INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD FROM 01.01.2023 TO 30.09.2023

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. BACKGROUND CORPORATE INFORMATION

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

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

1.1. Ownership and management

“Sopharma” AD is a public company under the Law on Public Offering of Securities.

As at 30 September 2023, the structure of Company's joint-stock capital was as follows:

	%
“Donev Investments Holding” AD	35.26
“Telecomplect Invest” AD	20.68
CUPF “Alianz Bulgaria”	5.23
“Sopharma” AD (treasury shares)	10.00
Other legal persons	18.75
Physical persons	10.08

“Sopharma” AD has a one-tier management system with a five-member Board of Directors. Company's management in the form of Board of Directors is composed as at 30 September 2023 as follows:

Ognian Donev, PhD	Chairperson
Vessela Stoeva	Deputy Chaiperson
Bissera Lazarova	Member
Alexander Tchaoushev	Member
Ivan Badinski	Member

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

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

The composition of the Audit Committee is as follows:

Vasil Naidenov	Chairperson
Tsvetanka Zlateva	Member
Kristina Atanasova - Elliot	Member

Based on a contract for commercial management concluded on 9 June 2020, the Company's procurator is Simeon Donev.

The average number of Company's personnel for 2023 is 1,747 workers and employees (2022: 1,760).

1.2. Principal activities

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

- production and trade in medicinal substances and finished drug forms;
- research and development as well as engineering and implementation activities in the field of medicinal products;
- production and trade of veterinary-medical products and performance of laboratory services related to the examination of blood samples of animals.

The Company holds manufacturing / import authorisation for medicinal products which was last updated with № BG / MIA - 0384 dated 28 June 2023, issued by the Bulgarian Drug Agency (BDA).

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the separate financial statements

The separate financial annual statements of SOPHARMA AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2023 and have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general-purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

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

The adoption of these standards and/or interpretations, effective for annual periods commencing on 1 January 2023, has not resulted in changes to the Company’s accounting policy, 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 Practice Statement 2 (effective for annual periods beginning on or after 1 January 2023, endorsed by EC).* The changes: (a) require disclosure of material information about accounting policies instead of significant accounting policies. (b) explain how entities can identify material information about accounting policies and give examples of when information about accounting policies is likely to be material; (c) clarify that information about accounting policies may be material because of its nature, even when the amounts concerned are immaterial; (d) clarify that information about accounting policies is material if it is necessary for users of the entity's financial statements to understand other material information in the financial statements; and (e) clarify that if the entity discloses non-material information about accounting policies, this should not lead to concealment of material information about accounting policies. Earlier application is allowed. Management has made a study and determined that these changes would not have a material impact on the accounting policy and on the values and classification of the company's assets, liabilities, operations and results.

- *Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” (in force for annual periods beginning on or after 1 January 2023 – not endorsed by EC).* The changes are mainly focused on estimates and are related to: (a) the "definition of changes in estimates" has been replaced by "definition of estimates". According to the new definition, estimates are values in the financial statements that are subject to uncertainty about their valuation; (b) the entity develops estimates if the accounting policies require items in the financial statements to be measured in a manner that includes uncertainty about their measurement; (c) a clarification that a change in estimate resulting from new information or new developments does not constitute a correction of an error; and (d) a change in estimate may have an impact on profit or loss for the current period or on profit and loss for the current and future periods. Earlier application is allowed. Management has made a study and determined that these changes would not have a material impact on the accounting policy and on the values and classification of the company's assets, liabilities, operations and results.
- *IAS 12 Income Taxes (effective for annual periods beginning on 1 January 2023, endorsed by the EC).* Amendments to IAS 12 Income Taxes - Deferred Taxes on Assets and Liabilities Arising from a Single Transaction. The amendments limit the scope of the exemption from the recognition of deferred tax liabilities, as a result of which it does not apply to transactions where, on initial recognition, equal amounts of taxable and deductible temporary differences arise. Such transactions are the recognition of an asset “right of use” and lease obligations by lessees at the commencement date of the lease, as well as the accrual of liabilities for dismantling, relocation and restoration included in the cost of the asset. Upon the entry into force of the amendments, enterprises should recognize each

