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1. BACKGROUND INFORMATION ON THE GROUP

Sopharma Group (the Group) is comprised of the parent company and its eighty-one (December 31, 2023: seventy-seven) subsidiaries. In addition, the Group has investments in two associates and one joint venture (December 31, 2023: in four associates and one joint venture).

Parent company

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

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

Subsidiaries

The Group subsidiaries as at March 31, 2024 are as follows:

- Sopharma Trading AD – a business entity registered in Bulgaria by Decision No. 3594/16.10.1998 of Varna District Court, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Pharmalogistica AD – a business entity registered in Bulgaria by Decision of Sofia City Court dated 12 August 2002, with a seat and management address: Sofia, 16, Rozhen Blvd.;
- Electroncommerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 24456 of 1991, with a seat and management address: Sofia, 1, Samokovsko Shousse St.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and management address: Sliven, 75, Trakiya Blvd.;
- Phyto Palauzovo AD – in liquidation - a business entity registered in Bulgaria by Decision No. 20120924105551/24.09.2012 of the Registry Agency, with a seat and management address: Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;
- Sopharmacy EOOD – a business entity registered in Bulgaria by Decision No. 201501191300026/19.01.2015 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 2 EOOD – a business entity registered in Bulgaria by Decision No. 20150617110324/17.06.2015 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 3 EOOD – a business entity registered in Bulgaria by Decision No. 20151202165822/02.12.2015 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 4 EOOD – a business entity registered in Bulgaria by Decision No. 20160229093338/29.02.2016 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;

- Sopharmacy 5 EOOD – a business entity registered in Bulgaria by Decision No. 20160301155620/01.03.2016 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 6 EOOD – a business entity registered in Bulgaria by Decision No. 20140127170842/27.01.2014 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 7 EOOD – a business entity registered in Bulgaria by Decision No 20170315161212/15.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 8 EOOD – a business entity registered in Bulgaria by Decision No 20170627142803/27.06.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12’;
- Sopharmacy 9 EOOD – a business entity registered in Bulgaria by Decision No 20170911100706/11.09.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 10 EOOD – a business entity registered in Bulgaria by Decision No 20170911101412/11.09.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 11 EOOD – a business entity registered in Bulgaria by Decision No 20170302125338 /02.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 12 EOOD – a business entity registered in Bulgaria by Decision No 20170306085236/06.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 13 EOOD – a business entity registered in Bulgaria by Decision No 20170306080850/06.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 14 EOOD – a business entity registered in Bulgaria by Decision No 20170306081205/06.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 15 EOOD – a business entity registered in Bulgaria by Decision No 20170302134305/02.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;

- Sopharmacy 16 EOOD – a business entity registered in Bulgaria by Decision No 20180515105543/15.05.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 17 EOOD – a business entity registered in Bulgaria by Decision No 20180515105543/15.05.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 18 EOOD – a business entity registered in Bulgaria by Decision No 20190228133836/28.02.2019 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Veta Pharma AD - a business entity registered in Bulgaria under company file No. 581 dated 05.04.1999 of the Veliko Tarnovo District Court and with its seat and management address - the city of Veliko Tarnovo, 32 "Dulga Laka" Street;
- Sopharmacy 19 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226110235 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 20 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090518182226 dated 18.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 21 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519084124 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 22 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090320091825 dated 20.03.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 23 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090604184353 dated 04.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 24 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090604170149 dated 04.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 25 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519080611 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;

- Sopharmacy 26 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226120647 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 27 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090604181926 dated 04.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 28 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227145039 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 29 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090605085738 dated 05.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 30 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227160338 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 31 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20080630143914 dated 30.06.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 32 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20080630143914 dated 30.06.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 33 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226112827 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 34 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226165512 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 35 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090513180047 dated 13.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 36 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519083827 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;

- Sopharmacy 37 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226102708 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 38 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519090345 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 39 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227150054 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 40 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20081220153409 dated 20.12.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 41 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519080839 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 42 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090518183127 dated 18.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 43 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226105948 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 44 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090605134931 dated 05.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 45 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519091916 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 46 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519083054 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 47 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227154137 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;

- Sopharmacy 48 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227155742 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 49 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090518162442 dated 18.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 50 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227152516 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 51 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227153607 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 52 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090518174837 dated 18.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 53 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226101122 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 54 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519085825 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 55 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090414165833 dated 14.04.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 56 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519071228 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 57 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090604164039 dated 04.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 58 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227160132 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;

- Sopharmacy 59 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090114162615 dated 14.01.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 60 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20080422121447 dated 22.04.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 61 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090114170550 dated 14.01.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 62 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20080512090050 dated 12.05.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 63 EAD - a business entity registered in Bulgaria by Decision of the Registry Agency, No2008041018022 dated 10.04.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 64 AD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20080411103252 dated 11.04.2008; with a seat and management address: Sofia, 1220, Nadezhda Residential Area, 16, Rozhen Blvd;
- Sopharmacy 65 EAD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 2023122115545 dated 21.12.2023; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 66 EAD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20240108112701 dated 08.01.2024; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 67 EAD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20240109162219 dated 09.01.2024; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 68 EAD - a business entity registered in Bulgaria by Decision of the Registry Agency, No20240108112943 dated 08.01.2024; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharma Poland Z.O.O., Poland, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554/04.11.2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and management address: Poland, Warsaw, 58, Shashkova St.;
- Sopharma Warsaw SP. Z.O.O., Poland – a business entity registered in Poland by Decision No. DSR 0000372245 of 17 December 2010 by XII

Economic Division of the State Court Register of Warsaw, with a seat and management address: Poland, Warsaw, 8, Halubinskiego St.;

- OOO Sopharma Ukraine, Ukraine – a business entity registered in Ukraine by Decision No. 10691020000029051/07.08.2012 in the Unified State Register of Legal Entities and Physical Entities-Entrepreneurs, with a seat and management address: Ukraine, Kiev, Oblonski Region, prospect Moskovskii No. 9, unit 4, floor 2, office 4-203;
- PAO Vitamini, Ukraine – a business entity registered in Ukraine by Decision No. 133/15.04.1994 of Uman City Court, with a seat and management address: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri St.;
- Sopharma Trading, Serbia – a business entity registered in Serbia by Decision No 07829531/05.02.1992 of the Business Registers Agency – Serbia, Belgrade, 48b Zorana Djindjica Boulevard;
- TOO Sopharma Kazakhstan, Kazakhstan – a business entity registered in Kazakhstan by Decision No 5286-1910-04-TOO/06.11.2014 of the Ministry of Justice, Auezov District, with seat and management address: Kazakhstan, Almaty, Auezov District, Mamir-4, home 190;
- Pharmachim EOOD, Serbia – business entity registered in Serbia with BD 27219.2020 dated 14.04.2020 by the Business Registry Agency of Belgrade, with seat and management address: Republic of Serbia, Belgrade, 6, Vladimira Popovicha St.
- Sopharma Rus OOO, Russia - a trading company registered in Russia with decision No. 1237700691524 of 13.10.2023 of the Unified State Register of Legal Entities and with its registered office and management address - Russia, Moscow, "Letnikovskaya" street no. 10;

On August 23, 2023, the merger of Biopharm Engineering into Sopharma AD was entered in the Commercial Register at the Registration Agency. The merger of Biopharm Engineering AD (transforming company) into the parent company Sopharma AD (acquiring company) was implemented through the legal form of transformation regulated in the Commercial Act. As a result of the transaction, all assets of Biopharm Engineering AD are transferred to Sopharma AD, and Biopharm Engineering AD is terminated without liquidation.

The purpose of the transaction on the transformation of the two companies was:

- restructuring of the companies in the Sopharma group in order to eliminate duplicate activities;
- focusing efforts on production and commercial activities, respectively on optimizing administrative costs;

- increasing efficiency and achieving a synergistic effect both for the management and execution of production and commercial activities, as well as for cost optimization.

Accounting method of accounting for the merger

For accounting purposes, January 1, 2023 was accepted as the date of the merger. Until that moment, Biopharm Engineering AD was a subsidiary of Sopharma AD. The transaction was treated as a restructuring of the activities of the two companies.

Joint ventures

As at March 31, 2024, the Group's joint venture is:

- Momina Krepost AD – a business entity registered in Bulgaria by Decision No. 3426/1991 of Veliko Tarnovo District Court, with a seat and management address: Veliko Tarnovo, 23, Magistralna Str.

Associates

The Group's associates as at 31 March 2023 are as follows:

- Doverie Obedinen Holding AD – a business entity registered in Bulgaria by Sofia City Court under Company File No. 13056 of 1996, with a seat and management address: 1594 Sofia, 82, Knyaz Dondukov Blvd;
- Sopharma Imoti REIT – a business entity registered in Bulgaria by Decision No. 1/24.03.2006 of Sofia City Court, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St.
- Sopharma Buildings REIT – a business entity registered in the Sofia City Court with decision No. 1/14.08.2007 and with its registered office and management address in Sofia 1756, 5 Lachezar Stanchev Street.
- Farmanova D.O.O., Serbia – a commercial company registered in Serbia with decision No. 20408642 on 15.04.2008 by the Business Register Agency of the city of Belgrade and with its registered office and management address – Republic of Serbia, the city of Belgrade, "Baye Pivlianina" St. No. 1;

1.1. Ownership and management of the parent company

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

The shareholding structure of the parent company as at 31 March 2023 is as follows:

	%
Donev Investments Holding AD	39.59
Telecomplex Invest AD	15.57
Ognian Ivanov Donev	8.99
Sopharma AD (treasury shares)	8.00
Other legal entities	22.06
Other individuals	5.79
	100.00

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 March 31 2024 as follows:

Ognian Donev, PhD	Chairperson
Vessela Stoeva	Deputy Chairperson
Bisera Lazarova	Member
Alexander Chaushev	Member
Ivan Badinski	Member

The parent company is represented and managed by its Executive Director Ognian Donev, PhD. Pursuant to a business management contract dated June 9, 2020, the Company's Procurator is Simeon Donev.

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	Chairman
Tsvetanka Zlateva	Member
Kristina Atanasova – Elliot	Member

1.2. Structure of the Group and principal activities

The structure of the Group includes Sopharma AD as a parent company and the subsidiaries stated below:

<i>Subsidiaries</i>	<i>31.03.2024</i> <i>Interest %</i>	<i>31.12.2023</i> <i>Interest %</i>	<i>Date of</i> <i>acquisition</i> <i>of control</i>	<i>Date of</i> <i>disposal</i> <i>of control/</i>
<i>Companies in Bulgaria</i>				
Sopharma Trading AD*	87.68	87.68	08.06.2006	
Pharmalogistica AD	89.39	89.39	15.08.2002	
Electroncommerce EOOD	100.00	100.00	09.08.2005	
Biopharm Engineering AD	-	-	10.03.2006	23.08.2023
Phyto Palauzovo AD- in liquidation	95.00	95.00	21.09.2012	
Veta Pharma AD	99.98	99.98	11.11.2016	
Sopharmacy EOOD**	87.68	87.68	19.01.2015	
Sopharmacy 2 EOOD**	87.68	87.68	17.06.2015	
Sopharmacy 3 EOOD**	87.68	87.68	02.12.2015	
Sopharmacy 4 EOOD**	87.68	87.68	29.02.2016	
Sopharmacy 5 EOOD**	87.68	87.68	01.03.2016	
Sopharmacy 6 EOOD**	87.68	87.68	03.12.2015	
Sopharmacy 7 EOOD**	87.68	87.68	15.03.2017	
Sopharmacy 8 EOOD**	87.68	87.68	27.06.2017	
Sopharmacy 9 EOOD**	87.68	87.68	11.09.2017	

Sopharmacy 10 EOOD**	87.68	87.68	11.09.2017
Sopharmacy 11 EOOD**	87.68	87.68	07.12.2017
Sopharmacy 12 EOOD**	87.68	87.68	07.12.2017
Sopharmacy 13 EOOD**	87.68	87.68	07.12.2017
Sopharmacy 14 EOOD**	87.68	87.68	07.12.2017
Sopharmacy 15 EOOD**	87.68	87.68	07.12.2017
Sopharmacy 16 EOOD**	87.68	87.68	15.05.2018
Sopharmacy 17 EOOD**	87.68	87.68	15.05.2018
Sopharmacy 18 EOOD**	87.68	87.68	28.02.2019
Sopharmacy 19 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 20 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 21 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 22 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 23 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 24 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 25 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 26 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 27 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 28 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 29 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 30 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 31 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 32 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 33 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 34 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 35 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 36 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 37 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 38 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 39 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 40 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 41 EOOD**	87.68	87.68	01.10.2020

Sopharmacy 42 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 43 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 44 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 45 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 46 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 47 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 48 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 49 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 50 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 51 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 52 EOOD **	87.68	87.68	01.10.2020
Sopharmacy 53 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 54 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 55 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 56 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 57 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 58 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 59 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 60 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 61 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 62 EOOD**	87.68	87.68	01.10.2020
Sopharmacy 63 EAD**	87.68	87.68	01.10.2020
Sopharmacy 64 AD**	87.68	87.68	01.10.2020
Sopharmacy 65 EOOD**	87.68	-	13.03.2024
Sopharmacy 66 EOOD**	87.68	-	21.02.2024
Sopharmacy 67 EOOD**	87.68	-	21.02.2024
Sopharmacy 68 EOOD**	87.68	-	21.02.2024

* *effective percentage of interest*

** *indirect interest*

<i>Subsidiaries</i>	<i>31.03.2024</i>	<i>31.12.2023</i>	<i>Date of</i>	<i>Date of</i>
<i>Companies abroad</i>	<i>Interest %</i>	<i>Interest%</i>	<i>acquisition</i>	<i>disposal</i>
			<i>of control</i>	<i>of control</i>
PAO Vitamini	100.00	100.00	18.01.2008	
Sopharma Warsaw SP. Z.O.O.	100.00	100.00	23.11.2010	
Sopharma Poland Z.O.O., Poland, in liquidation	60.00	60.00	16.10.2003	
OOO Sopharma Ukraine	100.00	100.00	07.08.2012	
TOO Sopharma Kazakhstan	100.00	100.00	06.11.2014	
Rap Pharma International OOD	-	-	14.04.2017	11.11.2022
Sopharma Trading d.o.o.**	87.25	87.25	09.08.2017	
Pharmachim EOOD	100.00	100.00	14.04.2020	
Sopharma Rus OOO	100.00	100.00	13.10.2023	

* *effective percentage of interest*

** *indirect interest*

- Sopharmacy EOOD is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy EOOD;
- Sopharmacy 2 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 2 EOOD;
- Sopharmacy 3 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 3 EOOD;
- Sopharmacy 4 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 4 EOOD;
- Sopharmacy 5 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 5 EOOD;
- Sopharmacy 6 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 6 EOOD;
- Sopharmacy 7 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 7 EOOD;
- Sopharmacy 8 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 8 EOOD;
- Sopharmacy 9 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 9 EOOD;
- Sopharmacy 10 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 10 EOOD;

- Sopharmacy 11 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 11 EOOD;
- Sopharmacy 12 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 12 EOOD;
- Sopharmacy 13 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 13 EOOD;
- Sopharmacy 14 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 14 EOOD;
- Sopharmacy 15 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 15 EOOD;
- Sopharmacy 16 EOOD is a subsidiary through Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 16 EOOD;
- Sopharmacy 17 EOOD is a subsidiary thro of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 17 EOOD;
- Sopharmacy 18 EOOD is a subsidiary through Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 18 EOOD;
- Sopharmacy 19 EOOD is a subsidiary through Sopharmacy 61 EOOD whereas the latter holds 100% of the capital of Sopharmacy 19 EOOD;
- Sopharmacy 20 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 20 EOOD;
- Sopharmacy 21 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 21 EOOD;
- Sopharmacy 22 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 22 EOOD;
- Sopharmacy 23 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 23 EOOD;
- Sopharmacy 24 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 24 EOOD;
- Sopharmacy 25 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 25 EOOD;
- Sopharmacy 26 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 26 EOOD;
- Sopharmacy 27 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 27 EOOD;
- Sopharmacy 28 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 28 EOOD;
- Sopharmacy 29 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 29 EOOD;
- Sopharmacy 30 EOOD is a subsidiary through Sopharmacy 61 EOOD whereas the latter holds 100% of the capital of Sopharmacy 30 EOOD;

- Sopharmacy 31 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 31 EOOD;
- Sopharmacy 32 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 32 EOOD;
- Sopharmacy 33 EOOD is a subsidiary through Sopharmacy 61 EOOD whereas the latter holds 100% of the capital of Sopharmacy 33 EOOD;
- Sopharmacy 34 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 34 EOOD;
- Sopharmacy 35 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 35 EOOD;
- Sopharmacy 36 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 36 EOOD;
- Sopharmacy 37 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 37 EOOD;
- Sopharmacy 38 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 38 EOOD;
- Sopharmacy 39 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 39 EOOD;
- Sopharmacy 40 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 40 EOOD;
- Sopharmacy 41 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 41 EOOD;
- Sopharmacy 42 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 42 EOOD;
- Sopharmacy 43 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 43 EOOD;
- Sopharmacy 44 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 44 EOOD;
- Sopharmacy 45 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 45 EOOD;
- Sopharmacy 46 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 46 EOOD;
- Sopharmacy 47 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 47 EOOD;
- Sopharmacy 48 EOOD is a subsidiary through Sopharmacy 61 EOOD whereas the latter holds 100% of the capital of Sopharmacy 48 EOOD;
- Sopharmacy 49 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 49 EOOD;
- Sopharmacy 50 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 50 EOOD;

- Sopharmacy 51 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 51 EOOD;
- Sopharmacy 52 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 52 EOOD;
- Sopharmacy 53 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 53 EOOD;
- Sopharmacy 54 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 54 EOOD;
- Sopharmacy 55 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 55 EOOD;
- Sopharmacy 56 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 56 EOOD;
- Sopharmacy 57 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 57 EOOD;
- Sopharmacy 58 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 58 EOOD;
- Sopharmacy 59 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 59 EOOD;
- Sopharmacy 60 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 60 EOOD;
- Sopharmacy 61 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 61 EOOD;
- Sopharmacy 62 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 62 EOOD;
- Sopharmacy 63 EAD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 63 EAD;
- Sopharmacy 64 AD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 64 AD;
- Sopharmacy 65 EOOD is a subsidiary through Sopharmacy 65 EOOD whereas the latter holds 100% of the capital of Sopharmacy 65 EOOD;
- Sopharmacy 66 EOOD is a subsidiary through Sopharmacy 66 EOOD whereas the latter holds 100% of the capital of Sopharmacy 65 EOOD;
- Sopharmacy 67 EOOD is a subsidiary through Sopharmacy 67 EOOD whereas the latter holds 100% of the capital of Sopharmacy 67 EOOD;
- Sopharmacy 68 EOOD is a subsidiary through Sopharmacy 68 EOOD whereas the latter holds 100% of the capital of Sopharmacy 68 EOOD;
- Sopharma Trading d.o.o., Serbia is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharma Trading d.o.o.;

The core business activities of the Group companies are focused on the pharmaceutical sector.

The parent company holds a permit for production/import of pharmaceuticals № BG / 0417/ 02.02.2024, issued by the Bulgarian Drug Agency (BDA).

The core business activities of the companies within the Group are as follows:

- Sopharma AD – production and trade in medicinal substances (active ingredients) and finished drug forms; research and development activities in the field of medicinal products;
- Sopharma Trading AD – trade in pharmaceutical products;
- Pharmalogistica AD – secondary packaging of pharmaceutical products and real estate leases;
- Electroncommerce EOOD – trade, transportation and packaging of radioactive materials and nuclear equipment for medicinal use, household electronics and electrical equipment;
- Phyto Palauzovo AD – in liquidation – production, harvesting, purchase, growing and trade in herbs and medicinal plants;
- Veta Pharma AD – production of medicinal, non-medicinal and other products;
- Sopharmacy EOOD – franchising, know-how, renting of property, trade and other;
- Sopharmacy 2 EOOD – Sopharmacy 5 EOOD. Sopharmacy 7 EOOD - Sopharmacy 62 EOOD, Sopharmacy 65 and Sopharmacy 68 EOOD – retail trade in medicinal products;
- Sopharmacy 6 EOOD – online and off-line retail trade in medicinal products;
- Sopharmacy 63 EAD and Sopharmacy 64 EOOD – retail trade in medicinal products, franchising and other services;
- PAO Vitamini, Ukraine – production and trade in pharmaceuticals;
- OOO Sopharma Ukraine, Ukraine – trade in pharmaceuticals and market and public opinion research;
- Sopharma Trading d.o.o. – wholesale trade in medicinal products;
- Sopharma Poland Z.O.O., Poland, in liquidation – market and public opinion research;
- Sopharma Warsaw SP. Z.O.O., Poland – wholesale trade in pharmaceutical and medicinal products and market and public opinion research;
- TOO Sopharma Kazakhstan, Kazakhstan – trade in pharmaceuticals;

- Pharmachim EOOD, Serbia – consultancy;
- Sopharma Rus OOO, Russia - wholesale trade in pharmaceutical products and market and public opinion research.

The parent company and the subsidiaries Sopharma Trading AD, Pharmalogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Phyto Palauzovo AD, Sopharmacy EOOD, Sopharmacy 62 EOOD, Sopharmacy 63 EAD and Sopharmacy 64 AD perform their activities in Bulgaria.

Sopharma Poland Z.O.O. (in liquidation) and Sopharma Warsaw SP. Z.O.O. operate in Poland; PAO Vitamini, OOO Sopharma Ukraine – in Ukraine; Sopharma Trading d.o.o. and Pharmachim EOOD – in Serbia; TOO Sopharma Kazakhstan – in Kazakhstan; Rap Pharma International OOD (until 11 November 2022) – in Moldova.

As at 31 March 2023, the interest of the Group in *joint ventures* is as follows:

- Momina Krepost AD – 37.46% interest of Sopharma AD. The principal activities of the joint venture include development, implementation and production of human and veterinary medical products. It has been a Joint venture for the Group since 10 March 2021.

As at 31 March 2023, the interest of the Group in *associates* is as follows:

- Doverie Obedinen Holding AD – 24.998% interest of Sopharma AD. The principal activities of the company include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies – legal entities.
- Sopharma Imoti REIT – 41.05% interest of Sopharma AD. The principal activities of the company include investing cash raised by issues of securities in real estate through purchase of right of ownership and other rights in rem over real estate, construction and enhancements in order to provide the real estate for management, lease and/or sale.
- Sopharma Buildings REIT – 31.68% participation of Sopharma AD. The subject of the company's activity is the investment of funds raised through the issuance of securities in real estate (real estate securitization) through the purchase of ownership rights and other real rights over real estate, renting, leasing, leasing and/or selling them.
- Farmanova D.O.O. - 25% participation of Sopharma AD. The subject of the company's activity is the production of pharmaceutical products.

As of the date of these interim consolidated financial statements, the average number of Group's personnel was 4,834 workers and employees (2023: 4,721 workers and employees).

