on the Company's specifications

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

Upon *domestic sales*, this is usually upon handover of the products and the physical ownership of the customer thereof, when the customer may dispose of the finished goods by obtaining substantially all remaining rewards.

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

Sales of products based on the customer's specifications

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

If in the specific contract the Company has a legally exercisable right to payment, revenue is recognised *over time*, and the *output method* is used to measure progress (stage of completion) of the contract. This method has been determined as most suitable to measure progress, as the results achieved best describe the Company's activity towards complete satisfaction of the performance obligations. Progress is measured *based on the units produced versus the total number of units ordered by the customer*.

The assessments of revenue, costs and/or stage of progress towards complete satisfaction of the performance obligations are reviewed at the end of each reporting period, incl. in case of change in the circumstance/occurrence of new circumstances.

Each subsequent increase or decrease of expected revenue and/or costs is stated within profit or loss for the period in which the circumstances resulted in the review became known to the management.

If in the specific contract the *Company does not have a legally exercisable right to payment*, revenue is recognised *at a point in time*, when control over the products sold is transferred to the customer: when the products are handed over to the customer and it has physical title thereon (for domestic sales) and in accordance with the contract's applicable INCOTERMS (for export sales).

Transportation of the products sold

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

The transportation service following transfer of control over the products sold is accounted for as a *separate performance obligation*, since the transportation can be provided by another supplier (i.e. the

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

customer may use the products sold with easily accessible resources), and the transportation service does not modify or amend the products sold in any way. In this case, the remuneration the Company expects to be entitled to (the transaction price) is allocated between the separate performance obligations based on their standalone selling prices. The standalone selling price of the products sold is determined based on the price list effective at the transaction's date, and the standalone selling price of the transport service is determined in an approximate manner by using the cost plus margin approach.

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

Revenue from the sales of transportation services are recognised *over time*, since it is not necessary for work performed to date to be repeated if another party has to perform the remaining work, therefore, the customer receives and consumes rewards simultaneously with the service rendition.

In order to measure the contract progress (stage of completion), the *input method* is used. This method has been determined as most appropriate to measure progress since it best describes the Company's activity regarding the transfer of control and satisfaction of obligations; respectively, it most accurately reflects the level of performance of obligations, in as far as the Company's efforts (costs incurred) are directly related to the transfer of the service to the customer. Progress is measured *based on the costs incurred versus the total costs planned for contract performance*.

Transaction price and payment terms

Selling prices are fixed based on a common or customer-specific price list and are individually determined for each product. The usual credit period is 30 to 270 days. In certain cases, the Company collects short-term advances from clients which do not have a significant financing component. The advances from clients are presented in the statement of financial position as contract liabilities.

Variable consideration

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

- **Volume discounts:** Retrospective trade discounts provided to the customer upon reaching monthly, quarterly and/or annual turnover determined in advance, set as a uniform threshold and/or progressive bonus scheme. Upon measuring the variable consideration, the Company determines the customer's estimated turnover by using the most probable value method. The discounts granted are offset against the amounts due by the customer.
- **Price protection:** With regards to domestic sales, the Company is obliged, upon price reduction imposed by a state regulatory body, to compensate the buyer and/or its customers for finished products purchased at a higher price and not yet sold to end clients. The payment of this consideration depends on the state policy on medicinal products price regulation and is beyond the Company's control.

- Compensation for hidden flaws: the customer may claim returns due to hidden flaws (quality claims) throughout the validity period of the finished goods sold, which may vary from one to five years. Quality claims are settled by the provision of new compliant goods or by recovery of the amount paid by the customer. Upon determining the compensations for hidden flaws due at the end of the reporting period, the Company takes into consideration the quality assurance system implemented thereby and the accumulated experience.
- Compensations due to the customer: in case of inaccurate performance of contractual obligations by the Company, usually in relation of failure to meet the negotiated delivery deadline. These are included within a decrease of the transaction price only if the payment is very likely. The Company's experience shows that historically, contract terms are complied with, and the Company has not charged payables for payment of compensations.
- Compensations owed by the customer: variable consideration in the form of compensations for delayed payment by the customer. Receiving such consideration depends on the customer's actions and is beyond the Company's control. They are included within the transaction price only when the uncertainty regarding their receipt has been resolved.
Including compensations (owed by and due to the customer) within the transaction price is determined for each individual contract and is subject to review at the end of each reporting period.

The variable consideration expected in the form of various discounts, defaults and compensations is determined and measured based on the accumulated historical trade experience with customers and is recognised as adjustment for the purpose of the transaction price only and respectively the revenue (as an "increase" or a "decrease" component) only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, including due to assessment restrictions. Any subsequent changes to amount of the variable consideration are recognised as adjustment of revenue (as an increase or a decrease) at the date of change and/or resolving the uncertainty. At the end of each reporting period, the Company updates the transaction prices, including whether the estimated price contains restrictions, so as to accurately present circumstances existing and occurring during the reporting period. Upon assessing the variable consideration, the Company uses the most likely value approach. Discounts accrued but not settled at the end of the reporting period, to which the customer still does not have unconditional right, are presented as refund obligations in the statement of financial position.

2.6.4. Contract costs

The Company treats as contract costs the following:

- the additional and directly related expenses it incurs upon concluding a contract with a customer, which it expects to recover over a period longer than twelve months (*costs to obtain a contract with a customer*) and
- the expenses it incurs to fulfil a contract with a customer and which are directly related to the specific contract, support the generation of resource to be used in the contract fulfilment and the Company expects to recover them over a period longer than twelve months (*costs to fulfil such contracts*).

In its usual activity, the Company does not incur direct and specific costs to enter contracts with customers or costs to fulfil contracts with customers which would not have occurred if the respective contracts had not been concluded.

2.6.5. Contract balances

Trade receivables and contract assets

A contract asset is the Company's right to consideration in exchange for goods or services that it has transferred to a customer but is not unconditional (receivable accrual).

If by transferring the products and/or providing the services the Company performs its obligation to the customer to pay the respective consideration and/or before the payment is due, a contract asset is recognised for the consideration worked-out (which is conditional). Recognised contract assets are reclassified as trade receivables when the right to consideration becomes unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Contract liabilities

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

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

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

2.6.6. Refund obligations under contracts with customers

The refund obligation includes the Company's obligation to reimburse a portion or the whole consideration received (or subject to receipt) from the customer under contracts with a right of return – for the expected retrospective discounts, rebates and discount volumes. The obligation is initially measured at the amount which the Company does not expect to be entitled to and which it expects to return to the customer. At the end of each reporting period, the Company updates the measurement of the refund obligations, respectively of the transaction price and of the recognised revenue.

Refund obligations under contracts with customers are stated within “other current liabilities” in the statement of financial position.

Other revenue

Other revenue comprises revenue from operating leases of investment property and non-current tangible assets and is stated within the statement of comprehensive income (within profit or loss for the year) in the “revenue” item.

2.7. Expenses

Company's expenses are recognised upon incurrence and based on the accrual and comparability principles to the extent at which this would not result in the recognition of assets/liabilities that do not meet the definitions for such under IFRS.

Deferred expenses are postponed for recognition as deferred expense in the period that contracts related thereto are performed.

Losses from the remeasurement of investment property to fair value is stated is presented in the statement of comprehensive income (within profit or loss for the year), within "other operating income/(losses)".

2.8. Finance income

Finance income is included in the statement of comprehensive income (within profit or loss for the year) when earned, and comprises: interest revenue from loans granted and term deposits, interest revenue from receivables under special contracts, interest revenue for past due receivables, dividends on equity investments, net giants from exchange differences under loans denominated in a foreign currency, revenue from debt settlement transactions, gains from fair value measurements of investments in securities at fair value through profit or loss, or through other comprehensive income, gains from the fair value of long-term equity investments which constitute part of stage-by-stage acquisition of a subsidiary.

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

Finance income is stated separately from finance expenses on the face of the statement of comprehensive income (within profit or loss for the year).

2.9. Finance expenses

Finance income is included in the statement of comprehensive income (within profit or loss for the year) when incurred, and are stated separately from finance income and comprise: interest expenses on loans, bank charges and guarantees, net foreign exchange loss from loans in a foreign currency, and impairment of commercial loans granted.

Finance expenses are stated separately from finance income on the face of the statement of comprehensive income (within profit or loss for the year).

2.10. Property, plant and equipment

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

Initial acquisition

Upon their initial acquisition, non-current tangible assets are valued at acquisition cost (cost), which comprises the purchase price, including customs duties and any directly attributable costs of bringing the

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

Upon acquisition of non-current tangible assets 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 Company credit resources with analogous maturity and purpose.

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

Subsequent measurement

The approach chosen by the Company for subsequent measurement of non-current tangible assets is the revaluation model under IAS 16, i.e. measurement at revalued amount less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

Subsequent costs

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

Depreciation methods

The Company 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;
- facilities and transmitter devices – 5-25 years;
- machinery and equipment – 7-34 years;
- computers and mobile devices – 2-5 years;
- servers and systems – 4-18 years;
- motor vehicles – 5-12 years;
- furniture and fixtures – 3-12 years.

The useful life set for any tangible fixed asset is reviewed at the end of each reporting period and in case of any material deviation from the future expectations on the period of use, the latter is adjusted prospectively.

Impairment of assets

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

Gains and losses on disposal (sale)

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

2.11. Biological assets and agricultural production

The company records as biological assets the permanent crops with acacia and white thorn until the moment of harvest, and as agricultural production - the harvested white thorn, acacia and wheat. The crop of white thorns and acacia is intended for investment in the production of the company.

The biological assets are measured at fair value less the estimated costs to sale.

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.

The agricultural production is measured at fair value at the date of harvest, less costs to sell. The harvested agricultural production - white thorn seeds and acacia seeds, is presented in the company's inventory of 'herbs', wheat - in the group of finished products on 'agricultural production'.

The gain or loss on valuation of biological assets and agricultural production at fair value less costs to sell is recognized in the statement of comprehensive income (in profit or loss for the year) in the period of occurrence and is presented to 'other income / (losses) from the business, net. "

2.12. Intangible assets*Goodwill*

Goodwill represents the excess of the cost of an acquisition (the consideration given) over the fair value of the share of Sopharma AD in the net identifiable assets of the subsidiaries (Bulgarian Rose Sevtopolis AD, Medica AD and Unipharm AD) at the date of its acquisition (the business combination). This goodwill on the merger of the subsidiaries into the parent company is recognised in the separate statement of financial position of the parent. Goodwill is presented within the 'intangible assets' group.

Goodwill is measured at acquisition cost (cost), determined at the date of the actual business combination, less the accumulated impairment losses. It is not amortised. It is subject to annual review for existence of impairment indicators. Impairment losses on goodwill are presented in the separate statement of comprehensive income (within profit or loss for the year) in the item 'impairment of non-current assets'.

Other intangible assets

Intangible assets are stated in the financial statements at acquisition cost (cost) less accumulated amortisation and any impairment losses in value.

The Company applies the straight-line amortisation method for the intangible assets.

The useful life per group of assets is as follows:

- software – 2 - 8 years;
- patents and licenses – 2 - 10 years;
- trademarks – 5 – 13 years;
- other – 5 – 7 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 expense in the statement of comprehensive income (within profit or loss for the year).

Intangible assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale, at the date of transfer of control to the asset recipient. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration the Company expects to be entitled to (sales revenue) and the carrying amount of the assets on the date when the recipient obtains control thereon. They are stated under 'other operating income/(losses), net' on the face of the statement of comprehensive income (within profit or loss for the year).

2.13. Investment property

Investment property is property lastingly held by the Company to earn rentals and/or for capital appreciation. They are presented in the statement of financial position at fair value (*Note 2.32*). Gains or losses arising from a change in the fair value of investment property are recognised in the 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.

Investment property is derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale, at the date of transfer of control to the asset recipient. Gains or losses arising from the disposal of investment property are

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determined as the between the consideration the Company expects to be entitled to (sales revenue) and the carrying amount of the assets on the date when the recipient obtains control thereon. They are presented under 'other operating income/(losses), net' in the statement of comprehensive income (within profit or loss for the year).

Transfers to, or from, the group of 'investment property' are made only when there is a change in the function and purpose 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 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 subsidiaries and associates

Long-term investments, in the form of stocks and shares in subsidiary and associate companies are presented in the financial statements at acquisition cost (cost) being the fair value of the consideration paid for the investment including any directly attributable costs incurred on the acquisition less accumulated impairment.

Company's investments in subsidiaries and associates are subject to annual review for impairment. Where conditions for impairment are identified, the impairment is recognised in the statement of comprehensive income (within profit or loss for the year).

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

Investments 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 respective specific type of investments are being lost. Gain/(loss) on disposal is presented respectively as 'finance income' or 'finance costs' in the statement of comprehensive income (within profit or loss for the year).

2.15. Other long-term equity investments

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

Initial measurement

Equity investments are initially recognised at acquisition cost, which is the fair value of consideration paid, including direct costs to acquire the investment (financial asset) (*Note 2.26*).

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

Subsequent measurement

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

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

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

Dividend income

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

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

2.16. Inventories

Inventories are valued in the financial statements as follows:

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

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

- raw materials, materials and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage/sale;
- finished products, semi-finished products and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs. Fixed production overheads are included in the production cost of manufactured finished products, semi-finished products and work in progress based on the normal operating capacity determined on the grounds of commonly maintained average volume of production confirmed by the production plan. The base, chosen for their allocation at unit-of-production level, is the standard rate of man-hours of directly engaged staff in the production of the particular unit.

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

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

Where necessary, the value of inventories, included in the financial statements, is adjusted. On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing

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stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the financial statements (*Note 2.33*).

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

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

2.17. Trade receivables

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

Initial measurement

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

Subsequent measurement

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

Impairment

The Company applies the expected credit losses model for the entire term of all trade receivables, using the simplified approach under IFRS 9, and based on the matrix model for loss percentage (*Note 2.26 and Note 2.33*).

The impairment of receivables is accrued through the respective corresponding allowance account for each type of receivable to the "other operating expenses" on the face of the statement of comprehensive income (within profit or loss for the year).

2.18. Interest-bearing loans and other financial resources granted

All loans and other financial resources granted are initially presented at acquisition cost (nominal amount), which is accepted to be the fair value of the amount given in the transaction, net of the direct costs related to these loans and granted resources. Following their initial recognition, interest-bearing loans and other funding granted is subsequently measured and stated in the statement of financial position at amortised cost, determined by applying the effective interest method. They are classified in this group since the Company's business model only aims to collect contractual cash flows of principal and interest. Amortised cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognised in the 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.

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

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

2.19. Cash and cash equivalents

Cash includes cash in hand and cash in current accounts, and cash equivalents – bank deposits with original maturity up to three months, and funds in deposits with longer maturity which are readily available to the Company under its agreements with the banks over the deposits' terms.

Subsequent measurement

Cash and cash equivalents at banks are subsequently measured at amortised cost, less the impairment accumulated for expected credit losses (*Note 2.26*).

For the purposes of the statement of cash flows:

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

2.20. Trade and other payables

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

2.21. Interest-bearing loans and other borrowings

In the statement of financial position, all loans and other borrowings are initially presented at acquisition cost (nominal amount) which is designated as the fair value of the transaction's deliverable, net of the direct costs related to these loans and borrowings. Following their initial recognition, interest-bearing loans and other borrowings are subsequently measured and presented in the statement of financial position at amortised cost, determined by means of the effective interest method. The amortised cost is calculated by considering all charges, commissions and other costs, including discounts and premiums associated with these loans. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) as finance income or finance expenses (interest) over the amortisation period or when the payables are written-off or reduced (*Note № 2.26*).

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

Interest-bearing loans and other borrowings are classified as current, except from the portion thereof regarding which the Company has an unconditional right to settle its payable within over 12 months after the end of the reporting period.

2.22. Capitalisation of borrowing costs

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

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

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

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

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

Finance leases, which transfer to the Company a substantial part of all risks and rewards incidental to ownership of the leased asset, are recognised in the statement of financial position of the lessee and are presented as a 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 statement of comprehensive income (within profit or loss for the year) as finance costs based on the effective interest rate. (*Note 2.26*)

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

Lessor

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

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

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

2.23.2. Operating lease***Accounting policy applicable from 1 January 2019******Lessee***

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

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

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

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

Initial evaluation

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

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

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

Subsequent assessment

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

Subsequently, the lease obligation was changed to:

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

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

Lessor

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

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

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

Operating lease payments are recognised as expenses in the 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 its property, plant and equipment, while its depreciation for the period is included in the current expenses of the lessor.

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

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

The employment and social security relations with the workers and employees of the Company are based on the provisions of the Labour Code and the effective social security legislation in Bulgaria.

Short-term benefits

Short-term benefits in the form of remuneration, bonuses and social payments and benefits (due for payment within 12 months after the end of the period when the employees have rendered the service or have satisfied the required terms) are recognised as an expense in the statement of comprehensive income (within

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profit or loss for the year) for the period when the service thereon has been rendered and/or the requirements for their receipt have been met, unless a particular IFRS requires capitalisation thereof to the cost of an asset, and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount.

At the end of each reporting period, the Company measures the estimated costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated amounts of employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Tantieme and bonus schemes

In accordance with Company's Articles of Association and upon a decision of the General Meeting of Shareholders, the Executive Director is entitled to one-off remuneration (tantieme) at the amount of up to 1% of Company's net profit and is empowered to determine the circle of employees among whom to distribute up to 2% of Company's profit for the year as a bonus for each calendar year. When a certain portion is required to be deferred for a period of more than 12 months, this portion is measured at present value at the reporting date and is stated within non-current liabilities in the statement of financial position in the item 'payables to personnel'.

*Long-term retirement benefits**Defined contribution plans*

The major duty of the Company as an employer 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 annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC).