deferred tax asset (to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be used) and deferred tax liabilities (for all taxable temporary differences) in accordance with the criteria in IAS 12 for transactions in assets and liabilities arising from single transactions on or after the beginning of the earliest comparative period presented in the financial statements. Undertakings recognize the cumulative effect of the initial application of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, if appropriate at that date. The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. Management has made a study and determined that these changes would not have a material impact on the accounting policy and on the values and classification of the company's assets, liabilities, operations and results.

For the following new standards, amended standards and adopted interpretations that have been issued but are not yet effective for annual periods beginning on or after January 1, 2023, management has determined that the following would not have the potential effect of changes in the company's accounting policy and financial statements:

- *Changes in IAS 1 Presentation of financial statements (effective for annual periods from 01.01.2024, not adopted by the EC).* These changes are aimed at the criteria for classifying liabilities as current and non-current. According to them, the 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. Management has made a study and determined that these changes would not have a material impact on the accounting policy and on the values and classification of the company's assets, liabilities, operations and results.

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

- *Changes in IFRS 16 Leasing (effective for annual periods from 01.01.2024, not endorsed by the EC).* The amendment requires that after the commencement date of the lease (the date the underlying asset is provided) the seller lessee shall determine "lease payments" and "revised lease payments" in a manner that does not recognize a gain or loss that relates to the right-of-use retained from 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. Management has made a study and determined that these changes would not have a material impact on the accounting policy and on the values and classification of the company's assets, liabilities, operations and results.

- *Changes in IAS 1 Presentation of financial statements, non-current liabilities bound by restrictive conditions (effective for annual periods from 01.01.2024, not 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 financial position of the entity 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 obligations and the right to postpone them . However, entities should disclose information on restrictive covenants 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. Management has made a study and determined that these changes would not have a material impact on the accounting policy and on the values and classification of the company's assets, liabilities, operations and results.

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

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

The presentation of financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the individual financial statements, are disclosed in *Note 2.33, Note 13, Note 15 and Note 28.*

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated financial statements for the third quarter of 2023 in accordance with IFRS effective for year 2023 whereas the individual financial statements will be included therein. In accordance with the planned dates, the management expects the consolidated annual financial statements to be approved for issue no later than 30.11.2023 by the Board of Directors of the company after which date the report will be publicly available to third parties.

2.3. Merger of Biopharm Engineering AD into Sopharma AD

a) legal form of the mergers

The merger of Biopharm Engineering AD (transforming company) into Sopharma AD (acquiring company) was implemented through the legal form of transformation regulated in the Commercial Law. The merger was entered in the Commercial Register of the Registration Agency on 23.08.2023. 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.

On 23.01.2023, a contract for transformation by merger was signed between Sopharma AD (acquiring company) and Biopharm Engineering AD (transforming company), which regulates the manner in which the transformation will be carried out. The fair price of the shares of the companies participating in the conversion was determined on the basis of the generally accepted valuation methods, based on which the exchange ratio of 2,73 was formed.

The conversion agreement and the auditor's report were approved by the General Meeting of the acquiring company on 08,04,2023.

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, to optimize administrative costs;
- increasing efficiency and achieving a synergistic effect both for the management and performance of production and commercial activities, as well as for cost optimization.

b) accounting method of accounting for mergers

For accounting purposes, 01.01.2023 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. The infusion was accounted for by applying the "combination of participations" method. According to the requirements and rules of this method, the activities and assets of the companies are presented in this financial statement as if they had always been combined since the beginning of the earliest period presented in the financial statements (01.01.2022), regardless of legal events and procedures and their effects on the legal status and life of the receiving and transforming company. The effects of all business operations between the host and converting company, including the settlements between them, regardless of whether they occurred before or after the restructuring date, are eliminated. All differences from the infusion operation are reported in the equity - "retained earnings" component (*Note 40*).