1.3. Main indicators of the economic environment

Currency exchange rates are among the main economic indicators of the business environment that have affected the activities of the Group companies throughout the period 2022 – 2024. The relevant exchange rates are presented in the table below:

Indicator	2022	2023	2024
USD/BGN average for the year/period	1.86030	1.79134	1.80117
USD/BGN at end of the year/period	1.83371	1.76998	1.80911
PLN/BGN average for the year/period	0.41760	0.43095	0.45147
PLN/BGN at end of the year/period	0.41784	0.45070	0.45355
RSD/BGN average for the year/period	0.01665	0.01668	0.01669
RSD/BGN at end of the year/period	0.01667	0.01669	0.01670
UAH/BGN average for the year/period	0.05795	0.04945	0.04718
UAH/BGN at end of the year/period	0.05022	0.04633	0.04616
EUR/BGN average for the year/period	1.95583	1.95583	1.95583
EUR/BGN at end of the year/period	1.95583	1.95583	1.95583
KZT/BGN average for the year/period	0.00404	0.00397	0.00400
KZT/BGN at end of the year/period	0.00397	0.00389	0.00406
RUB/BGN average for the year/period	-	0.02140	0.01980
RUB/BGN at end of the year/period	-	0.01985	0.01953
MDL/BGN average for the year/period	0.09835	-	-
MDL/BGN at the end of the year/period	0.09597	-	-

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

1.4. Macroeconomic situation

The parent company and a large part of the subsidiaries in the Group carry out their activities in the conditions of inflation. The management managed to maintain a good financial condition of the companies in the Group by indexing the income and expenses within reasonable limits.

The group maintains a stable capital base and leverage ratio.

1.5. War in Ukraine - influence and effects

On 24/02/2022, a military conflict broke out between Russia and Ukraine. Subsequently, a number of countries imposed sanctions against certain individuals and legal entities in Russia, as well as against the country itself. The Russia-Ukraine conflict and related economic sanctions and other measures taken by governments around the world have a significant effect on both the local economies of individual countries and the global economy. Usually, in such conflicts, pharmaceutical products are not subject to sanctions or other restrictions in order to avoid a humanitarian crisis. For this reason, the activity of the parent company on the territory of both countries is and could be limited mainly due to reasons such as difficult logistics and restrictions on the free movement of funds.

The group has investments in two subsidiaries in Ukraine. As of the date of preparation of these consolidated financial statements, the assets of these subsidiaries are not physically affected by hostilities.

1.6. Climate matters

The group perceives the protection of the environment and the reduction of the rate of occurrence of climate change as part of its corporate social responsibility policy and develops its activity in compliance with the requirements for environmental protection. The group implements measures for: separate collection of waste, minimization, utilization and recycling of industrial and household waste; ensure appropriate training of personnel on issues related to environmental protection and pollution prevention. The group actively invests in renewable sources of electricity for its own consumption.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for preparation of the consolidated financial statements

The interim consolidated financial statements 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 effective on 1 January 2024 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 Group has adopted all new and/or revised standards and interpretations, issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which have been relevant to its activities.

The adoption of these standards and/or interpretations, applicable to entities in Bulgaria for annual reporting periods beginning on January 1, 2024 at the earliest, has not caused changes in Group's accounting policies with the exception of some new and the expansion of already introduced disclosures, without leading to other changes in the classification or measurement of individual reporting items and transactions.

The new and/or amended standards and interpretations include:

- *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements (in force for annual periods beginning on or after January 1, 2024, endorsed by EC).* These changes are aimed at the criteria for classifying liabilities as current and non-current. According to them, an entity classifies its liabilities as current or non-current depending on the rights that exist at the end of the reporting period and is not affected by the probability of whether it will exercise its right to defer settlement of the liabilities. The amendments clarify that "settlement" of liabilities means the transfer to a third party of cash, equity instruments, other assets or services. The classification does not apply to derivatives in convertible liabilities, which are themselves equity instruments. Changes are applied retrospectively. Earlier application is permitted, but simultaneously with the application of the changes in IAS 1 Presentation of financial statements regarding the classification of liabilities as current and non-current.
- *Amendments to IAS 1 Presentation of financial statements, non-current liabilities bound by restrictive conditions (effective for annual periods from January 1, 2024, adopted by the EC).*

These changes specify that only restrictive covenants that the entity is required to comply with at or before the end of the reporting period affect the entity's right to defer settlement of the relevant liabilities for at least twelve months after the reporting date and accordingly only those should be taken into account in assessing the classification of liabilities as current or non-current. These agreements affect whether the right exists at the end of the reporting period, even if compliance with the conditions is assessed afterwards (for example, a restrictive covenant based on the entity's financial position at the end of the reporting period but assessed after the end of the period). Restrictive conditions that are calculated on the basis of the financial position of the enterprise after the end of the reporting period (for example, on the basis of the financial position of the enterprise six months after the reporting date) should not be taken into account when determining the classification of liabilities and the right to postpone them. However, entities should disclose information on restrictive conditions covering an observable period within twelve months after the end of the reporting period in order to assess the risk of whether the obligations would become due. Changes are applied retrospectively. Earlier application is permitted, but simultaneously with the application of the changes in IAS 1 Presentation of financial statements regarding the classification of liabilities as current and non-current.

- *Changes in IFRS 16 Leasing – Lease obligation upon sale and leaseback (effective for annual periods from January 1, 2024, adopted by the EC).* The changes aim to further develop the requirements for the seller-lessee when measuring the lease liability in "sale-leaseback" transactions. They require that, after the commencement date of the lease (the date of delivery of the underlying asset), the seller-lessee determines "lease payments" and "revised lease payments" in a manner that does not recognize a gain or loss that relates to the right-of-use held by him. The changes do not apply to the recognition of gains and losses in connection with partial or full termination of the lease agreement. Changes are applied retrospectively. Earlier application is allowed.

As of the date of this financial statement, the following amended standards and interpretations have been issued but are not in force (and/or have not been adopted by the EC):

- *Changes in IAS 7 Statement of cash flows and IFRS 7 Financial instruments: disclosure: supplier financing arrangements (effective for annual periods from January 1, 2024, not adopted by the EC).* The changes are intended to increase the transparency of the reporting of supplier financing arrangements and to help users of financial statements assess their effect on the liabilities, cash flows and liquidity risk to which an entity is exposed by adding additional disclosures in relation to this type of arrangements. IAS 7 proposes changes to add information to assess the effects of these arrangements on liabilities and cash flows, as follows: a) order and terms of the arrangements; b) the balance sheet value

and the corresponding line from the statement of financial position of the obligations that are part of the arrangements; c) the book value and the corresponding line from the statement of financial position of the amounts that the supplier has already received from the financing provider (the financial institution); (d) the time range of payment terms for financial obligations under supplier financing arrangements and comparable terms for financial obligations not forming part of those arrangements; e) the nature and effect of non-monetary changes in the carrying amount of financial liabilities that are part of supplier financing arrangements. IFRS 7 adds requirements to disclose an assessment of the entity's exposure. The changes are applied retrospectively, with relief on non-disclosures for periods prior to the start date of the period in which the changes are first applied, and on certain quantitative disclosures relating to the start date of the period of initial application. Earlier application is allowed.

- *Changes in IAS 21 Effects of changes in exchange rates: no exchange rates (effective for annual periods from January 1, 2025, not adopted by the EC).* These changes clarify and require businesses to apply a consistent approach in determining: a) when a currency can be exchanged for another currency and when it cannot, as they introduce definitions for this. One currency can be exchanged for another when the entity can acquire the other currency within normal time limits, including normal administrative delays and a market mechanism that allows the currency exchange transaction to give rise to enforceable rights and obligations. If the entity can obtain only a minor part of the other currency at the valuation date for the specified purpose, it is considered that the currency cannot be converted into the other currency; b) what exchange rate to apply when one currency cannot be exchanged for another, indicating two mechanisms: the first is the use of an observable exchange rate - without further adjustments, an observable rate for another purpose and the first exchange rate at which the exchange can be done; the second is through the use of another evaluation technique; c) the information that the entity should disclose when one currency is not convertible into another to enable users of its financial statements to understand how this affects the entity's financial results, financial position and cash flows. Changes are applied retrospectively. Earlier application is allowed.
- *IFRS 10 (amended) – Consolidated financial statements and IAS 28 (amended) – Investments in associates and joint ventures – on sales or contributions of assets between an investor and its associates or joint ventures (with a deferred effective date subject to determination by SMSS).* These changes are aimed at addressing the accounting treatment of sales or contributions of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether or not the assets sold or the non-monetary assets contributed constitute a substantial "business" within the meaning of IFRS 3. If these assets as a whole do not meet the definition of a "business" the investor recognizes a gain or loss up to the percentage corresponding to the share of the other unrelated investors in the associate or joint venture. In cases where assets are sold or non-monetary assets are contributed that collectively constitute a "business", the

investor fully recognizes the profit or loss from the transaction. These changes will be applied prospectively. The SMMS postponed the start date of application of these changes indefinitely.

The consolidated annual financial statements of the Group have been prepared on a historical cost basis except for:

a/ property, plant and equipment, measured at revalued amount;

b/ investment property and other long-term equity investments, measured at fair value at the date of the consolidated statement of financial position.

The Bulgarian subsidiaries of the Group and the associates Doverie Obedinen Holding AD and Sopharma Imoti REIT, and the joint venture Momina Krepost AD maintain their accounting books in Bulgarian Lev (BGN), which is accepted as being their functional and presentation currency. The subsidiaries, associates and joint ventures abroad organise their accounting and reporting in accordance with the requirements of the respective local legislation: OOO Sopharma Ukraine and PAO Vitamini – the Ukrainian legislation; Sopharma Trading d.o.o. and Pharmachim EOOD – the Serbian legislation; Sopharma Poland Z.O.O. (in liquidation), Sopharma Warsaw SP. Z.O.O. – the Polish legislation and TOO Sopharma Kazakhstan – the legislation of Kazakhstan. The companies keep their accounting ledgers in the respective local currency –Ukraine Hryvnia (UAH), Serbian Dinar (RSD), Euro (EUR), Polish Zloty (PLN), Kazakhstan Tenge (KZT) and and the Russian ruble (RUB).

The data in the consolidated annual financial statements and the notes thereto are presented in BGN ‘000 unless explicitly stated otherwise, and the Bulgarian Lev has been adopted as the Group’s presentation currency. The separate financial statements of foreign companies are restated from local currencies into BGN for the purposes of the consolidated financial statements as per the Group’s policy (*Note 2.5*).

The presentation of the consolidated annual 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 consolidated financial statements.

These estimates, accruals and assumptions are based on the information, which is available as of the date of the consolidated financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant).

The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed in *Note 2.32 and Notes 14, 15, 16, 17, 18, 19, 20, 39*.

2.2. Definitions

Parent company

This is a company that has control over one or more other companies, in which it has invested. Having control means that the investor is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

The parent company is Sopharma AD, Bulgaria (*Note 1*).

Subsidiary

A subsidiary is a company, or another entity, that is controlled directly or indirectly by the parent company.

The subsidiary companies are consolidated as from the date on which the effective control over them has been acquired by the Group and are de-consolidated as from the date when the control over them ceases and is transferred outside the Group. The full consolidation method is applied for their consolidation.

The subsidiaries are presented in *Note 1.2*.

Joint venture

A joint venture is a company or another entity established by virtue of a contractual arrangement between the parent company as an investor and one or more other parties (companies) that start a common business undertaking, and on which the joint venturers (including the parent, which also has such a status) have a joint control. Joint control exists when it is contractually agreed that the strategic financial and operating decisions, relating to the joint venture, shall require mandatory unanimous consent of the joint venturers. The latter have rights to the net assets of the joint venture.

The joint venture is included in the consolidated financial statements of the Group by applying the equity method – as from the date on which the joint control has been acquired by the venturer (the parent company) and its consolidation under this method is ceased when the joint venture is transformed into a subsidiary or when the joint control is transferred from the venturer to third parties.

The joint venture is Momina Krepost AD (*Note 1.2*).

Associate

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

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

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

The associates are Doverie Obedinen Holding AD, Sopharma Properties REIT, Sopharma Buildings REIT and Farmanova OOO (*Note 1.2*).

2.3. Consolidation principles

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

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

2.3.1. Consolidation of subsidiaries

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

The shares of shareholders – third parties in the subsidiaries other than these of the shareholders of the parent company are presented separately in the consolidated statement of financial position, the consolidated statement of comprehensive income and the statement of changes in equity as 'non-controlling interest'. The non-controlling interest includes: (a) the combined share of the shareholders – third parties at the date of initial consolidation in the fair value

(deemed cost) of all identifiable assets acquired, liabilities and contingent (crystallised) liabilities of the respective subsidiaries assumed, determined (based on the share) through the proportionate method, and (b) the change in the share of these third parties in the equity of each respective subsidiary from their initial consolidation to the end of the reporting period.

2.3.2. Acquisition of subsidiaries

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

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

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

The Group applies provisional accounting for the items resulting from business combinations (acquisitions) when the initial reporting is not complete at the end of the reporting period when the business combinations was performed. This provisional accounting is adjusted in the period of measurement, or additional assets and liabilities are recognised to reflect the new information on facts and circumstances which were already present at the date of acquisition. Adjustments made in the measurement period are stated retrospectively, and the comparatives are adjusted as at the acquisition date.

2.3.3. Disposal of subsidiaries

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

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

The acquisition (purchase-and-sale) method is applied also in transactions of uniting and/or restructuring of entities under a common control with companies of the Group, provided that they represent direct acquisitions from the perspective of the parent company.

2.3.4. Transactions with non-controlling interests

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

When the Group ceases to have control, joint control and significant influence, any retained minority investment as interest in the capital of the respective entity, is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. Respectively, any amounts previously

recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of all components related to the initial investment (in a subsidiary, joint venture or associate).

2.3.5. Consolidation of associates and joint ventures

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

The post-acquisition gains or losses for the Group (through the parent company) from associates and joint ventures for the respective reporting period represent its share in the net (post-tax) financial results of their business activities for the period, which share is recognised and presented on a separate line in the consolidated statement of comprehensive income. Analogously, the Group's share in post-acquisition changes in other components of comprehensive income of associates and joint ventures is also recognised and presented as movement in the other components of comprehensive income in the consolidated statement of comprehensive income, and respectively the consolidated reserves of the Group - in the statement of changes in equity. The Group recognises its share in the losses of associates and joint ventures up to the amount of its investment, including the granted internal loans, unless it has assumed certain obligations or payments on behalf of the associate or joint venture.

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

2.4. Comparatives

In these consolidated financial statements, the Group presents comparative information for one prior year. Where necessary, comparative data is reclassified (and restated) in order to achieve comparability in view of the current year presentation changes.

2.5. Functional currency and recognition of exchange differences

The functional currency of the Group companies in Bulgaria being also presentation currency for the Group is the Bulgarian Lev. The Bulgarian Lev is fixed to the Euro, under the BNB Act, at the ratio BGN 1.95583: EUR 1.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash, 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 Bulgarian National Bank (BNB) for the last working day of the respective month. At 31 December, these amounts are presented in BGN at the closing exchange rate of BNB.

The non-monetary items in the consolidated statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate.

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

The functional currency of the companies in Poland (Sopharma Poland Z.O.O. (in liquidation) and Sopharma Warsaw SP. Z.O.O. is the Polish Zloty, of the subsidiary TOO Sopharma Kazakhstan – the Kazakhstan Tenge, of the subsidiaries in Ukraine (PAO Vitamini, OOO Sopharma Ukraine) – the Ukrainian Hryvnia, of the subsidiaries in Serbia (Sopharma Trading d.o.o., Pharmachim EOOD) – the Serbian Dinar and for the subsidiary Sopharma Rus OOO – Russian ruble

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

- (a) all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency thereto at 31 December or at the date of disposal of the company;
- (b) all income and expenses are restated to the currency of the Group at average rate of the local currency thereto for the reporting period (*Note 2.6 and Note 2.7*);
- (c) all exchange differences resulting from the restatements are recognised and presented as a separate component of equity in the consolidated statement of financial position – 'translation of foreign operations reserve', and
- (d) the exchange differences resulting from the restatement of the net investment in the companies abroad together with the loans and other currency instruments, accepted as hedge of these investments, are presented directly in equity.

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

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

2.6. Revenue

2.6.1. Recognition of revenue under contracts with customers

The Group's usual revenue is from the activities disclosed in *Note 1.2*.

The Group's revenue is recognised when control of the goods or services promised in the *contract with the customer* are 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 Group accounts for a contract with a customer only if upon its enforcement: a/ it has commercial substance 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 can be identified; d/ the payment terms can be identified; and e/ it is probable that the Group will collect the consideration to which it is entitled upon performing its performance obligations.

In assessing whether collectability of an amount of consideration is probable, the Group considers all relevant facts and circumstances of the transaction, including past experience, customary business practices, published rules and declarations made by the Group, 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 a liability (*contract liability*) in the statement of financial position, until: a/ all criteria for recognizing a contract with a customer are met; b/ the Group meets its performance obligations and has received all or substantially all of the consideration (which is non-refundable); and/or c/ when the contract is terminated and the consideration received is non-refundable.

Upon the initial assessment of its contracts with customers, the Group makes additional analysis and judgement whether two or more contracts should be combined and accounted for as a single contract, respectively whether the goods and/or services 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 and/or services which are distinct (in nature and in the context of the contract), is accounted for as a separate performance obligation.

The Group recognises revenue for each separate performance obligation on an individual contracts basis with customers, by analysing the type, term and conditions of each specific 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 party is involved in providing goods or services to a customer, the Group shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent). The Group is a principal and recognises as revenue the gross amount of consideration if it controls the specified goods and/or services prior to their transfer to the customers. If, however, the Group does not obtain control over the specified goods and/or services and its obligation is only to arrange for a third party to provide these specified goods and/or services, the Group is an agent and recognises as revenue the net amount it retains for the goods or services to be provided 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 the Group expects to be entitled, excluding amounts collected on behalf of third parties. Upon determining the transaction price, the Group 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. Based on that: a) the Group

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 Group 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 Group accounts for the contract modification as if it were a part of the existing contract (cumulative catch-up 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

Sales of finished goods

Wholesales of medicinal substances and medicinal forms are made in the country and abroad, both based on the Group's specification (technology) and based on the customer's specification (technology).

Sales of finished goods based on the Group's specifications

Upon sales of finished goods based on the Group'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 possession of the customer thereof, when the customer has the ability to direct the use of, and by obtaining substantially all of the remaining benefits from, the finished goods.

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

Sales of products based on the customer's specifications

Regarding the finished goods based on the customer's specifications, the Group has a legal and contractual restriction to direct 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 basis). For this purpose, it is determined if the Group 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 Group's default (legally enforceable right to payment).

If in the specific contract the Group has a legally enforceable right to payment, revenue is recognised *over time*, and the *output method* is used to measure the progress (stage of completion) of the contract. This method has been determined to be the most appropriate to measure the progress, as the results achieved best depicts the Group's activity towards complete satisfaction of the performance obligations. The 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 Group does not have a legally enforceable right to payment, revenue is recognised *at a point in time*, when control of the finished goods sold is transferred to the customer: when the finished goods are provided to the customer and it has physical possession thereon (for domestic sales) and in accordance with the contract's applicable INCOTERMS (for export sales).

Sales of pharmaceuticals and medical goods

Sales of pharmaceuticals and medical goods by the Group's distributor companies are to customers which are pharmacies, hospitals and wholesalers (wholesale) in the country and abroad.

Wholesale

Upon wholesale, the control of the goods sold is assessed to be transferred to the customer at a *point in time*. This is usually upon handover of the goods and the physical possession of the customer thereon, when the customer has the ability to direct the use of, and by obtaining substantially all of the remaining benefits from, the goods.

Retail sales

Upon retail sales, control of the goods sold is transferred to the customer upon their handover to the customer.

Customer loyalty programmes

The Group maintains a loyalty programme whereby customers holding a club card may accumulate points for each purchase. The points accumulated may be exchanged for products participating in the programme without payment by the customer within a period set in the programme conditions. The Group management has determined that the loyalty points grant customers with a material right they cannot obtain without concluding a contract for the initial purchase. Therefore, the promise for future discounts through giving points is a separate performance obligation. The transaction price is allocated between the goods and/services already sold and the points which the Group expects to be claimed and compensated, based on the respective standalone selling prices. The standalone selling price of a point reflects the discount that the customer would get, adjusted for the probability of the points being claimed and compensated, determined based on information about the points used (past experience). The stand-alone selling price of the goods and/or services sold is determined based on the price list effective at the sale date. Payables under the loyalty programme are stated as a contract liability in the consolidated statement of financial position. The Group recognises revenue when the loyalty points are claimed or when their validity expires. The Group reviews its estimate of the points to be claimed and compensated at the end of each reporting period, and if necessary, adjusts the payable (contract liability) recognised, respectively the recognised revenue, through cumulative catch-up adjustment.

Medical equipment (appliances) sales

The sales of medical equipment usually include delivery, installation, commissioning, operation training and warranty service, and the selling price is total for the respective contract and/or equipment. Revenue from the sales of medical equipment is recognised on an individual contracts basis, and for each contract it is assessed whether the promised goods and/or services are separate performance obligations. This assessment is made based on the timing of transfer of control over the medical equipment and the interrelated components of the contract.

Usually, control over the medical equipment (appliances) is transferred to the customer *at a point in time*, when the equipment is delivered at the agreed location and the physical possession is handed over to the customer. At this point, the Group transfers all risks and rewards related to the medical equipment, subject of the contract with the customer, and the customer has the ability to direct the use of the asset.

The distinct installation, commissioning and training services which are sold together with the equipment are usually rendered following its delivery and are relatively independent. These services are accounted for as separate performance obligations, since a/ they may be performed by another supplier; b/

in most cases the services are short-term and not specific in nature; c/ they do not modify the equipment delivered and are not interrelated and integrated therewith. Therefore, it has been determined that in this case, control over the installation, commissioning and training services is transferred *over the period of their rendering*, since they are performed on an asset controlled by the customer, and the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs the services. The revenue from the services performed is recognised *over time*, and to measure contract progress (stage of completion), the *output method* is used. This method has been determined to be the most appropriate to measure progress, as it is most relevant in depicting the scheme of transfer of control and satisfying performance obligations, respectively most accurately reflects the level of all outstanding activities.

Warranty service

The warranty service usually includes a standard warranty clause that guarantees that the medical equipment sold meets the contractual specifications and quality standards for the usual warranty period (usually 12 months) and is covered by the producer.

Transportation of the finished goods and goods sold

Usually, upon export sales, the Group is responsible for transporting the goods to the location agreed, and the transportation is organised by the Group, 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 finished goods sold is accounted for as a *separate performance obligation*, since the transportation can be provided by another supplier (i.e. the customer may use the finished goods sold with readily available resources), and the transportation service does not modify or amend the finished goods sold in any way. In this case, the consideration the Group expects to be entitled to (the transaction price) is allocated between the separate performance obligations based on their stand-alone selling prices. The stand-alone selling price of the finished goods sold is determined based on the price list effective at the transaction's date, and the stand-alone selling price of the transportation service is determined as an approximation by using the cost plus margin approach.

To render the transportation service, the Group uses transportation companies – subcontractors. The Group 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 is primarily responsible for rendering the services and for the acceptability of the services to the customer (i.e. the Group 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 has the discretion in establishing the price for the services independently, without interference by the customer.