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

There is no established and functioning private voluntary social security fund at the Company.

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

Defined benefit plans

In accordance with the Labour Code, the Company in its capacity as an employer in Bulgaria is obliged to pay an indemnity to its personnel when coming of age for retirement, at an amount which,

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depending on the length of service with the entity, varies between two and six gross monthly salaries at the employment termination date. In their nature these are unfunded defined benefit schemes.

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

At the end of each reporting period, the Company assigns certified actuaries who issue a report with their calculations about the long-term retirement benefit obligations to personnel. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in Bulgaria where the Company itself operates.

Share-based payments

Share-based payments to employees and other persons rendering similar services are measured at the fair value of the equity instruments at the date of provision. For conditional share-based payments the fair value at the date of share-based payment is measured so as to reflect these conditions without actual differences between the expected and actual results.

Termination benefits

In accordance with the local provisions of the employment and social security regulations in Bulgaria, the Company as an employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities.

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

2.25. Share capital and reserves

The Company is a joint-stock one and is obliged to register with the Commercial Register a specified **share capital**, which should serve as a security for the creditors of the Company for execution of their receivables. Shareholders are liable for the obligations of the Company up to the amount of the capital share held by each of them and may claim returning of this share only in liquidation or bankruptcy proceedings. The 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 Company is obliged to set aside a **Reserve Fund** by using the following resources:

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

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

Treasury shares are presented in the statement of financial position at cost (acquisition price) and their gross amount is deducted from Company's equity. Gains or losses on sales of treasury shares are at the account of retained earnings and are carried directly to Company's equity in the 'retained earnings' component.

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

- the revaluation surplus between the carrying amount of property, plant and equipment and their fair values at the date of each revaluation; and
- gain from the difference between the carrying amount of property, stated within the group 'owner occupied property', and their fair value at the date on which they are transferred to the group 'investment property'.

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

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

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

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

2.26. Financial instruments

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

Financial assets

Initial recognition, classification and measurement

Upon initial recognition, the Company's financial assets are classified in three groups, based on which they are subsequently measured: at amortised cost; at fair value through other comprehensive income, and at fair value through profit or loss.

The Company initially measures financial assets at fair value, and in the case of financial assets which are not stated at fair value through profit and loss, the direct transaction costs are added. An exception to this

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rule is trade receivables that do not contain a significant financing component – they are measured based on the transaction price determined under IFRS 15 (*Note 2.6.1*).

The purchases and sales of financial assets whose conditions require asset delivery within a certain period, usually pursuant to legislation or the effective practice of the respective market (regular way purchases), are recognised using trade date accounting, i.e. on the date when the Company committed to purchase or sell the asset.

The classification of financial assets upon their initial recognition depends on the characteristics of the contractual cash flows of the respective financial asset and on the Company's business model for management thereof. In order for a financial asset to be classified and measured at amortised value or at fair value through other comprehensive income, its conditions should give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. For this purpose, analysis is performed by means of SPPI test at instrument level.

The Company's business model for the management of financial assets reflects the way the Company manages its financial assets to generate cash flows. The business model determines if cash flows are generated by the collection of contractual cash flows, the sale of financial assets, or both.

Subsequent measurement

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

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

*Classification groups**Financial assets at amortised cost (debt instruments)*

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

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

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

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

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

Upon their initial recognition, the Company may make an irrevocable choice to classify certain equity instruments as financial instruments at fair value through other comprehensive income, but only if they meet the equity definition under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined at the level of individual instruments.

Upon derecognition of these assets, gains and losses from measurement to fair value, recognised in other comprehensive income, are not stated (recycles) through profit or loss. Dividends are recognised as “finance income” in the statement of comprehensive income (within profit or loss for the year) when the right to payment is established, with the exception of cases when the Company obtains rewards from these proceeds as compensation of a portion of the financial asset’s acquisition price – in this case, gains are stated in other comprehensive income. Equity instruments designated as financial instruments at fair value through other comprehensive income are not subject to impairment test.

The Company has made an irrevocable commitment to classify into this category minority equity investment which it holds in the long term and in relation to its business interests in these entities. Some of these instruments are traded on stock exchanges, and some aren’t. They are stated in the statement of financial position within the „other long-term equity investments” item.

Derecognition

A financial asset (or, when applicable, a portion of a financial asset or a group of similar financial assets) is derecognised from the Company’s statement of financial position, when:

- the rights to cash flows from the asset have expired, or
- the rights to cash flows from the asset have been transferred or the Company has assumed an obligation to pay in full the cash flows received, without undue delay, to a third party under a transfer agreement, in which: a) the Company has transferred substantially all risks and rewards from ownership of the asset; or b) the Company has neither transferred nor retained substantially all risks and rewards from ownership of the asset, but has transferred control thereon.

When the Company has transferred its right to obtain cash flows from the asset or has concluded a transfer agreement, it assesses the extent to which it has retained the risks and rewards of ownership. When the Company has neither transferred, not retained substantially all risks and rewards from ownership of the financial assets, it continues to recognise the asset transferred to the extent of its continuing interest therein. In this case, the Company also recognises the respective liability. The transferred asset and the related liability are measured on a basis reflecting the rights and obligations that the Company has retained.

Continuing involvement in the form of a guarantee on the transferred asset is measured at the lower of the two values: the initial carrying amount of the asset and the maximum amount of consideration that the Company may be required to pay.

Impairment of financial assets

The Company recognises an allowance (impairment provision) for expected credit losses for all debt instruments which are not carried at fair value through profit or loss. Expected credit losses are calculated as the difference between the contractual cash flows due under the contractual conditions, and all cash flows the Company expects to receive, discounted at the initial effective interest rate. Expected cash flows also include cash flows from the sale of collateral held or other credit enhancements that constitute an integral part of the contractual conditions.

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

Expected credit losses are recognised at two stages:

a. A financial asset which is not credit impaired upon its initial recognition/acquisition is classified in Stage 1. These are loans granted: to debtors with a low risk of default with stable key indicator (financial and non-financial) trends, regularly services and without any outstanding past due amounts. Since its initial recognition, its credit risk and characteristics are subject to continuous monitoring and analyses. The expected credit losses for the financial assets classified in Stage 1 are determined based on credit losses resulting from probable events or default, which could over the next 12 months of the respective asset's lifetime (12-month expected credit losses for the instrument).

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

The Company's management has developed a policy and a set of criteria to analyse, ascertain and assess the occurrence of a condition of "significant increase in credit risk". The main aspects related thereto are disclosed in *Note 2.33*.

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

The Company's management has performed the respective analyses, based on which it has determined a set of criteria for default events, in accordance with the specifics of the respective financial instrument. One of them is delay in contract payments by over 90 days, unless circumstances exist for a certain instrument that make such claim refutable. Along with that, there are other events, based on internal and external information, which indicate that the debtor is not able to repay all contract amounts due, including in consideration of all loan collaterals and reliefs held by the Company. The main aspects of the policy and the set of criteria are disclosed in *Note 2.33*.

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

In order to calculate expected credit losses for *trade receivables and contract assets* the Company has elected and applies a simplified approach based on an expected credit losses calculation matrix and does not monitor subsequent changes in their credit risk. In this approach, it recognises an allowance (impairment provision) based on lifetime expected credit losses at each reporting date. The Company has developed and applies a provisioning matrix based on its historical experience with credit losses, adjusted with forecast factors specific for debtors and the economic environment, for which a correlation has been established with the percentage of credit losses (*Note 40*).

Derecognition

Impaired financial assets are derecognised when no reasonable expectation exists to collect contractual cash flows.

Financial liabilities

Initial recognition, classification and measurement

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

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

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification. They are usually classified and measured at amortised cost.

*Classification groups**Loans and borrowing*

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

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

Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expire. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the respective carrying amounts is recognised in the statement of comprehensive income (within profit or loss for the year).

Offsetting (netting) of financial instruments

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

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

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

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

- lack of dependence on a future event, i.e. it should not only be applicable upon the occurrence of a future event;

- the offsetting should be enforceable and legally defensible during (cumulatively):
 - the Company's usual business operations;
 - in case of default/delay, and
 - in case of insolvency.

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

2.27. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make certain payments to recover the holder's loss incurred when a debtor failed to make payment when due, in accordance with the initial or amended conditions of a debt instrument.

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the following:

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

The expected losses under financial guarantee contracts is included in the statement of financial position, within "other current liabilities".

2.28. Income taxes

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

Deferred income taxes are determined using the liability method on all of Company's temporary differences between the carrying amounts of the assets and liabilities and their tax bases, existing at the date of the financial statements.

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

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

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

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

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

The deferred tax assets of the Company are presented net against its deferred tax liabilities when and as much as it is the tax payer for them in the respective jurisdiction (Bulgaria), 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.

The deferred income tax liabilities of the Company were assessed at a rate valid for 2019, at the amount of 10% (31 December 2018: 10%).

2.29. Government grants

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

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

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

2.30. Net earnings or loss per share

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

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

In case of a capitalisation, bonus issue or 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.

The diluted net earnings or loss per share are not calculated because no dilutive potential ordinary shares have been issued.

2.31. Segment reporting

The Company identifies its reporting segments and discloses segment information in accordance with the organisational and reporting structure used by the management. 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 on the segment for the purposes of current monitoring and assessment of results and allocating Company's resources.

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Company's operating segments are currently monitored and directed separately as each of them represents a separate business area that offers various products and bears various business risks and rewards. Company's operating segments include the business fields by individual lines of medicinal forms production – tablets, ampoules, medical products, other forms and other revenue.

Information by operating segments

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

Segment assets, liabilities, respective revenue, expenses and results include those that are and can be directly attributable to the respective segment as well as such that can be allocated on a reasonable basis. Usually they include: (a) for revenue - sales of finished products; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration; (c) for assets - property, plant and equipment and inventories; (d) for liabilities - payables to personnel and for social security. Capital expenditures (investments) by business segments are differentiated expenses incurred in the period of acquisition or construction of segment non-current assets, which are expected to be used for more than one period.

The Company manages its investments in securities, trade accounts and financial resources granted/received as well as taxes at entity's level and 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 Company as well as revenue, expenses, liabilities and assets that are not subject to allocation are stated separately in the item 'total at Company level'. In general, these amounts include: other operating income unless originating from the operation of a particular segment, administrative expenses, interest income and expenses, realised and unrealised gains and losses from foreign currency transactions and investments, investments in other companies, trade and other receivables, trade payables and loans received, tax accounts, general-purpose production and administrative equipment.

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

2.32. Fair value measurement

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

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

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

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

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

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

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

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

The Company has developed internal rules and procedures for measuring the fair value of various types of assets and liabilities. For the purpose, a specifically designated individual, subordinated to the Company's Finance Director, organised the performance of the overall valuation process and also coordinates and observes the work of the external valuers.

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

In accordance with Company's accounting policy, at the end of each reporting period the specifically designated individual, engaged with measurements, performs a general analysis of collected in advance

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information about the movement in the values of the Company's assets and liabilities that are subject to valuation or to a disclosure at fair value, the type of available data and the possible factors for the observed changes, and proposes for approval to the Finance Director, the approach for measuring the fair value of the respective assets and liabilities at that date. Where necessary, this is explicitly consulted with the involved external appraisers.

The results from the process of fair value measurement are presented to the audit committee and to Company's independent auditors.

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

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

Fair value measurement of equity investments

When the fair value of equity investments carried in the statement of financial positions cannot be obtained based on quoted prices on active markets, their fair value is determined by using other valuation models and techniques, including the discounted cash flows model. The input used in these models is obtained from observable markets, where possible, but when this cannot be done, significant judgement is applied to determine fair values. Such judgement involves the review, analysis and assessment of input, for instance regarding liquidity risk, credit risk, and volatility. The changes in assumptions for these factors may impact the amount of the fair value of financial instruments stated. The main key assumptions and components of the model are disclosed in *Note 18*.

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

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

In order to apply these requirements, the Company's management makes a number of material judgements, such as: a) determining criteria to identify and measure significant credit risk increases; b) selection of suitable models and assumptions to measure expected credit losses; c) establishing groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses; d) establishing and assessing the correlation between historical default rates and the behaviour of certain macro indicators to reflect the effects of forecasts for these macro indicators in the calculation of expected credit losses. (*Note 40*).

Regarding trade receivables, including from related parties

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

Each provisioning matrix is initially based on detailed historical observation of default rates in the Company's receivables and the movement of receivables by delay groups. Usually, historical data is used for

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at least three years as per the financial statement's date. Moreover, the Company calibrates the matrix so as to adjust historically ascertained dependence for credit losses with forecast information by also using probability scenarios. If certain forecast economic conditions, measured by means of certain macro indicators, are expected to aggravate or improve in the next year, which might result in established correlational increase in payment delays for a certain sector (type of client), the historic default rates are adjusted. At each reporting date, the observable historical default rates are updated and the effects of changes in the estimates are accounted for.

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

Information about expected credit losses from trade receivables and contract losses is disclosed in *Note 20, Note 22 and Note 23*.

In 2019 there was reported impairment of trade receivables, incl. from related parties amounting to BGN 638 thousand, net of repaid credit losses. (2018: BGN 1.465 thousand) (*Note 2.4, Note 8, Note 20, Note 22 and Note 23*).

Regarding loans and guarantees granted:

The Company has adopted the general approach for calculating impairment based expected credit losses of the loans granted, pursuant to IFRS 9. For this purpose, the Company applies a model of its choice. Its application goes through several stages. First, the debtor's credit rating is determined by means of several rating agencies' methodologies for the respective economic sectors and ratios, quantitative and qualitative parameters and indicators of the entity. Second, by using statistical models including historical default probability data (PD), transfer between ratings, macro-economic data and forecast, the relevant marginal PD are calculated by year for each rating. Third, based on this analysis and the determined rating, and based on a set of indicators for the instrument's characteristics at the date of each financial statements, the following parameters are determined: instrument stage (Stage 1, Stage 2 or Stage 3), PD needed for the instrument's lifetime, as well as loss given default (LGD). The main formula used to calculate expected credit losses is: $ECL = EAD \times PD \times LGD$, where:

ECL is the expected credit losses indicator;

EAD is the exposure at default indicator;

PD is the probability of default indicator;

LGD is the loss given default indicator.

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

Stage 1 includes loans granted which are classified as "regular" according to the internal risk classification scheme developed. These are loans granted to debtors with low default rates, regular servicing, without considerable aggravation of key indicators (financial and non-financial), and without amounts past due. The expected impairment loss for such loans is calculated based on default probability for the next 12 months and the Company's expectation for loss amount upon exposure default over the next 12 months.

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

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

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

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

The main matters related to the policy and set of criteria to assess the Company’s exposure to credit risk related to loans granted are disclosed in *Note 40*.

Information about expected credit losses from loans and guarantees is disclosed in *Note 19, Note 20, Note 22, Note 24(a), and Note 38*.

In 2019, the reversed impairment for credit losses on commercial loans granted amounted to BGN 124 thousand (2018: accrued provision for impairment for expected credit losses amounting to BGN 739 thousand) (*Note № 2.4, Note 10, Note 11, Note 19, Note 20, Note 22, Note 24 (a)*).

In 2019 there were accrued expected credit losses for guarantees amounting to BGN 231 thousand. (On 01.01.2018: BGN 297 thousand (*Note № 2.4 and Note № 38*)).

Cash

To calculate expected credit losses for cash and cash equivalents at banks, the Company applies the general “three-stage” impairment model under IFRS 9. For this purpose, it applies a model based on the bank’s public ratings as determined by internationally recognised rating firms like Moody’s, Fitch, S&P, BCRA and Bloomberg. Based on this, on the one hand, PD (probability of default) indicators are set by using public data about PD referring to the rating of the respective bank, and on the other hand, through the change in the rating of the respective bank from one period to the next, the Company assesses the presence of increased credit risk. Loss given default is measured by using the above formula. Upon determining LGD, the presence of secured amounts in the respective bank accounts is taken into consideration.

Revenue from contracts with customers

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

The key judgements and assumptions that materially impact the amount and term for recognition of revenue from contracts with customers are related to determining the point in time when control over the goods and/or services promised in the contract is transferred to the customer and assessment of the variable consideration for returned goods and volume rebates (*Note 2.6.1*).

Inventories***Normal capacity***

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

When the actually achieved volume for individual articles is below the volume at the normal production capacity, set by the Company, the relevant recalculation are made for the fixed overheads, included in the cost of stocks of finished products and work in progress.

Allowance for impairment

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

As a result of the examinations and analyses carried out in 2019 was reported an impairment of inventories amounting to BGN 1.477 thousand (2018: none) (*Note 8*).

Remeasurement of property, plant and equipment

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

At the date of each financial statements, as per the Company's accounting policies, a person specially designated performs general analysis of information collected in advance on the movement in the values of assets and liabilities which are subject to measurement or fair value disclosure, on the type of data available and the possible factors for observable changes, and proposes to the Finance Director the approach to measuring the fair values of the respective assets and liabilities at this date. If necessary, this is expressly coordinated with the external valuers appointed.

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

In 2018 and 2019 the Company did not perform revaluation of its property, plant and equipment, because the management's observations show there has been no significant change in the price levels and

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

behaviour of the markets of assets in these groups, which based on their characteristics belong to the Company's non-current tangible assets. (*Note 13*).

Actuarial calculations

Calculations of certified actuaries have been used 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. They are disclosed in *Note 32*.

Long-term retirement benefit obligations to personnel at the amount of BGN 4,520 thousand (31 December 2018: BGN 4,100 thousand) have been stated as a result of these calculations (*Note 32*).

Impairment of investments in subsidiaries

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in subsidiaries.