2.4. Comparatives

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

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

The comparative information for 2022, presented in the statement of financial position, the statement of comprehensive income and the statement of cash flows of the company, was prepared on the basis of the combined data from the individual annual financial statements of Sopharma AD (acquiring company) and Biopharm Engineering AD (transforming is a company) in connection with the merger carried out under the unified accounting policy and eliminated internal calculations, transactions and payments between them. The financial statement includes two comparable periods - 31.12.2022 and 01.01.2022, as far as combining the data from the reports of the two companies leads to indicators that are significantly different compared to the individual indicators of the company Sopharma AD itself for these periods *(Note 40).*

The 2022 comparative information in the statement of changes in equity also presents aggregated figures for the balances and changes of each equity capital component of equity (share capital, reserves, retained earnings) from the 2022 individual statements of the receiving and the transforming company, regardless of the fact that the legal form of the merger was carried out on 23.08.2023.

Information on the content of the equity components of the receiving and converting company is disclosed in *Note 26*.

2.5. Functional currency and recognition of exchange differences

The functional and reporting (presentation) currency of the Company is the Bulgarian Lev. Starting from 1 July 1997 the Bulgarian Lev was fixed under the Bulgarian National Bank Act to the German Mark at the ratio of BGN 1 : DEM 1, and with the introduction of the Euro as the official currency of the European Union, it has been fixed to the Euro at a ratio of BGN 1.95583 : EUR 1.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash and cash equivalents, receivables and payables, as monetary reporting items, denominated in a foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the Bulgarian National Bank (BNB) for the last working day of the respective month. At 31 December, these amounts are presented in BGN at the closing exchange rate of BNB.

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

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

2.6. Revenue

Revenue from contracts with customers

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

2.6.1. Recognition of revenue from contracts with customers

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

Measurement of contracts with customers

The Company accounts for *a contract with a customer* only if upon its enforcement: a/ it has commercial essence and rationale; b/ the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform it; c/ each party's rights and the d/ payment conditions can be identified; and e/ it is probable that the Company will collect the consideration to which it is entitled upon performing its performance obligations. In evaluating whether collectability of an amount of consideration is probable, the Company considers all relevant facts and circumstances of the transaction, including past experience, customary business practices, published rules and declarations made by the Company, collaterals and possibilities for satisfaction.

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

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

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

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

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

2.6.2. Measurement of revenue under contracts with customers

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

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

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

2.6.3. Performance obligations under contracts with customers

Revenue from the sale of products

Wholesales of medical substances and medical forms are made in the country and abroad, both based on the Company's specification (technology) and based on the customer's specification (technology). As a whole, the Company has concluded that it acts as principal in its contracts with customers, unless it has been explicitly stated otherwise for certain transactions, since usually the Company controls its goods and/or services prior to their transfer to the customer.

Sales of products based on the Company's specifications

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

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

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

Sales of products based on the customer's specifications

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

If in the specific contract the Company has a legally exercisable right to payment, revenue is recognised *over time*, and the *output method* is used to measure progress (stage of completion) of the contract. This method has been determined as most suitable to measure progress, as the results achieved best describe the Company's activity towards complete satisfaction of the performance obligations. Progress is measured *based on the units produced versus the total number of units ordered by the customer*. The assessments of revenue, costs and/or stage of progress towards complete satisfaction of the performance obligations are reviewed at the end of each reporting period, incl. in case of change in the circumstance/occurrence of new circumstances. Each subsequent increase or decrease of expected revenue and/or costs is stated within profit or loss for the period in which the circumstances resulted in the review became known to the management.

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

Transportation of the products sold

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

The transportation service following transfer of control over the products sold is accounted for as a *separate performance obligation*, since the transportation can be provided by another supplier (i.e. the customer may use the products sold with easily accessible resources), and the transportation service does not modify or amend the products sold in any way. In this case, the remuneration the Company expects to be entitled to (the transaction price) is allocated between the separate performance obligations based on their standalone selling prices. The standalone selling price of the products sold is determined based on the price list effective at the transaction’s date, and the standalone selling price of the transport service is determined in an approximate manner by using the cost plus margin approach.