Revenue from the sales of transportation services are recognised *over time*, since it is not necessary for the work performed to date to be repeated if another party has to perform the remaining work, therefore, the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs the services. In order to measure the contract progress (stage of completion), the *input method* is used. This method has been determined as the most appropriate to measure the progress since it best depicts the Group'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 Group's efforts (costs incurred) are directly related to the transfer of the service to the customer. The progress is measured *based on the costs incurred to the total costs planned for contract performance*.

Bill-and-hold arrangements

In certain cases, upon wholesale, the goods sold are physically possessed by the Group. The Group has analysed these arrangements and has determined that although the customer does not have physical possession over the goods, usually they have control thereon, since: a/ the hold is done at the customer's request; b/ the goods can be identified separately as belonging to the customer; c/ the goods are available for immediate shipment at the customer's request; d/ the Group does not have the ability to direct the use of the goods or direct them to another customer and e/ a separate consideration is agreed for the storage service. In these cases, the delivery of goods and the storage service rendering are accounted for as separate performance obligations. Respectively: a/ control over the goods sold is transferred to the customer at a point in time, when the goods can be identified separately as belonging to the customer, and the customer has legal title thereon; b/ the obligation to perform the storage services is satisfied over time, while this service is being provided.

Sales of services

The services provided by the Group include: storage services (pre-distribution) for customer goods, subscription extra-warranty servicing of medical equipment, medical representation etc. Service revenue is presented as other income in the statement of comprehensive income, in as far as it does not constitute a portion of the Group's primary business activities.

Extra-warranty (maintenance) service

A Group's company provides extra-warranty services under subscription. The extra-warranty service contracts are usually concluded for a period of 2 years. The consideration is fixed and is determined on an annual basis and/or for the entire term of the contract, allocated on a monthly basis. The services performed are usually invoiced on a monthly basis, and the payment period is 30 to 60 days from the date of issuing an invoice to the assignor.

The extra-warranty service comprises various tasks/activities of continuous and/or repetitive nature, which are distinct and form part of an integrated service. They constitute a series of distinct services and are therefore a *single performance obligation*, since: a) the integrated maintenance service covers numerous distinct time periods (usually one month); b) the services are substantially the same, since the customer obtains continuous benefit therefrom for each separate time period (each month) even if the tasks performed differ in their nature and quantity; c) control is transferred over time, since the customer simultaneously receives and consumes the benefits provided by the Group as the Group performs the service and there is no need for another company to substantially repeat the work done by the Group company at a given date if this other company has to perform the remaining portion of the performance obligation.

Revenue is recognised *over time*, and the progress (stage of completion) is measured based on the time passed (on a linear basis – monthly). This method has been determined as the most appropriate one to measure the progress, since services are rendered on a monthly basis and form part of a series, therefore, it best depicts the Group’s activity regarding transfer of control and satisfaction of performance obligations.

Other services

For the other services performed by the Group, control is transferred to the customer over the period of their rendering, since the customer simultaneously receives and consumes the benefits provided by the Group. The revenue from other sales is recognised over time by measuring the degree of performance of the Group’s obligations (stage of completion). In order to measure the progress (stage of completion), the Group applies the output method based on the quantity of services provided.

2.6.4. Refund obligations under contracts with customers

The refund obligation includes the Group’s obligation to reimburse a portion or all of the consideration received (or subject to receipt) from the customer under contracts with a right of return and/or for the expected retrospective discounts, rebates and discount volumes. The obligation is initially measured at the amount which the Group does not expect to be entitled to and which it expects to reimburse to the customer. At the end of each reporting period, the Group reassesses 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.

2.6.5. Transaction price and payment terms

Finished goods, pharmaceutical and medical produces

The selling prices of the products (finished goods and goods) sold by the Group are usually fixed, based on a common and/or customer-specific price list, and are individually determined for each product. Upon determining the transaction price, the Group also takes into account the various forms of variable consideration and other amounts (consideration) owed to the customer.

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 applicable for the Group 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 Group determines the customer's estimated turnover by using the most probable outcome method. The discounts granted are offset against the amounts due by the customer.
- *Price discounts from the common price list:* under the pricing policy adopted, upon wholesale, the selling price from the common price list is reduced by the discount usually applicable for the respective product. The discount applicable for each customer is determined based on the turnover agreed for a certain period as compared to the total potential turnover with the customer. These price discounts are granted to the customer upon each sale and/or at the end of each month. If the customer fails to meet the turnover targets and does not compensate the difference over the next period, the Group is entitled to claiming *default compensation* set as a percentage of the turnover default.
- *Price protection:* With regards to domestic sales, the Group is obliged, upon price reduction imposed by a state regulatory body, to compensate the buyer and/or its customers for finished goods 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 Group'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 replacement goods or by refund of the amount paid by the customer. Upon determining the compensations for hidden flaws due at the end of the reporting period, the Group 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 Group, 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 Group's experience shows that historically, contract terms are complied with, and the Group has not recorded liabilities for payment of compensations.

- *Right of return:* Some sales contracts allow the customer to return the goods within a given period. The Group accounts for the right of return as a form of variable consideration and recognises revenue from sales only at the amount of consideration it is reasonably assured it is entitled to (considering the goods expected to be returned). Upon determining what proportion of the goods sold is expected to be returned, the Group uses historical data about goods returned by customers over the past year.
- *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 Group'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) as part of the transaction price is determined for each individual contract and is subject to reassessment 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 experience and is recognised as adjustment of the transaction price only and respectively the revenue (as an increase or a decrease) 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 Group 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 Group uses the most likely outcome 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 liabilities in the statement of financial position.

Consideration due to the customer

The consideration due to the customer includes amounts that the Group companies pay and/or have promised to pay to the customer. It is included as a component of the transaction price, unless the payment to the customer is in return to distinct goods and/or services which the customer transfers and/or grants to the Group companies and the fair value of these distinct goods and/or services does not exceed the amount of consideration paid by the Group. If the latter is higher than the fair value of the goods and/or service received by the customer, only the excess is included within the transaction price. The

consideration paid to the customer is recognised as contract assets and are included within the transaction price, *respectively in a decrease of revenue from contracts with customers*, upon transfer of control over the goods sold or when the Group promises to pay, *whichever occurs later*.

Significant financing component

Upon wholesales the usual credit period is 30 to 270 days following the delivery of goods. In certain sales transactions, the payments can be partially in advance and the amounts paid in advance are refunded if the contract is terminated. The advance payments collected from customers are presented in the statement of financial position as contract liabilities.

As a result of the financial condition and credit risk of some of the customers which are hospitals, the customer pays for the goods delivered with a significant delay compared to the payment period agreed, and in some cases, the period between the date of transfer of control over the goods and the date of payment by the customer may reach and exceed 2 years.

The Group has determined that contracts with such customers do not contain a financing component, since: a) the payment term agreed with the customer does not differ from the usual payment term for such transactions, and upon concluding the sales contract, no explicit deferred payment scheme has been agreed; b) the selling prices do not include a financing component (interest). They are legislatively regulated and do not significantly deviate from the selling price of the same goods and/or services upon sales to other customers and/or upon sale to the same customer by another distributor of medicinal products and medical consumables. The differences (if any) result from variable consideration granted in the form of discounts, rather than from the agreed and/or expected payment period; c) the delay in payments results from the financial condition and credit risk of some of the customers which are hospitals; d) upon delay by the customers, the Group charges an interest (penalty) at the amount of the statutory interest, as from the date of delay; e) the financing element arises on the date of delay starting from which the Group charges a delay interest; f) the customer (hospital) pays the interest charged (penalties) and they reflect the time value of money.

The interest income recognised due to not paying within the agreed payment period by customers, which are hospitals, are presented as finance income in the statement of comprehensive income (*Note 10*).

Upon retail sales, payment is due at the time of sale. Exceptions are retail sales in Bulgaria for which NHIF reimburses a portion of the price. This portion of the selling price is paid by NHIF within 60 days.

Medical equipment (Appliances)

The agreed selling price related to contracts for sale of medical equipment (appliances) is usually aggregated for the specific contract and/or equipment is aggregate. As a result, the consideration which the Group expects to be entitled is allocated to each separate performance obligation on the basis of stand-alone selling prices determined approximately by using the cost plus a margin approach.

Significant financing component

Upon the sale of medical equipment, the payment terms for the transaction price are determined individually for each contract. The customer usually makes an advance payment of up to 20% of the contracted consideration, and the remaining part is paid after performance of the contractual obligations, at a later date or in accordance to a payment schedule. Deferred payment is usually made after 30 days to 2 years.

For contracts with deferred payment of over 1 year, the Group has determined that a *financing component exists which is significant for revenue*. In *these cases* the transaction price is adjusted so as to reflect the impact of the time value of money by using a discount rate reflecting the credit characteristics of the counterparty receiving the financing (the customer). The payments collected in advance from the customer are presented in the statement of financial position as contract liabilities, and the interest charged – as finance income in the statement of comprehensive income (*Notes 10 and 39*).

For contracts where the period for transferring the control of the promised goods and services to the customer and the payment is up to 12 months, the Group does not adjust the transaction price to reflect the effect of the financing component.

Sales of services

The selling prices of services are usually fixed. The consideration upon extra-warranty (maintenance) service is fixed and determined on an annually and/or for the entire duration of the contract, and it is allocated equally on a monthly basis.

The services performed are most often invoiced monthly, and the payment period is within 30 to 60 days from the date of the invoice issuance to the customer.

2.6.6. Contract costs

The Group states as contract costs the following:

- the incremental 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, enhance the generation of resources to be used in the contract fulfilment and the Group expects to recover them over a period longer than twelve months (*costs of fulfilling contracts with customers*).

The Group in its primary business activity does not incur direct or specific costs to obtain contracts with customers and costs of fulfilling such contracts, which would have not been incurred if the contracts had not been obtained.

2.6.7. Contract balances

Trade receivables and contract assets

A contract asset is the Group's right to receive consideration in exchange for goods or services that it has transferred to a customer but is not unconditional (receivable accrual). If by transferring the goods and/or providing the services the Group performs its obligation before the customer to pay the respective consideration and/or before the payment is due, a contract asset is recognised for the consideration earned (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

The Group presents as a contract liability 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 presented in other receivables and payables in the statement of financial position. They are included in current assets when their maturity is within 12 months or within the Group's usual operating cycle, and the others are stated as non-current. Assets and liabilities from a single contract are presented on a net basis 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 in accordance with the requirements of IFRS 9 *Financial Instruments*.

Right of return assets from contracts with customers

The right of return is the Group's right to receive sold goods which are expected to be returned by the customers (*Note 21*). This right is initially measured at the carrying amount of the goods which are expected to be returned, less any expected costs to recover the goods, including any potential decreases in the value of products returned, including due to passage of their expiry date. At the end of each reporting period the Group reassess the measurement of right of return assets recognised related to changes in expectations about the volume of goods returned and other decreases in their value.

Right of return assets are presented in inventories in the statement of financial position and are separately disclosed in the notes to the annual financial statements.

2.7. Expenses

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

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

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

2.8. Finance income and costs

2.8.1. Finance income

Finance income is included in the statement of comprehensive income (within profit or loss for the year) when earned and comprises: interest income on granted loans and term deposits, interest income on receivables under special contracts, interest income on past due receivables, income/gains from deals with investments in available-for-sale securities at fair value through profit or loss, or through other comprehensive income, including dividends, net gains on exchange differences under loans in foreign currency, income from debt settlement transactions, gain on fair value measurement of available-for-sale investments in securities at fair value through profit or loss, or through other comprehensive income, gains from fair value measurement of investments in the acquisition of a subsidiary performed in stages.

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)

2.8.2. Finance costs

Finance costs are included in the consolidated statement of comprehensive income (within profit or loss for the year) when incurred separately from finance costs and comprise: interest expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, leases, and impairment losses on granted loans.

2.9. Property, plant and equipment

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

Initial acquisition

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

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

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

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

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

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

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- installations – 5-30 years;
- machinery and equipment – 6-35 years;
- computers and mobile devices – 2-5 years;

- motor vehicles – 5-17 years;
- servers and systems – 4-18 years;
- furniture and fixtures – 3-13 years;
- other tangible assets – 3-12 years.
- for biological assets (carriers) – 10- 12 years

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

Impairment of assets

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might 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 consolidated statement of comprehensive income (within profit or loss for the year) unless a revaluation reserve has been set aside for the respective asset. Then the impairment is treated as a decrease in this reserve (through other comprehensive income) unless it exceeds its amount and the excess is included as expense in the consolidated statement of comprehensive income (within profit or loss for the year).

Gains and losses on disposal

Tangible fixed assets are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' group are determined as the difference between the consideration that the Group expects to be entitled to (sales revenue) and the carrying amount of the asset on the date when the recipient obtains control thereon. They are stated net under 'other operating income/(losses), net' on the face of the consolidated 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 consolidated statement of changes in equity.

2.10. Biological assets

Biological assets are measured at fair value less the estimated costs to sell.

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

2.11. Intangible assets

Goodwill

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

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

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

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

Impairment losses on goodwill are presented in the consolidated statement of comprehensive income (within profit or loss for the year) in the item 'impairment of non-current assets'.

Other intangible assets

Intangible assets are stated in the consolidated financial statements at acquisition cost less accumulated amortisation and any impairment losses in value. The intangible assets include mainly intellectual property rights, software and complex intangible assets (licences and pharmacy chain locations).

The Group applies the straight-line amortisation method for the intangible assets with determined useful life from 2 to 18 years.

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

Intangible assets are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale 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 that the Group expects to be entitled to (sales revenue) and the carrying amount of the asset on the date when the recipient obtains control thereon. They are stated net within "other operating income/(losses) on the face of the statement of comprehensive income (within profit or loss for the year).

2.12. Investment property

Investment property is property lastingly held by the Group to earn rentals and/or for capital appreciation. They are presented in the consolidated statement of financial position at fair value (*Note 16*). Gains or losses arising from a change in the fair value of investment property are recognised in the

consolidated statement of comprehensive income (within profit or loss for the year) as 'other operating income/(losses), net' for the period in which they arise. The income gained on investment property is presented in the same item of the consolidated statement of comprehensive income.

Investment properties are derecognised from the consolidated statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal. Gains or losses arising from the disposal of investment property are determined as the difference between the consideration that the Group expects to be entitled to (sales revenue) and the carrying amount of the asset on the date when the recipient obtains control thereon. They are presented under 'other operating income/(losses), net' in the consolidated statement of comprehensive income (within profit or loss for the year).

Transfers to, or from, the group of 'investment property' is made only when there is a change in the functional designation and the use of a particular property. In case of a transfer from 'investment property' to 'owner-occupied property', the asset is recognised in the new group at deemed cost, which is its fair value at the date of transfer.

To the opposite, in case of a transfer from 'owner-occupied property' to 'investment property' the asset is measured at fair value at the date of transfer while the difference to its carrying amount is presented as a component of the consolidated statement of comprehensive income (within other comprehensive income) and within 'revaluation reserve – property, plant and equipment' in the statement of changes in equity.

2.13. Investments in associates and joint ventures

Long-term investments, representing shares in associates and joint ventures, are presented in the consolidated financial statements under the equity method – value that includes the acquisition cost being the fair value of the consideration paid, including the direct costs on investment acquisition adjusted by investor's share of profits or losses and respectively the other reserves of the joint ventures and associates after the dates of their acquisition.

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

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

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

Investments in associates and joint ventures 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 significant influence over or joint control of the economic benefits from the investments is being lost. The income from their sale is presented in 'gain/(loss) from associates and joint ventures' of the consolidated statement of comprehensive income (within profit or loss for the year).

2.14. Other long-term equity investments

The other long-term equity investments are 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 cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition (*Note 2.25*).

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

Subsequent measurement

The equity investments held by the Group are subsequently measured at fair value (*Note 2.31*) 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 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 weighted-average price method is used, applying the price determined at the end of the month when the derecognition is performed.

2.15. Inventories

Inventories are valued in the consolidated financial statements as follows:

- raw materials, consumables and goods – at the lower of acquisition 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.

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

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

- for production of medicinal products – the standard rate of man-hours of directly engaged staff in the production of the particular unit;
- for production of infusion solutions – quantity of manufactured finished products;
- for production of plastic medical disposable products – planned cost of manufactured finished products.

The parent 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 stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the consolidated financial statements.

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 of completion and the estimated costs necessary to make the sale.

2.16. Trade receivables

Trade receivables constitute the Group'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 value determined by applying a discount rate which is equal to the interest rate specific to the customer-debtor.

Subsequent measurement

The Group 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 expected credit losses. (*Note 2.25 Financial instruments*).

Impairment

The Group 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 23*).

2.17. Interest-bearing loans and other financial resources granted

All loans and other financial resources granted are initially recognised at acquisition cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, net of the direct costs related to these loans and granted resources. After the initial recognition, the interest-bearing loans and other granted resources are subsequently measured and presented in the consolidated financial statements at amortised cost by applying the effective interest rate method. They are classified in that category as the business model of the Group is solely 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 consolidated statement of comprehensive income (within profit or loss for the year) as 'finance income' (interest) or 'finance costs' throughout the amortisation period, or when the receivables are settled, derecognised or reduced.

Interest 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 Group has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period (*Note 2.25*).

2.18. Cash and cash equivalents

Cash includes cash on hand and cash at 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 Group under its agreements with the banks over the deposits' terms (*Note 2.25*).

Subsequent measurement

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

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 investment purpose loans received 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 on overdue trade receivables is reported as receipts from customer in cash flows from 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 on the line 'taxes paid' while that paid on assets purchased from local suppliers is presented as 'cash paid to suppliers' in the cash flows from operating activities as far as it represents a part of the operating flows of the Group companies and is recovered therewith in the respective period (month).
- 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.

2.19. Trade and other payables

Trade and other current amounts payable are carried to the consolidated financial statements at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value based on their present value at a discount rate applicable for the Group, and subsequently – at amortised cost (*Note 2.25*).

2.20. Interest-bearing loans and other borrowings

All loans and other borrowings are initially recognised in the consolidated financial statements at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured and presented in the consolidated financial statements at amortised cost by applying the effective interest rate method.

Amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement, associated with these loans. Gains and losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortisation period, or when the liabilities are derecognised or reduced (*Note 2.25*).

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 ones unless (and for the relevant portion thereof) the Group has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period.

2.21. Capitalisation of borrowing costs

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

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

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

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

2.22. Leases

At the lease inception, which is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease, the Group performs analysis and assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessee

The Group applies a uniform model for recognition and measurement of all leases, except for short-term leases (leases with a lease term of 12 months or less and which do not contain a purchase option) and leases of low value assets (such as tablets, personal computers, telephones, office equipment, etc.).

The Group has not elected to apply the practical expedient of IFRS 16, which allows a lessee, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

a) right-of-use assets

The Group recognises right-of-use assets in the statement of financial position at the commencement date of the lease, i.e. the date on which a lessor makes an underlying asset available for use by the lessee.

Right-of-use assets are presented in the statement of financial position at acquisition cost, less the accumulated depreciation, impairment losses and adjustments resulting from remeasurement and adjustments to the lease liability. The acquisition cost includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group in its capacity as lessee;

- costs for dismantling and removing the underlying asset, restoring the site on which the asset is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The Group depreciates the right-of-use asset to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If ownership of the asset is transferred under the lease by the end of the lease term, the Group shall depreciate it to the end of the useful life. Depreciation shall be charged from the commencement date.

The depreciation terms by types of underlying assets are as follows:

- land – 3 to 15 years
- buildings – 2 to 10 years
- for facilities and transmission devices – 2 to 10 years
- motor vehicles – 1 to 5 years
- furniture and fixtures – 2 to 4 years
- for business inventory – 2 to 4 years

The Group has elected to apply the acquisition cost model for all of its right-of-use assets.

Right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*, by applying an impairment determination and reporting policy analogous to the one for property, plant, and equipment. The recoverable amount of right-of-use assets is the higher of the fair value less disposal costs, or value in use. To determine assets' value in use, future cash flows are discounted to their present amount, by applying a pre-tax discount rate reflecting the market conditions and time value of money and the risks inherent to the respective asset. Impairment losses are determined as the difference between the recoverable and carrying amount (when the recoverable amount is lower than the carrying amount) and are carried to the statement of comprehensive income as impairment of non-current assets.

Right-of-use assets are presented within property, plant and equipment in the consolidated statement of financial position, and depreciation thereof – within depreciation and amortization expenses in the consolidated statement of comprehensive income.

b) lease liabilities

The Group companies recognise lease liabilities at the commencement date, measured at the present value of the lease payments that are not paid at this date. They include:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the exercise price of the purchase options, if the lessee is reasonably certain to exercise this option;
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease;
- the amount expected to be payable by the Group to lessor under residual value guarantees.

Variable lease payments that do not depend on an index or a rate, but are dependent on performance or use of the underlying asset, are not included in the measurement of the lease liability and the right-of-use asset. They are recognised as current expenses in the period when the event or circumstance resulting in these payments arises.

Lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Company's incremental borrowing rate, which it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments (instalments) contain a certain ratio of the finance cost (interest) and the respective portion of the lease liability (principal). Interest costs for the lease are presented in the statement of comprehensive income (within profit or loss for the year) for the lease period on a periodic basis, so as to achieve constant periodic rate of interest on the remaining balance of the lease liability, and are presented as "finance costs".

Lease liabilities are stated on separate lines in the consolidated statement of financial position: Lease liabilities – non-current portion of liabilities, current portion of lease liabilities – for the current portion of liabilities, non-current payables to related parties – non-current portion, and payables to related parties – current portion.

The Group subsequently measures the lease liability by:

- increasing the carrying amount to reflect the interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications of the lease;
- residual value guarantees are reviewed and if necessary, adjusted, at the end of each reporting period.

The Group remeasures the lease liabilities (and makes corresponding adjustments to the related right-of-use assets) whenever:

- the lease term has changes or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a residual value guarantee, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged (original) discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

c) Short-term leases and leases of low-value assets

The Group has elected the exemption from recognition of right-of-use assets and lease liabilities under IFRS 16 for short-term leases of buildings and motor vehicles and for low-value assets constituting printers and other equipment which the Group considers to be at a low value when new and are independently used at the Group without dependence or close relation to other assets.

Payments related to short-term leases and leases of low-value assets are recognised directly as current expenses in the statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

Lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease; all other leases are classified as operating leases.

Operating lease

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

The underlying asset which is subject to the lease shall remain and be stated within the Group's consolidated statement of financial position.

Finance lease

The Group recognises and presents the assets held under finance leases in its statement of financial position as lease receivables whose amount is equal to the net investment in the lease.

The Group recognises finance income (lease interest) over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. Interest income is included in the statement of comprehensive income (within profit and loss for the year) as finance income based on the Effective Interest Method.

When the contract contains both lease and non-lease components, the Company applies IFRS 15 to allocate the total consideration between the separate components.

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

The employment and social security relations with workers and employees of the Group are based on the Labour Code and the provisions of the effective social security legislation for the companies operating in *Bulgaria*, the Polish Code – for the companies in *Poland*, the employment legislation and the Collective Labour Agreement – for the companies in *Ukraine*, the employment legislation, the General Collective Labour Agreement and the effective Employment Rules and Regulations – for the companies in *Serbia*, and the Social Security Law of the Republic of Kazakhstan – for the company in *Kazakhstan*.