Deferred tax assets

There are unrecognised deferred tax assets at the amount of BGN 3,293 thousand (31 December 2018: BGN 3,527 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference on which no tax asset is a recognised amount to BGN 32,930 thousand (31 December 2018: BGN 35,273 thousand).

Litigation provisions

With regard to the pending litigations against the Company, the management, jointly with Company's lawyers, has decided that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, it has not included provisions for litigation payables in the statement of financial position as at 30 September 2019.

3. REVENUE

Company's revenue includes:

	2019 BGN '000	2018 BGN '000
Revenue from contracts with customers	155,445	152,076
Other revenue	1,192	1,112
Total	156,637	153,188

3.1. The revenue from contracts with customers is from sales of medication produced and includes:

	2019 BGN '000	2018 BGN '000
Export	97,315	88,786
Domestic market	58,130	63,290
Total	155,445	152,076

Revenue from export sales by product includes:

	2019 BGN '000	2018 BGN '000
Tablet dosage forms	76,837	69,628
Ampoule dosage forms	8,151	9,655
Syrup dosage forms	5,111	2,653
Ointments	4,832	4,516
Suppositories	545	406
Medical cosmetics	431	636
Lyophilic products	421	550
Drops	386	181
Wound dressings	260	175
Plasters	214	224
Sanitary and hygienic products	4	161
Substances	123	1
Total	97,315	88,786

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Sales revenue in Bulgaria by products is as follows:

	2019 BGN '000	2018 BGN '000
Tablet dosage forms	31,582	31,722
Ampoule dosage forms	10,067	14,695
Wound dressings	4,793	3,876
Lyophilic products	3,349	3,433
Plasters	2,320	2,189
Ointments	1,798	1,752
Haemodialysis concentrates	1,205	1,449
Syrup dosage forms	924	1,088
Inhalers	764	917
Sanitary and hygienic products	558	1,050
Suppositories	303	307
Drops	283	572
Medical cosmetics	146	190
Sachets	37	50
Substances	1	-
Total	58,130	63,290

The breakdown of *sales* by geographic region is as follows:

	2019 BGN '000	Relative share	2018 BGN '000	Relative share
Europe	84,211	54%	72,245	48%
Bulgaria	58,130	37%	63,290	42%
Other countries	13,104	8%	16,541	11%
Total	155,445	100%	152,076	100%

The total revenue from transaction with the largest clients of the Company is as follows:

	2019 BGN '000	% of revenue	2018 BGN '000	% of revenue
Client 1	58,791	38%	62,020	41%
Client 2	50,721	33%	42,917	28%
Client 3	18,990	12%	13,793	9%

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Contract balances are as follows:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Receivables under contracts with customers – related parties, net of impairment (<i>Note 22</i>)	86,075	71,806
Receivables under contracts with customers – third parties, net of impairment (<i>Note 23</i>)	18,402	18,868
	104,477	90,674

The increase/decrease in trade receivables under contracts with customers, including receivables from related parties, is the result of an increase/decrease in operating volumes.

The reimbursement obligations as at 30 September 2019 amount at BGN 120 thousand (31 December 2018: BGN 324 thousand) and include liabilities under retrospective trade volume discounts payable under contracts with customers which have been or will be reimbursed over the next reporting period. (*Note 38*).

3.2. *Other revenue* at the amount of BGN 1,192 thousand is revenue from investment property and non-current tangible assets under operating leases (2018: BGN 1,112 thousand).

4. OTHER OPERATING INCOME AND LOSSES

	2019	2018
	BGN '000	BGN '000
Services rendered	2,257	1,798
Derecognition of liabilities	743	1,324
Income from government grants under European projects	405	453
<i>Sales of goods</i>	1,297	1,114
<i>Balance value of goods sold</i>	(1,128)	(1,048)
Gain/(loss) on sale of goods	169	66
<i>Sales of materials</i>	1,035	766
<i>Carrying amount of materials sold</i>	(988)	(713)
Gain/(loss) on sale of materials	47	53
<i>Sales of long-term assets</i>	43	440
<i>Carrying amount of long-term assets sold</i>	(15)	(334)
Gain on sale of long-term assets	28	106
Net loss on exchange differences under trade receivables and payables and current accounts	(204)	(206)
<i>Derecognition of liabilities under operating leases</i>	415	-
<i>Carrying amount of written off assets under operating lease</i>	(418)	-
Operating lease losses	(3)	-
Losses from revaluation of agricultural produce to fair value	(43)	-

This is a translation from Bulgarian of the individual financial statements of Sopharma AD for the period ended 30 September 2019. 45

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Other income	196	120
Total	3,595	3,714

The *sales of materials* comprise mainly: sales of substances, chemical products and packaging materials.

Services rendered include:

	2019	2018
	BGN '000	BGN '000
Manufacturing services	1,015	588
Social activities	772	756
Gamma irradiation	187	131
Laboratory analyses	56	75
Regulatory services	43	51
Transport organisation	20	19
Other	164	178
Total	2,257	1,798

Sales of goods include:

	2019	2018
	BGN '000	BGN '000
Foodstuffs	1,087	914
Medical supplies	81	5
Cosmetics	68	140
Goods with a technical purpose	61	55
Total	1,297	1,114

The book value of goods sold by types of goods is as follows:

	2019	2018
	BGN '000	BGN '000
Foodstuffs	955	873
Cosmetics	61	126
Medical supplies	61	5
Goods with a technical purpose	51	44
Total	1,128	1,048

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	2019	2018
	BGN '000	BGN '000
Basic materials	39,940	40,244
Electric energy	4,443	4,212
Laboratory materials	2,766	2,301
Heat power	2,585	2,484
Technical materials	1,150	1,173
Auxiliary materials	1,144	1,259
Spare parts	938	995
Working clothes and personal protective equipment for labour	611	647
Water	576	463
Impairment of materials	568	-
Fuels and lubricating materials	333	513
Scrapped materials	76	31
Total	55,130	54,322

Expenses on basic materials include:

	2019	2018
	BGN '000	BGN '000
Substances	15,826	17,700
Packaging materials	8,725	8,196
Liquid and solid chemicals	6,454	5,902
Sanitary-hygienic and dressing materials	2,309	2,019
Herbs	2,195	2,005
Ampoules	1,419	1,428
Tubes	1,073	1,388
Aluminium and PVC foil	977	936
Vials	962	670
Total	39,940	40,244

6. HIRED SERVICES EXPENSE*Hired services expense includes:*

	<i>2019</i>	<i>2018</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Advertising and marketing	5,727	6,334
Manufacturing of medical products	2,993	2,570
Building and equipment maintenance	2,850	3,775
Transportation and spedition services	2,486	2,264
Logistic services – domestic market	1,404	1,284
Consulting services	1,178	1,636
Local taxes and charges	1,044	1,084
Security	1,001	811
State and regulatory charges	858	1,009
Subscription fees	790	953
Services under civil contracts	675	701
Medical services	618	550
Insurance	532	497
Licence and patent fees and charges	371	270
Medicinal products registration services	315	227
Vehicles repair and maintenance	294	326
Agricultural land processing services	272	8
Taxes on expenses	256	311
Translation of documentation	256	289
Announcements and communications	240	286
Fees and charges on current bank accounts	127	132
Rentals	107	1,854
Courier services	104	104
Destruction of pharmaceuticals	46	92
Clinical trial services	41	-
Logistic services (export)	31	286
Commissions	20	48
Other	640	613
Total	25,276	28,314

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

7. EMPLOYEE BENEFITS EXPENSE*Employee benefits expense includes:*

	2019	2018
	BGN '000	BGN '000
Current wages and salaries	27,015	27,435
Social security/health insurance contributions	5,124	4,909
Social benefits and payments	1,696	1,797
Accruals for unused leaves	1,433	1,333
Tantiemes	1,005	1,276
Accruals for long-term retirement benefit obligations (<i>Note 32</i>)	420	393
Accruals for insurance over leaves	275	253
Share-based payment (<i>Note 26</i>)	-	1,221
Total	36,968	38,617

8. OTHER OPERATING EXPENSES*Other expenses include:*

	2019	2018
	BGN '000	BGN '000
Impairment losses on finished goods and work in progress	909	-
Representative events	718	963
<i>Impairment of credit losses on receivables, incl. from related parties</i>	<i>3,810</i>	<i>589</i>
<i>Recovered impairment of credit losses on receivables, incl. from related parties</i>	<i>(3,172)</i>	<i>(4)</i>
Net change in the provision for impairment of credit losses	638	585
Business trip costs	452	553
Donations	244	247
Scrapped finished products and work in progress	177	256
Training courses	158	228
Other taxes and payments to the state budget	137	11
Unrecognised input tax under VATA	126	104
Scrapping of non-current assets	65	-
Scrapping of stability samples	-	143
Scrapping of goods	-	34
Other	152	138
Total	3,776	3,262

9. IMPAIRMENT OF NON-CURRENT ASSETS

The Impairment of non-current assets includes:

	2019	2018
	BGN '000	BGN '000
Impairment of goodwill (<i>Note 14</i>)	677	-
	677	-

10. FINANCE INCOME

Finance income includes:

	2019	2018
	BGN'000	BGN'000
Income from shareholding	10,653	8,800
Interest income on loans granted	2,441	1,202
Net gain on transactions with investments in securities and shares	435	394
<i>including profits from the sale of investments in subsidiaries</i>	227	-
Net gain on exchange differences on sale of a subsidiary	171	115
Reversed impairment of receivables on commercial loans granted	124	-
Total	13,824	10,511

11. FINANCE COSTS

Finance costs include:

	2019	2018
	BGN'000	BGN'000
Interest expense on loans received	1,173	845
Bank fees and charges on loans and guarantees	235	161
Financial guarantees provision	231	-
Interest expense on operating lease	43	-
Impairment of credit losses on receivables from commercial loans granted	-	461
Interest expense on finance leases	-	1
Effects of derivatives	-	45
Net loss from exchange differences from the sale of subsidiaries	-	-
Total	1,682	1,513

12. OTHER COMPREHENSIVE INCOME*Other comprehensive income includes:*

	2019 BGN '000	2018 BGN '000
Net change in the fair value of equity investments designated at fair value through other comprehensive income	299	1,441
Subsequent assessments of defined benefit pension liabilities	-	3
Total comprehensive income for the year	299	1,444

The tax effects *associated with other components of comprehensive income* are as follows:

	2019			2018		
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
	Value before tax	Tax effects recognized in equity	Value net of tax	Value net of tax	Tax effects recognized in equity	Value net of tax
Components that will not be reclassified to profit or loss						
Net change in the fair value of equity investments designated for measuring at fair value through other comprehensive income	(299)	-	(299)	(1,441)	-	(1,441)
Subsequent estimates of liabilities under defined benefit plans	-	-	-	(3)	-	(3)
Total other comprehensive income for the year	(299)	-	(299)	(1,444)	-	(1,444)

13. PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i>		<i>Plant and equipment</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Book value										
Balance at 1 January	165,305	172,843	190,190	186,029	21,950	24,273	4,775	4,282	382,220	387,427
Assets "right of use" on 01.01.2019	4,053	-	-	-	1,642	-	-	-	5,695	-
Balance at 1 January (recalculated) **	169,358	172,843	190,190	186,029	23,592	24,273	4,775	4,282	387,915	387,427
Additions	1,714	382	702	930	264	403	5,937	11,899	8,617	13,614
Transfer to property, plant and equipment	2,032	3,376	4,700	7,078	1,287	952	(8,019)	(11,406)	-	-
Transfer to investment property	-	(11,248)		(2,511)		(1,328)	-	-	-	(15,087)
Effect from remeasurement to fair value	-	34		232		75	-	-	-	341
Disposals	(450)	(82)	(427)	(1,568)	(350)	(2,425)	(7)		(1,234)	(4,075)
Balance 30 September / 31 December	172,654	165,305	195,165	190,190	24,793	21,950	2,686	4,775	395,298	382,220
Accumulated depreciation										
Balance at 1 January	31,988	30,538	106,498	98,857	16,778	18,311	-	-	155,264	147,706
Depreciation charge for the year	4,308	4,682	7,398	10,351	1,385	1,456	-	-	13,091	16,489
Transfer to investment property		(3,230)		(1,325)		(1,091)		-	-	(5,646)
Impairment		-			-	-	-	-	-	-
Depreciation written-off	(27)	(2)	(427)	(1,385)	(276)	(1,898)	-	-	(730)	(3,285)
Balance at 30 September / 31 December	36,269	31,988	113,469	106,498	17,887	16,778	-	-	167,625	155,264
Balance at 30 September / 31 December	136,385	133,317	81,696	83,692	6,906	5,172	2,686	4,775	227,673	226,956
Carrying amount at 1 January	133,317	142,305	83,692	87,172	5,172	5,962	4,775	4,282	226,956	239,721

The Company's *land and buildings* as at 30 September/ 31 December include:

- Land amounting to BGN 45,698 thousand (31 December 2018: BGN 43,627 thousand);
- Buildings of carrying amount BGN 90,687 thousand (31 December 2018: BGN 89,690 thousand).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

The Company's other PPE as at 30 September/ 31 December includes:

- Transportation vehicles with carrying amount BGN 2,669 thousand (31 December 2018: BGN 1,713 thousand);
- Fixtures and fittings with carrying amount BGN 2,326 thousand (31 December 2018: BGN 2,522 thousand);
- Permanent crops – yellow acacia trees at the amount of BGN 1,911 thousand (31 December 2018: BGN 937 thousand).

Tangible fixed assets in progress as at 30 September/ 31 December include:

- expenses on new buildings - BGN 1,380 thousand (31 December 2018: BGN 2,369 thousand);
- advances for the purchase of machines and equipment – BGN 1,112 thousand (31 December 2018: BGN 1,023 thousand);
- buildings reconstruction – BGN 18 thousand (31 December 2018: BGN 191 thousand);
- other – BGN 176 thousand (31 December 2018: BGN 1,192 thousand).

As at 30 September/ 31 December, the carrying amount of property, plant and equipment includes machinery and equipment, purchased using Grant Agreements under Operational Programme “Development of the Competitiveness of the Bulgarian Economy” 2007 – 2013 and Operational Programme “Energy Efficiency” (*Note 29*) as follows:

- for a tablet production facility at the amount of BGN 7,656 thousand (31 December 2018: BGN 8,341 thousand);
- for ampoule production at the amount of BGN 4,345 thousand (31 December 2018: BGN 4,648 thousand).
- combined exchange ventilation and air conditioning installation for the production of medical products at the amount of BGN 670 thousand (31 December 2018: BGN 715 thousand).
- for the production of innovative eye drops, “artificial tears” type, at the amount of BGN 219 thousand (31 December 2018: BGN 238 thousand).

Operating lease

As at 30 September 2019, the "right of use" assets include:

- Lands at the amount of BGN 1,542 thousand (01.01.2019: none) (*Note 2.23.2*);
- Buildings with carrying amount of BGN 2,981 thousand (01.01.2019: BGN 4,053 thousand) (*Note № 2.23.2*);
- Vehicles with carrying value of BGN 1,260 thousand. (01.01.2019: BGN 1,642 thousand) (*Note 2.23.2*);
- Inventory with carrying amount of BGN 125 thousand (01.01.2019: none) (*Note 2.23.2*).

Finance lease

As at 30 September 2019, assets acquired under finance lease contracts amount to BGN 93 thousand

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

(31 December 2018: BGN 124 thousand), (*Note 2.23.1*).

The Company has provided for rent fixed assets of related parties with carrying amount as at 30 September 2019 at the amount of BGN 730 thousand. (31 December 2018: BGN 1,065 thousand). Equity tangible fixed assets with a carrying amount as at 30 September 2019 amounting to BGN 229 thousand were also leased to third parties. (31 December 2018: BGN 224 thousand).

Other data

The book value of fully depreciated tangible fixed assets, used in the Company's activities by group, is as follows:

- Buildings – BGN 743 thousand (31 December 2018: BGN 722 thousand);
- Plant and equipment – BGN 55,595 thousand (31 December 2018: BGN 52,119 thousand);
- Other – BGN 11,684 thousand. (31 December 2018: BGN 11,331 thousand).

The following encumbrances were constituted on Company's tangible fixed assets as at 30 September 2019 in relation to received loans:

- Land and buildings with a carrying amount of BGN 20,828 thousand and BGN 43,151 thousand, respectively (31 December 2018: respectively, BGN 21,594 thousand and BGN 46,328 thousand) (*Note 27, Note 33 and Note 39*);
- Pledges on equipment – BGN 37,369 thousand (31 December 2018: BGN 33,328 thousand) (*Note 27, Note 33 and Note 39*).

Periodical fair value remeasurement

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

Based on the judgement applied, the Company recognised a revaluation reserve at the amount of BGN 2,629 thousand, net of impairment.

As at 30 September 2019 the management concluded that no grounds existed for conducting new remeasurement of assets before the usual five-year period has expired (*Note 2.10.*).