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

Revenue from the sales of transportation services are recognised *over time*, since it is not necessary for the work performed to date to be repeated if another party has to perform the remaining work, therefore, the customer receives and consumes rewards simultaneously with the service rendition. In order to measure the contract progress (stage of completion), the *input method* is used. This method has been determined as most appropriate to measure progress since it best describes the Company’s activity regarding the transfer of control and satisfaction of obligations; respectively, it most accurately reflects the level of performance of obligations, in as far as the Company’s efforts (costs incurred) are directly related to the transfer of the service to the customer. Progress is measured *based on the costs incurred versus the total costs planned for contract performance*.

Transaction price and payment terms

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

Variable consideration

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

- *Volume discounts:* Retrospective trade discounts provided to the customer upon reaching monthly, quarterly and/or annual turnover determined in advance, set as a uniform threshold and/or progressive bonus scheme. Upon measuring the variable consideration, the Company determines the customer’s estimated turnover by using the most probable value method. The discounts granted are offset against the amounts due by the customer.
- *Price protection:* With regards to domestic sales, the Company is obliged, upon price reduction imposed by a state regulatory body, to compensate the buyer and/or its customers for finished 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 Company’s control.
- *Compensation for hidden flaws:* the customer may claim returns due to hidden flaws (quality claims) throughout the validity period of the finished goods sold, which may vary from one to five years. Quality claims are settled by the provision of new compliant goods or by recovery of the amount paid by the customer. Upon determining the compensations for hidden flaws due at the end of the reporting period, the Company takes into consideration the quality assurance system implemented thereby and the accumulated experience.
- *Compensations due to the customer:* in case of inaccurate performance of contractual obligations by the Company, usually in relation of failure to meet the negotiated delivery deadline. These are included within a decrease of the transaction price only if the payment is very likely. The Company’s experience shows that historically, contract terms are complied with, and the Company has not charged payables for payment of compensations.
- *Compensations owed by the customer:* variable consideration in the form of compensations for delayed payment by the customer. Receiving such consideration depends on the customer’s actions and is beyond the Company’s control. They are included within the transaction price only when the uncertainty regarding their receipt has been resolved.
  Including compensations (owed by and due to the customer) within the transaction price is determined for each individual contract and is subject to review at the end of each reporting period.

The variable consideration expected in the form of various discounts, defaults and compensations is determined and measured based on the accumulated historical trade experience with customers and is recognised as adjustment for the purpose of the transaction price only and respectively the revenue (as an “increase” or a “decrease” component) only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, including due to assessment restrictions.

Any subsequent changes to amount of the variable consideration are recognised as adjustment of revenue (as an increase or a decrease) at the date of change and/or resolving the uncertainty. At the end of each reporting period, the Company updates the transaction prices, including whether the estimated price contains restrictions, so as to accurately present circumstances existing and occurring during the reporting period. Upon assessing the variable consideration, the Company uses the most likely value approach. Discounts accrued but not settled at the end of the reporting period, to which the customer still does not have unconditional right, are presented as refund obligations in the statement of financial position.

2.6.4. Contract costs

The Company treats as contract costs the following:

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

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

2.6.5. Contract balances

Trade receivables and contract assets

A contract asset is the Company's right to consideration in exchange for goods or services that it has transferred to a customer but is not unconditional (receivable accrual). If by transferring the products and/or providing the services the Company performs its obligation to the customer to pay the respective consideration and/or before the payment is due, a contract asset is recognised for the consideration worked-out (which is conditional). Recognised contract assets are reclassified as trade receivables when the right to consideration becomes unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Contract liabilities

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

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

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

2.6.6. Refund obligations under contracts with customers

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

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

Other revenue

Other revenues include the realized revenues from provided investment properties and tangible fixed assets under operating lease. They are presented in the statement of comprehensive income (in profit or loss for the year) to the item / item "income".