Short-term benefits

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

Tantieme

In accordance with the Group companies' Articles of Association and upon a decision of the General Meeting of Shareholders, the Executive Director and/or other management are entitled to one-off remuneration (tantieme), usually determined as a percentage of the Company's net profit. These remuneration expenses are recognised in the statement of comprehensive income (within profit or loss) within "employment benefit expenses". 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'.

Bonus schemes

The amounts payable to staff, including key management members, under different bonus schemes applied in the Group, are usually accrued for the reporting year to which the achieved results refer. These remuneration expenses are recognised in the statement of comprehensive income (within profit or loss) within "employment benefit expenses" and in the statement of financial position as "payables to personnel" and are usually short-term.

Long-term retirement benefits

Defined contribution plans

For Bulgaria

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

The rates of the social security and health insurance contributions are regulated in the Social Security Code (SSC), as well as 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 SSC.

These pension plans, applied by the Group 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.

For companies abroad

The rates of the social security contributions in Poland are approved by the Law on the National Social Security System, in Ukraine – Law on Pension Provision, in Serbia – the Law on Labour in the Republic of Serbia, and in Kazakhstan – Law of the Republic of Kazakhstan on Social Security Obligations. The social security contributions are being apportioned between an employer and employees at ratios regulated by the relevant local laws.

There is no established and functioning private voluntary social security scheme at the Group. The contributions, payable by the companies of the Group 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 Group in its capacity as an employer in Bulgaria is obliged to pay an indemnity at the amount of the respective employee's gross remuneration for two months upon termination of employment relations due to retirement. If the employee has acquired within the company of the same Group ten years' service over the last twenty years, the indemnity amounts to the gross remuneration for six months. In their nature these are unfunded defined benefit schemes.

In accordance with the Labour Law in *Serbia*, the employer of the Serbian company is obliged to pay to its personnel on coming of age for retirement an indemnity at the amount of at least three average salaries calculated at the time of payment. In accordance with the employment legislation in *Ukraine* and the Collective labour Agreement of the Ukrainian company, the employer is obliged to pay to its personnel on coming of age for retirement an indemnity, which depending on the length of service with the entity may vary between UAH 250 and UAH 500 (between BGN 12 and BGN 25). Also, the company in Ukraine accrues social indemnities, which are paid prior to retirement of employees due to specific labour conditions. According to the employment legislation in Poland, the employer is obliged to pay upon retirement one gross monthly salary.

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 are presented in the consolidated statement of financial position, and respectively, the change in their value – in the consolidated 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 'remeasurement of defined benefit pension plans'. Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments.

At the date of issue of the consolidated financial statements, the companies of the Group assign certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations upon termination of employment relations due to retirement. 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 the respective country where the company itself operates.

Share based payments

Share based payments to employees and others providing similar services are measured at fair value of the equity instruments as of the grant date. Form remunerations related to share based payments with conditions which have not vested rights the fair value as of the grant date is measured in a way to reflect these conditions and not to account for differences between expected and actual results.

Termination benefits

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

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

2.24. Share capital and reserves

Sopharma AD (the parent company) is a joint-stock company and is obliged to register with the Commercial Register a specified ***share capital***, which should serve as a security for the creditors for execution of their receivables. Shareholders are liable for the obligations of the Group 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 parent company reports its share capital at the nominal value of the shares registered in the court.

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

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

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

The ***treasury shares*** are presented in the consolidated statement of financial position at acquisition cost (cost) and Group's equity is decreased by their gross purchase price. Gains or losses on sales of treasury shares are at the expense of retained earnings and are carried directly to Group's equity in the 'retained earnings' component.

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

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

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

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

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

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).

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

The other equity components constitute a reserve on warrants issued, which is formed by the difference between the issue value of the registered warrants and the transaction costs related to the issue. The warrants are issued and registered at a fixed price, denominated in BGN, and grant future rights to conversion into a fixed number of ordinary, dematerialised, registered, freely transferrable parent company shares, and are therefore classified as an equity instrument.

2.25. 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

At initial recognition, financial assets are classified in three groups, as subsequently measured: at amortised cost; at fair value through other comprehensive income, and at fair value through profit or loss.

The Group 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 rule are trade receivables that do not contain a significant financing component – they are measured based on the transaction price determined under IFRS 15 *Revenue from contracts with customers* (Note 2.6.2).

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The classification of financial assets at their initial recognition depends on the characteristics of the contractual cash flows of the respective financial asset and on the Group's business model for management thereof. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result solely from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For the purpose of subsequent measurement, 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 Group 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 Group'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 and Note 25*).

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

At initial recognition, the Group companies may make an irrevocable election 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 an individual level, on an instrument by instrument basis.

At derecognition of these assets, gains and losses from measurement to fair value, recognised in other comprehensive income, are not transferred to (recycled through) profit or loss. Dividends are recognised as “financial income” in the statement of comprehensive income (within profit or loss for the year) when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated as financial instruments at fair value through other comprehensive income are not subject to impairment test.

The Group has made an irrevocable election to classify into this category minority equity investments which it holds in the long term and in relation to its business interests in these entities. Significant part of these instruments are listed. They are presented in the consolidated statement of financial position within the „Other long-term equity investments” item.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance (impairment provision) for expected credit losses for all debt instruments which are not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms

To calculate the expected credit losses for *loans to related and third parties, incl. cash and cash equivalents at banks*, the Group applies the general impairment approach defined by IFRS 9. Under this approach, the Group applies a 3-stage impairment model based on changes at 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 at its initial recognition/acquisition is classified in Stage 1. These are loans granted to debtors with low risk of default, classified as performing and not overdue.

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 that are possible in 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 classified in 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 Group'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 points of the policy and set of criteria are disclosed in *Note 41*.

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 Group's management has performed the respective analyses, based on which it has determined a set of criteria for default events. 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 contracted amounts due, including in consideration of all loan collaterals and credit enhancements held by the Group. The main points of the policy and set of criteria are disclosed in *Note 41*.

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

In order to calculate expected credit losses for *trade receivables and contract assets* the Group 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 Group 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 41*).

Derecognition

Impaired financial assets are derecognised when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition, classification and measurement

The Group's financial liabilities include trade and other payables, loans and other borrowings, including bank overdrafts.

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

The Group's financial liabilities include trade and other payables, loans and borrowings, including bank overdrafts, derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Classification groups

Loans and borrowing

After initial recognition, the Group 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 included 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 under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting (netting) of financial instruments

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

This requirement results from the concept of the economic substance of the Group’s relations with a given counterparty stating that in the simultaneous presence of these two requirements the expected actual future cash flow and rewards for the Group is the net flow, i.e. the net amount reflects the Group’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 Group’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 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”.

2.26. *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument

Financial guarantee contracts are initially recognised as a financial liability at fair value determined based on the present value of the difference in cash flows between contract payments required under the debt instrument, and payments that would be required without a guarantee payable to a third party upon commitment.

The subsequent measurement of financial guarantee liabilities is 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 provision for expected credit losses on financial guarantee contracts is included in the consolidated statement of financial position as ‘other current liabilities’.

2.27. *Income taxes*

Current income taxes of the Bulgarian companies of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for 2024 is 10% (2023: 10%).

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

<i>Country</i>	<i>Tax rate</i>	
	<i>2023</i>	<i>2022</i>
Ukraine	18%	18%
Serbia	15%	15%
Poland	19%	19%
Kazakhstan	20%	20%
Russia	20%	20%

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

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those originating from recognition of an asset or liability, which has not affected the accounting and the taxable profit/(loss) 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 directly credited or charged as other components of comprehensive income or as an equity item in the consolidated 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 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 under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

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

2.28. Government grants

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

Government grants (from municipal, government and international institutions, 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 Group and that the latter has complied and complies with the associated thereto requirements.

A government grant that compensates the Group 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 usually proportionately to the amount of the recognised depreciation charge.

2.29. Net earnings or losses per share

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

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.

This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

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

Diluted net earnings or losses per share are calculated dilutive potential ordinary shares (warrants) have been issued by the parent.

Upon the calculation of diluted net earnings or loss per share for the period attributable to the parent, adjustment is made to the net profit or loss for the period which is subject to distribution to shareholders – holders of ordinary shares of the parent, and the average weighted number of shares in circulation, with the effect of all dilutive potential ordinary shares, comprising warrants.

The potential ordinary shares are aimed to offset the decrease in the net earnings per share when the conversion thereof would increase the net earnings per share or would decrease loss per share from continuing operations.

The profit or loss for the period which is subject to distribution to shareholders – holders of ordinary shares in the parent is increased by adding the amount of dividends and post-tax interest recognized in the period in relation to the dilutive potential ordinary shares, and is adjusted for any other changes to profit or loss that might arise as a result of the conversion of dilutive potential ordinary shares.

The options and warrants have a decreasing value only when the average market price of ordinary shares for the period exceeds the price upon exercising the options or warrants (i.e. they generate profit). Earnings per share reported in prior periods are not adjusted retrospectively to account for changes in the prices of ordinary shares.

Diluted net earnings or losses per share is calculated based on the calculated base net earnings or loss per share, adjusted as follows:

(a) the profit or loss for the period attributable to holders of ordinary shares of the parent, is increased by the amount of post-tax dividend and interest recognised in the period in relation to the dilutive potential ordinary shares, and is adjusted for all other changes in profit and loss that might arise as a result of the conversion of dilutive potential ordinary shares; and

(b) The average weighted number of ordinary shares in circulation in the period is increased by adding the average weighted number of the additional ordinary shares that would be in circulation upon conversion of all dilutive potential ordinary shares.

2.30. Segment reporting

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

Group's operating segments are currently monitored and directed separately as each of them represents a separate business area that offers various products and bears various business risks and rewards. The operating segments that the Group's management monitors, measures and controls risks and return therefrom are defined based on the main business operations performed on pharmaceutical products, namely: production and trade.

Information by operating segments

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

Segment assets, liabilities, respective revenue, expenses and results include those that are and can be directly attributable to the respective segment as well as such that can be allocated on a reasonable basis. 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, cost of goods sold; (c) for assets - property, plant and equipment and inventories, receivables from related parties, trade receivables and cash and cash equivalents; (d) for liabilities - payables to personnel and for social security, payables to related parties, trade payables and bank loans for direct financing (long-term and short-term).

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

Inter-segment transfers: segment revenue, expenses and results, include internal transfers between business segments. These transfers are accounted for at competitive market prices charged to third party customers of similar goods, and are eliminated at consolidated financial statements level.

Investments in joint ventures and associates, accounted for by using the equity method, are excluded from segment assets and segment revenue. They are stated within non-allocated assets, and revenue therefrom is presented within the item “gains/(losses) from joint ventures and associates, net”.

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

Additionally, the Group discloses information about important customers when the amount of revenue realised from the respective client exceeds 10% of the total amount of Group's consolidated operating revenue.

2.31. Fair value measurement

Some of Group's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. These include: (a) on a recurring (annual) basis – *other long-term equity investments, investment property, bank loans granted and received and loans to/from third parties, certain trade and other receivables and payables, receivables and payables under finance leases, etc.* (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 Group companies must have an access.

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 Group 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 direct 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 consolidated 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 consolidated financial statements on a recurring basis, the Group determines at the date of the consolidated financial statement 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.

Internal rules and procedures for measuring the fair value of various types of assets and liabilities have been developed centrally in the parent company. For the purpose, a specifically designated individual, subordinated to the Finance Director of the Group, organised the performance of the overall valuation process and also coordinates and observes the work of the external appraisers.

The Group uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: *other long-term equity investments* Level 2 and Level 3, *investment properties – Level 1*, *property, plant and equipment – Level 2*. 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 the Finance Director and/or Chief Accountant, Executive Director and the Board of Directors of the respective company and the Finance Director of the Group.

In accordance with Group accounting policy, at the end of each reporting period the specifically designated individual, engaged with measurements, performs a general analysis of collected in advance information about the movement in the values of assets and liabilities of the Group companies 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 of the assessment of the fair value measurement procedure are presented to the audit committee and to the independent auditors of the respective companies as well as to the Finance Director and the independent auditors of the Group.

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

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

Revenue from contracts with customers

Upon revenue recognition and preparation of the consolidated 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 recorded.

The key judgements and assumptions that materially impact the amount and term for recognition of revenue from contracts with customers, including the timing, transfer of the control of the promised finished goods, goods and/or services, the estimation of variable consideration for returned assets and volume rebates, are disclosed in *Note 2.6.1*.

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.

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

The measurement of expected credit losses for financial assets stated at amortised cost (loans granted, trade receivables and contract 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 Group'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 41*).

Regarding trade receivables, including from related parties

The Group 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 Group companies' receivables and the movement of receivables by delay groups. Usually, historical data is used for 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 Group's historical credit closes and the forecast economic conditions may deviate from actual collection rates in the future.

Regarding loans and guarantees granted:

The Group has adopted the general approach for calculating impairment based expected credit losses of the loans granted, pursuant to IFRS 9. For this purpose, the Group 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 Group's expectation for loss amount upon exposure default over the next 12 months.

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 Group'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 Group's expectations for the loss amount of the non-performing credit-impaired exposure throughout its lifetime.

A granted loan 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 Group applies the same model with respect to expected credit losses from guarantees granted and certain individual receivables.

Cash

To calculate expected credit losses for cash and cash equivalents at banks, the Group 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 and/or insured amounts in the respective bank accounts is taken into consideration.

Leasing contracts

The application of IFRS 16 requires the company's management to make various judgments, estimates and assumptions that affect the reported right-of-use assets and lease liabilities. The main key judgments affect the determination of an appropriate discount rate and the determination of the term of each lease, including whether it is sufficiently certain that the options to extend / terminate the term of the contract will be exercised. As a result of the uncertainty regarding these assumptions and estimates, it is possible that material adjustments may occur in the carrying amount of the affected assets and liabilities in the future and the respective reported expenses and income.

Recognition of tax assets

Upon recognition of deferred tax assets, the Group's management assesses the probability of future reversal of individual temporary differences and the abilities of each Group's company to generate sufficient profit to compensate such reversal. With respect to subsidiaries which have continued to state losses over the last few years, the Group's management has identified as at the date of issuance of the consolidated financial statement significant uncertainty about whether and to what extent these companies would be able to generate sufficient taxable profit within the period designated under the respective local tax legislation on tax losses carry forward. .

Inventories

Normal capacity

Group'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 Group.

Impairment

At the end of each financial year, the Group companies review 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 Group companies impair these inventories to net realisable value.

Revaluation of property, plant and equipment

As at December 31 2021, a thorough review was performed of the changes which have occurred in the fair value of the Group companies' non-current tangible assets, as well as of the physical and technical condition thereof, operation means and residual useful lives. Respectively, remeasurement was carried out, since at this date the five-year period for remeasurement adopted in accordance with the policy expires. The review and remeasurement were performed with the professional support of independent licensed appraisers.

The management has performed detailed analysis of the licensed appraisers' reports, incl. the sensitivity tests. As a result, it has stated revaluation, and has recognized new revaluation reserve at the amount of BGN 9,466 thousand, net of impairment and deferred tax (*Note 14*) and deferred tax and has stated current impairment expense at the amount of BGN 9,779 thousand. In addition, a current expense for impairment was stated at the amount of BGN 697 thousand of property, plant and equipment in process of acquisition.

In 2024, there is no impairment charge on property, plant and equipment (2023: none).

Actuarial calculations

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

Cash pool

In 2021 a cash pool scheme was introduced at Sopharma Trading Group for the purpose of more effective short-term management of the group’s cash flows by gathering the bank balances of domestic subsidiaries within a single bank account. Participants’ balances are transferred on a daily basis to a main bank account managed by the cash pool leader – the subsidiary Sopharma Trading AD.

Litigation provisions

With regard to the pending litigations against companies of the Group, the management of respective companies have judged, jointly with their lawyers, that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, no provisions for payables under litigations have been included in the interim consolidated statement of financial position as at March 31, 2024 (December 31, 2023: none).

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Group revenue from contracts with customers includes:

	<i>1 January – 31 March 2024 BGN'000</i>	<i>1 January – 31 March 2023 BGN'000</i>
Revenue from sales of goods	435,013	387,274
Revenue from sales of finished products	74,463	79,930
Total	509,476	467,204

Contract balances are as follows:

31.3.2024 **31.12.2023**

	BGN '000	BGN '000
Receivables under contracts with customers – third parties, net of impairment (<i>Note 22</i>)	278,535	233,979
Receivables under contracts with customers – related parties, net of impairment (<i>Note 23</i>)	2,040	2,072
Contract liabilities under contracts with customers – third parties (<i>Note 39</i>)	2,988	3,274

Contract liabilities at March 31, 2024 include advance payments received for the delivery of medical equipment, at the amount of BGN 2,923 thousand (31 December 2023: BGN 3,261 thousand) and for delivery of medicinal and medical products – BGN 65 thousand (31 December 2023: BGN 13 thousand).

The change in contract liabilities for the period from January 1, to March 31, 2024 is as follows:

	31.3.2024	31.12.2023
	BGN'000	BGN'000
Balance at 1 January (<i>Note 39</i>)	<u>3,274</u>	<u>2,664</u>
Revenue stated, which was recognised as contract liabilities, incl.:		
- <i>Advance payments received</i>	(1,680)	(2,512)
Payments from clients (excluding those recognised as revenue in the period)	1,394	3,122
Balance at 31 March/ 31 December	<u><u>2,988</u></u>	<u><u>3,274</u></u>

The reimbursement obligations as at March 31, 2024 amount to BGN 10,928 thousand (31 December 2023: BGN 9,942 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 39*).

4. OTHER OPERATING INCOME AND LOSSES

	1 January – 31 March	1 January – 31 March
	2024	2023
	BGN'000	BGN'000
<i>Other operating income and losses, net</i> include:		

Services rendered	3,767	1,909
Rentals	175	196
Government grants	153	197
Gain on sale of fixed assets	114	110
Interest on current accounts	86	60
Profit from sale of materials	70	9
Social activities and events	14	13
Losses on exchange differences under trade receivables and payables and current accounts	(4)	(79)
Written-off liabilities and reversed provisions	-	5
Other	180	241
Total	4,555	2,661

The services rendered include:

	<i>1 January – 31 March 2024</i>	<i>1 January – 31 March 2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Development services	2,040	560
Fees to National Health Insurance Institute	687	463
Advertising and marketing	512	287
Pre-distribution income	130	153
Transport services	78	39
Subscription technical service	70	106
Gamma irradiation	61	76
Lab analyses	55	68
Secondary packaging	-	65
Other	134	92
Total	3,767	1,909

5. MATERIALS AND CONSUMABLES USED

	<i>1 January – 31 March 2004</i>	<i>1 January – 31 March 2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Basic materials	19,965	14,462
Spare parts, laboratory and technical materials	2,319	2,028
Electric energy	1,912	2,403
Heating	1,215	2,143
Fuels and lubricating materials	991	1,039
Advertising materials	510	571
Stationery	273	298
Work clothing and PPE	241	288
Auxiliary materials	220	239
Assets below materiality threshold	136	45
Water	116	111
Samples	54	38
Depreciation of materials	7	-
Other	15	28
Total	27,974	23,693

Expenses on basic materials include:

	<i>1 January – 31 March 2024</i>	<i>1 January – 31 March 2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Substances	9,302	6,469
Packaging materials	3,582	3,000
Liquid and solid chemicals	3,510	2,164
Sanitary-hygienic and dressing materials	941	742
Ampoules	835	150
Foil	769	227

Vials	708	521
Tubes	183	212
Polypropylene, polyethylene, polystyrene	71	148
Herbs	49	778
Other	15	51
Total	19,965	14,462

6. HIRED SERVICES EXPENSE

<i>Hired services expense</i> includes:	<i>1 January – 31 March 2024</i>	<i>1 January – 31 March 2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Advertising	10,635	7,348
Manufacturing	1,695	1,774
Consulting services	1,456	1,155
Rentals and utilities	1,175	964
Buildings and equipment maintenance	1,003	1,019
Communications	967	844
Subscription fees	879	1,257
Bank and regulatory charges	872	718
Forwarding and transportation services	834	1,186
Security	578	501
Local taxes and charges	531	527
Insurance	405	314
Commissions	201	359
Vehicle repair	181	218
Other	1,907	1,412
Total	23,319	19,596

7. EMPLOYEE BENEFITS EXPENSE

	<i>1 January – 31 March 2024 BGN'000</i>	<i>1 January – 31 March 2023 BGN'000</i>
Current wages and salaries	36,416	31,806
Social security contributions	6,466	5,516
Social benefits and payments	1,960	1,711
Accruals for unused paid leaves	1,741	1,362
Accrued amounts for vacation insurance	338	266
Accruals for long-term retirement benefits to personnel (<i>Note 29</i>)	120	120
Retirement benefits	10	-
Total	47,051	40,781

8. OTHER OPERATING EXPENSES

	<i>1 January – 31 March 2024 BGN'000</i>	<i>1 January – 31 March 2023 BGN'000</i>
Entertainment allowances	598	347
Business trips	573	399
Scrappage and shortage of goods	452	380
Impairment of goods, finished products and work in progress	(230)	(153)
Scrappage of finished products and work in process	220	23
Donations	179	162
Unrecognised tax credit	68	62
Fines and penalties to suppliers	67	34
Trainings	39	57
Receivables written-off	19	3

Net change in the allowance for impairment of credit losses on receivables, incl. from related parties (Note 9)	17	(54)
Payments to the budget for taxes and interest on taxes	14	42
Scrappage of non-current assets	3	33
Other	283	260
Total	2,302	1,595

9. IMPAIRMENT OF ASSETS

	<i>1 January – 31 March 2024</i>	<i>1 January – 31 March 2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
<i>Impairment of credit losses from receivables, including from related parties</i>	22	6
<i>Reversed impairment of credit losses from receivables, including from related parties</i>	(5)	(60)
Net change in allowance for impairment of credit losses on receivables, incl. from related parties (Note 8)	17	(54)
Recovered impairment of goods, finished products and works in process (Note 8)	(230)	(153)
Impairment of materials (Appendix No. 5)	7	-
Total	(206)	(207)

10. FINANCE INCOME

<i>Finance income</i> includes:	<i>1 January – 31 March 2024</i>	<i>1 January – 31 March 2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Interest income on loans granted	583	688
Interest income on past due trade receivables	327	129
Interest income on bank deposits	90	-
Net gain from exchange differences from receivable on transactions in securities	78	-

Interest income on cession agreements	32	31
Interest income on special agreements	22	31
Net gain from exchange differences on foreign currency loans and leases	1	-
Total	1,133	879

11. FINANCE COSTS

<i>Finance costs</i> include:	<i>1 January – 31 March 2024</i>	<i>1 January – 31 March 2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Interest expense on loans received	2,353	1,339
Net change in the allowance for impairment of credit losses on receivables under business loans granted	530	462
Interest expense on leases	527	404
Bank fees and charges on loans and guarantees	331	353
Expense for other interest	30	67
Expenses related to the payment of dividends	21	-
Interest expense on factoring agreements	7	16
Net loss from exchange differences on receivables from securities transactions	-	71
Net loss on exchange differences from loans denominated in foreign currencies and leases	-	18
Total	3,799	2,730