14. INTANGIBLE ASSETS

	<i>Goodwill</i>		<i>Intellectual property rights</i>		<i>Software</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2019 BGN '000</i>	<i>2018 BGN '000</i>	<i>2019 BGN '000</i>	<i>2018 BGN '000</i>	<i>2019 BGN '000</i>	<i>2018 BGN '000</i>	<i>2019 BGN '000</i>	<i>2018 BGN '000</i>	<i>2019 BGN '000</i>	<i>2018 BGN '000</i>
<i>Book value</i>										
Balance at 1 January	6,698	6,698	11,697	11,145	4,501	4,420	7	109	22,903	22,372
Additions	-	-		564	6	58	165	187	171	809
Transfer to intangible assets	-	-	107	31	-	52	(107)	(83)	-	-
Written-off	-	-	(1)	(43)	-	(29)	-	(206)	(1)	(278)
Balance at 30 September/ 31 December	6,698	6,698	11,803	11,697	4,507	4,501	65	7	23,073	22,903
<i>Accumulated amortisation and impairment</i>										
Balance at 1 January	-	-	7,940	7,123	3,082	2,792	-	-	11,022	9,915
Accumulated amortisation for the year	-	-	614	858	249	322	-	-	863	1,180
Impairment	677	-	-	-	-	-	-	-	677	-
Amortisation written-off	-	-	(1)	(41)	-	(32)	-	-	(1)	(73)
Balance at 30 September/ 31 December	677	-	8,553	7,940	3,331	3,082	-	-	12,561	11,022
Carrying amount at 30 September/ 31 December	6,021	6,698	3,250	3,757	1,176	1,419	65	7	10,512	11,881
Carrying amount at 1 January	6,698	6,698	3,757	4,022	1,419	1,628	7	109	11,881	12,457

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Goodwill impairment

The goodwill results from the merger of subsidiaries (Bulgarian Rose – Sevtopolis AD, Medica AD and Unipharm AD) into the parent and is recognised in the Company's separate statement of comprehensive income (*Note 2.10*).

In 2019 the need for recognition of impairment of reported goodwill was established amounting BGN 677 thousand (31.12.2018: none).

The rights on intellectual property include mainly products of development activities and trademarks. Intangible assets in progress as at 30 September/ 31 December include:

- expenses on introducing a software product amounting to BGN 58 thousand. (31.12.2018: none);
- expenses on licenses and permit for use of medicinal products – BGN 7 thousand (31 December 2018: BGN 7 thousand).

The book value of fully amortised intangible fixed assets, used in the Company's activities according to their groups, is as follows:

- rights on intellectual property – BGN 4,696 thousand (31 December 2018: BGN 4,596 thousand);
- software – BGN 1,889 thousand. (31 December 2018: BGN 1,755 thousand).

15. INVESTMENT PROPERTY

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Balance at 1 January	37,451	24,799
Additions	1,822	3,306
Transfer from property, plant and equipment	-	9,441
Net gains (losses) from adjustment to fair value measurement included in profit or loss	-	58
Written-off	-	(153)
Balance at 30 September/ 31 December	39,273	37,451

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

Group of assets	30.09.2019	31.12.2018
	BGN '000	BGN '000
Warehouse premises	29,549	29,271
Offices	2,847	2,847

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Production buildings	1,025	1,010
Social objects	416	416
Investment property acquisition costs	5,436	3,907
Total	39,273	37,451

There are established encumbrances as at 30 September 2019 on investment property as follows:

- mortgage of warehouse premises – BGN 13,007 thousand (31 December 2018: BGN 13,007 thousand) (*Note 33 and Note 39*);
- pledges on attached equipment – BGN 5,132 thousand (31 December 2018: BGN 5,132 thousand) (*Note 33*).

*Fair value measurement**Fair value hierarchy*

The fair values of the groups of investment properties are categorised as Level 2 fair values based on the inputs to the valuation technique used.

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

	<i>Warehouse premises</i>	<i>Offices</i>	<i>Production buildings</i>	<i>Social objects</i>	<i>Acquisition costs</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN'000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN'000</i>
Balance at 1 January 2018	19,450	2,403	1,065	410	1,471	24,799
Additions	9,441	-	-	-	3,306	12,747
Transfer	792	-	78	-	(870)	-
Written-off	(13)	-	(140)	-	-	(153)
Remeasurement to fair value through profit or loss - unrealized	(399)	444	7	6	-	58
Balance at 31 December 2018	29,271	2,847	1,010	416	3,907	37,451
Additions	-	-	15	-	1,807	1,822
Transfer	278	-	-	-	(278)	-
Balance at 30 September 2019	29,549	2,847	1,025	416	5,436	39,243

As a result of the calculations made as at 30.09.2019 there was no need to recognize gains and losses from revaluation to fair value (30.09.2018: none) (*Note 4*).

16. INVESTMENTS IN SUBSIDIARIES

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

		30.09.2019	Interest	31.12.2018	Interest
		BGN '000	%	BGN '000	%
Sopharma Trading AD	Bulgaria	30,935	73.03	30,792	72.96
SIA Briz	Latvia	22,633	68.14	22,270	66.13
Sopharma Ukraine EOOD	Ukraine	9,669	100.00	9,669	100.00
Veta Pharma AD	Bulgaria	9,666	99.98	9,666	99.98
Biopharm Engineering AD	Bulgaria	8,384	97.15	8,384	97.15
Momina Krepost AD	Bulgaria	2,941	65.07	4,229	93.56
Vitamina AD	Ukraine	1,283	100.00	1,127	99.56
Pharmalogistica AD	Bulgaria	961	89.39	961	89.39
Aromania AD	Bulgaria	750	76.00	750	76.00
Rap Pharma International OOD	Moldova	594	51.00	293	51.00
TOO Sopharma Kazakhstan	Kazakhstan	502	100.00	502	100.00
Sopharma Buildings REIT	Bulgaria	491	40.38	491	40.38
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
Phyto Palauzovo AD	Bulgaria	104	95.00	104	95.00
Total		89,620		89,945	

As at 30 September 2019, the composition of investments in the subsidiaries includes the investment in Sopharma Poland OOD – in liquidation, Poland, which is fully impaired (31 December 2018: fully impaired investment in Sopharma Poland OOD – in liquidation, Poland).

Sopharma AD exercises direct control on the above-mentioned companies.

The scope of activities of the subsidiaries and the dates of their acquisition are as follows:

- Pharmalogistica AD – Scope of activities: secondary packaging and real estate leases. Date of acquisition – 15 August 2002.
- Sopharma Poland OOD – in liquidation – Scope of activities: market and public opinion research. Date of acquisition – 16 October 2003. The company is in a procedure of liquidation.
- Electroncommerce EOOD – Scope of activities: trade, transportation and packaging of radioactive materials and nuclear equipment, household electronics and electrical equipment. Date of acquisition – 9 August 2005.
- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 2008.
- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition

– 18 January 2008.

- Sopharma Buildings REIT – Scope of activities: 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. Date of acquisition – 4 August 2008.
- SIA Briz – Scope of activities: trade in pharmaceuticals; Date of acquisition – 10 November 2009.
- Sopharma Warsaw EOOD – Scope of activities: market and public opinion research. Date of acquisition – 23 November 2010.
- Sopharma Ukraine EOOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 7 August 2012.
- Phyto Palauzovo AD – Scope of activities: production, collection of crops and trade in herbs and medicinal plants. Date of acquisition (as from the merger of a subsidiary) – 1 January 2014.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of acquisition – 30 September 2014.
- Veta Pharma AD – Scope of activities: production of medicinal, non-medicinal and other products. Date of acquisition – 11 November 2016.
- Rap Pharma International OOD – Scope of activities: trade in pharmaceutical products. Date of acquisition – 14 April 2017.
- Aromania OOD – Scope of activities: trade in finished goods, sale and management of real estate. Date of acquisition – 31 July 2017.

The movement of investments in subsidiaries is presented below:

	<i>Investments in subsidiaries</i>	
	<i>30.09.2019</i>	<i>31.12.2018</i>
<i>Acquisition cost</i>	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	125,257	124,965
Additional interest acquired	506	244
Interest sold without loss of control	(1,288)	-
Increase in equity in subsidiaries	457	48
Balance at 30 September/ 31 December	124,932	125,257
<i>Impairment charged</i>		
Balance at 1 January	35,312	35,236
Impairment charged	-	76
Balance at 30 September/ 31 December	35,312	35,312
Carrying amount at 30 September/ 31 December	89,620	89,945
Carrying amount at 1 January	89,945	89,729

Impairment of investments in subsidiaries

At each reporting date, the management makes an analysis and assessment about whether indicators for impairment exist in respect of its investments in subsidiaries.

The following are accepted as main indicators for impairment: significant volume reduction (over 25%) and/or termination of activities of the investee; loss of markets, clients or technological problems, reporting of losses for a longer period of time (over three years), reporting of negative net assets or assets below the registered share capital, trends of deterioration of main financial ratios as well as a decrease in market capitalisation. The calculations were made by the management with the assistance of independent certified appraisers. As a base for projected pre-tax cash flows, the Company uses financial budgets developed by the respective companies that cover a 3- to 5-year period, as well as other average-term and long-term plans and intents for their development, including projections for basic economic ratios at national level and at the level of EU/the Balkans.

The tests and assumptions of the management for impairment of investments are made through the prism of its projections and intents on the future economic benefits, which are expected from the subsidiaries, including trade and industrial experience, ensuring position in the Bulgarian and in foreign markets, expectations for future sales, etc. The calculations are performed with the assistance of an independent certified appraiser.

As a result of the calculations made in as at 30 September 2019 there is no need to recognize impairment of certain investments in subsidiaries (30.09.2018: none).

17. INVESTMENTS IN ASSOCIATES

As at 30 September 2019, the carrying amount of the investments in associates is BGN 7,994 thousand and includes interest at the rate of 32,94 % of the capital of Doverie Obedinen Holding AD (31.12.2018: BGN 7,962 thousand and interest at the rate of 33,24 %).

The principal activities of Doverie Obedinen Holding AD include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies – legal entities.

The movement of investments in associates is presented below:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Balance at 1 January	7,962	7,740
Acquired shares	192	227
Sold Shares	(160)	(5)
Balance at 30 September/ 31 December	7,994	7,962

Impairment of investments in associates

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in associates.

The assessments of the management for impairment of investments are made through the prism of

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

its projections and intents on the future economic benefits, which are expected from the associates, including trade and industrial experience, ensuring position in the Bulgarian and in foreign markets, expectations for future sales, etc.

The calculations have been made by the management with the support of independent licensed appraisers.

In 2018 and 2019, there was no need to recognise impairment of the investments in associates.

18. OTHER LONG-TERM EQUITY INVESTMENTS

The *other long-term equity investments* include the interest (shares) in the following companies:

	30.09.2019	Interest	31.12.2018	Interest
	BGN '000	%	BGN '000	%
Lavena AD	4,711	12.64	3,616	10.89
Sopharma Properties REIT	2,843	2.09	2,078	1.55
Olainfarm AD - Latvia	1,426	0.77	1,484	0.77
Achieve Life Science Inc. – USA	141	0.53	83	0.53
Todorov AD	102	12.45	182	10.94
Imventure 1 KDS	50	1.36	50	1.36
Chimimport AD	12	0.003	-	-
Ecobulpack AD	7	0.74	7	0.74
BTF Expat Bulgaria	5	0.01	59	0.17
Aroma AD	3	0.02	4	0.02
UniCredit Bulbank AD	3	0.001	3	0.001
Industrial Holding Bulgaria AD	1	0.001	-	-
Expo Group AD	1	0.05	1	0.05
Elana Agrocredit AD	-	-	31	0.07
Gradus AD	-	-	1	0.0004
Total	9,305		7,599	

All above companies except for Olainfarm AD, Latvia, and Achieve Life Science Inc. – USA, have their seat and operations in Bulgaria.

The fair value per share at 30 September/ 31 December is as follows:

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<i>Equity investments</i>	<i>Number of shares</i>	<i>30.09.2019</i>		<i>31.12.2018</i>		
		<i>Fair value</i>	<i>Fair value as</i>	<i>Number of</i>	<i>Fair value</i>	<i>Fair value as</i>
		<i>per share</i>	<i>per the</i>	<i>shares</i>	<i>per share</i>	<i>per the</i>
			<i>statement of</i>			<i>statement of</i>
			<i>financial</i>			<i>financial</i>
			<i>position</i>			<i>position</i>
		<i>BGN</i>	<i>BGN '000</i>		<i>BGN</i>	<i>BGN '000</i>
Lavena AD	1,254,011	3,76	4,711	905,639	3,99	3,616
Sopharma Properties REIT	447,096	6,36	2,843	324,772	6,40	2,078
Olainfarm AD – Latvia	108,500	13,14	1,426	108,500	13,68	1,484
Achieve Life Science Inc. – USA	35,930	3,93	141	35,930	2,31	83
Todorov AD	423,431	0,24	102	372,081	0,49	182
Chimimport AD	7,000	1,70	12	-	-	-
BTF Expat Bulgaria AD	4,565	0,98	5	56,604	1,04	59
Aroma AD	2,371	1,20	3	2,371	-	4
Industrial Holding Bulgaria AD	1,482	1,01	1	-	-	-
Elana Agrocredit AD	-	-	-	26,800	1,16	31
Gradus AD	-	-	-	900	-	1
Total			9,244			7,538

The table below presents Company's other equity investments, which are measured at fair value on a recurring basis in the statement of financial position:

<i>Equity investments</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>
	<i>30.09.2019</i>		
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Lavena AD	4,711	-	4,711
Sopharma Properties REIT	2,843	2,843	-
Olainfarm AD – Latvia	1,426	1,426	-
Achieve Life Science Inc. – USA	141	141	-
Todorov AD	102	-	102
Chimimport AD	12	12	-
BTF Expat Bulgaria	5	5	-
Aroma AD	3	3	-
Industrial Holding Bulgaria AD	1	1	-
Total	9,244	4,431	4,813

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

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

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

<i>Equity investments</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January 2018	3,867	3,674	7,541
Purchases	621	30	651
Issue of shares	1,043	-	1,043
Sales	(632)	(273)	(905)
Unrealised gain/(loss), net, included in other comprehensive income (Note 12)	(1,159)	367	(792)
Balance at 31 December 2018	3,740	3,798	7,538
Purchases	494	479	973
Issue of shares	322	800	1,122
Sales	(89)	(1)	(90)
Unrealised gain/(loss), net, included in other comprehensive income (Note 12)	(36)	(263)	(299)
Balance at 30 September 2019	4,431	4,813	9,244

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Valuation techniques and approaches

The market comparables approach was applied in the Level 2 fair value measurements. The valuation technique was based on the trading multiples method. Upon preparing fair value measurements, the Company has used the services of certified valuers.

For investments not traded on equity markets, the Company has used internal assessments by Company's specialists. Upon the analysis of the companies subject to these internal assessments the Company has determined that the fair value of these equity investments do not materially deviate from the carrying amounts stated at 30 September 2019.

19. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Long-term loans granted	92,925	22,977
Provision for impairment of credit losses	(44)	(116)
	92,881	22,861
Long-term rental deposit granted	189	194
Total	93,070	23,055

Long-term loans are granted to the following related parties:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Other related parties	85,934	5,287
Associate companies	6,947	17,574
Total	92,881	22,861

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

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>Interest %</i>	<i>30.09.2019</i>	<i>31.12.2018</i>
	<i>'000</i>			<i>BGN'000</i>	<i>BGN'000</i>
				<i>incl. interest</i>	<i>incl. interest</i>
<i>To other related parties</i>					
<i>BGN</i>	81,900	31.12.2025	3.00%	83,190	1,290
<i>BGN</i>	3,400	31.12.2021	3.00%	2,744	28
<i>BGN</i>	29,900	31.12.2021	3.00%	-	-
					3,904
					89

This is a translation from Bulgarian of the individual financial statements of Sopharma AD for the period ended 30 September 2019. 64

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

<i>EUR</i>	700	31.12.2021	3.00%	-	-	1,383	14
<i>To associates</i>							
<i>EUR</i>	31,091	31.12.2021	3.50%	<u>6,947</u>	<u>-</u>	<u>17,574</u>	<u>36</u>
				<u>92,881</u>	<u>1,318</u>	<u>22,861</u>	<u>103</u>

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

	2019	2018
	BGN '000	BGN '000
Balance on 1 January	116	119
Increase in the credit loss allowance recognised in profit or loss for the year	19	9
Decrease in the credit loss allowance recognised in profit or loss for the year	<u>(91)</u>	<u>(12)</u>
Balance at 30 September/ 31 December	<u>44</u>	<u>116</u>

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

The long-term deposit receivable is from a company related through a main shareholder under a concluded rental contract for administrative offices with valid until 1 August 2022, to the amount of BGN 189 thousand (31 December 2018: BGN 194 thousand).

20. OTHER LONG-TERM RECEIVABLES

Company's *other long-term receivables* include:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
<i>Granted long-term loans</i>	5,328	2,412
<i>Provision for impairment of credit losses</i>	<u>(231)</u>	<u>(71)</u>
Granted long-term loans, net	5,097	2,341
<i>Receivables under transactions in securities</i>	3,593	3,416
<i>Provision for impairment of credit losses</i>	<u>(415)</u>	<u>(322)</u>
Receivables under transactions in securities, net	3,178	3,094
<i>Receivables on sales of non-current assets</i>	<u>394</u>	<u>394</u>
<i>Provision for impairment of credit losses</i>	<u>(104)</u>	<u>(69)</u>
Receivables on sales of non-current assets, net	290	325
Total	<u>8,565</u>	<u>5,760</u>

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

The terms of the long-term loans granted to third parties are as follows:

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>Interest rate</i>	<i>30.09.2019</i>		<i>31.12.2018</i>	
	<i>'000</i>			<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
				<i>incl. interest</i>		<i>incl. interest</i>	
<i>EUR</i>	2,500	29.06.2023	3.05%	3,659	-	961	-
<i>EUR</i>	695	12.10.2022	3.05%	1,421	-	1,360	-
<i>BGN</i>	24	14.03.2023	5.00%	17	-	20	-
				<u>5,097</u>	<u>-</u>	<u>2,341</u>	<u>-</u>

The movement in the allowance (provision) for impairment of receivables from third parties under long-term loans granted is as follows:

	<i>2019</i>	<i>2018</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance on 1 January	<u>71</u>	<u>6</u>
Increase in the credit loss allowance recognised within profit or loss for the year	<u>160</u>	<u>65</u>
Balance at 30 September/ 31 December	<u>231</u>	<u>71</u>

Securities settlement receivables represent receivables from a sold investment in a subsidiary with deferred payment until the completion of the statutory actions for registration of licenses for medicinal products amounting to BGN 3,178 thousand and expected maturity 30.06.2023 (31.12.2018: BGN 3,094 thousand).