2.7. Expenses

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

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

Losses from the revaluation of investment property to fair value are stated in the statement of comprehensive income (within profit or loss for the year), within “other operating income/(losses)”.

Losses from revaluation of agricultural produce upon initial fair value measurement are stated in the statement of comprehensive income (within profit or loss for the year), within “other operating income/(losses)”.

2.8. Financial income

Financial 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 time deposits, interest income on receivables under special contracts, interest income on receivables under assignment agreements, dividends from capital investments, net profit from exchange rate differences on loans in foreign currency, income from guarantees provided, income from debt settlement operations, gain on revaluation to fair value of long-term equity investments that are part of a phased acquisition of a subsidiary.

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

Financial income is stated separately from financial costs on the face of the statement of comprehensive income (within profit or loss for the year).

2.9. Financial costs

Financial income is included in the statement of comprehensive income (within profit or loss for the year) when incurred, and are stated separately from financial income and comprise: interest expenses on loans, interest expense on leases, related to the payment of dividends, bank expenses charges and guarantees, net foreign exchange loss from loans in a foreign currency, impairment of fees on guarantees provided, provisions under financial guarantee contracts and impairment of commercial loans granted.

Financial costs are stated separately from financial income on the face of the statement of comprehensive income (within profit or loss for the year).

2.10. Property, plant and equipment

Property, plant and equipment, including biological assets (carriers) are presented at revalued amount less the accumulated depreciation and impairment losses in value.

Initial acquisition

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

Upon acquisition of non-current tangible assets under deferred settlement terms, the purchase price is equivalent to the present value of the liability discounted on the basis of the interest level of the attracted by the Company credit resources with analogous maturity and purpose.

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

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

The useful life per group of assets is as follows:

- for buildings – from 20 to 70 years;
- for facilities and transmitter devices – from 5 to 30 years;
- for machinery and equipment – from 6 to 35 years;
- for computers and mobile devices – from 2 to 5 years;
- for servers and systems – from 4 to 18 years;
- for motor vehicles – from 5 to 13 years;
- for furniture and fixtures – from 3 to 13 years;
- for other tangible assets - from 3 years to 12 years;
- for biological assets (carriers) – from 10 to 12 years.

The term of use of right-of-use assets is as follows:

- for land – from 4 to 5 years;
- for buildings – from 2 to 10 years;
- for facilities and transmission devices – from 2 years to 10 years;
- for motor vehicles – from 2 to 5 years;
- for furniture and fixtures – from 2 to 3 years.

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

Impairment of assets

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

Gains and losses on disposal (sale)

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

2.11. Biological assets and agricultural produce

Upon initial acquisition, biological assets (non-fruit-bearing) are valued at acquisition cost (cost), which includes the purchase price and all direct costs necessary to align the asset to a fruit-bearing condition. Direct costs are mainly: costs for land preparation and processing, costs for planting, fertilization, irrigation and other activities performed over a long period (4-5 years) in which biological assets (non-fruit-bearing) will be transferred into biological assets (bearer plants).

Agricultural produce (yellow acacia harvest) is measured at fair value as at the date of acquisition, less the sales costs. The fair value of agricultural produce is determined with the assistance of an independent licensed appraiser:

The agricultural produce –yellow acacia seeds – is presented within the Company’s inventories, on line “herbs” and is subsequently measured according to the requirements of IAS 2 *Inventories*.

Gains on losses on measurement of agricultural produce at fair value, less sales costs, are recognized in the statement of comprehensive income (within profit or loss for the year) when incurred and are stated within “other operating income/(losses), net”.

2.12. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition (the consideration given) over the fair value of the share of Sopharma AD in the net identifiable assets of the subsidiaries (Bulgarian Rose -

Sevtopolis AD, Medica AD, Unipharm AD and Biopharm Engineering AD) at the date of its acquisition (the business combination).This goodwill on the merger of the subsidiaries into the parent company is recognised in the separate statement of financial position of the parent. Goodwill is presented within the 'intangible assets' group.