12. GAINS/LOSSES FROM ASSOCIATES AND JOINT VENTURES

	<i>1 January – 31 March 2024</i>	<i>1 January – 31 March 2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Gains from associates, net	4,651	7,136
(Losses)/gains from joint ventures, net	(6)	(144)
	<u>4,645</u>	<u>6,992</u>

The gains from associates include:

	<i>1 January – 31 March</i>	<i>1 January – 31 March</i>
	<i>2024</i>	<i>2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Group's share in the current profit of associates	4,651	7,136
Total	<u>4,651</u>	<u>7,136</u>

The (losses)/gains from joint ventures, net include:

	<i>1 January – 31 March</i>	<i>1 January – 31 March</i>
	<i>2024</i>	<i>2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Effect of transactions with Group companies	(6)	(21)
Group's share in the current profit/(loss) of joint venture	-	(123)
Total	<u>(6)</u>	<u>(144)</u>

13. OTHER COMPREHENSIVE INCOME

Other components of comprehensive income include:

	Items of other comprehensive income attributable to the Group		Items of other comprehensive income attributable to non-controlling interests		Total items of other comprehensive income	
	<i>1 January – 31 March 2024 BGN '000</i>	<i>1 January – 31 March 2023 BGN '000</i>	<i>1 January – 31 March 2024 BGN '000</i>	<i>1 January – 31 March 2023 BGN '000</i>	<i>1 January – 31 March 2024 BGN '000</i>	<i>1 January – 31 March 2023 BGN '000</i>
<i>Items that will not be reclassified to profit or loss</i>						
Net change in the fair value of equity investments measured at fair value through other comprehensive income	(1,036)	(1,957)	-	-	(1,036)	(1,957)
<i>Items that may be reclassified to profit or loss</i>						
Foreign exchange differences from restatement of foreign operations	(132)	(409)	-	-	(132)	(409)
Portion of other comprehensive income of associates	1,814	1,743	-	-	1,814	1,743
Other comprehensive income for the year	646	(623)	-	-	646	(623)

14. 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>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>

	<i>BGN'00</i> <i>0</i>	<i>BGN'0</i> <i>00</i>	<i>BGN'00</i> <i>0</i>	<i>BGN'00</i> <i>0</i>	<i>BGN'0</i> <i>00</i>	<i>BGN'000</i>	<i>BGN'00</i> <i>0</i>	<i>BGN'00</i> <i>0</i>	<i>BGN'00</i> <i>0</i>	<i>BGN'00</i> <i>0</i>
<i>Book value</i>										
Balance at 1 January	333,564	333,813	283,505	279,086	57,435	53,508	7,075	5,513	681,579	671,920
Acquired	7,510	17,695	1,208	5,769	1,256	9,324	3,902	13,592	13,876	46,380
Effect from revaluation	-	-	-	20	-	13	-	-	-	33
Effects of Currency recalculation	(3)	(312)	(19)	(470)	27	(115)	(2)	(6)	3	(903)
Disposals	(1,489)	(21,215)	(510)	(7,861)	(538)	(5,864)	(263)	(330)	(2,800)	(35,270)
Impairment	-	-	-	(34)	-	-	-	-	-	(34)
Transfer to property, plant and equipment	566	3,937	1,466	7,102	55	655	(2,087)	(11,694)	-	-
Transfer from/to investment properties	-	(354)	-	(107)	-	(86)	-	-	-	(547)
Balance at 31 March/31 December	340,148	333,564	285,650	283,505	58,235	57,435	8,625	7,075	692,658	681,579
Accumulated depreciation and impairment										
Balance at 1 January	107,600	89,957	181,817	172,578	34,538	32,978	-	-	323,955	295,513
Depreciation charge for the year	5,706	21,871	3,609	16,710	1,707	7,150	-	-	11,022	45,731
Impairment	-	1,726	-	130	-	-	-	-	-	1,856
Effects from translation of foreign currency	1	(113)	(14)	(275)	9	(91)	-	-	(4)	(479)
Written-off depreciation	(543)	(5,637)	(470)	(7,239)	(538)	(5,427)	-	-	(1,551)	(18,303)

Transfer from/to investment properties	-	(204)	-	(87)	-	(72)	-	-	-	(363)
Balance at 31 March/31 December	<u>112,764</u>	<u>107,600</u>	<u>184,942</u>	<u>181,817</u>	<u>35,716</u>	<u>34,538</u>	<u>-</u>	<u>-</u>	<u>333,422</u>	<u>323,955</u>
Carrying amount at 31 March/ 31 December	<u>227,384</u>	<u>225,964</u>	<u>100,708</u>	<u>101,688</u>	<u>22,519</u>	<u>22,897</u>	<u>8,625</u>	<u>7,075</u>	<u>359,236</u>	<u>357,624</u>
Carrying amount at 1 January	<u>225,964</u>	<u>243,856</u>	<u>101,688</u>	<u>106,508</u>	<u>22,897</u>	<u>20,530</u>	<u>7,075</u>	<u>5,513</u>	<u>357,624</u>	<u>376,407</u>

As at March 31, 2024, the tangible fixed assets of the Group within “land and buildings” include: land amounting to BGN 51,218 thousand (31 December 2023: BGN 51,219 thousand) and buildings of carrying amount BGN 176,166 thousand (31 December 2023: BGN 174,745 thousand).

Tangible fixed assets in progress as at March 31, include:

- expenses on new buildings construction – BGN 1,141 thousand (31 December 2023: BGN 1,116 thousand);
- buildings reconstruction – BGN 1,517 thousand (31 December 2023: BGN 1,741 thousand);
- supply of equipment – BGN – 351 thousand (31 December 2023: BGN 355 thousand);
- advances granted – BGN 4,915 thousand (31 December 2023: BGN 3,842 thousand);
- other – BGN 701 thousand (31 December 2023: BGN 21 thousand).

As at 31.03.2024, the Group has provided long-term tangible assets to related parties with a book value of BGN 72 thousand for lease. (31.12.2023: BGN 72 thousand). Fixed tangible assets with a book value of BGN 1,152,000 were also leased to third parties. (31.12.2023: BGN 1,172 thousand).

As at 31.03.2024, Property, machinery and equipment include assets with the right to use with a balance sheet value, respectively, in the Land and buildings group - BGN 79,167 thousand. (31.12.2023: BGN 76,608 thousand), in the Machinery, equipment and equipment group – BGN 963 thousand. (31.12.2023: BGN 1,002 thousand), in the Others group – BGN 8,783 thousand. (31.12.2023: BGN 9,071 thousand). The right-of-use assets are disclosed in detail in *Note 30*.

Other data

As at 31.03.2024, there are encumbrances on the Group's fixed tangible assets in connection with loans received (*Notes No. 27 and No. 33*), as follows:

- Land and buildings with a balance sheet value of BGN 20,851 thousand, respectively. and BGN 45,866 thousand. (31.12.2023: BGN 27,474 thousand and BGN 54,121 thousand);
- Pledges of equipment, means of transport and inventory – BGN 22,012 thousand. (31.12.2023: BGN 22,686 thousand);

Periodical revaluation to fair value

Revaluation of property, plant and equipment was performed as at December 31, 2021 with the assistance of an independent certified appraiser for the purpose of determining the fair value of the assets in accordance with the requirements of IFRS 13 and IAS 16.

During this revaluation, the following main approaches and valuation methods were applied to measure the fair value of the different types of tangible assets:

- ‘market approach’ and ‘market comparables’ approach – for regulated land plots and agricultural land for which an actual market exists, there are market comparables and transactions therewith and there is basis for comparison – the fair value adopted is the market value determined using the comparative method;
- ‘cost approach’ through ‘amortised recoverable amount’ method and ‘method based on the cost to create or replace the asset’ – for specialized buildings, machinery, equipment, facilities and other assets for which there is no actual market and comparable sales of comparable assets – the fair value adopted is the amortised recoverable amount based on the indexed historical value of the asset and based on current costs to create or replace the asset.
- ‘income approach’ through ‘capitalized income on use/production of biological assets’ – for permanent yellow acacia crops in fruit-bearing stage.

The effects of remeasurement as at 31 December 2021 are as follows:

- Measurement to fair value as at December 31, 2021, carried to the statement of comprehensive income (within profit or loss for the year) at the amount of BGN 10,476 thousand, incl. 697 thousand for property, plant and equipment in process.
- Measurement to fair value carried to the statement of comprehensive income (within other comprehensive income) at the amount of BGN 10,616 thousand, incl. effect of measurement to fair value in a joint venture (*Note 13*)

15. INTANGIBLE ASSETS

<i>Goodwill</i>		<i>Software</i>		<i>Intellectual property rights</i>		<i>Assets in progress</i>		<i>Total</i>	
<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>
<i>BGN'00</i>	<i>BGN'0</i>	<i>BGN'0</i>	<i>BGN'0</i>	<i>BGN'00</i>	<i>BGN'0</i>	<i>BGN'0</i>	<i>BGN'0</i>	<i>BGN'0</i>	<i>BGN'0</i>
<i>0</i>	<i>00</i>	<i>00</i>	<i>00</i>	<i>0</i>	<i>00</i>	<i>00</i>	<i>00</i>	<i>00</i>	<i>00</i>

Book value

Balance at 1 January	30,928	31,011	41,720	36,983	74,241	60,793	4,256	2,757	151,145	131,544
Acquired	654	-	11	3,790	2,672	12,402	1,212	3,230	4,549	19,422
Effects from translation of foreign currency	(4)	(83)	9	(9)	81	565	-	-	86	473
Transfer	-	-	39	1,177	392	495	(431)	(1,672)	-	-
Disposals	-	-	-	(221)	(64)	(14)	(6)	(59)	(70)	(294)
Balance at 31 March/31 December	<u>31,578</u>	<u>30,928</u>	<u>41,779</u>	<u>41,720</u>	<u>77,322</u>	<u>74,241</u>	<u>5,031</u>	<u>4,256</u>	<u>155,710</u>	<u>151,145</u>
Balance at 1 January	27,489	27,489	22,721	19,052	39,667	33,330	-	-	89,877	79,871
Amortisation charge for the year	-	-	1,002	3,901	1,913	6,332	-	-	2,915	10,233
Effects from translation of foreign currency	-	-	8	(11)	6	19	-	-	14	8
Amortisation written-off	-	-	-	(221)	(21)	(14)	-	-	(21)	(235)
Balance at 31 March/31 December	<u>27,489</u>	<u>27,489</u>	<u>23,731</u>	<u>22,721</u>	<u>41,565</u>	<u>39,667</u>	<u>-</u>	<u>-</u>	<u>92,785</u>	<u>89,877</u>
Carrying amount at 31 March/31 December	<u><u>4,089</u></u>	<u><u>3,439</u></u>	<u><u>18,048</u></u>	<u><u>18,999</u></u>	<u><u>35,757</u></u>	<u><u>34,574</u></u>	<u><u>5,031</u></u>	<u><u>4,256</u></u>	<u><u>62,925</u></u>	<u><u>61,268</u></u>
Carrying amount at 1 January	<u><u>3,439</u></u>	<u><u>3,522</u></u>	<u><u>18,999</u></u>	<u><u>17,931</u></u>	<u><u>34,574</u></u>	<u><u>27,463</u></u>	<u><u>4,256</u></u>	<u><u>2,757</u></u>	<u><u>61,268</u></u>	<u><u>51,673</u></u>

The costs of acquisition of long-term intangible assets as at March 31 include:

- costs for acquiring licenses and permits for the use of medicinal products – BGN 1,041 thousand. (31.12.2023: BGN 1,153 thousand);
- costs for the acquisition of software products - BGN 3,785 thousand. (31.12.2023: BGN 2,717 thousand);
- granted advances – BGN 107 thousand. (31.12.2023: BGN 107 thousand);
- costs for the acquisition of copyright - BGN 5,000. (31.12.2023: BGN 162 thousand);
- others – BGN 93 thousand. (31.12.2023: BGN 117 thousand);

As of 31.03.2024, there are established encumbrances in connection with loans received from the Group on software products with a book value of BGN 2,268 thousand. (31.12.2023: BGN 2,385 thousand) (*Notes No. 27 and No. 33*).

The rights on intellectual property include products of development activities related to medicinal substances (active ingredients) and dosage forms, acquired patents and trademarks and complex intangible assets (licences and pharmacy chain locations).

Within the total intellectual property owned by the Group the largest share belongs to internally created trademarks, which have not been capitalised in the consolidated statement of financial position.

These trademarks grant exceptional rights on the names of pharmaceuticals while those with biggest relative share in the sales of the Group are: Carsil, Tempalgin, Broncholitin, Tabex, Analgin, Tribestan, Vicetin, Sydnopharm, Antistenocardin, Spasmalgon, Softensif, Chlofadon, Chlofasolin, Sofafailin, Sopral, Vasopren, Buscolisin, Nivalin, Maraslavin, Dimex, Allergosan, Aminational.

The Group holds a patent for production of dosage forms containing Ranitidin.

The intangible assets acquired through business combinations mainly in Serbia, include the exclusive contracts with counterparts, licences and a distribution network.

Goodwill impairment

The management of the Group performed the necessary procedures for the mandatory test for impairment of the goodwill, recognised in the consolidated statement of financial position, on the acquisition of a subsidiary. For the purpose, each individual company was accepted as a 'cash-generating unit'.

The (pre-tax) projected cash flows were based on the financial budgets, developed by the management of the respective companies and of the Group as a whole, that covered 3 to 5-year period as well as other medium-term and long-term plans and intents for the development and restructuring of the activities within the Group. The recoverable amount of each cash generating unit was determined on the basis of the 'value in use'.

The key assumptions used in the calculations had been determined specifically for each goodwill bearing company, treated as a separate cash-generating unit, and in line with the characteristic features of its operations, the business environment and risks.

The tests and judgments of Group's management for impairment of recognised goodwill were made through the prism of its projections and intents as to the future economic benefits, expected by the Group from its subsidiaries including through the use of their internally created trademarks, commercial and industrial experience and the generated thereby and expected for the future volumes of revenue, ensuring

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position in the Bulgarian and international markets (development and retaining), the expectations for future sales and restructuring of the activities, etc.

As a result of the analyses performed the Group management, no goodwill impairment was recognized as of March 31, 2024 (31 December 2023: none).

16. INVESTMENT PROPERTY

	31.03.2024	31.12.2023
	BGN '000	BGN '000
Balance at 1 January	<u>11,198</u>	<u>10,568</u>
Transfer of property, machinery and equipment (<i>Note 14</i>)	-	184
Net gain from adjustment to fair value through profit or loss (<i>Note 4</i>)	-	446
Balance at 31 March/31 December	<u><u>11,198</u></u>	<u><u>11,198</u></u>

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

Group of assets	31.03.2024	31.12.2023
	BGN '000	BGN '000
Warehouse premises	5,313	5,313
Production buildings	2,915	2,915
Offices	2,272	2,272
Social objects	<u>513</u>	513
Retail objects	<u>185</u>	<u>185</u>
Total	<u><u>11,198</u></u>	<u><u>11,198</u></u>

*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 investment property remeasurement to fair value is recurring and is due to the application of the fair value model under IAS 40. It is performed regularly at the end of each reporting period. Fair value is determined with the assistance of independent certified appraisers.

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

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	<i>Warehouse premises</i>	<i>Offices</i>	<i>Production buildings</i>	<i>Social objects</i>	<i>Retail objects</i>	<i>Total</i>
Balance at 1 January 2023	5,139	2,199	2,720	510	-	10,568
Remeasurement to fair value through profit or loss – unrealised	174	73	195	3	1	446
Transfer from/to property, machinery and equipment (Note 14)	-	-	-	-	184	184
Balance at 31 December 2023	5,313	2,272	2,915	513	185	11,198
Balance at 31 March 2024	5,313	2,272	2,915	513	185	11,198

Valuation techniques and significant unobservable inputs

The table below shows a description of the valuation techniques, used in measuring the fair value of all groups of Level 2 investment properties as well as the used significant unobservable inputs:

Groups of assets (Level 2)	Valuation approaches and techniques	Significant unobservable inputs
Warehouse premises	<i>a. Income approach</i> Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term to entrance into rental deals
Production buildings	<i>b. Cost approach</i> Valuation technique: Method of replacement costs – depreciated recoverable amount (ancillary supportive valuation technique)	Adjusted prices for construction of identical properties and purchase prices of machinery and equipment, similar to those attached
Offices	<i>a. Income approach</i> Valuation technique: Method of capitalised rental income as application of discounted cash flows (main valuation technique)	a. Weighted rate of return b. Term to entrance into rental deals
Social objects	<i>b. Market approach</i> Valuation technique: Market multiples method (supportive valuation technique)	Comparability adjustments

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	<i>31.03.2024</i>	<i>31.12.2023</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Investments in associates	237,890	231,292
Total	237,890	231,292

The movement of the investments in associates is presented below:

	<i>31.03.2024</i>	<i>31.12.2023</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	231,292	162,678
Share in the current profit for the period	4,651	22,386
Share in other comprehensive income	1,814	4,893
Acquisition of shares	133	27,933
Transfer from other long-term capital investments	-	15,463
Dividends	-	(1,488)
Sale of shares	-	(573)
Balance at 31 March/31 December	237,890	231,292

The movement of investments in joint ventures is presented below:

	<i>31.3.2024</i>	<i>31.12.2023</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	-	166
Current (loss) share for the period	-	(166)
Balance at 31 March / 31 December	-	-

18. OTHER LONG-TERM EQUITY INVESTMENTS

Other long-term equity investments include shares in the following companies:

	<i>Country</i>	<i>31.03.2024</i>	<i>Interest</i>	<i>31.12.2023</i>	<i>Interest</i>
		<i>BGN '000</i>	<i>%</i>	<i>BGN '000</i>	<i>%</i>
Traded securities					
Achieve Life Sciences Inc. – USA	USA	8,774	3.19	13	0.01
Lavena AD	Bulgaria	2,574	13.14	3,638	13.14
MFG Invest AD	Bulgaria	148	0.46	148	0.46
Chimimport AD	Bulgaria	-	-	11	0.01
		11,496		3,810	

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Non-traded securities					
Balkanpharma Razgrad AD	Bulgaria	70	0.33	70	0.33
Imventure 1 KDA	Bulgaria	50	1.36	50	1.36
Other		12	-	12	-
		132		132	

As at 31.03.2024, long-term capital investments in the amount of BGN 12 thousand are presented as "other". (31.12.2023: BGN 12 thousand), representing small minority participations of the Group in the capital of a total of three companies (31.12.2023: three companies).

The fair value per share at March 31, 2023 and 31 December 2023 by companies is as follows:

	<i>Number of shares</i>	<i>Fair value per share</i>	<i>31.03.2023</i>	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>31.12.2023</i>
			<i>4</i>			<i>3</i>
			<i>BGN '000</i>			<i>BGN '000</i>
Equity investments						
Achieve Life Sciences Inc. – USA	1,092,308	8.03	8,774	1,796	7.52	13
Lavena AD	1,303,390	1.97	2,574	1,303,390	2.79	3,638
MFG Invest AD	50,000	2.96	148	50,000	2.96	148
Chimimport AD	6	0.70	-	16,656	0.66	11
Total			11,496			3,810

The table below presents the Group's other long-term capital investments by fair value levels in the interim consolidated statement of financial position:

Equity investments	Fair value	(Level 1)	(Level 2)
	31.03.2023		
	BGN'000	BGN'000	BGN'000
Achieve Life Sciences Inc. – USA	9,019	9,019	-
Lavena AD	2,574	-	2,574
MFG Invest AD	148	148	-
Total	11,741	9,167	2,574

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<i>Equity investments</i>	<i>Fair value</i>		
	<i>(Level 1)</i>		<i>(Level 2)</i>
	31.12.2023		
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Lavena AD	3,638	-	3,638
MFG Invest AD	148	148	-
Achieve Life Sciences Inc. - USA	13	13	-
Chimimport AD	11	11	-
Total	3,810	172	3,638

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

	<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 2023	746	3,899	4,645
Purchases	38	12,782	12,820
Issue of capital	-	620	620
Sales	(557)	(21)	(578)
Transfer to investments in associates	-	(15,463)	(15,463)
Unrealised gain/(loss) included in other comprehensive income (<i>Note 13</i>)	(55)	1,821	1,766
Balance at 31 December 2023	172	3,638	3,810
Issue of capital	8,734	-	8,734
Purchases os warrants	245	-	245
Sales	(12)	-	(12)
Unrealised gain/(loss) included in other comprehensive income (<i>Note 13</i>)	28	(1,064)	(1,036)
Balance at 31 March 2024	9,167	2,574	11,741

19. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The *long-term receivables from related parties* as at March 31 include:

	31.03.2024	31.12.2023
	<i>BGN '000</i>	<i>BGN '000</i>
Long-term loans granted to related parties	28,333	49,071
<i>Impairment of credit losses</i>	(118)	(118)
Long-term loans granted to related parties, net	28,215	48,953

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Receivable under cession agreements	3,915	3,884
Deposits placed under leases	580	580
<i>Impairment of credit losses</i>	<u>(64)</u>	<u>(64)</u>
Deposits placed under leases, net	<u>516</u>	<u>516</u>
Total	<u>32,646</u>	<u>53,353</u>

Long-term loans are granted to companies controlled by an associated company (31.12.2023: to companies controlled by an associated company).

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

	31.03.2024	31.12.2023
	BGN '000	BGN '000
Balance at 1 January	<u>118</u>	<u>157</u>
(Decrease) / increase in allowance for credit losses recognized in profit or loss during the year, net	-	(39)
Balance at 31 March/31 December	<u>118</u>	<u>118</u>

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>	31.03.2024		31.12.2023	
				<i>BGN'000</i>	<i>BGN'000 including interest</i>	<i>BGN'000</i>	<i>BGN'000 including interest</i>
BGN	83,400	31.12.2025	3.00%	25,114	-	40,901	40,484
BGN	16,301	31.12.2025	5.25%	<u>3,101</u>	12	<u>8,052</u>	152
				<u>28,215</u>	12	<u>48,953</u>	636

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.

20. OTHER LONG-TERM RECEIVABLES

The <i>other non-current receivables</i> of the Group include:	31.03.2024	31.12.2023
	BGN'000	BGN'000
Receivables on transactions in securities	3,618	3,540
<i>Impairment of credit losses</i>	<u>(183)</u>	<u>(183)</u>
Receivables from transactions in securities, net	3,435	3,357

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Loans granted	1,956	1,956
<i>Impairment of credit losses</i>	-	(436)
Loans granted, net	1,956	1,520
Deposits on long-term rental agreements	820	712
Other	12	15
Total	6,223	5,604

The receivables on transactions in securities constitute receivables on a sold investment in a subsidiary maturing on September 30, 2024, which is related to the completion of statutory actions on registration of medical product permits.