	<i>2019</i>	<i>2018</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	<u>322</u>	<u>322</u>
Increase in the credit loss allowance recognized in profit or loss during the year	<u>93</u>	<u>-</u>
Balance at 31 June/ 31 December	<u>415</u>	<u>322</u>

Sales receivables with deferred payment of fixed assets in the amount of BGN 290 thousand are due on 10.04.2021 (31.12.2018: 325 thousand BGN).

The movement of the allowance for impairment of receivables from the sale of fixed assets is as follows:

	<i>2019</i> <i>BGN '000</i>	<i>2018</i> <i>BGN '000</i>
Balance at 1 January	<u>69</u>	<u>69</u>
Increase in the credit loss allowance recognized in profit or loss during the year	<u>35</u>	<u>-</u>
Balance at 31 June/ 31 December	<u>104</u>	<u>69</u>

21. INVENTORIES

Company's *inventories* include:

	<i>30.09.2019</i> <i>BGN '000</i>	<i>31.12.2018</i> <i>BGN '000</i>
Materials	32,187	30,458
Finished products	23,821	21,055
Semi-finished products	8,988	9,090
Work in progress	4,561	7,830
Goods	<u>156</u>	<u>66</u>
Total	<u>69,713</u>	<u>68,499</u>

Materials by type are as follows:

	<i>30.09.2019</i> <i>BGN '000</i>	<i>31.12.2018</i> <i>BGN '000</i>
Basic materials	31,123	28,158
Technical materials	520	437
Auxiliary materials	303	198
Spare parts	195	238
Materials in the process of delivery	-	1,362
Other	<u>46</u>	<u>65</u>
Total	<u>32,187</u>	<u>30,458</u>

Basic materials by type are as follows:

	<i>30.09.2019</i> <i>BGN '000</i>	<i>31.12.2018</i> <i>BGN '000</i>
Substances	16,190	15,256
Chemicals	4,986	4,092
PVC and aluminium foil	1,900	1,919

SOPHARMA AD**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019**

Ampoules	1,873	2,245
Packaging materials	1,768	1,511
Herbs	1,749	1,469
<i>incl. own production</i>	130	-
Sanitary-hygiene and dressing materials	1,567	1,353
Vials	548	262
Tubes	542	51
Total	31,123	28,158

As at 30 September 2019 in the composition of the herbs are earned 46,241 kg of white thorn seeds, which were produced by the company. The fair value of white thorn seeds is determined by a licensed appraiser and amounts to BGN 130 thousand. The loss from valuation to fair value is BGN 43 thousand and is recognized in the statement of comprehensive income and is presented under 'other operating income (loss) from the activity, net' - Note 4.

Finished products by type include:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Tablet dosage forms	13,530	13,255
Ampoule dosage forms	4,556	3,050
Ointments	1,745	1,573
Dressing products	1,224	1,137
Syrups	1,096	638
Lyophilic products	434	283
Plasters	353	348
Sanitary-hygienic products	286	203
Suppositories	196	150
Medical cosmetics	191	95
Drops	149	62
Hemodialysis concentrates	61	60
Inhalers	-	193
Sachets	-	8
Total	23,821	21,055

Goods by types are as follows:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Foodstuffs	109	65
Medicinal products	47	1
Total	156	66

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Pledges were established on Company's inventories with carrying amount of BGN 29,821 thousand as at 30 September 2019 as collateral to bank loans received (31 December 2018: BGN 29,555 thousand) (Note 33 and Note 39).

22. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Receivables from subsidiaries	105,425	85,604
<i>Provision for impairment of credit losses</i>	(3,416)	(2,697)
	102,009	82,907
Receivables from other related parties	5,219	3,264
<i>Provision for impairment of credit losses</i>	(59)	(33)
	5,160	3,231
Receivables from companies related through key managing personnel	-	5,376
<i>Provision for impairment of credit losses</i>	-	(5)
	-	5,371
Total	107,169	91,509

The receivables from related parties by type are as follows:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
<i>Receivables under contracts with customers</i>	88,658	73,603
<i>Provision for impairment of credit losses</i>	(2,583)	(1,797)
Receivables under contracts with customers, net	86,075	71,806
<i>Trade loans granted</i>	19,872	20,641
<i>Provision for impairment of credit losses</i>	(892)	(938)
Trade loans granted, net	18,980	19,703
Dividend receivables	2,114	-
Total	107,169	91,509

The receivables under contracts with customers - related parties are interest-free and of which BGN 71,616 thousand are in BGN (31.12.2018: BGN 59,416 thousand) and in EUR - BGN 14,459 thousand. (31.12.2018: BGN 12,390 thousand).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 71,284 thousand as at 30 September 2019 or 82,82% of all receivables under contracts with customers - related parties (31 December 2018: BGN 59,253 thousand – 82,52%).

The Company usually negotiates with its subsidiaries payment terms ranging from 45 to 270 days for receivables on sales of finished products and up to 90 days for receivables on sales of materials (incl. substances).

The management assesses collectability on an individual basis by analysing the specific receivables and the circumstances relating to the delay in order that impairment is charged.

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

	<i>2019</i> <i>BGN '000</i>	<i>2018</i> <i>BGN '000</i>
Balance on 1 January	1,797	1,153
Increase in the credit loss allowance recognised within profit or loss for the year	2,583	1,797
Decrease in the credit loss allowance recognised within profit or loss for the year	(1,797)	(1,153)
Balance at 30 September/ 31 December	2,583	1,797

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

	<i>30.09.2019</i> <i>BGN '000</i>	<i>31.12.2018</i> <i>BGN '000</i>
up to 30 days	12,832	17,739
from 31 to 90 days	18,289	19,843
from 91 to 180 days	23,600	23,493
from 181 to 365 days	2,361	1,324
<i>Gross amount of non-matured (regular) receivables from related parties</i>	<i>57,082</i>	<i>62,399</i>
<i>Provision for impairment of credit losses</i>	<i>(696)</i>	<i>(586)</i>
Non-matured (regular) receivables from related parties, net	56,386	61,813

The provision for impairment of credit losses of non-matured (regular) trade receivables from related parties is as follows:

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	30.09.2019 BGN '000	31.12.2018 BGN '000
up to 30 days	157	166
from 31 to 90 days	233	192
from 91 to 180 days	278	216
from 181 to 365 days	28	12
Total	696	586

The *age structure* of invoice date of past due trade receivables from related parties is as follows:

	30.09.2019 BGN '000	31.12.2018 BGN '000
from 31 to 90 days	1,758	854
from 91 to 180 days	2,175	430
from 180 to 365 days	26,638	8,799
over 365 days	1,005	1,121
<i>Gross amount of past due receivables from related parties</i>	<i>31,576</i>	<i>11,204</i>
<i>Provision for impairment of credit losses</i>	<i>(1,887)</i>	<i>(1,211)</i>
Past due receivables from related parties, net	29,689	9,993

The *provision for impairment of credit losses* of past due trade receivables from related parties is as follows:

	30.09.2019 BGN '000	31.12.2018 BGN '000
up to 30 days	310	113
from 31 to 90 days	593	123
from 91 to 180 days	207	60
from 181 to 365 days	396	393
over 365 days	381	522
Total	1,887	1,211

The Company applies the simplified approach under IFRS 9 to measure expected credit losses for trade receivables by recognizing expected lifetime losses for all trade receivables (*Note 2.17*).

Based on that, the credit loss allowance as at 30 September 2019 and 31 December 2018 is determined as follows:

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		<i>Regular</i>	<i>Up to 30 days past due</i>	<i>Over 90 days past due</i>	<i>Over 180 days past due</i>	<i>Over 365 days past due</i>	Total
30 September 2019							
Expected average percentage of credit losses		1%	51%	10%	1%	38%	
Trade receivables from related parties (gross carrying amount)	BGN '000	57,082	1,758	2,175	26,638	1,005	88,658
Expected credit loss (Impairment allowance)	BGN '000	(696)	(903)	(207)	(396)	(381)	(2,583)
31 December 2018							
Expected average percentage of credit losses		1%	3%	16%	44%	97%	
Trade receivables from related parties (gross carrying amount)	BGN '000	62,399	9,394	376	895	539	73,603
Expected credit loss (Impairment allowance)	BGN '000	(586)	(236)	(60)	(393)	(522)	(1,797)

Special pledges have been established as at 30 September 2019 on receivables from related parties at the amount of BGN 77,784 thousand as collateral under bank loans received (31 December 2018: BGN 64,947 thousand) (*Note 33*).

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

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Subsidiaries	14,706	12,045
<i>Provision for impairment of credit losses</i>	(869)	(908)
	13,837	11,137
Other related parties	5,166	3,220
<i>Provision for impairment of credit losses</i>	(23)	(25)
	<u>5,143</u>	<u>3,195</u>
Companies related through key managing personnel	-	5,376
<i>Provision for impairment of credit losses</i>	-	(5)
	<u>-</u>	<u>5,371</u>
Total	<u>18,980</u>	<u>19,703</u>

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

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>Interest %</i>	<i>30.09.2019</i>		<i>31.12.2018</i>	
	<i>'000</i>			<i>BGN '000</i>	<i>BGN '000 incl. interest</i>	<i>BGN '000</i>	<i>BGN '000 incl. interest</i>
<i>to subsidiaries</i>							
<i>BGN</i>	14,109	31.12.2019	4.10%	5,608	172	3,599	-
<i>EUR</i>	2,770	31.12.2019	4.70%	4,792	-	4,812	-
<i>BGN</i>	3,050	31.12.2019	3.50%	1,650	-	935	-
<i>EUR</i>	500	31.12.2019	6.60%	985	7	985	7
<i>EUR</i>	390	10.05.2019	3.95%	802	39	806	43
<i>to other related parties</i>							
<i>BGN</i>	5,020	31.12.2019	3.10%	5,091	48	3,140	34
<i>BGN</i>	5,020	31.12.2019	3.10%	5,091	48	3,140	34
<i>to companies related through key managing personnel</i>							
<i>EUR</i>	4,014	31.12.2019	2.81%	-	-	5,371	27
				18,980	266	19,703	111

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

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

	<i>2019</i>	<i>2018</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	938	887
Increase in the credit loss allowance recognised within profit or loss for the year	4	51
Decrease in the credit loss allowance recognised within profit or loss for the year	(50)	-
Balance at 30 September/ 31 December	892	938

23. TRADE RECEIVABLES*Trade receivables* include:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
<i>Receivables under contracts with customers</i>	19,943	20,685
<i>Provision for impairment of credit losses</i>	(1,541)	(1,817)
Receivables under contracts with customers, net	18,402	18,868
Advances granted	1,480	563
Total	19,882	19,431

The *receivables from clients* are interest-free and BGN 994 thousand of them are denominated in BGN (31 December 2018: BGN 950 thousand), in EUR – BGN 15,707 thousand (31 December 2018: BGN 16,162 thousand), and in USD – BGN 1,701 thousand (31 December 2018: BGN 1,756 thousand).

One main counterpart of the Company is accountable for about 76,12% of the receivables from clients (31 December 2018: one main counterpart accountable for 73,40%).

The Company usually agrees with its clients payment terms from 60 to 180 days for receivables under sales except for the cases when new markets and products are being developed and new trade counterparts are being attracted.

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

	2019	2018
	BGN '000	BGN '000
Balance at 1 January	1,817	1,331
Increase in the credit loss allowance recognised within profit or loss for the year	1,099	1,817
Decrease in the credit loss allowance recognised within profit or loss for the year	(1,375)	(1,318)
Transfer to the allowance for court and awarded receivables	-	(13)
Balance at 30 September/ 31 December	1,541	1,817

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

	30.09.2019	31.12.2018
	BGN '000	BGN '000
up to 30 days	9,803	6,456
from 31 to 90 days	6,626	5,797
from 91 to 180 days	716	686

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

from 181 to 365 days	65	-
<i>Gross amount of non-matured (regular) trade receivables</i>	17,210	12,939
<i>Provision for impairment of credit losses</i>	(189)	(196)
Non-matured (regular) trade receivables, net	17,021	12,743

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

	30.09.2019	31.12.2018
	BGN '000	BGN '000
up to 30 days	106	98
from 31 to 90 days	73	90
from 91 to 180 days	10	8
Total	189	196

The age structure of the invoice date for overdue trade receivables is as follows:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
from 31 to 90 days	671	4,995
from 91 to 180 days	312	519
from 181 to 365 days	595	1,062
over 365 days	1,155	1,170
<i>Gross amount of past due trade receivables</i>	2,733	7,746
<i>Provision for impairment of credit losses</i>	(1,352)	(1,621)
Past due trade receivables, net	1,381	6,125

The provision for impairment of credit losses of past due trade receivables is as follows:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
up to 30 days	9	144
from 31 to 90 days	59	39
from 91 to 180 days	60	280
from 181 to 365 days	175	114
over 365 days	1,049	1,044
Total	1,352	1,621

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The Company applies the simplified approach under IFRS 9 to measure expected credit losses for trade receivables by recognizing expected lifetime losses for all trade receivables (*Note 2.17*). Based on that, the loss allowance as at 30 September 2019 and 31 December 2018 is determined as follows:

		<i>Regular</i>	<i>Up to 30 days past due</i>	<i>Over 90 days past due</i>	<i>Over 180 days past due</i>	<i>Over 365 days past due</i>	<i>Total</i>
30 September 2019							
Expected average percentage of credit losses		1%	10%	19%	29%	91%	
Trade receivables (gross carrying amount)	BGN '000	17,210	671	312	595	1,155	19,943
Expected credit loss (Impairment allowance)	BGN '000	(189)	(68)	(60)	(175)	(1,049)	(1,541)
		<i>Regular</i>	<i>Up to 30 days past due</i>	<i>Over 90 days past due</i>	<i>Over 180 days past due</i>	<i>Over 365 days past due</i>	<i>Total</i>
31 December 2018							
Expected average percentage of credit losses		1%	3%	31%	50%	98%	
Trade receivables (gross carrying amount)	BGN '000	12,939	5,548	902	229	1,067	20,685
Expected credit loss (Impairment allowance)	BGN '000	(196)	(183)	(280)	(114)	(1,044)	(1,817)

As at 30 September 2019, special pledges have been established as collateral of bank loans received on trade receivables at the amount of BGN 11,735 thousand (31 December 2018: BGN 19,088 thousand) (*Note 33 and Note 39*).

The *advances granted to suppliers* as at 30 September/ 31 December are for the purchase of:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Inventories	1,034	375
Services	446	188
Total	1,480	563

The *advances granted* are regular. They include: in BGN – BGN 838 thousand (31 December 2018: BGN 476 thousand), in EUR – BGN 68 thousand (31 December 2018: BGN 33 thousand), in USD: BGN

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

573 thousand (31 December 2018: BGN 48 thousand), and in other currency – BGN 1 thousand (31 December 2018: BGN 6 thousand).

24(A). LOANS GRANTED TO THIRD PARTIES

The loans granted to third parties include:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Commercial loans granted	4,060	3,815
Provision for impairment of credit losses	(379)	(545)
Total	3,681	3,270

The loans granted to third parties are intended to provide support for financing of activities, performed by these entities, but having common strategic objectives. They are secured through pledges on securities (shares) and receivables.

The terms and conditions under which loans are granted to third parties are as follows:

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>Interest %</i>	30.09.2019		31.12.2018	
	'000			BGN'000	BGN'000 incl. interest	BGN'000	BGN'000 incl. interest
BGN	2500	31.12.2019	2.55%	2,525	25	-	-
BGN	4,184	31.12.2019	4.30%	572	-	2,764	-
BGN	832	31.12.2019	4.50%	491	-	408	7
BGN	949	31.12.2019	4.70%	93	-	98	-
				3,681	25	3,270	7

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

	2019	2018
	BGN '000	BGN '000
Balance at 1 January	545	504
Increase in the credit loss allowance recognised within profit or loss for the year	39	41
Decrease in the credit loss allowance recognised within profit or loss for the year	(205)	-
Balance at 30 September/ 31 December	379	545

24(B). OTHER RECEIVABLES AND PREPAYMENTS*Other receivables and prepayments include:*

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Taxes refundable	5,136	4,423
Prepayments	764	831
Funds provided to an investment intermediary	430	11
Receivables under deposits granted as guarantees	118	138
<i>Court and awarded receivables</i>	<i>137</i>	<i>137</i>
<i>Provision for impairment of credit losses from court and awarded receivables</i>	<i>(137)</i>	<i>(137)</i>
	-	-
Receivables under return claims	-	333
Other	71	201
Total	6,519	5,937

Taxes refundable include:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Excise duties	5,136	4,423
Total	5,136	4,423

Prepayments include:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Subscriptions	343	407
Insurance	163	292
Vouchers	137	4
Licence and patent fees	61	91
Advertising	29	-
Rentals	11	9
Other	20	28
Total	764	831

<i>Deposits placed as guarantees include:</i>	30.09.2019	31.12.2018
	BGN '000	BGN '000
Guarantees under contracts for fuel supply	86	86
Guarantees under contracts for supply of medicinal products	14	13
Guarantees under rental contracts	4	4
Guarantees under construction contracts	4	22
Guarantees under contracts for electricity supply	3	3
Other	7	10
Total	118	138

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

	2019	2018
	BGN '000	BGN '000
Balance at 1 January	137	2,222
Increase in the credit loss allowance recognised within profit or loss for the year	-	3
Decrease in the credit loss allowance, as a result of write-off	-	(2,101)
Transfer of the allowance from trade receivables	-	13
Balance at 30 September/ 31 December	137	137

25. CASH AND CASH EQUIVALENTS

Cash includes:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
<i>Cash at current bank accounts</i>	<i>1,138</i>	<i>9,096</i>
<i>Impairment of cash at current bank accounts</i>	<i>(169)</i>	<i>(166)</i>
Cash at current bank accounts, net of impairment	969	8,930
Cash in hand	91	29
Blocked cash under issued bank guarantees	20	12
Total	1,080	8,971

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Cash structure at current bank accounts is as follows: in BGN: BGN 602 thousand (31 December 2018: BGN 5,964 thousand), in EUR – BGN 255 thousand (31 December 2018: BGN 2,365 thousand), in USD – BGN 45 thousand (31 December 2018: BGN 512 thousand) and in other currency – BGN 67 thousand (31 December 2018: BGN 89 thousand).