The movement in the allowance for impairment of loans granted is as follows:

	<i>31.03.2024</i>	<i>31.12.2023</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	436	459
Increase in the allowance for credit losses recognised in profit or loss for the year	-	436
Transfer of the allowance to other short-term receivables	(436)	(459)
Balance at 31 March/31 December	-	436

The movement in the allowance for impairment of receivable from an transactions in securities is as follows:

	<i>31.03.2024</i>	<i>31.12.2023</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	183	142
Decrease in the allowance for credit losses recognised in profit or loss for the year	-	41
Balance at 31 March/31 December	183	183

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

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>Interest %</i>	<i>BGN'000</i>	<i>BGN'000</i>
	<i>'000</i>				
<i>EUR</i>	1,000	26.2.2026	0.10%	1,956	1,520
				1,956	1,520

21. INVENTORIES

<i>Inventories</i> include:	31.03.2024	31.12.2023
	BGN'000	BGN'000
Goods	236,009	225,034
Finished products	59,052	41,690
Materials	52,440	56,983
Work in progress	9,510	13,450
Semi-finished products	4,635	2,176
Total	361,646	339,333

<i>Materials</i> by type are as follows:	31.03.2023	31.12.2022
	BGN'000	BGN'000
Basic materials	44,015	41,570
Spare parts and consumables	1,308	1,194
Auxiliary materials	387	392
Technical materials	268	344
Materials in transit	-	1,257
Other	421	411
Total	46,399	45,168

<i>Basic materials</i> by type are as follows:	31.03.2023	31.12.2022
	BGN'000	BGN'000
Substances	18,472	20,729
Chemicals	10,893	8,061
PVC and aluminium foil	4,750	3,294
Vials, tubes and ampoules	4,727	3,411
Packaging materials	2,406	2,341
Sanitary-hygienic and dressing materials	1,614	1,785
Herbs	1,105	1,875
Other	48	74
Total	44,015	41,570

As at March 31, 2024, special pledges were established on material stocks in the amount of BGN 231,144 thousand. (31.12.2023: BGN 222,605 thousand) as collateral for bank loans received by the Group and bank guarantees issued (*Notes No. 27, No. 33 and No. 40*).

22. TRADE RECEIVABLES

<i>Trade receivables</i> include:	31.03.2024	31.12.2023
	BGN'000	BGN'000
<i>Receivables from customers</i>	284,757	240,177
<i>Impairment of credit losses</i>	(6,222)	(6,198)
Receivables from customers, net	<u>278,535</u>	<u>233,979</u>
<i>Advances and other receivables from suppliers</i>	27,302	26,142
Receivables under cession agreements	<u>4,890</u>	<u>4,890</u>
<i>Impairment of credit losses</i>	(56)	(56)
Receivables under cession agreements, net	<u>4,834</u>	<u>4,834</u>
Total	<u>310,671</u>	<u>264,955</u>

The *receivables from customers* are interest-free and are mainly denominated in BGN, RSD and EUR.

Usually the Group companies negotiate with their clients payment terms within the range of 30 to 180 days for receivables under sales unless there are determined specific conditions for maturity for particular clients or in the cases where new markets and products are developed and new trade counterparts are attracted. The group has set a normal credit period of up to 60 days for customers and pharmacies, and up to 180 days for other customers, for which it does not charge interest to customers, except in cases of restructured receivables with a special contract, where a longer term has been agreed with a repayment plan and interest. In case of sale of medical equipment to hospitals, the credit period could exceed 2 years, due to the specific financial characteristics of counterparts.

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

	31.03.2024	31.12.2023
	BGN'000	BGN'000
Balance at 1 January	<u>6,254</u>	<u>6,459</u>
Increase in the allowance for credit losses recognised in profit or loss for the year, net	17	278
Effect of foreign currency restatements	7	(13)
Transfer from court and awarded receivables	-	(20)
Transfer to Receivables from Related parties	-	(158)
Amounts written off for bad debts	-	(292)
Balance at 31 March/ 31 December	<u>6,278</u>	<u>6,254</u>

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

	31.03.2024	31.12.2023
	BGN'000	BGN'000
up to 30 days	144,315	136,119
from 31 to 90 days	91,460	69,391
from 91 to 180 days	3,545	6,034
from 181 to 365 days	2,104	765
From 1 to 2 years	48	126
over 2 years	13,470	8,238
<i>Gross value of non-matured (regular) trade receivables</i>	<u>254,942</u>	<u>220,673</u>
<i>Expected credit losses</i>	<u>(444)</u>	<u>(471)</u>
Non-matured (regular) trade receivables, net	<u>254,498</u>	<u>220,202</u>

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

	31.03.2024	31.12.2023
	BGN'000	BGN'000
up to 30 days	309	304
from 31 to 90 days	107	104
from 91 to 180 days	28	28
over 2 years	-	35
Total	<u>444</u>	<u>471</u>

The *age structure* based on invoice date of past due trade receivables is as follows:

	31.03.2024	31.12.2023
	BGN'000	BGN'000
from 31 to 90 days	16,266	6,850
from 91 to 180 days	6,908	5,530
from 181 to 365 days	2,675	3,120
from 1 to 2 years	1,907	1,627
over 2 years	2,059	2,377
<i>Gross amount of past due trade receivables</i>	<u>29,815</u>	<u>19,504</u>
<i>Impairment of credit losses</i>	<u>(5,778)</u>	<u>(5,727)</u>
Past due trade receivables, net	<u>24,037</u>	<u>13,777</u>

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

	31.03.2024	31.12.2023
	BGN'000	BGN'000
from 31 to 90 days	178	178
from 91 to 180 days	618	618
from 181 to 365 days	1,300	1,289
from 1 to 2 years	1,643	1,303
over 2 years	2,039	2,339
Total	5,778	5,727

Most past due receivables are from state hospitals. It is the Group's policy, with respect to all past due receivables, to accrue, invoice and collect default interest, by means of which it fully compensates for the payment delayed and the expense/losses incurred, both for special agreements with the respective debtor – hospital, and for litigation.

The Group applies the simplified approach under IFRS 9 to measure expected credit losses from trade receivables, by recognising expected credit losses for the life term of all trade receivables (*Note 2.16*). Based on this, the loss allowance at March 31, 2024 and December 31, 2023 has been determined as follows:

		<i>Current</i>	<i>Up to 90 days past due</i>	<i>90-365 days past due</i>	<i>Over 365 days past due</i>	<i>Total</i>
31 March 2024						
Expected % of credit losses		0.17%	1.87%	21.85%	97.53%	2.19%
Trade receivables (gross carrying amount)	BGN'000	254,942	17,629	8,504	3,682	284,757
Expected credit loss (impairment allowance)	BGN'000	(444)	(329)	(1,858)	(3,591)	(6,222)
31 December 2023						
Expected % of credit losses		0.21%	4.22%	24.55%	96.25%	2.58%
Trade receivables (gross carrying amount)	BGN'000	220,673	7,791	8,195	3,518	240,177
Expected credit loss (impairment allowance)	BGN'000	(471)	(329)	(2,012)	(3,386)	(6,198)

As at March 31, 2024, there are established special pledges on trade receivables at the amount of BGN 163,246 thousand (31 December 2023: BGN 151,913 thousand). They are established as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 33 and 40*).

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

	31.3.2024	31.12.2023
	BGN'000	BGN'000
Goods	21,639	19,405
Services	3,500	4,580
Raw materials and consumables	2,136	2,157
Other	27	-
Total	27,302	26,142

23. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties by type are as follows:

	31.03.2024	31.12.2023
	BGN'000	BGN'000
Trade loans granted	15,596	14,961
<i>Impairment of credit losses</i>	(2,684)	(2,154)
Trade loans granted, net	12,912	12,807
Receivables under contracts with customers	2,188	2,220
<i>Impairment of credit losses</i>	(148)	(148)
Receivables under contracts with customers, net	2,040	2,072
Advances granted	41	26
Receivables under guarantorships and guarantees granted	4	4
<i>Impairment of credit losses</i>	(4)	(4)
Receivables under guarantorships and guarantees granted, net	-	-
Other receivables	160	160
<i>Impairment of credit losses</i>	(160)	(160)
Other receivables, net	-	-
Total	14,993	14,905

The *trade loans granted to related parties* are unsecured and are as follows:

Currency	Contract ed amount	Maturity	Interest	31.03.2024		31.12.2023	
				BGN '000	BGN '000	BGN '000	BGN '000 inclu ding intere st
	'000		%		including interest		
<i>to companies controlled by associates</i>							
		31.12.202					
BGN	10,997	4	3.10%	8,797	748	8,740	692
		31.12.202					
BGN	4,000	4	3.33%	4,115	115	4,067	67
Total:				12,912	863	12,807	759

The *receivables from contracts with customers* are interest-free and denominated in BGN.

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

The Group applies the simplified approach under IFRS 9 to measure expected credit losses from trade receivables, by recognising expected losses for the life term of all trade receivables (Note 2.16).

The movement in the loss allowance for impairment of receivables from related parties is as follows:

	31.03.2024	31.12.2023
	BGN'000	BGN'000
Balance at 1 January	2,466	1,398
Increase in the allowance for credit losses recognised in profit or loss for the year	530	951
Transfer of trade receivables	-	158
Amounts written off for bad debts	-	(44)
Effect of currency and exchange rate recalculations	-	3
Balance at 31 March/31 December	2,996	2,466

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

	31.03.2024	31.12.2023
	BGN'000	BGN'000
up to 30 days	24	31
from 31 to 90 days	26	20
from 91 to 180 days	40	71
from 181 to 365 days	2,085	2,085
<i>Gross amount of past due trade receivables from related parties</i>	2,175	2,207

<i>Provision for impairment for credit losses</i>	(135)	(135)
Total	2,040	2,072

The age structure on the invoice date of overdue trade receivables from related parties is as follows:

	31.3.2024	31.12.2023
	BGN'000	BGN'000
from 1 to 2 years	13	13
<i>Gross value of overdue receivables from related enterprises</i>	13	13
<i>Allowance for credit losses</i>	(13)	(13)
Общо	-	-

24. OTHER SHORT-TERM RECEIVABLES AND ASSETS

Other receivables and prepayments of the Group include:

	31.3.2024	31.12.2023
	BGN'000	BGN'000
Cash provided to the Central Depository for dividend payment	141,890	424
Loans granted to third parties	15,258	13,242
Impairment for credit losses on loans granted to third parties	(943)	(507)
Loans granted to third parties, net	14,315	12,735
Tax recovery	13,663	15,759
Deposited funds on a fundraising account for the acquisition of corporate bonds	8,413	-
Prepaid expenses	2,221	2,258
Litigation and claims	1,591	7,877
Impairment for credit losses on judgment and judgment receivables	(1,313)	(1,313)
Judgments and judgments, net	278	6,564
Claims on deposits provided as guarantees	323	342
Provided funds to investment intermediaries	79	-
Others	701	909
Общо	181,883	38,991

Taxes refundable include:

	31.03.2024	31.12.2023
	BGN'000	BGN'000
VAT	7,882	10,406
Excise tax	5,186	4,749
Income tax	592	591
Local taxes and charges and other taxes	3	13

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Total	13,663	15,759
<i>Prepayments</i> include:	<i>31.03.2024</i>	<i>31.12.2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Subscriptions	861	868
Insurance	598	733
Bank fees and commissions	127	196
Advertisement	124	45
Rentals	123	84
Licence and patent fees	62	89
Vouchers	15	16
Other	311	227
Total	2,221	2,258

The loans granted to third parties, amounting to BGN 14,315 thousand (31 December 2023: BGN 12,735 thousand), are granted to four entities – counterparts, with the purpose of supporting the financing of these entities for common strategic objectives. The annual interest agreed for these loans for 2024 was between 3.1% and 6% (2023: between 0.1% and 4.7%).

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

	<i>31.03.2024</i>	<i>31.12.2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	1,313	1,002
(Decrease)/Increase in the allowance for credit losses recognised in profit or loss for the year	-	291
Transfer from trade receivables	-	20
Balance at 31 March/31 December	1,313	1,313

The movement of the adjustment for impairment of loans granted to third parties is as follows:

	<i>31.3.2024</i>	<i>31.12.2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	507	3
Increase / (decrease) in credit loss allowance recognized in profit or loss during the year, net	-	45
Transfer from other long-term receivables	436	459
Balance at 31 March/31 December	943	507

25. CASH AND CASH EQUIVALENTS

	31.03.2024	31.12.2023
	BGN'000	BGN'000
Cash at current bank accounts	12,274	17,393
Short-term deposits	7,563	106,305
Cash in hand	4,379	5,093
Short-term blocked funds	84	84
Cash and cash equivalents presented in the consolidated statement of cash flows	24,300	128,875
Blocked amounts in a special (escrow) account	3,509	-
Blocked funds for legal claims, for issued bank guarantees and for the payment of dividends	4	4
Cash and cash equivalents presented in the consolidated statement of financial position	27,813	128,879

The available cash and cash equivalents of the Group are mainly denominated in BGN, UAH and EUR (31 December 2023: BGN, UAH and EUR).

As at March 31, 2024, short-term blocked cash at the amount of BGN 84 thousand (31 December 2023: BGN 84 thousand) represent mainly blocked funds under performance guarantees.

26. EQUITY

Share capital

As at March 31, 2023, the registered share capital of Sopharma AD amounts to BGN 179,100 thousand distributed in 179,100,063 shares of nominal value BGN 1 each.

The shares of Sopharma AD are ordinary, non-cash, with right of dividend and liquidation share and are registered for trade in the Bulgarian Stock Exchange AD and Warsaw Stock Exchange.

On March 5, 2024, the increase in the capital of Sopharma AD was entered in the Commercial Register through the issuance of 6,509,485 ordinary, registered, non-present shares, with the right to vote, with a nominal value of BGN 1 each and an issue value of BGN 4,13 per share.

Shares from the capital increase were subscribed by warrant holders.

The *treasury shares* are 14,328,336 at the amount of BGN 57,452 thousand (2023: 14,328,336 at the amount of BGN 57,452 thousand). No shares were purchased during the current year (31.12.2023: 850,000 shares were purchased).

Statutory reserves in the amount of BGN 218,828 thousand. (31.12.2023: BGN 196,759 thousand) were formed from the distribution of the profit of the parent company for the "Reserve" fund and from the premium reserve that arose as a positive difference between the issue and nominal value of the issued shares

during the merger of subsidiaries in Sopharma AD, as well as from the subscribed and paid-up shares of the warrant holders, in the amount of BGN 158,985 thousand. (31.12.2023: BGN 136,916 thousand).

The *revaluation reserve – for property, plant and equipment*, amounting to BGN 28,835 thousand (31 December 2023: BGN 29,328 thousand), has been set aside from excess of the carrying amount of property, plant and equipment of the Group companies over their fair values at the dates of the respective regular revaluation. The effect of deferred taxes on the revaluation reserve is stated directly through other components of comprehensive income for the year.

The reserve of financial assets at fair value through other comprehensive income at the amount of BGN 530 thousand – a negative figure (31 December 2023: BGN 506 thousand) has been formed by the impact of measurement at fair value of other long-term equity investments (including the consolidated share of the change in this reserve in associates on their valuation under the equity method). 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 *translation of foreign operations reserve*, amounting to BGN 528 thousand – a negative value (31 December 2023: BGN 1,154 thousand – a negative value) has been set aside from exchange differences arising as a result of translation of the currency in the financial statements of foreign companies to the presentation currency of the Group.

Other equity components (warrant issue)

Pursuant to Article 25 of the Articles of Association of Sopharma AD on May 21, 2021, the Board of Directors determines the parameters and makes a decision to issue warrants during the primary public offering. With Decision № 804 - E of November 4, 2021, the Financial Supervision Commission registers an issue in the amount of 44,932,633 non-cash, freely transferable and registered warrants, with an issue value of BGN 0.28, issued by "Sopharma" AD in accordance with Art. 112 b, para. 11 of the LPOS. The underlying asset of the issued warrants are future ordinary, registered, freely transferrable voting right shares, each holding one vote in the General Meeting of Shareholders, which will be issued by the Company conditionally, only in favour of warrant holders. Each registered warrant entitles the holder thereof to register one share from the future issue. The warrants' holders may exercise their right to register the respective number of shares in future increase of the Company's capital within a 3-years period, at a fixed price of BGN 4.13 per share. The right to exercise arises from the date on which the issue of warrants was registered in "Central Depository" AD - 11/16/2021.

The warrants were admitted to trade on the main BSE market of Bulgarian Stock Exchange AD, as from November 11, 2021.

The funds raised from the warrant issue, at the amount of BGN 162 thousand (31 December 2023: BGN 1,857 thousand), is carried within other equity component in the statement of financial position, net of issue costs.

The *retained earnings reserve* includes the component 'other reserves', which contains the amounts distributed from profits of the Group companies generated in prior years, as well as the component 'accumulated profits and losses'.

Retained earnings, amounting to BGN 426,099 thousand at March 31, 2024 (31 December 2023: BGN 395,897 thousand), include also the recognised accumulated actuarial loss at the amount of BGN 2,637 thousand (31 December 2023: BGN 2,637 thousand), stated upon remeasurement of defined benefit pension plans in relation with the amendment to IAS 19 *Employee Benefits*.

Basic net earnings per share

	<i>1.01.2024-31.03.2024</i>	<i>1.01.2023-31.03.2023</i>
Weighted average number of shares	130,696,402	121,318,711
Net profit for the year, attributable to the equity holders of the parent (BGN'000)	<u>29,709</u>	<u>32,254</u>
Net earnings per share (BGN)	<u>0.23</u>	<u>0.27</u>

Diluted net earnings per share

	<i>31.03.2024</i>	<i>31.12.2023</i>
Average weighted number of shares in circulation	130,696,402	121,318,711
Cumulative effect of warrants	<u>164,234</u>	<u>3,785,334</u>
Shares in circulation with warrants	130,860,637	125,104,045
Net profit for the year, attributable to the equity holders of the parent (BGN'000)	<u>29,709</u>	<u>32,254</u>
	<u>0.23</u>	<u>0.26</u>

27. LONG-TERM BANK LOANS

<i>Currency</i>	<i>Contracted loan amount</i>	<i>Maturity</i>	<i>31.03.2024</i>			<i>31.12.2023</i>		
			<i>Non-current portion</i>	<i>Current portion</i>	<i>BGN'000</i>	<i>Non-current portion</i>	<i>Current portion</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>Credit lines and working capital loans</i>								
EUR	15,000	31.08.2025	25,301	-	25,301	27,021	-	27,021
RSD/EUR	8,100	31.08.2025	15,802	-	15,802	15,800	-	15,800
EUR	1,100	31.10.2025	2,153	-	2,153	2,152	-	2,152
EUR	5,210	31.03.2026	2,118	1,690	3,808	2,543	1,690	4,233
EUR	2,062	30.04.2025	67	872	939	269	804	1,073
EUR	12,000	25.06.2024	-	838	838	-	1,777	1,777
BGN	16,000	30.04.2024	-	391	391	-	1,007	1,007

***Investment-
purpose
loans***

BGN	9,544	25.12.2029	8,239	1,291	9,530	8,677	854	9,531
Total			53,680	5,082	58,762	56,462	6,132	62,594

The Group has gradually established a policy for annual re-negotiation of the terms and conditions of initially agreed long-term credit lines, including maturity terms. Starting from the date of re-negotiation, the extended credit lines are presented as short-term bank loans (*Note 33*). The received bank loans in euro are mainly agreed at an interest rate determined on the basis of EURIBOR plus a surcharge of up to 2.6%, for leva loans - up to 1.91% fixed, for Serbian dinar - an interest rate determined on the basis of BELIBOR plus a surcharge of up to 2.75% (2023: for euro - EURIBOR plus a surcharge of up to 2.6%, for leva loans - up to 1.91% fixed, for Serbian dinar - an interest rate determined on the basis of BELIBOR plus a surcharge of up to 2.75%). Loans are for working capital.

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

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

- Real estate mortgages (*Note 14*);
- Special pledges on:
 - machinery and equipment (*Note 14*);
 - inventories (*Note 21*);
 - trade receivables (*Note 22*).

28. NON-CURRENT PAYABLES TO RELATED PARTIES

Non-current payables to related parties at March 31, include:

	31.03.2024	31.12.2032
	BGN'000	BGN'000
Lease liabilities	16,496	16,914
Total	16,496	16,914

The lease payments due within 12 months are presented in the annual consolidated statement of financial position within current payables, within “payables to related parties” (*Note 35*).

29. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

The long-term employee benefits as at March 31, include:

	31.03.2024	31.12.2023
	BGN '000	BGN '000
Long-term retirement benefit obligations	8,159	8,097
Long-term benefit obligations for tantieme	249	255
Total	8,408	8,352

Long-term retirement benefit obligations

The long-term payables to personnel include the present value of the obligation of the Group companies, operating mainly in *Bulgaria and Ukraine*, to pay indemnities to the hired personnel at the date of the statement of financial position on coming of age for retirement. In accordance with the Labour Code in *Bulgaria* each employee is entitled to indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for at least the last 10 years of the service period for the same employer – six gross monthly salaries at the time of retirement (*Note 2.23*).

Employer's obligations to personnel on retirement for the companies abroad are as follows:

- *Ukraine* – the employer is obliged to pay between UAH 250 and 500 (BGN 12 and BGN 24) depending on the length of service as well as a social pension, which the company accrues after employees' retirement due to specific work conditions;
- *Kazakhstan* – according to the Kazakhstani legislation, the employer does not have a legal obligation to personnel upon retirement;
- *Serbia* – the employer is obliged to pay 3 average salaries.
- *Russia* - under Russian law, the employer has no legal obligation to the staff upon retirement.

Long-term benefit obligations for tantieme

As at March 31, 2024, BGN 249,000 is also included in the value of long-term liabilities to personnel. (31.12.2023: BGN 255 thousand), representing obligations to the staff related to the payment of bonuses for a period of more than 12 months - until 2027 (2023: until 2026).

30. LEASE LIABILITIES

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

<u>31.03.2024</u>	<u>31.12.2023</u>
-------------------	-------------------

<i>Term</i>	<i>Lease liabilities</i>	<i>Lease liabilities to related parties (Note 30 and 35)</i>	<i>Total</i>	<i>Lease liabilities</i>	<i>Lease liabilities to related parties (Note 30 and 35)</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>
Up to one year	13,089	2,726	15,815	13,424	2,712	16,136
Over one year	58,024	16,496	74,520	54,729	16,914	71,643
	71,113	19,222	90,335	68,153	19,626	87,779

Lease liabilities to related parties are stated within Non-current payables to related parties (Note 30) and Payables to related parties (Note 35).