Cash in hand is - BGN 90 thousand (31.12.2018: BGN 29 thousand) and in other currencies - BGN 1 thousand (12/31/2018: none).

The cash blocked under bank securities issued is: in BGN – BGN 18 thousand (31 December 2018: BGN 12 thousand), and in EUR – 2 thousand (31 December 2018: none).

As a result of the analyses made and the methodology applied to calculate expected credit losses for cash and cash equivalents, the management has determined that no impairment is necessary of cash and cash equivalents. Therefore, the Company has not recognised a provision for the impairment of expected credit losses as at 31 December 2018 and 30 September 2019.

26. EQUITY

Share capital

As at 30 September 2019, the registered share capital of Sopharma AD amounted to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

<i>Ordinary shares issued and fully paid</i>	<i>Shares number</i>	<i>Share capital net of treasury shares BGN '000</i>
Balance at 1 January 2018	125,764,919	100,964
Share-based payments	288,500	1,082
Effects of a subsidiary merger	70,606	265
Treasury shares sold	3,000	11
Treasury shares bought	(210,462)	(857)
Expense on treasury shares	-	(4)
Balance at 31 December 2018	125,916,563	101,461
Balance at 1 January 2019	125,916,563	101,461
Treasury shares bought	(496)	(2)
Balance at 30 September 2019	125,916,067	101,459

On 1 January 2018, by virtue of a concluded contract, a restructuring was made through a merger of Unipharm AD into Sopharma AD. The effect from the merger at the expense of the 70,606 treasury shares amounts to BGN 265 thousand (*Note 2.3*).

The table below presents the paid joint-stock capital of the Company at 30 September/ 31 December:

	30.09.2019 BGN '000	31.12.2018 BGN '000
Share capital (registered), nominal	134,798	134,798
Share premium	8,785	8,785
Total paid capital	143,583	143,583

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

The *treasury shares* were 8,881,832 at the amount of BGN 33,339 thousand as at 31 December 2018 (31 December 2018: 8,881,336 shares at the amount of BGN 33,337 thousand). The number of shares purchased in the current year was 496 (2018: 210,462 shares) and there are no shares sold (2018 sold: 3,000). The effect of the merger of a subsidiary into Sopharma AD in 2018 was 70,606 shares at the amount of BGN 265 thousand.

On 15 June 2018, a decision was made by the General Meeting of Shareholders to provide to employees 288,500 treasury shares as bonus one-off payment for the 85th anniversary of Sopharma AD to all persons with over 1 year service at the Company working under employment or management contracts (“eligible persons”). The shares were distributed among 1,808 eligible persons based on a progression scheme according to their service at the Company (*Note 2.24*).

The company's reserves are summarized in the table below:

	30.09.2019 BGN '000	31.12.2018 BGN '000
Statutory reserves	59,297	55,967
Property, plant and equipment revaluation reserve	22,252	22,433
Reserve for financial assets at fair value through other comprehensive income	2,633	2,933
Additional reserves	301,796	275,977
Total	385,978	357,310

Statutory reserves at the amount of BGN 59,297 thousand (31 December 2018: BGN 51,666 thousand) represent the Reserve Fund, which is set aside under a requirement of the Commercial Act and Company's Articles of Association, and includes two components: (a) amounts from distribution of profit for the Reserve Fund – BGN 50,512 thousand (31 December 2018: BGN 47,182 thousand), and (b) share premium representing the excess of the issue value over the nominal value of the issued shares on the merger of a subsidiary into Sopharma AD – BGN 8,785 thousand (31 December 2018: BGN 8,785 thousand).

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The movements of statutory reserves were as follows:

	2019	2018
	BGN '000	BGN '000
Balance at 1 January	55,967	51,666
Distribution of profit	3,330	4,301
Balance at 30 September/ 31 December	59,297	55,967

The **property, plant and equipment revaluation reserve**, amounting to BGN 22,255 thousand (31 December 2018: BGN 22,433 thousand), is set aside from the surplus between the carrying amount of property, plant and equipment and their fair value at the date of the respective revaluation. The deferred tax effect on the revaluation reserve was directly carried to this reserve.

The movements of property, plant and equipment revaluation reserve were as follows:

	2019	2018
	BGN '000	BGN '000
Balance at 1 January	22,433	23,839
Transfer to retained earnings	(181)	(3,457)
Effects from subsidiary merger	-	1,744
Revaluation of property, plant and equipment	-	341
Deferred tax relating to revaluations	-	(34)
Balance at 30 September/ 31 December	22,252	22,433

The **reserve of financial assets at fair value through other comprehensive income**, amounting to BGN 2,633 thousand (31 December 2018: BGN 2,933 thousand) is formed of the effects of fair-value measurement of other long-term equity investments. Upon derecognition of these investments, the reserve formed is not recycled through the statement of comprehensive income (through profit or loss for the period).

The movements of the reserve of financial assets at fair value through other comprehensive income were as follows:

	2019	2018
	BGN '000	BGN '000
Balance at 1 January	2,933	4,089
Net income from revaluation of available-for-sale financial assets	(299)	(792)
Transfer to retained earnings	(1)	(384)
Effect from subsidiary merger	-	20
Balance at 30 September /31 December	2,633	2,933

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Additional reserves at the amount of BGN 301,796 thousand (31 December 2018: BGN 275,977 thousand) are set aside from distribution of profits under a decision of shareholders and can be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additional reserves are as follows:

	<i>2019</i> <i>BGN '000</i>	<i>2018</i> <i>BGN '000</i>
Balance at 1 January	275,977	251,089
Distributed profit in the year	25,819	24,888
Balance at 30 September/ 31 December	301,796	275,977

Base net earnings per share

	<i>30.09.2019</i>	<i>31.03.2018</i>
Weighted average number of shares	125,916,229	129,119,688
Net profit for the year (BGN '000)	33,509	27,716
Base net earnings per share (BGN)	0.27	0.21

As at 30 September 2019, *retained earnings* amount at BGN 34,990 thousand (31.12.2018: BGN 30,448 thousand).

The movement in *retained earnings* is as follows:

	<i>2019</i> <i>BGN '000</i>	<i>2018</i> <i>BGN '000</i>
Balance at 1 January	30,448	44,522
Net profit for the year	33,509	33,298
Transfer from revaluation reserve of property, plant and equipment	181	3,457
Transfer from reserve of financial assets at fair value through other comprehensive income	1	384
Share-based payments	-	142
Profit distribution to reserves	(29,149)	(29,189)
2017 profit distribution for dividends	-	(13,822)
Distribution for 6-month profit dividends for 2018	-	(6,284)
Effect from subsidiary merger	-	(2,029)
Actuarial losses from remeasurement	-	(30)
Effects from treasury shares	-	(1)
Balance at 30 September/ 31 December	34,990	30,448

27. LONG-TERM BANK LOANS

Long-term bank loans include:

Currency	Contracted loan amount	Maturity	30.09.2019			31.12.2018		
			Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
	'000		BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<i>Investment-purpose loans</i>								
EUR	32,000	15.04.2021	4,183	7,153	11,336	9,539	7,157	16,696
AZN	23	15.04.2022	10	7	17	-	-	-
AZN	35	16.03.2021	8	13	21	17	11	28
			4,201	7,173	11,374	9,556	7,168	16,724

The investment-purpose loan received in Euro was agreed at interest rate based on three-month EURIBOR plus a mark-up of up to 1.7 points but not less than 1.7 points and fixed interest rates at the amount of 23% and 24.10% (2018: three-month EURIBOR plus a mark-up of up to 1.7 points but not less than 1.7 points and fixed interest rate of 24.10%).

The following collaterals were established under the loans in favour of the creditor bank:

- Mortgages of real estate with a carrying amount of BGN 37,928 thousand as at 30 September 2019 (31 December 2018: BGN 39,200 thousand) (*Note 13*);
- Special pledges on machinery and equipment with a carrying amount of BGN 15,159 thousand as at 30 September 2019 (31 December 2018: BGN 16,076 thousand) (*Note 13*).

The long-term bank loan contracts include clauses with covenants for maintaining certain financial ratios. Company's management currently controls the observance of these financial ratios in communication with the respective creditor bank.

Reconciliation of the movement of liabilities from financing activities

The table below shows changes in liabilities from financing activities, representing both cash and non-cash changes. Liabilities from financial liabilities are those for which cash flows are or future cash flows will be classified in the Company's statement of cash flows as cash flows from financing activities.

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	<i>01.01.2019</i>	<i>Changes in cash flows from financing activities</i>	<i>Acquisition of a subsidiary (Note 40)</i>	<i>Newly arising liabilities over the year</i>	<i>Other non-cash changes</i>	<i>30.09.2019</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Bank loans	82,376	47,893	-		35	130,304
Finance lease liabilities	5,695	(1,412)	-	1,852	(206)	5,929
Dividends	271	(21)	-		(46)	204
Total	88,342	46,460	-	1,852	(217)	136,437
Treasury shares	(33,337)	(2)	-	-	-	(33,339)
Net cash flows from financing activities	55,005	46,458	-	1,852	(217)	103,098

	<i>01.01.2018</i>	<i>Changes in cash flows from financing activities</i>	<i>Acquisition of a subsidiary (Note 40)</i>	<i>Newly arising liabilities over the year</i>	<i>Other non-cash changes</i>	<i>31.12.2018</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Bank loans	77,171	4,843	-	372	(10)	82,376
Finance lease liabilities	71	(71)	-	-	-	-
Dividends	196	(20,000)	-	20,106	(31)	271
Total	77,438	(15,228)	-	20,478	(41)	82,647
Treasury shares	(33,834)	(850)	265	-	1,082	(33,337)
Net cash flows from financing activities	43,604	(16,078)	265	20,478	1,041	49,310

28. DEFERRED TAX LIABILITIES

Deferred income taxes are related to the following items of the statement of financial position:

<i>Deferred tax liabilities/(assets)</i>	<i>temporary difference</i>	<i>tax</i>	<i>temporary difference</i>	<i>tax</i>
	30.09.2019	30.09.2019	31.12.2018	31.12.2018
	BGN '000	BGN '000	BGN '000	BGN '000
Property, plant and equipment	68,455	6,846	70,802	7,080
<i>including revaluation reserve</i>	20,559	2,056	20,760	2,076
Intangible assets	2,172	217	2,296	230
Investment property	8,602	860	7,684	768
<i>including revaluation reserve</i>	516	52	516	52
Total deferred tax liabilities	79,229	7,923	80,782	8,078
Payables to personnel	(8,269)	(827)	(7,424)	(742)
Receivables	(6,448)	(645)	(5,990)	(599)
Inventories	(2,970)	(297)	(4,241)	(424)
Accrued liabilities	(570)	(57)	(611)	(61)
Cash	(169)	(17)	(166)	(17)
Total deferred tax assets	(18,426)	(1,843)	(18,432)	(1,843)
Deferred income tax liabilities, net	60,803	6,080	62,350	6,235

On recognising deferred tax assets, the probability of a reversal of the individual differences and the abilities of the Company to generate sufficient taxable profit in the future, had been taken into account.

The change in the balance of deferred taxes for 2019 is as follows:

<i>Deferred tax (liabilities)/ assets</i>	<i>Balance at 1 January 2019</i>	<i>Recognised in the statement of comprehensive income</i>	<i>Recognised in equity in</i>	<i>Recognised in the statement of changes in equity and the current tax return</i>	<i>Balance at 30 September 2019</i>
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Property, plant and equipment	(7,080)	196	-	38	(6,846)
Intangible assets	(230)	13	-	-	(217)
Investment property	(768)	(92)	-	-	(860)
Payables to personnel	742	85	-	-	827
Receivables	599	46	-	-	645
Inventories	424	(127)	-	-	297

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Accrued liabilities	61	(4)	-	-	57
Cash	17	-	-	-	17
Total	(6,235)	117	-	38	(6,080)

The change in the balance of deferred taxes for 2018 was as follows:

<i>Deferred tax (liabilities)/ assets</i>	<i>Balance at 6 1 January 2018</i>	<i>Recognised in the statement of comprehensive income</i>	<i>Recognised in equity</i>	<i>Recognised in the statement of changes in equity and the current tax return</i>	<i>Balance at 31 December 2018</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Property, plant and equipment	(8,076)	937	(34)	93	(7,080)
Intangible assets	(231)	1	-	-	(230)
Investment property	(602)	(166)	-	-	(768)
Biological assets	(3)	3	-	-	-
Payables to personnel	771	(29)	-	-	742
Receivables	533	(50)	116	-	599
Inventories	397	27	-	-	424
Accrued liabilities	41	(10)	30	-	61
Cash	17	-	-	-	17
Total	(7,152)	713	112	93	(6,235)

29. GOVERNMENT GRANTS

The government grants are under concluded contracts with the Bulgarian Small and Medium Enterprises Promotion Agency for gratuitous financial aid under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013 and Operational Programme "Energy Efficiency".

The table below presents the non-current and the current portion of the grants received by type:

	30.09.2019			31.12.2018		
	<i>Non-current portion</i>	<i>Current portion</i>	<i>Total</i>	<i>Non-current portion</i>	<i>Current portion</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Acquisition of machinery and equipment for a new tablets production line	2,503	179	2,682	2,638	179	2,817

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Implementation of innovative products in the production of ampoule dosage forms	1,950	200	2,150	2,100	200	2,300
Acquisition on non-current assets and building reconstruction	314	8	322	320	8	328
Acquisition of machinery and equipment for technological renovation and modernisation of tablet production	40	120	160	130	120	250
Implementation of innovative "artificial tears" eye drops production	90	24	114	108	24	132
Acquisition of combined exchange ventilation and air conditioning installation	95	9	104	101	9	110
Total	4,992	540	5,532	5,397	540	5,937

The current portion of the financing will be recognised as current income over the following 12 months from the date of the separate statement of financial position and presented as 'other current liabilities' (*Note 38*).

30. OPERATING LEASE LIABILITIES TO RELATED PARTIES

On January 1, 2019, the Company reviewed and analysed all lease agreements in the light of the requirements of the new IFRS 16.

As at 01.01.2019 the Company has irrevocable commitments for two operating lease contracts to related parties of buildings amounting to BGN 3,896 thousand. These are only capitalized rents.

Operating lease liabilities to related parties included in the statement of financial position are presented net of interest due in the future and are as follows:

<i>Term</i>	30.09.2019 BGN '000	01.01.2019 BGN '000
Up to 1 year	999	999
Over 1 year	1,857	2,897
Total	2,856	3,896

On 01.01.2019 the company has recognized assets "right of use" and respectively lease liability amounting to BGN 3,896 thousand. (*Note 2.23.2 and Note 13*).

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

The minimum lease payments under the operating lease are due as follows:

<i>Term</i>	30.09.2019 BGN '000	01.01.2019 BGN '000
Up to 1 year	1,030	1,047
Over 1 year	1,892	2,972
	<u>2,922</u>	<u>4,019</u>
Future financial expense under finance leases	(66)	(123)
Current value of operating lease obligations	<u>2,856</u>	<u>3,896</u>

Lease payments due within the next 12 months are presented in the statement of financial position as "Liabilities to related parties" (*Note 35*).

31. OPERATING LEASE LIABILITIES TO THIRD PARTIES

On January 1, 2019, the Company reviewed and analysed all lease agreements in the light of the requirements of the new IFRS 16.

As at 01.01.2019 the company has irrevocable commitments for three contracts for operating leases to third parties amounting to BGN 1,799 thousand. These are only capitalized rents.

The operating lease liabilities to third parties included in the statement of financial position are presented net of interest due in the future and are as follows:

<i>Term</i>	30.09.2019 BGN '000	01.01.2019 BGN '000
Up to 1 year	747	593
Over 1 year	2,326	1,206
Total	<u>3,073</u>	<u>1,799</u>

On 01.01.2019 the Company has recognized assets "right of use" and respectively an obligation under operating leases to third parties amounting to BGN 1,799 thousand (*Note 2.23.2 and Note 13*).

The minimum lease payments under the operating lease are due as follows:

<i>Term</i>	30.09.2019 BGN '000	01.01.2019 BGN '000
Up to 1 year	760	605
Over 1 year	<u>2,360</u>	<u>1,229</u>

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

	3,120	1,834
Future financial expense under finance leases	(47)	(35)
Current value of operating lease obligations to third parties	3,073	1,799

Lease payments due within the next 12 months are presented in the statement of financial position as "other current liabilities" (*Note 38*).

The table below shows the liabilities by type of operating leases to third parties:

	30.09.2019			01.01.2019		
	<i>Long-term part</i>	<i>Short-term part</i>	<i>Total</i>	<i>Long-term part</i>	<i>Short-term part</i>	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Under operating lease contracts for lands	1,425	117	1,542	-	-	-
Under operating lease contracts for cars	742	513	1,255	1,126	516	1,642
Under operating lease contracts for buildings	85	69	154	80	77	157
Under operating lease contracts for apparatus	74	48	122	-	-	-
Total	2,326	747	3,073	1,206	593	1,799

As at January 1, 2019 the Company has two contracts, which remain on an operating lease because they are short-term and in low value (their term is 31.12.2019 and the annual rent is BGN 8 thousand) (*Note 2.23 .2*).

As at January 1, 2019, the Company has rent payments for agricultural land on the basis of issued orders from the Ministry of Agriculture, Food and Forestry, which are short-term and low value (their term is 31.12.2019 and the annual amount the rent is BGN 9 thousand) (*Note 2.23.2*).

32. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Long-term retirement benefit obligations	4,520	4,100
Long-term benefit obligations for tantieme	293	318
Total	4,813	4,418

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Long-term retirement benefit obligations

The long-term retirement benefit obligations to personnel include the present value of Company's liability at the date of the statement of financial position to pay indemnities to individuals of its employees upon coming of age for retirement.

In accordance with the Labour Code in Bulgaria, every employee is entitled to an indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for the same employer during the last 10 years of their service the indemnity amounts to six gross monthly salaries at the time of retirement. This is a defined benefits plan (*Note 2.24*).

Movements in the present value of retirement benefit obligations to personnel are as follows:

	2019	2018
	BGN '000	BGN '000
Present value of the obligation at 1 January	4,100	3,890
Current service cost	420	438
Interest cost	-	63
Net actuarial loss recognised for the period	-	15
Payments made in the year	-	(336)
Remeasurement gains or losses on the retirement benefit obligations, including:	-	30
<i>Actuarial losses arising from changes in demographic assumptions</i>	-	11
<i>Actuarial losses arising from changes in financial assumptions</i>	-	108
<i>Actuarial (gains)/losses arising from past experience adjustments</i>	-	(89)
Present value of the obligation at 30 September/ 31 December	4,520	4,100

The amounts of long-term retirement benefits of personnel accrued in the statement of comprehensive income are as follows:

	2019	2018
	BGN '000	BGN '000
Current service cost	420	384
Interest cost	-	5
Net actuarial loss recognised for the period	-	4
Components of defined benefit plan costs recognised in profit or loss		
(Note 7)	420	393
Effects of subsequent assessments of retirement liabilities incl. by:		
<i>Actuarial gains/ losses on changes in demographic assumptions</i>	-	-
<i>Actuarial losses from changes in financial assumptions</i>	-	2
<i>Actuarial losses/ (gains) on adjustments due to past experience</i>	-	1

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Cost components of defined benefit plans recognized in other components of comprehensive income (Note 12)	-	3
Total	420	396

Long-term benefit obligations for tantieme are as follows:

	<i>30.09.2019</i>	<i>31.12.2018</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Long-term benefit obligations for tantieme with maturity in 2021	167	167
Long-term benefit obligations for tantieme with maturity in 2022	126	-
Long-term benefit obligations for tantieme with maturity in 2020	-	151
	293	318

33. SHORT-TERM BANK LOANS

Short-term bank loans include:

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>30.09.2019</i>	<i>31.12.2018</i>
	<i>'000</i>		<i>BGN '000</i>	<i>BGN '000</i>
Bank loans (overdrafts)				
BGN	20,000	31.12.2019	20,000	10,002
BGN	20,000	21.05.2020	19,987	12,947
BGN	20,000	31.05.2020	19,984	9,996
EUR	10,000	31.12.2019	18,335	9,817
BGN	9,779	01.06.2020	8,221	3,636
BGN	5,000	07.01.2020	4,997	-
			91,524	46,398
Extended credit lines				
BGN	20,000	30.11.2019	19,869	19,254
EUR	5,000	31.08.2020	7,537	-
			27,406	19,254
Total			118,930	65,652

The bank loans received in Euro have been agreed at interest rate based on one-month EURIBOR plus a mark-up of up to 1.3 points, but not less than 1.3 points, and one-month EURIBOR plus a mark-up of

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

up to 1.5 points, and for those in BGN – from 1.3% to 1.45% and average deposit index plus 1 point (2018: one-month EURIBOR plus a mark-up to 1.3 points, but not less than 1.3 points, a one-month EURIBOR plus a margin of 1.7 points, but not less than 1.7 points, and a one-month EURIBOR plus up to 1.5 points and for those in BGN - from 1.3% to 1.45% and average deposit index plus 1 point). The loans are for working capital.

A portion of the loans drawn at 30 September at the amount of BGN 192 thousand (31 December 2018: BGN 269 thousand) are in the form of bank guarantees in favour of the National Health Insurance Fund (NHIF) and suppliers for covering obligations as follows.

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

- Mortgages of real estate with a carrying amount of BGN 29,208 thousand as at 30 September 2019 (31 December 2018: BGN 31,716 thousand) (*Note 13 and Note 15*);
- Special pledges on:
 - machinery and equipment with a carrying amount of BGN 18,083 thousand as at 30 September 2019 (31 December 2018: BGN 12,649 thousand) (*Note 13 and Note 15*);
 - inventories with a carrying amount of BGN 29,821 thousand as at 30 September 2019 (31 December 2018: BGN 29,555 thousand) (*Note 21*);
 - receivables from related parties with a carrying amount of BGN 77,784 thousand as at 30 September 2019 BGN (31 December 2018: BGN 64,947 thousand) (*Note 22*);
 - trade receivables with a carrying amount of BGN 11,735 thousand as at 30 September 2019 (31 December 2018: BGN 19,088 thousand) (*Note 23*);
 - trade receivables from third parties of a subsidiary with a carrying amount of BGN 7,823 thousand as at 30 September 2019 (31 December 2018: BGN 7,823 thousand).

The short-term bank loan contracts include clauses with covenants for maintaining certain financial ratios. Company's management currently controls the observance of these financial ratios in communication with the respective creditor bank.

34. TRADE PAYABLES

Trade payables include:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Payables to suppliers	6,300	8,775
Advances received	318	147
Total	6,618	8,922

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Payables to suppliers are as follows:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Payables to foreign suppliers	4,241	6,988
Payables to local suppliers	2,059	1,787
Total	6,300	8,775

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in BGN amount to BGN 2,059 thousand (31 December 2018: BGN 1,787 thousand), in EUR – BGN 3,036 thousand (31 December 2018: BGN 3,727 thousand), in USD – BGN 1,205 thousand (31 December 2018: BGN 3,181 thousand), in PLN – BGN none (31 December 2018: BGN 1 thousand), and in other currency – none (31 December 2018: BGN 79 thousand).

The common credit period for which no interest is charged on trade payables, is 180 days. The Company has no past due trade payables.

The advances received from customers as at 30 September/ 31 December are current and are for the purchase of finished goods. Of these, in EUR are BGN 318 thousand (31.12.2018: BGN 118 thousand) and in US dollars - none (31 December 2018: BGN 29 thousand).

The Company has placed deposits as security for payables to suppliers under commercial transactions at the amount of BGN 310 thousand (31 December 2018: BGN 246 thousand) (*Note 24b and Note 33*).

35. PAYABLES TO RELATED PARTIES

The payables to related parties refer to:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Payables to companies related through a main shareholder	1,876	30
Payables to companies related through key managing personnel	670	262
Payables to subsidiaries	599	283
Payables to companies main shareholders	25	58
Payables to other related parties	10	-
Total	3,180	633

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

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

	30.09.2019 BGN '000	31.12.2018 BGN '000
Supply of services	1,253	402
Obligations under operating leases	999	-
Obligation for supply of inventories	879	27
Obligation for supply of non-current assets	25	45
Obligations for increasing the capital of a subsidiary	24	36
Advances received	-	123
Total	3,180	633

The trade payables to related parties are regular and interest-free. The payables in Bulgarian Levs amount to BGN 2,153 thousand (31 December 2018: BGN 509 thousand), in EUR – BGN 1,013 thousand (31 December 2018: BGN 97 thousand), and in PLN – BGN 14 thousand (31 December 2018: BGN 27 thousand).

The common credit period, for which no interest is charged on trade payables to related parties, is 90 days. The Company has no overdue trade payables to related parties.

The Company has placed deposits as security for payables to related parties under commercial transactions at the amount of BGN 189 thousand (31 December 2018: BGN 194 thousand) (*Note 19*).

36. TAX PAYABLES

Tax payables include:

	30.09.2019 BGN '000	31.12.2018 BGN '000
Individual income tax	524	500
Taxes on expenses	394	546
Value added tax	118	423
Corporate tax	56	415
Total	1,092	1,884

The following inspections and audits were performed by the date of issue of these financial statements:

Sopharma AD (receiving company):

- under VAT Act – until 31 December 2011;
- full-scope tax audit – until 31 December 2011;
- National Social Security Institute – until 30 September 2013.

Bulgarian Rose Sevtopolis (transforming company)

- under VAT Act – until 31 December 2014;
- full-scope tax audit – until 31 December 2013;
- National Social Security Institute – until 31 December 2013.

Medica AD (transforming company)

- under VAT Act – until 31 January 2013;
- full-scope tax audit – until 31 December 2002;
- National Social Security Institute – until 31 January 2016.

Unipharm AD (transforming company)

- under VAT Act – until 31 August 2018;
- full-scope tax audit – until 31 December 2017;
- National Social Security Institute – until 31 December 2017.

Tax audit 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.

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Payables to personnel, including:	6,347	5,905
<i>Tantieme</i>	3,077	3,030
<i>accruals on unused compensated leaves</i>	1,866	1,423
<i>current liabilities</i>	1,404	1,452
Payables for social security/health insurance, including:	1,310	1,214
<i>current liabilities</i>	963	968
<i>accruals on unused compensated leaves</i>	347	246
Total	7,657	7,119

38. OTHER CURRENT LIABILITIES

Other current liabilities include:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Operating lease liabilities to third parties (<i>Note 31</i>)	747	-
Government grants (<i>Note 29</i>)	540	540
Provision for financial guarantees granted (<i>Note 2.25</i>)	558	327
Awarded amounts under litigations	338	323
Dividend liabilities	204	271

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Deductions from work salaries	179	214
Refund obligations under contracts with customers (<i>Note 2.6</i>)	120	324
Liabilities under deposits received as guarantees	24	24
Total	2,710	2,023

The provision for financial guarantees granted, at the amount of BGN 558 thousand, arises as a result of commitment undertaken by the Company to perform payments for a debtor which failed to make payment in accordance with a debt instrument (*Note 2.27*).

The movement in the provision for financial guarantees is as follows:

	2019 BGN '000	2018 BGN '000
Balance at 1 January	327	297
Provision for financial guarantees recognised within profit or loss for the year	231	30
Balance at 30 September/ 31 December	558	327

39. CONTINGENT LIABILITIES AND COMMITMENTS

Significant irrevocable agreements and commitments

The Company received government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 and Operational Programme "Energy Efficiency" (*Note 29 and Note 38*), related to technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section and the acquisition of combined exchanger installations for ventilation and air conditioning in the production of medical products (*Note 13*). The Company undertook a commitment that for a period of 5 years after the completion of the respective projects they shall not be subject to significant modifications affecting the essence and the terms and conditions for their execution or giving rise to unjustified benefits to the company, neither modifications resulting from a change in the nature of ownership over the assets acquired in relation to the grants. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Issued and granted guarantees

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

Company	Maturity	Currency	Contracted amount		Guarantee amount as at
			Original currency	BGN '000	30.09.2019 BGN '000
Sopharma Trading AD	2019 - 2024	EUR	64,808	126,753	115,963
Sopharma Trading AD	2019 - 2024	BGN	55,357	55,357	43,215
PAO Vitamini and					
Sopharma Ukraine EOOD	2020	EUR	7,000	13,691	9,506
Biopharm Engineering AD	2020 -2023	BGN	8,550	8,550	4,122
Momina Krepost AD	2020 -2026	BGN	5,000	5,000	4,077
Doverie Capital AD	2021	EUR	3,000	5,867	2,200
Energoinvestment AD	2020	BGN	2,000	2,000	989
Mineralcommerce AD	2019 -2021	BGN	726	726	478
Pharmaplant AD	2023	EUR	235	460	256
Veta Pharma AD	2019	BGN	1,000	1,000	410
Total					181,216

The Company has provided the following collateral in favour of banks under loans received by related parties:

(a) under loans of subsidiaries:

- Mortgages of real estate with a carrying amount of BGN 9,850 thousand as at 30 September 2019 (31 December 2018: BGN 10,013 thousand) (*Note 13*);
- Special pledges on:
 - Machinery and equipment with a carrying amount of BGN 9,259 thousand as at 30 September 2019 (31 December 2018: BGN 9,735 thousand) (*Note 13*);
 - Inventories with a carrying amount of BGN 17,000 thousand as at 30 September 2019 (31 December 2018: BGN 17,000 thousand) (*Note 21*);
 - Trade receivables with a carrying amount of BGN 11,735 thousand as at 30 September 2019 (31 December 2018: BGN 11,735 thousand) (*Note 23*).

40. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company 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 Company.

The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the Company's finished products and services 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.

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Risk management is currently performed by Company's management following the policy adopted by the Board of Directors. The latter has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the different types of specific risk such as currency, price, interest, credit and liquidity risk and the risk in using non-derivative instruments.

The structure of financial assets and liabilities is as follows:

Categories of financial instruments

<i>Financial assets</i>	<i>30.09.2019</i>	<i>31.12.2018</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Financial assets at fair value through other comprehensive income, incl.:	9,305	7,599
<i>Equity investments</i>	9,305	7,599
Financial assets at amortised cost, incl.:	232,092	151,571
<i>Loans and receivable incl.:</i>	<i>231,005</i>	<i>142,600</i>
Long - term receivables from related parties	93,070	23,055
Other long - term receivables	8,565	5,760
Receivables from related parties	107,169	91,509
Trade receivables	18,402	18,868
Loans granted to third parties	3,681	3,270
Other current receivables	118	138
<i>Cash and cash equivalents</i>	<i>1,080</i>	<i>8,971</i>
Total financial assets	241,390	159,170
 <i>Financial liabilities</i>	 <i>30.09.2019</i>	 <i>31.12.2018</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Financial liabilities at amortised cost, incl.:		
<i>Long-term and short-term bank loans</i>	<i>130,304</i>	<i>82,376</i>
<i>Liabilities under operating leases to related parties (Note 30 and Note 35)</i>	<i>2,856</i>	<i>-</i>
<i>Liabilities under operating leases to third parties (Note 31 and Note 38)</i>	<i>3,073</i>	<i>-</i>
<i>Other loans and payables, incl.</i>	<i>9,047</i>	<i>9,903</i>
Trade obligations	6,300	8,775
Liabilities to related parties	2,181	510
Other current liabilities	566	618
Total financial liabilities	145,280	92,279

At 30 September 2019, recognised liabilities under financial guarantees amount at BGN 558 thousand (31 December 2018: BGN 327 thousand) (*Note 38*).

The impairment losses, net of reversed, related to financial assets and financial guarantees recognised in the statement of comprehensive income are as follows:

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Receivables from clients	638	1,143
Loans granted at amortised cost	(124)	154
Financial guarantees granted	231	30
Total	745	1,327

Credit risk

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

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

Trade receivables

In its commercial practice, the Company has applied different distribution schemes until arriving at the current effective approach that takes into consideration the market operational condition, the various payment methods, and the inclusion of sales rebates. The Company works with counterparts with whom it has a history on its main markets, and partners with over 70 Bulgarian and foreign licensed distributors of medicinal products.

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

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

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

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

Each matrix percentage is initially determined based on historical data observed by the Company for a period of three years. The method is based on analysis of the history and assessing behaviour for each invoice within a group issued over at least the last three years, including pays past due, going period by period among the different past due ranges, payments and outstanding receivables, etc. Based on that, the loss percentage is determined as bad debt for the given group of factors versus past due invoices by days. The Company does not have a practice to request collateral of trade receivables, and does not insure them.

Second, the Company makes the impairment provisioning matrixes for each portfolio precise by adjusting certain percentages based on historical data for the behaviour of payments under the invoices issued and historical losses from bad debt, by including scenarios and forecast information about certain macro factors. Historical percentages are adjusted to reflect the effect of the future behaviour of macroeconomic factors for which a statistical dependence has been identified and which are considered to impact the customers' ability to service and settle their payables.

Court and awarded receivables

Upon determining the collectability of court and awarded receivables, the management analyses on an individual basis the overall exposure from each counterpart (counterpart type) in order to determine the actual likelihood of their collection. Upon establishing it is highly unlikely to collect a given receivable (group of receivables), it is assessed what portion thereof is secured (pledge, mortgage, guarantors, bank security) to thus guarantee collectability (through potential future realisation of the collateral or payment by the guarantor). The receivables or portion thereof for which the management determines are highly unlikely to be collected, are 100% impaired.

Loans and financial guarantees granted

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

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

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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

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

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

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

The table below provides information about the Company's exposure to credit risk and the impairment of credit losses for loans granted and trade receivables as at 30 September 2019:

<i>Category</i>	<i>Correlation to an external credit rating</i>	<i>Average percentage of expected impairment loss</i>	<i>Gross carrying amount</i>	<i>Impairment loss (allowance)</i>
			<i>BGN '000</i>	<i>BGN '000</i>
Performing trade receivables (Stage 1)		3.80%	108,601	(4,124)
Renegotiated loans (Stage 2)	B2	0.31%	7,957	(25)
Renegotiated loans (Stage 2)	Ba2	0.07%	2,746	(2)
Renegotiated loans (Stage 2)	B1	0.12%	7,320	(9)
Renegotiated loans (Stage 2)	Ba3	0.12%	803	(1)
Renegotiated loans (Stage 2)	B3	1.11%	102,317	(1,131)
Under-performing loans (Stage 3)	Caa1	36.83%	1,053	(388)
Non-performing trade receivables (court and awarded receivables)		100.00%	137	(137)
			230,933	(5,816)

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

	30.09.2019	31.12.2018
	BGN '000	BGN '000
Client 1	49%	23%
Client 2	36%	52%
Client 3	5%	9%

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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

The Company has concentration of trade receivables from a client who is not a related party, amounting to 76,12% of all trade receivables (31 December 2018: 73,40%).