Minimum lease payments to third and related parties are due, as follows:

<i>Term</i>	<i>31.03.2024</i>			<i>31.12.2023</i>		
	<i>Third parties BGN'000</i>	<i>Related parties BGN'000</i>	<i>Total BGN'000</i>	<i>Third parties BGN'000</i>	<i>Related parties BGN'000</i>	<i>Total BGN'000</i>
Up to one year	14,728	2,938	17,666	14,879	2,944	17,823
Over one year	63,659	17,295	80,954	58,279	17,722	76,001
	78,387	20,233	98,620	73,158	20,666	93,824
Future finance cost on leases	(7,274)	(1,011)	(8,285)	(5,005)	(1,040)	(6,045)
Present value of the lease liabilities to third and related parties	71,113	19,222	90,335	68,153	19,626	87,779

In the statement of financial position, in the article Property, machinery and equipment, the following objects and amounts related to lease contracts are presented:

	<i>Land and buildings</i>		<i>Machinery, plant and equipment</i>		<i>Other</i>		<i>Total</i>	
	<i>2024 BGN'000</i>	<i>2023 BGN'000</i>	<i>2024 BGN'000</i>	<i>2023 BGN'000</i>	<i>2024 BGN'000</i>	<i>2023 BGN'000</i>	<i>2024 BGN'000</i>	<i>2023 BGN'000</i>
Book value								
Balance at 1 January	112,510	102,508	1,210	259	14,170	12,707	127,890	115,474
Increases/additions	7,287	16,911	-	1,130	429	5,946	7,716	23,987

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Decreases/disposals	<u>(1,489)</u>	<u>(6,909)</u>	<u>-</u>	<u>(179)</u>	<u>(145)</u>	<u>(4,483)</u>	<u>(1,634)</u>	<u>(11,571)</u>
Balance at 31 March/31 December	<u>118,308</u>	<u>112,510</u>	<u>1,210</u>	<u>1,210</u>	<u>14,454</u>	<u>14,170</u>	<u>133,972</u>	<u>127,890</u>
Accumulated depreciation								
Balance at 1 January	35,902	24,038	208	162	5,099	6,258	41,209	30,458
Depreciation charge for the period	3,782	14,174	39	186	717	3,148	4,538	17,508
Depreciation written-off	<u>(543)</u>	<u>(2,310)</u>	<u>0</u>	<u>(140)</u>	<u>(145)</u>	<u>(4,307)</u>	<u>(688)</u>	<u>(6,757)</u>
Balance at 31 March/31 December	<u>39,141</u>	<u>35,902</u>	<u>247</u>	<u>208</u>	<u>5,671</u>	<u>5,099</u>	<u>45,059</u>	<u>41,209</u>
Carrying amount at 31 March/ 31 December	<u>79,167</u>	<u>76,608</u>	<u>963</u>	<u>1,002</u>	<u>8,783</u>	<u>9,071</u>	<u>88,913</u>	<u>86,681</u>
Carrying amount at 1 January								
Book value	<u>76,608</u>	<u>78,470</u>	<u>1,002</u>	<u>97</u>	<u>9,071</u>	<u>6,449</u>	<u>86,681</u>	<u>85,016</u>

31. GOVERNMENT GRANTS

The government grants to Group companies as at 31 March include:

	31.03.2024	31.12.2023
	BGN'000	BGN'000
Government grants, non-current portion	4,790	4,931
Government grants, current portion (<i>Note 39</i>)	<u>586</u>	<u>597</u>
Total	<u>5,376</u>	<u>5,528</u>

The government grants received as at March 31, are to the following Group companies:

	31.03.2024	31.12.2023
	BGN'000	BGN'000
Sopharma AD	5,221	5,368
Veta Pharma AD	<u>155</u>	<u>160</u>
Total	<u>5,376</u>	<u>5,528</u>

The government grants are received by the Group companies under European Operational Programmes mainly in relation to the acquisition of machinery and equipment (*Note 14*). The current portion of the grants, amounting to BGN 586 thousand (31 December 2023: BGN 597 thousand), will be recognised as current income over the following 12 months from the date of the interim consolidated statement of financial position and is presented as 'other current liabilities' (*Note 39*).

32. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December include:

	31.03.2024	31.12.2023
	BGN'000	BGN'000
Payables related to share purchase	5,543	5,543
Total	5,543	5,543

33. SHORT-TERM BANK LOANS

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

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	31.03.2024	31.12.2023
	<i>'000</i>		BGN'000	BGN'000
Bank loans (overdrafts)				
BGN	41,500	31.07.2024	38,895	37,773
BGN	35,000	24.09.2024	34,920	34,921
EUR	34,200	31.05.2024	33,516	14,033
BGN	20,000	05.09.2024	19,797	19,759
BGN	19,558	05.09.2024	19,500	19,574
RSD/EUR	7,850	30.4.2024-		
		28.3.2025	15,353	14,865
BGN	20,000	05.09.2024	9,934	15,536
	5,000	25.07.2024	9,764	9,757
	9,779	05.09.2024	9,538	9,678
	3,000	25.07.2024	5,861	5,858
EUR		27.6.2024-		
	2,450	22.8.2024	4,792	4,693
EUR	10,000	31.05.2024	2,444	44
BGN	20,000	31.07.2024	690	6
EUR	1,000	01.03.2024	-	1,956
			205,004	188,453

<i>Currency</i>	<i>Contracted amount BGN'000</i>	<i>Maturity</i>	<i>31.03.2024 BGN'000</i>	<i>31.12.2023 BGN'000</i>
<i>Credit lines</i>				
BGN	20,000	01.04.2025	19,213	-
EUR	7,500	25.07.2024	12,036	12,025
			31,249	12,025
Total			236,253	200,478

The bank loans obtained in euro are mainly agreed at an interest rate determined on the basis of EURIBOR plus a surcharge of up to 2.75%; for BGN loans – reference interest rate of the respective bank plus a surcharge up to 2.75% and fixed up to 2.65%; for the dinar an interest rate determined on the basis of BELIBOR 2.75% (2023: EURIBOR plus a surcharge of up to 2.9%; for BGN loans – the reference interest rate of the respective bank plus a surcharge of up to 2.75% and fixed up to 2.65%; for the dinar – an interest rate, determined on the basis of BELIBOR 1.95%; for Ukrainian hryvnias 22% fixed). Loans are for working capital.

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

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

As at March 31, 2023, there are special pledges on receivables from related parties, subject to consolidation and eliminated for the purpose of the consolidated financial statements, at the amount of BGN 67,634 thousand (31 December 2023: BGN 62,085 thousand), established as collateral under received by the Group bank loans and issued bank guarantees (*Notes 27, 33 and 40*).

34. TRADE PAYABLES

<i>Trade payables include:</i>	<i>31.03.2024 BGN'000</i>	<i>31.12.2023 BGN'000</i>
Payables to suppliers	202,508	193,391
Advances from clients	546	541
Total	203,054	193,932

<i>The payables to suppliers refer to:</i>	<i>31.03.2024 BGN'000</i>	<i>31.12.2023 BGN'000</i>
Suppliers outside Bulgaria	128,051	136,307

Suppliers from Bulgaria	74,457	57,084
Total	202,508	193,391

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

35. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.03.2024	31.12.2023
	BGN'000	BGN'000
Payables to joint ventures and associates	85,107	84,982
Payables to key management personnel	12,991	12,991
Payables to joint ventures and associates	2,863	2,742
Payables to companies related through key management personnel	1,117	209
Payables to companies controlled by an associate	569	133
Other related parties	6	6
Total	102,653	101,063

The payables to related parties by type are as follows:

	31.03.2024	31.12.2023
	BGN'000	BGN'000
Payables for dividends	97,898	97,898
Short-term lease liabilities	2,726	2,712
Payables on supply of goods and materials	1,806	348
Supply of services	217	99
Other	6	6
Total	102,653	101,063

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

36. PAYABLES UNDER FACTORING AGREEMENT

Companies of the Group have entered into factoring agreements with a financial institution (Factor), dated 19 January 2016, for transfer of existing unsalable receivables from debtors.

The Factor is entitled to recourse for all amounts paid in advance regardless of whether they are included not in the approved credit limit. The approved credit limit as at 31 March 2024 is BGN 15,000 thousand (2023: BGN 15,000 thousand). The transferred invoices are paid in advance up to 90% (ninety per cent) of their amount with VAT included.

The interest for the amounts paid in advance is 1M RIR + 1.55% on an annual basis and is deducted on a monthly basis in the end of each calendar month.

As at March 31, 2024, the company has no obligations under the factoring agreement (31.12.2023: none).

No funding provided in 2024. (2023: BGN 700 thousand) (Appendix No. 2.17).

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

<i>Payables to personnel and for social security</i> include:	31.03.2024	31.12.2023
	BGN'000	BGN'000
Payables to personnel, including:	20,152	20,160
<i>current wages and salaries</i>	11,111	12,291
<i>accruals on unused compensated leaves</i>	5,584	4,401
<i>tantieme</i>	3,457	3,468
Payables for social security/health insurance, including:	4,744	4,225
<i>current payables for social security contributions</i>	3,800	3,523
<i>accruals on unused compensated leaves</i>	944	702
Total	24,896	24,385

38. TAX PAYABLES

<i>Tax payables</i> include:	31.03.2024	31.12.2023
	BGN'000	BGN'000
Income taxes	3,178	1,048
VAT	2,459	4,858
Individual income taxes	1,626	880
Taxes on expenses	515	434
Local taxes and fees	375	25
Dividend taxes	-	1,240
Total	8,153	8,485

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

Company	Full-scope tax audit	VAT inspection	Inspection under the social security legislation
Sopharma AD	31.12.2011	31.12.2011	30.09.2013
Sopharma Trading AD	31.12.2011	31.12.2017	30.04.2018
Biopharm Engineering AD	31.12.2014	31.01.2023	30.04.2009
Pharmalogistica AD	31.12.2005	31.12.2007	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none

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Veta Pharma AD	none	31.07.2020	30.06.2016
Sopharmacy EOOD	none	30.06.2019	none
Sopharmacy 2 EOOD	none	30.11.2017	none
Sopharmacy 3 EOOD	none	30.06.2022	none
Sopharmacy 4 EOOD	none	31.08.2020	none
Sopharmacy 5 EOOD	none	30.05.2023	none
Sopharmacy 6 EOOD	none	31.05.2019	none
Sopharmacy 7 EOOD	none	31.08.2020	none
Sopharmacy 8 EOOD	none	31.12.2020	none
Sopharmacy 9 EOOD	none	30.11.2022	none
Sopharmacy 10 EOOD	none	31.07.2022	none
Sopharmacy 11 EOOD	none	30.06.2023	none
Sopharmacy 12 EOOD	none	31.07.2022	none
Sopharmacy 13 EOOD	none	31.12.2018	none
Sopharmacy 14 EOOD	none	30.06.2022	none
Sopharmacy 15 EOOD	none	31.12.2019	none
Sopharmacy 16 EOOD	none	31.12.2020	none
Sopharmacy 17 EOOD	none	30.10.2021	none
Sopharmacy 18 EOOD	none	31.08.2023	none
Sopharmacy 19 EOOD	none	31.12.2013	none
Sopharmacy 20 EOOD	none	31.07.2020	none
Sopharmacy 21 EOOD	none	none	31.08.2017
Sopharmacy 22 EOOD	none	31.12.2012	30.04.2020
Sopharmacy 23 EOOD	none	31.05.2014	30.04.2020
Sopharmacy 24 EOOD	none	none	30.04.2020
Sopharmacy 25 EOOD	none	30.09.2023	30.04.2020
Sopharmacy 26 EOOD	none	31.08.2017	none
Sopharmacy 27 EOOD	none	31.12.2013	none
Sopharmacy 29 EOOD	none	30.04.2023	none
Sopharmacy 30 EOOD	none	31.07.2023	30.04.2020
Sopharmacy 31 EOOD	none	29.02.2024	30.04.2020
Sopharmacy 32 EOOD	31.12.2010	31.12.2019	30.04.2020
Sopharmacy 33 EOOD	none	30.11.2023	30.04.2020
Sopharmacy 34 EOOD	none	none	30.04.2020
Sopharmacy 35 EOOD	none	31.12.2013	30.04.2020
Sopharmacy 36 EOOD	none	31.01.2015	31.05.2021
Sopharmacy 37 EOOD	none	31.08.2023	30.04.2020
Sopharmacy 38 EOOD	none	29.02.2024	30.04.2020
Sopharmacy 40 EOOD	none	none	30.04.2020
Sopharmacy 41 EOOD	none	31.08.2023	31.05.2019
Sopharmacy 42 EOOD	none	none	30.11.2020
Sopharmacy 43 EOOD	31.12.2016	none	31.05.2019
Sopharmacy 44 EOOD	none	31.12.2013	30.04.2020
Sopharmacy 45 EOOD	none	none	30.04.2020
Sopharmacy 46 EOOD	none	31.12.2023	none
Sopharmacy 47 EOOD	none	31.11.2016	31.03.2020

Sopharmacy 48 EOOD	none	30.06.2021	31.08.2017
Sopharmacy 49 EOOD	31.12.2015	31.12.2014	31.05.2020
Sopharmacy 50 EOOD	none	31.08.2023	31.03.2020
Sopharmacy 51 EOOD	none	30.09.2023	30.04.2020
Sopharmacy 52 EOOD	none	none	31.12.2015
Sopharmacy 53 EOOD	none	30.09.2023	31.08.2017
Sopharmacy 54 EOOD	none	31.08.2015	31.03.2020
Sopharmacy 55 EOOD	none	31.12.2014	31.03.2020
Sopharmacy 56 EOOD	none	31.12.2015	30.04.2020
Sopharmacy 57 EOOD	none	none	31.05.2020
Sopharmacy 58 EOOD	none	29.02.2024	none
Sopharmacy 63 EAD	31.12.2012	none	31.12.2019
Sopharmacy 64 AD	31.12.2016	31.07.2023	none
PAO Vitamini	31.12.2013	31.12.2013	01.04.2014
OOO Sopharma Ukraine	31.12.2014	31.12.2014	30.06.2016
Sopharma Warsaw SP. Z.O.O.	none	none	06.07.2017
Sopharma Trading d.o.o., Serbia	31.03.2017	30.06.2017	15.04.2017

Tax audit of the companies in Bulgaria is performed within a 5-year period after the end of the year when the tax return for the respective liability has been submitted. The tax audit confirms ultimately the tax liability of the respective company — tax liable person except in the cases explicitly stated by law. For companies outside Bulgaria, a tax audit is carried out as follows: in Ukraine - in a three-year period, in Poland and Kazakhstan - in a five-year period and in Serbia - in a ten-year period.

The companies Phyto Palauzovo AD, TOO Sopharma Kazakhstan, Pharmachim EOOD, Sopharmacy 59 EOOD, Sopharmacy 60 EOOD, Sopharmacy 61 EOOD, Sopharmacy 62 EOOD and Sopharmacy 39 EOOD, Sopharmasi 65 EOOD, Sopharmasi 66 EOOD, Sopharmasi 67 EOOD, Sopharmasi 68 EOOD and Sopharma Rus have not been subject to full-scope tax audits, VAT audits and inspections under the social security regulations.

39. OTHER CURRENT LIABILITIES

<i>Other current liabilities</i> include:	31.03.2024	31.12.2023
Dividend payables	44,697	44,720
Payables for recovery under contracts with customers	10,928	9,942
Payables related to share purchase	3,915	1,051
Contract liabilities	2,988	3,274
Government grants (<i>Note 31</i>)	586	597
Liabilities on deposits received as guarantees	136	136
Deductions from work salaries	93	164
Provisions under financial guarantees	51	50
Awarded amounts under litigations	17	17
Other	1,130	1,340
Total	64,541	61,291

40. CONTINGENT LIABILITIES AND COMMITMENTS

Issued and granted guarantees

Sopharma AD

As at March 31, 2024, the company has not provided collateral in favor of banks for loans received from associated companies (31.12.2023: BGN 14,107 thousand).

The company is a co-debtor under received bank loans, bank guarantees issued and leases, and is a guarantor to banks and suppliers, of the following companies:

	Maturity	Currency	Contracted amount	Guaranteed amount	
			<i>Original</i>		<i>31.03.2024</i>
			<i>currency</i>		<i>BGN'000</i>
			<i>BGN'000</i>		<i>BGN'000</i>
Doverie Obedinen Holding AD	2027	BGN	30,000	30,000	15,019
Energoinvestment AD	2024	BGN	2000	2000	1,550
Total					16,569

Bank guarantees

Sopharma Trading AD

The bank guarantees issued in favour of the company as at March 31, 2024 amount to BGN 14,013 thousand (31 December 2023: BGN 16,748 thousand) are to secure payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medicinal products to hospitals under concluded contracts, customs office guarantees and tender participation and collateral under rental of retail sites (pharmacies).

The bank guarantees have been issued by:

	<i>31.03.2024</i>	<i>31.12.2023</i>
	<i>BGN '000</i>	<i>BGN '000</i>
DSK AD	5,256	7,400
KBC Bank Bulgaria EAD	4,471	5,062
ING Bank N.V.	4,286	4,286
	14,013	16,748

As at March 31, 2024, Sopharma Trading AD has provided bank guarantees in the amount of BGN 1,885 (31.12.2023: BGN 1,785,000) as collateral under lease contracts for commercial establishments (pharmacies) to which its subsidiaries parties.

Sopharma Trading D.o.o., Serbia

As of March 31, 2024, bank guarantees issued for the company amount to BGN 16,765 thousand. (31.12.2023: BGN 15,360 thousand) and are for guaranteeing payment to suppliers of goods, for good performance - guaranteeing future supplies of medicinal and medical products to hospitals under concluded supply contracts, customs guarantee and participation in tenders.

The bank guarantees have been issued by:

	31.03.2023	31.12.2022
	BGN '000	BGN '000
Raiffeisen AD Belgrade	14,811	13,407
OTP Bank Serbia AD Belgrade (SG Expressbank AD Belgrade)	1,002	1,002
Eurobank AD Belgrade	952	951
Banca Intesa AD Belgrade	16,765	15,360

Insurance of performance guarantees

Sopharma Trading AD

As at March 31, 2024, the company has concluded contracts for insurance of performance guarantees in tenders for the supply of medicines and consumables for the benefit of medical institutions and the Ministry of Health in the amount of BGN 12,687 thousand. (31.12.2023: BGN 10,653 thousand).

Assets held under safe custody

Sopharma Trading AD

According to concluded pre-distribution contracts, the Company has received goods for safe custody amounting to BGN 5,993 thousand as at March 31, 2024 (31 December 2023: BGN 6,327 thousand).

Significant irrevocable agreements and commitments

Sopharma AD

The Company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 and Operational Programme "Energy Efficiency" (Note 31 and Note 39), related to the acquisition of non-current assets, reconstruction of buildings and technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section and implementation of "artificial tears" innovative eye drops (Note 14).

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.

Veta Pharma AD

The company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 (Notes 31 and 39) related to enhancing the efficiency of companies and developing a favourable business environment (Note 14). The company has

undertaken a commitment within 3 years after completion of the respective projects to not undergo significant changes concerning the essence and conditions of performance or resulting in undue benefits for the company, as well as changes resulting from a change in the ownership of the assets acquired in relation to the funding. Upon failure to meet these requirements, the funding is subject to recovery. As at the date of preparation of the statements, all contractual conditions have been met.

41. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows.

The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Group.

The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the finished products and services of the Group companies and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations.

Risk management is currently performed by the management of the parent company and respectively, the managing bodies of the subsidiaries, in line with the policy defined by the Board of Directors of the parent. The Board of Directors has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the separate specific types of risk such as currency, price, interest, credit and liquidity risk and the risk of use of non-derivative instruments.

The structure of financial assets and liabilities at March 31, 2024 is as follows:

Categories of financial instruments:	31.03.2024	31.12.2023
	BGN '000	BGN '000
<i>Financial assets</i>		
Financial assets at amortised cost, including:	517,911	461,554
<i>Receivables and loans granted (Notes 19, 20, 22, 23 and 24)</i>	493,611	332,679
<i>Cash and cash equivalents (Note 25)</i>	24,300	128,875
Financial assets at fair value through other comprehensive income, including:	11,873	3,942
<i>Equity investments (Note 18)</i>	11,873	3,942
<i>Total financial assets</i>	529,784	465,496
<i>Financial liabilities</i>		
Financial assets at amortised cost, including:	744,244	699,289
<i>Short-term and long-term bank loans (Notes 27 and 33)</i>	295,015	263,072

<i>Other loans and payables (Notes 32, 34, 35 and 39)</i>	358,894	348,438
<i>Finance lease liabilities (Note 30)</i>	90,335	87,779
<i>Total financial liabilities</i>	744,244	699,289

The net effect of accrued (reversed) impairment related to financial assets and financial guarantees recognised in the statement of comprehensive income (within profit or loss) is as follows:

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

	31.03.2004	31.12.2023
	BGN '000	BGN '000
Loans at amortised cost	530	462
Trade and other receivables, including from related parties	17	(41)
Court and awarded receivables	-	(13)
Total	547	408

Credit risk

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

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

Trade receivables

In its business practice, the Group has applied various schemes of distribution until arriving at its current effective approach, which considers the market environment, various forms of payments, as well as the inclusion of trade rebates. The Group 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.

Work with the NHSSO and with distributors working with state hospitals also require the adoption of a deferred payment policy in Bulgaria. 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 Group's credit policy envisages assessing each new customer's creditworthiness before proposing standard delivery and payment conditions.

The Group 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 Group companies 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 period of occurrence on an economic loss from uncollectability is determined by customer portfolios: wholesalers, pharmacy market, hospital market, and by geographic regions. This period is examined and historically assessed. The Group does not have a practice to request collateral of trade receivables, and does not insure them.

Second, the Group 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, and 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 Group's management has developed a methodology that includes two main components: determining the debtor's credit rating, and statistical models for calculating marginal PD 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.

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 Group considers that a certain financial instrument

has undergone a significant increase in credit risk when one or more of the following quantitative or qualitative criteria are met:

Quantitative criteria:

- An increase in the probability of default (PD) for the financial instrument's lifetime at the reporting date versus the possibility of default for the instrument's lifetime at the date on which the asset was initially recognised
- Payment is past due for over 30 days, but less than 90 days, past due
- An actual or expected significant adverse change in the debtor's operating result, above the permissible change range, measured based on the debtor's main financial and operating indicators
- A significant change in the value of the collateral, which is expected to increase the loss and risk of default.

Qualitative criteria:

- Significant adverse changes in the business, financial and/or economic conditions of the debtor;
- Actual or expected adverse changes in the debtor's operating results;
- A significant change in the collateral quality, which is expected to increase the risk of default;
- Early signs of cash flow/liquidity issues, such as delays in servicing trade creditors/bank loans.

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

The Company designates a financial instrument as *non*-performing and the credit loss as incurred, when it meets one or more of the following criteria:

Quantitative criteria

- The debtor's contract payments are over 90 days past due
- Significant adverse changes have occurred or are expected in the debtor's business, financial conditions and economic environment, manifest in a serious decrease in the debtor's main financial and operational indicators;
- The debtor states a number of losses and negative net assets;
- Significant adverse changes have occurred or are expected in value of the loan's key collateral, incl. loss of collateral.

Qualitative criteria

The debtor is unable to pay due to significant financial difficulties. This includes cases when:

- The debtor is in default of the financial contract, for instance with respect to interest payments, collaterals and/or another significant contract, including for financing;
- Adverse changes in the debtor's business, market, environment, and regulations;
- Concessions and reliefs have been made in relation to the debtor's financial difficulties;
- There is probability that the debtor declares insolvency.

The default definition is subsequently applied to modelling the probability of default (PD), the exposure at default (EAD), and the loss given default (LGD) determined through calculation of the Group's expected credit losses.