Cash

The Company's cash and payment operations are concentrated in different first-class banks. The management monitors changes in a bank's rating on an ongoing basis in order to assess the presence of increased credit risk, ensure the current management of incoming and outgoing cash flows and the allocation of cash in the bank accounts and banks.

Foreign currency risk

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Company supplies part of its basic raw and other materials 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 remaining part of Company's operations is usually denominated in BGN and/or EUR. The Company sells part of its finished products in Russia in Euro and thus eliminates the currency risk related to the devaluation of the Russian Rouble. The accounts and balances with the subsidiaries in Ukraine are also denominated in Euro. Nevertheless, in relation with the instability in the country and the devaluation of the Ukrainian Hryvnia, for the purpose of mitigating the currency risk the Company, through its subsidiaries, exercises currency policy that includes the immediate translation in EUR of proceeds in a local currency as well as using higher trade margins to compensate eventual future devaluation of the Hryvnia.

To control foreign currency risk, the Company has introduced a system for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

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

<i>30 September 2019</i>	in USD	in EUR	in BGN	in other currency	Total
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Equity investments	141	1,426	7,738	-	9,305
Receivables and loans granted	4,879	51,087	175,035	4	231,005
Cash and cash equivalents	44	257	710	68	1,080
Total financial assets	5,065	52,770	183,483	72	241,390
Long-term and short-term bank loans	-	37,208	93,058	38	130,304
Operating lease liabilities to related parties	-	2,856	-	-	2,856
Operating lease liabilities to third parties	82	1,255	1,665	71	3,073

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Other loans and liabilities	1,524	3,073	4,436	14	9,047
Total financial liabilities	1,606	44,392	99,159	123	145,280

<i>31 December 2018</i>	in USD	in EUR	in BGN	in other currency	Total
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Equity investments	83	1,484	6,032	-	7,599
Receivables and loans granted	4,850	65,913	71,834	3	142,600
Cash and cash equivalents	512	2,365	6,005	89	8,971
Total financial assets	5,445	69,762	83,871	92	159,170
Long-term and short-term bank loans	-	26,513	55,835	28	82,376
Other loans and liabilities	3,485	3,847	2,464	107	9,903
Total financial liabilities	3,485	30,360	58,299	135	92,279

Foreign currency sensitivity analysis

The effect of Company's sensitivity to 10% increase/decrease in current exchange rates of BGN to USD and to other currency exposures, based on the structure of foreign currency assets and liabilities at 30 September and on the assumption that the influence of all other variables is ignored, has been measured and presented as impact on the post-tax financial result and on the equity.

		USD	
		30.09.2019	30.09.2018
		BGN '000	BGN '000
Financial result	+	311	394
Accumulated profits	+	311	394
Financial result	-	(311)	(394)
Accumulated profits	-	(311)	(394)

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2019 would be an increase by BGN 311 thousand (0,93 %) (2018: increase at the amount of BGN 394 thousand) (1,42%). The same effect in terms of value would be seen on equity – 'retained earnings' component.

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

The impact of the remaining currencies (other than USD) on 10 % increase in their exchange rates to BGN on Company's (post-tax) profit is insignificant. The ultimate effect thereon for 2019 is a decrease by BGN 101 thousand (-0,30 %) (2018: a decrease by BGN 52 thousand (0.02%)). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

The management is of the opinion that the presented above currency sensitivity analysis, based on the balance sheet structure of foreign currency denominated assets and liabilities, is representative for the currency sensitivity of the Company for the year.

Price risk

On the one hand, the Company is exposed to price risk due to two main factors:

- (a) contingent increase of supplier prices of raw and starting materials, since more than 80% of the raw and starting materials are imported and they represent 50% on the average of all production costs; and
- (b) growing competition on the Bulgarian pharmaceutical market is also reflected in drug prices.

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

On the other hand, the Company is exposed to a price risk related to the held thereby shares, classified as other long-term equity investments. 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. 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.

Liquidity risk

Liquidity risk is the adverse situation when the Company encounters difficulty in meeting unconditionally all of its obligations within their maturity.

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the Company implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Maturity analysis

The table below presents the financial non-derivative liabilities of the Company, grouped by remaining term to maturity, determined against the contractual maturity at the reporting date. The table is prepared on the basis of undiscounted cash flows and the earliest date on which a payable becomes due for payment. The amounts include principal and interest.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

30 September 2019

	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
	BGN'00 0	BGN'00 0	BGN'00 0	BGN'00 0	BGN'00 0	BGN '000	BGN'00 0	BGN '000
Long-term and short-term bank loans	742	59,697	7,059	59,561	4,234	6	-	131,299
Operating lease liabilities to related parties	86	172	258	516	1,031	859		2,922
Operating lease liabilities to third parties	61	112	168	436	658	730	955	3,120
Other loans and payables	7,141	1,340		566	-	-		9,047
Total liabilities	8,030	61,321	7,485	61,079	5,923	1,595	955	146,388

31 December 2018

	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Total
	BGN'000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Long-term and short-term bank loans	10,554	1,374	28,595	33,159	7,309	2,408	83,399
Other loans and payables	6,677	2,536	48	642	-	-	9,903
Total liabilities	17,231	3,910	28,643	33,801	7,309	2,408	93,302

Risk of interest-bearing cash flows

Interest-bearing assets are presented in the structure of Company's assets by cash, bank deposits and loans granted, which are with fixed interest rate. On the other hand, Company'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 Company partially dependent on interest risk. This risk is covered in two ways:

- optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and
- combined structure of interest rates on loans comprising two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and maintained in a proportion favourable for the Company. The fixed component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

The Company's management currently monitors and analyses its exposure to changes in interest rates. Simulations are carried out for various scenarios of refinancing, renewal of existing positions, and alternative financing. The impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated based on these scenarios. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

<i>30 September 2019</i>	Interest-free	With floating interest rate	With fixed interest rate	Total
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Equity investments	9,305	-	-	9,305
Receivables and loans granted	111,975	-	119,030	231,005
Cash and cash equivalents	91	989	-	1,080
Total financial assets	121,371	989	119,030	241,390
Long-term and short-term bank loans	-	130,266	38	130,304
Operating lease liabilities to related parties	-	-	2,856	2,856
Operating lease liabilities to third parties	-	1,255	1,818	3,073
Other loans and liabilities	9,047	-	-	9,047
Total financial assets	9,047	131,521	4,712	145,280
<i>31 December 2018</i>	Interest-free	With floating interest rate	With fixed interest rate	Total
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Equity investments	7,599	-	-	7,599
Receivables and loans granted	94,662	-	47,938	142,600
Cash and cash equivalents	29	8,942	-	8,971
Total financial assets	102,290	8,942	47,938	159,170
Long-term and short-term bank loans	-	82,348	28	82,376
Other loans and liabilities	9,903	-	-	9,903
Total financial assets	9,903	82,348	28	92,279

The table below demonstrates the Company's sensitivity to possible changes in interest rates by 0.50 points based on the structure of assets and liabilities as at 31 December and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and on equity.

<i>2019</i>			
	<i>Increase/ decrease in interest rate</i>	<i>Impact on post-tax financial result profit/(loss)</i>	<i>Impact on equity increase/(decrease)</i>
EUR	Increase	(186)	(186)
BGN	Increase	(427)	(427)
EUR	Decrease	186	186
BGN	Decrease	427	427
<i>2018</i>			
	<i>Increase/ decrease in interest rate</i>	<i>Impact on post-tax financial result profit/(loss)</i>	<i>Impact on equity increase/(decrease)</i>
EUR	Increase	(119)	(119)
BGN	Increase	(251)	(251)
EUR	Decrease	119	119
BGN	Decrease	251	251

Capital risk management

The capital management objectives of the Company 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.

The Company currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total amount of employed capital. Net debt is calculated as the difference between total borrowings, as presented in the statement of financial position, and cash and cash equivalents. Total employed capital is calculated as the sum of equity and net debt.

In 2019, the strategy of the Company management was to maintain the ratio within 18% – 23% (2018: 10% – 15%).

The table below shows the gearing ratios based on capital structure:

Capital risk management

	<i>2019 BGN '000</i>	<i>2018 BGN '000</i>
Total borrowings, including:	136,233	82,376

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

<i>bank loans</i>	130,304	82,376
<i>operating lease liabilities</i>	5,929	-
Less: Cash and cash equivalents	(1,080)	(8,971)
Net debt	135,153	73,405
Total equity	525,427	489,219
Total capital	657,580	562,624
Gearing ratio	0.21	0.13

The liabilities shown in the table are disclosed in *Notes 25, 27, 30, 31, 33, 35 and 38*.

Fair value measurement

The fair value concept presumes realisation of financial assets through a sale based on the position, assumptions and judgments of independent market participants in a principal or most advantageous market for a particular asset or liability. The Company acknowledges as a principal market for its financial assets and liabilities the financial market in Bulgaria – the Bulgarian Stock Exchange, the large commercial banks – dealers, and for some specific instruments – direct transactions between the parties. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits, the Company expects to realise these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at amortised cost.

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the statement of financial position at market value determined by applying a particular valuation method (investments in securities, loans with floating interest rate) and therefore, their fair value is almost equal to their carrying amount. Part of the investments in other companies as minority interests represent an exception to this rule, since neither market nor objective conditions exist so that their fair value could be reliably determined. Therefore, they are presented at acquisition cost (cost). With regard to loans, extended with fixed interest rate, the method used for setting this rate uses as a starting point for the calculations the current observations of the Company with regard to the market interest levels.

As far as the Bulgarian market of various financial instruments is still not sufficiently active – with stability, satisfactory volumes and liquidity for purchases and sales of certain financial assets and liabilities – there are no sufficient and reliable market price quotations for them, and for this reason, the Company uses other alternative valuation methods and techniques.

Company's management 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.

41. RELATED PARTY TRANSACTIONS

The companies related to Sopharma AD and the type of their relationship are as follows:

<i>Related parties</i>	<i>Relation type</i>	<i>Relation period</i>
Telecomplect Invest AD	Main shareholding company	2018 and 2019
Donev Investments Holding AD	Main shareholding company	2018 and 2019
Sopharma Trading AD	Subsidiary	2018 and 2019
Pharmalogistica AD	Subsidiary	2018 and 2019
Sopharma Poland OOD – in liquidation	Subsidiary	2018 and 2019
Electroncommerce EOOD	Subsidiary	2018 and 2019
Biopharm Engineering AD	Subsidiary	2018 and 2019
Vitamina AD	Subsidiary	2018 and 2019
Sopharma Buildings REIT	Subsidiary	2018 and 2019
Momina Krepost AD	Subsidiary	2018 and 2019
SIA Briz	Subsidiary	2018 and 2019
Sopharma Warsaw EOOD	Subsidiary	2018 and 2019
Sopharma Ukraine EOOD	Subsidiary	2018 and 2019
Sopharma Kazakhstan EOOD	Subsidiary	2018 and 2019
Phyto Palauzovo AD	Subsidiary	2018 and 2019
Veta Pharma AD	Subsidiary	2018 and 2019
Rap Pharma International OOD	Subsidiary	2018 and 2019
Aromania OOD	Subsidiary	2018 and 2019
Sopharmacy EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 2 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 3 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 4 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 5 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 6 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 7 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 8 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 9 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 10 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 11 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 12 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 13 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 14 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 15 EOOD	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharmacy 16 EOOD	Subsidiary through Sopharma Trading AD	Since 15.05.2018 and 2019
Sopharmacy 17 EOOD	Subsidiary through Sopharma Trading AD	Since 15.05.2018 and 2019
Sopharmacy 18 EOOD	Subsidiary through Sopharma Trading AD	Since 28.02.2019

SOPHARMA AD**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019**

Sopharma Trading Pharmaceuticals (Sopharma Trading D.o.o, Belgrade)	Subsidiary through Sopharma Trading AD	2018 and 2019
Sopharma Trading D.o.o. (Lekovit OOD)	Subsidiary through Sopharma Trading AD	2018 and 2019
Brititrade COOO	Subsidiary through SIA Briz	2018 and 2019
OOO Tabina	Subsidiary through SIA Briz	2018 and 2019
ZAO Interpharm	Subsidiary through SIA Briz	2018 and 2019
SOOO Brizpharm	Subsidiary through SIA Briz	2018 and 2019
OOO Farmacevt Plus	Subsidiary through SIA Briz	2018 and 2019
ZAO UAB TBS Pharma	Subsidiary through SIA Briz	2018 and 2019
BOOO SpetzApharmacia	Joint venture through SIA Briz	until 15.08.2018
BOOO SpetzApharmacia	Subsidiary through SIA Briz	from 16.08.2018 and 2019
OOO Med-dent	Joint venture through SIA Briz	until 15.08.2018
OOO Med-dent	Subsidiary through SIA Briz	from 16.08.2018 until 02.01.2019
OOO Bellerophon	Joint venture through SIA Briz	2018 and until 06.03.2019
OOO Bellerophon	Subsidiary through SIA Briz	Since 07.03.2019
ODO Alenpharm Plus	Subsidiary through SIA Briz	2018 and 2019
ODO Salyus Line	Subsidiary through SIA Briz	2018 and 2019
ODO Medjel	Subsidiary through SIA Briz	2018 and 2019
OOO GalenaPharm	Subsidiary through SIA Briz	2018 and 2019
OOO NPFK Ariens	Subsidiary through SIA Briz	2018 and until 19.09.2019
OOO Ivem & K	Subsidiary through SIA Briz	2018 and until 19.09.2019
OOO Zdorovei	Subsidiary through SIA Briz	2018 and 2019
OOO Farmatea	Subsidiary through SIA Briz	2018 and until 19.09.2019
Zabotlivaia apteka OOO	Subsidiary through SIA Briz	Since 03.04.2018 until 19.09.2019
UAB Recesus	Subsidiary through SIA Briz	From 26.09.2019
Sopharma Properties REIT	Company related through main shareholder	2018 and 2019
Sofprint Group AD	Company related through main shareholder	2018 and 2019
Elpharma AD – in liquidation	Company related through key management personnel	2018 and 2019
Telecomplex AD	Company related through key management personnel	2018 and 2019
Doverie Obedinen Holding	Associate	2018 and 2019
Bulgarsko Vino OOD	Other related party	2018 and 2019
ZOF Mediko 21 EAD	Other related party	2018 and 2019
CTM Doverie OOD	Other related party	2018 and 2019
Doverie Grizha EAD	Other related party	2018 and 2019
Doverie Invest EAD	Other related party	2019
Doverie Capital AD	Other related party	2018 and 2019

SOPHARMA AD**NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019**

The transactions performed between Sopharma AD and the related thereto companies at 30 September are as follows:

<i>Sales to related parties</i>	2019	2018
	BGN '000	BGN '000
<i>Sales of finished products to:</i>		
Subsidiaries	91,187	90,703
	91,187	90,703
<i>Sales of services to:</i>		
Subsidiaries	1,898	1,358
Companies related through a main shareholder	43	36
Companies related through key managing personnel	8	9
Associates	6	6
Other related parties	-	11
	1,955	1,420
<i>Sales of goods and materials to:</i>		
Companies related through a main shareholder	671	597
Subsidiaries	502	367
Other related parties	1	-
	1,174	964
<i>Interest on loans granted to:</i>		
Other related parties	1,454	140
Subsidiaries	444	379
Associates	292	454
Companies related through key managing personnel	26	82
	2,216	1,055
<i>Dividend income from:</i>		
Subsidiaries	10,492	8,693
Companies related through a main shareholder	101	70
	10,593	8,763
<i>Sales of fixed assets for:</i>		
Other related parties	6	24
Subsidiaries	-	1
	6	25
Total	107,131	102,930

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Supplies from related parties

	2019	2018
	BGN '000	BGN '000

Supply of inventories from:

Companies related through a main shareholder	7,919	6,788
Subsidiaries	75	190
Other related parties	41	45
Companies related through key managing personnel	7	7
	8,042	7,030

Supply of services from:

Subsidiaries	6,296	6,923
Companies related through key managing personnel	2,273	2,070
Other related parties	671	677
Main shareholding companies	253	267
Companies related through a main shareholder	241	1,152
	9,734	11,089

Supply of operating leasing assets:

Companies related through a main shareholder	781	-
	781	-

Supplies for acquisition of non-current assets:

Companies related through key managing personnel	20	1,549
Other related parties	-	65
Subsidiaries	-	7
	20	1,621

Supplies for acquisition of investment properties:

Companies related through key managing personnel	149	2
Other related parties	-	78
	149	80

Supplies of long - term assets:

Companies related through key managing personnel	2	11
Other related parties	-	1
	2	12

Acquired shares/ units in:

Subsidiaries	300	-
Companies related through a main shareholder	800	-
	1,100	-

Accrued Dividends on:

Main shareholding companies	-	9,859
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NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2019

Key managing personnel	-	221
Companies related through key managing personnel	-	2
Subsidiaries	-	-
	-	10,082
Total	19,828	29,914

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

The accounts and balances with related parties are presented in *Notes 19, 22, 30 and 35*.

The members of the key personnel are disclosed in *Note 1*.

Salaries and other short-term benefits of key managing personnel amount to BGN 976 thousand (30.09.2018: BGN 1,415 thousand) and are as follows:

- current - BGN 643 thousand (30.09.2018: 984 thousand BGN);
- tantieme - BGN 333 thousand. (30.09.2018: BGN 428 thousand);
- payments based on shares - none (30.09.2018: BGN 3 thousand);

42. EVENTS AFTER THE REPORTING PERIOD

No events have occurred after the date of the balance sheet which require adjustments or disclosures in the separate financial statements.