Expected credit losses have been determined by discounting the product of: the probability of default (PD), exposure at default (EAD), and the loss given default (LGD), determined as follows:

- PD is the probability of the debtor not meeting their financial obligations, either over the next 12 months, or over the financial asset's lifetime (lifetime PD) determined based on public PD data from generally accepted sources and statistical models of the impact of forecast macroeconomic factors. Moreover, the Company's management has conducted historical analysis and has identified the main economic variables impacting credit risk and expected credit losses per loan (portfolio) type.
- EAD is the amount payable to the Company by the debtor at default, over the next 12 months or over the remaining period of the loan, determined in accordance with the specific instrument's characteristics (amount due, repayment plans, interest, term, etc.).
- LGD is the Company's expectation for the amount of loss from a non-performing exposure. LGD varies depending on the type of counterpart, the type and superiority of the claim and the presence of collateral or other credit support. LGD is measured as a loss percentage for an open exposure at default.
- The discount rate used to calculate expected credit losses (ECL) is the instrument's initial effective interest or in the case of financial guarantees and other instruments without an applicable interest rate – the risk-free rate for the respective period, currency, etc.

The Group 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 presents the quality of the Group's financial assets, contract assets and financial guarantee contracts, as well as the maximum exposure to credit risk according to the credit rating adopted:

	<i>Note</i>	<i>Internal credit risk categorisation</i>	<i>Expected credit losses (IFRS 9)</i>	<i>Gross carrying amount</i>	<i>Impairment loss (allowance)</i>	<i>Carrying amount</i>
<i>31.03.2024</i>				<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Long-term loans to related parties	19	Initially negotiated loans – Stage 1	<i>Lifetime (credit-impaired)</i>	28,333	(118)	28,215
Receivables under assignment contracts from related enterprises	19	Regular Stage 1	<i>Lifetime (credit-impaired)</i>	3,915	-	3,915
Short-term loans to related parties	23	Initially negotiated loans – Stage 1	<i>Lifetime (credit-impaired)</i>	4,115	-	4,115

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Short-term loans to related parties	23	Renegotiated Stage 2	<i>Lifetime (credit-impaired)</i>	11,481	(2,684)	8,797
Long-term loans to third parties	20	Initially negotiated loans – Stage 1	<i>Lifetime (credit-impaired)</i>	1,956	-	1,956
Short-term loans to third parties	24	Initially negotiated loans – Stage	<i>Lifetime (credit-impaired)</i>	6,699	(939)	5,760
Short-term loans to third parties	24	Renegotiated Stage 2	<i>Lifetime (credit-impaired)</i>	8,559	(4)	8,555
Trade and other receivables from related parties	19, 23	N/A	<i>For a 12-month period</i>	2,932	(376)	2,556
Trade and other receivables from third parties (incl. court receivables)	20, 24 24	N/A	<i>For a 12-month period</i>	437,516	(7,774)	429,742
				<u>1,591</u>	<u>(1,313)</u>	<u>278</u>
Financial assets				<u>505,506</u>	<u>(11,895)</u>	<u>493,611</u>
	<i>Note</i>	<i>Internal credit risk categorisation</i>	<i>Expected credit losses (IFRS 9)</i>	<i>Gross carrying amount</i>	<i>Impairment loss (allowance)</i>	<i>Carrying amount</i>
31.12.2023				<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Long-term loans to related parties	21	Initially negotiated loans – Stage 1	<i>Lifetime (credit-impaired)</i>	49,071	(118)	48,953
Receivables under assignment contracts from related enterprises	21	Regular Stage 1		3,884	-	3,884
Short-term loans to related parties	25	Initially negotiated loans – Stage 1	<i>Lifetime (credit-impaired)</i>	4,067	-	4,067
Short-term loans to related parties	25	Renegotiated Stage 2	<i>Lifetime (credit-impaired)</i>	10,894	(2,154)	8,740
Long-term loans to third parties	22	Initially negotiated loans – Stage 1		1,956	(436)	1,520
Short-term loans to third parties	26	Initially negotiated loans – Stage 1	<i>For a 12-month period</i>	4,726	(503)	4,223
Long-term loans to third parties	26	Renegotiated Stage 2	<i>For a 12-month period</i>	8,516	(4)	8,512

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Trade and other receivables from related enterprises	21, 25	N/A	<i>For a 12-month period</i>	2,964	(376)	2,588
Trade and other receivables from third parties	24, 26	N/A	<i>For a 12-month period</i>	257,942	(7,750)	250,192
(incl. court receivables)	26			<u>7,877</u>	<u>(1,313)</u>	<u>6,564</u>
Financial assets				<u>344,020</u>	<u>(11,341)</u>	<u>332,679</u>

The table below provides information about the Group's exposure to credit risk and the impairment of credit losses for loans granted, trade receivables and other receivables as at March 31, 2024:

<i>Category</i>	Correlation to an external credit rating	Average percentage of expected impairment loss	Gross carrying amount	Impairment loss (allowance)
			<i>BGN '000</i>	<i>BGN '000</i>
Initially negotiated loans (Stage 1)	B3	3.12%	33,887	(1,057)
Renegotiated loans (Stage 2)	Caa1	22.93%	11,704	(2,684)
Renegotiated loans (Stage 2)	B3	0.05%	8,336	(4)
Initially negotiated loans (Stage 1)	Ba3	0.00%	7,216	-
Receivables under assignment contracts from related enterprises (Stage 1)	Caa1	0.00%	3,915	-
Trade and other receivables incl. related parties (Stage 1)	N/A	1.56%	438,857	(6,837)
Underperforming trade receivables (court and awarded receivables)	N/A	82.53%	<u>1,591</u>	<u>(1,313)</u>
			<u>505,506</u>	<u>(11,895)</u>

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

	<i>31.03.2024</i>	<i>31.12.2023</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Client 1	52.72%	59.92%
Client 2	18.46%	12.80%
Client 3	8.64%	11.80%

The Group manages 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.

The concentration of the first five clients in the Group's trade receivables is as follows:

	31.03.2024		31.12.2023	
	<i>BGN'000</i>	<i>% credit exposure versus the total amount of trade receivables</i>	<i>BGN'000</i>	<i>% credit exposure versus the total amount of trade receivables</i>
Client 1	17,493	6%	15,980	7%
Client 2	11,553	4%	9,827	4%
Client 3	5,666	2%	4,688	2%
Client 4	4,876	2%	4,484	2%
Client 5	4,850	2%	4,096	2%

Cash

The Group's cash and payment operations are concentrated in different first-class banks. To calculate expected credit losses for cash and cash equivalents, 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 and the reference public data about PD referring to the rating of the respective bank. 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 Group companies perform their operations with active exchange with foreign suppliers and clients and therefore, they are exposed to currency risk.

The Group through the companies in Ukraine and Serbia carries out business in these countries and, therefore, has significant exposure in UAH and RSD. The currency risk is related with the adverse floating of the exchange rate of these currencies 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 rest of the companies abroad perform sales mainly to the local markets, which leads to currency risk to their currencies as well – Polish Zloty (PLN), US Dollar (USD), British Pound (GBP) and Kazakhstani Tenge (KZT).

Most operations of the Group companies are usually denominated in BGN and the fact that the BGN is fixed to the EUR reduces the potential currency volatility for the companies of the Group.

To control foreign currency risk, there is an implemented system in the whole Group for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rates and control on pending payments. The exposures of almost all subsidiaries in Bulgaria to foreign currency risk are insignificant because almost all sales are performed to the local market in Bulgarian Levs (BGN). The import of goods is performed mainly in Euro (EUR). The loans denominated in a foreign currency have been granted mainly in EUR.

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

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	<i>in BGN</i>	<i>in EUR</i>	<i>in RSD</i>	<i>in USD</i>	<i>in UAH</i>	<i>in other currency</i>	<i>Total</i>
<i>31 March 2024</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>
Equity investments	2,854	-	-	9,019	-	-	11,873
Financial assets at amortised cost, including	377,403	38,107	78,834	7,529	7,841	8,197	517,911
<i>Loans and receivables, Cash and cash equivalents</i>	<i>368,762</i>	<i>34,322</i>	<i>78,118</i>	<i>6,998</i>	<i>630</i>	<i>4,781</i>	<i>493,611</i>
	<u>8,641</u>	<u>3,785</u>	<u>716</u>	<u>531</u>	<u>7,211</u>	<u>3,416</u>	<u>24,300</u>
Total financial assets	<u>380,257</u>	<u>38,107</u>	<u>78,834</u>	<u>16,548</u>	<u>7,841</u>	<u>8,197</u>	<u>529,784</u>

	<i>in BGN</i>	<i>in EUR</i>	<i>in RSD</i>	<i>in USD</i>	<i>in UAH</i>	<i>in other currency</i>	<i>Total</i>
<i>31 March 2024</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>
Short-term and long-term bank loans	211,662	82,375	978	-	-	-	295,015
Other loans and liabilities	227,235	76,490	50,970	2,790	666	743	358,894
Lease liabilities	65,957	23,771	-	266	40	301	90,335
Total financial liabilities	<u>504,854</u>	<u>182,636</u>	<u>51,948</u>	<u>3,056</u>	<u>706</u>	<u>1,044</u>	<u>744,244</u>

	<i>in BGN</i>	<i>in EUR</i>	<i>in RSD</i>	<i>in USD</i>	<i>in UAH</i>	<i>in other currency</i>	<i>Total</i>
<i>31 December 2023</i>	<i>BGN '000</i>	<i>BGN '000</i>					
Equity investments	3,929	-	-	13	-	-	3,942

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Financial assets at amortised cost, including	230,784	130,199	75,604	9,099	9,160	6,708	461,554
<i>Loans and receivables, Cash and cash equivalents</i>	219,839	25,995	71,041	8,119	3,313	4,372	332,679
	10,945	104,204	4,563	980	5,847	2,336	128,875
Total financial assets	234,713	130,199	75,604	9,112	9,160	6,708	465,496
	<i>in BGN</i>	<i>in EUR</i>	<i>in RSD</i>	<i>in USD</i>	<i>in UAH</i>	<i>in other currency</i>	<i>Total BGN</i>
31 December 2023	BGN '000	BGN '000					
Short-term and long-term bank loans	180,976	81,118	978	-	-	-	263,072
Other loans and liabilities	207,449	77,818	54,999	5,593	541	2,038	348,438
Lease liabilities	65,921	21,157	-	297	44	360	87,779
Total financial liabilities	454,346	180,093	55,977	5,890	585	2,398	699,289

Foreign currency sensitivity analysis

The foreign currency sensitivity of the Group exposures is mainly related with the Ukrainian Hryvnia (UAH), and the Serbian Dinar (RSD). With regard to the other currencies in which the Group operates or in which other companies of the Group operate (Polish Zloty, US Dollar and Kazakhstani Tenge) the foreign currency risk of the Group is limited, because their exposures in these currencies are relatively small and are more easily regulated by the managing bodies of the respective subsidiaries.

The effect of foreign currency sensitivity to 10% increase/decrease in current exchange rates of BGN to the Serbian Dinar (RSD), Ukrainian Hryvnia (UAH), US Dollar (USD) and in general to the other foreign currency exposures, based on the structure of foreign currency assets and liabilities at 31 March and on the assumption that the influence of all other variables is ignored, has been measured and presented as impact on the post-tax consolidated financial result and on the equity of the Group.

The impact in 2024 of a 10% increase/decrease in the exchange rates of RSD, UAH, USD against BGN on the Group's profit (following taxation) is:

31.03.2024			31.03.2023		
RSD	USD	UAH	RSD	USD	UAH

	<i>BGN '000</i>					
Financial result	(2,285)	(1,214)	(585)	(1,174)	(192)	(531)
Retained earnings	(2,285)	(1,214)	(585)	(1,174)	(192)	(531)

Mainly included in other currency: BGN 4,831 thousand. in PLN and BGN 2,308 thousand net financial assets in Kazakhstan tenge (as of 31.03.2023: BGN 3,084 thousand in PLN and BGN 2,194 thousand in Kazakhstan tenge net financial assets).

With a 10% increase/decrease, respectively, in the exchange rate of the Polish zloty and the Kazakh tenge against the Bulgarian lev, the final effect on the Group's profit (after tax) is:

	31.03.2024		31.12.2023	
	<i>PLN</i>	<i>KZT</i>	<i>PLN</i>	<i>KZT</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Financial result	391	185	250	219
Retained earnings	391	185	250	219

The effect on equity is of the same amount and in a direction of a decrease and reflects in the component 'retained earnings'.

The Group analyses currency exposure and takes timely measures to mitigate effects thereof on the Group's results.

Price risk

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

- a possible increase of purchase prices of raw materials and consumables, since a significant portion of the raw materials used are imported and they represent a significant share of production costs;
- a possible increase in supplier prices of goods; and
- the growing competition on the Bulgarian pharmaceutical market, affecting the prices of pharmaceuticals.

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

The Group is exposed to a significant price risk also with regard to the shares held thereby, classified as other long-term equity investments, mostly through the parent company. For this purpose, the management monitors and analyses all changes in security markets and also uses consulting services of one of the most authoritative in the country investments intermediaries. In addition, at this stage, the management

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

Liquidity risk

The liquidity risk is the adverse situation when the Group encounters difficulty in meeting unconditionally its obligations within their maturity.

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is its main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible general liquidity risk, the group implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is supplemented by current monitoring of the maturities of assets and liabilities, control over cash outflows and ensuring their current balancing with inflows, including renegotiation of maturities and optimisation of debt structure, increase and internal restructuring of self-generated funds and their investment.

Maturity analysis

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

<i>Maturity analysis as at 31 March 2024</i>	<i>up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 2 years</i>	<i>2 to 5 years</i>	<i>over 5 years</i>	<i>Total</i>
	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>	<i>BGN</i>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Short-term and long-term bank loans	58,769	7,538	177,199	6,289	47,831	4,981	1,203	303,810
Other loans and liabilities	120,954	84,843	148,856	1,185	1,169	3,508	1,169	361,684
Lease liabilities	1,533	3,016	4,581	8,537	17,598	37,221	26,134	98,620
Total liabilities	181,256	95,397	330,636	16,011	66,598	45,710	28,506	764,114

Maturity analysis as at 31 December 2023

<i>up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 2 years</i>	<i>2 to 5 years</i>	<i>over 5 years</i>	<i>Total</i>
	<i>s</i>	<i>s</i>					

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	<i>BGN</i> <i>'000</i>							
Short-term and long-term bank loans	5,902	18,939	131,673	58,197	50,304	5,433	1,607	272,055
Other loans and liabilities	256,267	78,562	6,038	2,068	1,067	3,352	1,170	348,524
Lease liabilities	1,445	3,064	4,464	8,850	16,331	35,702	23,968	93,824
Total liabilities	263,614	100,565	142,175	69,115	67,702	44,487	26,745	714,403

Risk of interest-bearing cash flows

Interest-bearing assets in the structure of the Group are: cash, bank deposits and loans granted at fixed interest rate.

On the other hand, the borrowings of the Group in the form of long-term and short-term loans are usually with a floating interest rate. This circumstance makes the cash flows of the Group partially dependent on interest risk. This risk is covered in two ways:

- optimisation of resources and structure 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, are maintained in a proportion favourable for the Group companies. 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 managing bodies of the Group companies together with the management of the parent currently monitor and analyse the exposure of the respective company to the changes in interest levels. 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.

<i>Interest analysis</i> <i>31 March 2024</i>	<i>interest-free</i> <i>BGN '000</i>	<i>with floating interest %</i> <i>BGN '000</i>	<i>with fixed interest %</i> <i>BGN '000</i>	<i>Total</i> <i>BGN '000</i>
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Equity investments	11,873	-	-	11,873
Financial assets at amortised cost, including:	423,223	3,962	90,726	517,911
<i>Receivables and loans</i>	410,194	15	83,402	493,611
<i>Cash and cash equivalents</i>	13,029	3,947	7,324	24,300
Total financial assets	435,096	3,962	90,726	529,784

<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating interest %</i>	<i>with fixed interest %</i>	<i>Total</i>
<i>31 March 2024</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Short-term and long-term bank loans	-	294,624	391	295,015
Other loans and liabilities	358,892	-	2	358,894
Lease liabilities	-	56	90,279	90,335
Total financial liabilities	358,892	294,680	90,672	744,244

<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating interest %</i>	<i>with fixed interest %</i>	<i>Total</i>
<i>31 December 2023</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Equity investments	3,942	-	-	3,942
Financial assets at amortised cost, including:	254,612	5,282	201,660	461,554
<i>Receivables and loans</i>	236,965	15	95,699	332,679
<i>Cash and cash equivalents</i>	17,647	5,267	105,961	128,875
Total financial assets	258,554	5,282	201,660	465,496

<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating interest %</i>	<i>with fixed interest %</i>	<i>Total</i>
<i>31 December 2023</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Short-term and long-term bank loans	80	261,985	1,007	263,072
Other loans and liabilities	348,436	-	2	348,438
Lease liabilities	-	62	87,717	87,779
Total financial liabilities	348,516	262,047	88,726	699,289

The table below demonstrates Group's sensitivity to possible changes in interest rates by 0.50 based on the structure of assets and liabilities as at 31 March 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>Increase / decrease in interest rate</i>	<i>Impact on post-tax financial result and equity profit/(loss)</i>	
	31.03.2024	31.03.2023
	BGN'000	BGN'000
Increase	(1,326)	(895)
Decrease	1,326	895

Capital risk management

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

The Group currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total amount of employed capital. Net debt is calculated as total borrowings (current and non-current ones) as presented in the consolidated statement of financial position less cash and cash equivalents. Total employed capital is equal the sum of equity (including non-controlling interest) and net debt. It is a characteristic feature for both presented periods that the Group finances its operations both through its own generated profit and by maintaining a certain level of trade and other current payables and loans (bank, commercial ones). The strategy of the parent company's management was to maintain the ratio within 25-35% at a Group level.

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

	31.03.2024	31.12.2023
	BGN'000	BGN'000
Total borrowings, including:	385,350	350,851
<i>Bank loans</i>	295,015	263,072
<i>Lease liabilities and factoring</i>	90,335	87,779
Less: Cash and cash equivalents	(24,300)	(128,875)
Net debt	361,050	221,976
Total equity of the Group	812,434	753,626
Total capital of the Group	1,173,484	975,602
Gearing ratio	0.31	0.23

The liabilities shown in the table are disclosed in *Notes 27, 30, 33 and 36*.

Fair value measurement

The fair value concept presumes realisation of the financial instruments through sales, based on the position, assumptions and judgements of independent market participants on the main or more profitable market for given assets or liabilities. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits with banks, the Group expects to realise these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at amortised cost.

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the consolidated statement of financial position based on market value (deposits placed with banks, investments in securities, loans with floating interest rate) and therefore, their fair value is almost equal to their carrying amount.

For receivables and loans with a fixed interest rate, the methodology applied in determining it uses as starting point for calculations Group's observations of market interest rates.

As far as no sufficient market experience, stability and liquidity exist in regards of purchases and sales of certain financial assets and liabilities, still no adequate and reliable quotes of market prices are available thereof, due to which alternative assessment methods and techniques are used.

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

42. RELATED PARTY TRANSACTIONS

Related parties	Relation type	Relationship period	
Telecomplect Invest AD	Shareholding company with significant influence	2024	2023
Donev Investments Holding AD	Shareholding company with significant influence	2024	2023
Momina Krepost AD	Joint venture	2024	2023
Sopharma Imoti REIT	Company related through shareholding company with significant influence	2024	2023
Doverie Ovedinen Holding AD	Associate	2024	2023
Sopharma Buildings REIT	Companies controlled by an associate	2024	From September 8, 2023
Pharmanova D.O.O.	Associate	2024	From November 10, 2023
Companies from the DOH Group	Companies controlled by an associate company	2024	2023
Sofprint Group AD	Company related through a main shareholder	2024	2023
Sofconsult Group AD	Company related through key management personnel	2024	2023
VES Eelectroinvest Systems EOOD	Company related through key management personnel	2024	2023
Eco Solar Invest OOD	Company related through key management personnel	2024	2023
Alpha In EOOD	Company related through key management personnel	2024	2023
Consumpharm OOD	Company related through key management personnel	2024	2023
DZZD "Veterinary Diagnostics"	Civil societies for the implementation of joint activity (direct participation)	2024	2023

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	<i>1 January – 31 March 2024 BGN ‘000</i>	<i>1 January – 31 March 2023 BGN ‘000</i>
<i>Supplies from related parties:</i>		
<i>Supply of inventories from:</i>		
Companies related through key management personnel	3,407	2,608
Associates	1,512	32
Companies controlled by an associate	74	25
Joint ventures	5	28
	4,998	2,693
<i>Supply of services from:</i>		
Companies controlled by an associate	280	275
Shareholding companies with significant influence	166	148
Associates	128	112
Companies under a common indirect control through key management personnel	35	65
Joint ventures	1	1
	610	601
<i>Supply of fixed tangible assets from:</i>		
Companies controlled by an associate	1,518	592
	1,518	592
<i>Other supplies from:</i>		
Companies controlled by an associate	63	56
	63	56
Total supplies	7,189	3,942
<i>Sales to related parties</i>		
<i>Sales of inventories to:</i>		
Companies controlled by an associate	451	326
Companies related through key management personnel	128	470
	579	796
<i>Sales of services to:</i>		
Companies related through key management personnel	54	52
Companies controlled by an associate	5	2
Associates	-	45
	59	99
<i>Fees on guarantorships and warranties to:</i>		
Joint ventures	-	12
	-	12
<i>Interest on loans granted:</i>		
Companies controlled by associates	466	590
Associates	20	-
Joint ventures	-	15
	486	605
<i>Cessions</i>		
Joint ventures	32	31
	32	31
	1,156	1,543

Leases

In the reporting period the Group recognised assets, liabilities and payments in relation to leases with related parties:

Lease liabilities as at 31 March in relation to leases with related parties are as follows:

	31.03.2024	31.12.2023
	BGN '000	BGN '000
Recognised lease liabilities at 1 January	19,626	20,616
Increases	328	1,851
Lease payments in the period	(732)	(2,841)
Lease liabilities at 31 March/31 December	19,222	19,626

Right-of-use assets as at 31 March in relation to leases with related parties are as follows:

	31.03.2024	31.12.2023
	BGN '000	BGN '000
Right-of-use assets at 1 January	19,323	20,524
Increases	321	1,877
Depreciation accrued	(796)	(2,996)
Derecognised carrying amount of right-of-use assets	(110)	(82)
Lease liabilities as at 31 March / 31 December	18,738	19,323

The newly arisen right-of-use assets and lease liabilities are under a lease concluded with an associate and with a company controlled by an associate.

The accounts and balances with related parties are presented in *Notes 19, № 23, № 28, and № 35*.

The composition of key management personnel of the Group includes the disclosed in Note 1.

Salaries and other short-term benefits of key management personnel and Executive Directors, members of the Board of Directors and General Managers of the Group's subsidiaries amount to BGN 632 thousand (2023: BGN 930 thousand).

44. EVENTS AFTER END OF THE REPORTING PERIOD

The parent company acquired 84,312 corporate bonds of Doverie United Holding AD, which were registered in the Central Depository on 04/02/2024. They were admitted to trading on the Bulgarian Stock Exchange AD on April 23, 2024.

On April 16, 2024, the Financial Supervision Commission by letter No. RG – 05 – 684 – 2 on the basis of Art. 125 in connection with Art. 89 r, para. 2 of the LPOS notified the parent company that within one month it should submit additional information, data and documents regarding the requested merger of the subsidiary Veta Pharma AD.

There are no other significant events occurring after March 31, 2024 that would require additional adjustments and/or disclosures in the consolidated financial statements as at March 31, 2024.