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

Other intangible assets

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

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

The useful life per group of assets is as follows:

- for software – from 2 to 12 years;
- for patents and licenses – from 2 to 10 years;
- for trademarks – from 5 to 13 years;
- for other intangible assets – from 5 to 7 years.

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

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

2.13. Investment property

Investment property is property lastingly held by the Company to earn rentals and/or for capital appreciation. They are presented in the statement of financial position at fair value *(Note 2.32)*. Gains or losses arising from a change in the fair value of investment property are recognised in the statement of comprehensive income (within profit or loss for the year) as 'other operating income/(losses), net' for the period in which they arise. Realized income from investment property is presented in the statement of comprehensive income (in profit or loss for the year) to the item "income".

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

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

2.14. Investments in subsidiaries, associates and joint ventures

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

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

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

Dividend income

Dividend income from long-term investments in the form of shares and interests in subsidiaries, associates and joint ventures is recognized as current income and presented in the statement of comprehensive income (in profit or loss for the year) to the item “financial income”.

Investments are derecognised when the rights related thereto are transferred to third parties as a result of occurrence of legal rights for that and thus the control over the economic benefits from the respective specific type of investments are being lost. Gain/(loss) on disposal is presented in the statement of comprehensive income (in profit or loss for the year).

2.15. Other long-term equity investments

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

Initial measurement

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

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

Subsequent measurement

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

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

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

Dividend income

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

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

2.16. Inventories

Inventories are valued in the financial statements as follows:

- raw materials, materials and goods – at the lower of acquisition cost (cost) and net realisable value;
- finished goods, semi-finished goods and work in progress – at the lower of production cost and net realisable value;
- agricultural produce – at the lower of fair value at initial acquisition 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 goods, semi-finished goods and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs. Fixed production overheads are included in the production cost of manufactured finished goods semi-finished goods and work in progress based on the normal operating capacity determined on the grounds of commonly maintained average volume of production confirmed by the production plan. The base, chosen for their allocation at unit-of-production level, is the standard rate of man-hours of directly engaged staff in the production of the particular unit.

The Company applies 'standard production cost' for current valuation of finished goods, semi-finished goods 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 goods, semi-finished goods 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 1,5%, within which the current value of the existing closing stocks of raw and other materials, finished goods and work in progress are not adjusted for the purposes of the financial statements (*Note 2.33).*

Non-production inventories are written down as they are used (input and sold) using the weighted average value (cost) method.

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

2.17. Trade receivables

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

Initial measurement

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

Subsequent measurement

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

Impairment

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

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

2.18. Interest-bearing loans and other financial resources granted

All loans and other financial resources granted are initially presented at acquisition cost (nominal amount), which is accepted to be the fair value of the amount given in the transaction, net of the direct costs related to these loans and granted resources. Following their initial recognition, interest-bearing loans and other funding granted is subsequently measured and stated in the statement of financial position at amortised cost, determined by applying the effective interest method. They are classified in this group since the Company's business model only aims to collect contractual cash flows of principal and interest. Amortised cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) as financial income (interest) or 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 Company has unconditionally the right to settle its payable within a term of more than 12 months after the end of the reporting period (*Note 2.26*).

2.19. Cash and cash equivalents

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

Subsequent measurement

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

For the purposes of the statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on received investment purpose loans is reported as payments for financial activities while the interest on loans for current activities (for working capital) is included in the operating activities;
- interest received from bank deposits is included within cash flows from investing activities;

- VAT paid on fixed assets purchased from foreign suppliers is presented within the item 'taxes paid', while that paid on assets purchased from local suppliers is presented within the items ‘purchase of PPE’, ‘purchase of intangible assets’ and ‘purchase of investment property’ within cash flows from investing activities;
- overdraft proceeds and payments are stated net by the Company;
- permanently blocked funds for a period of more than 3 months are not treated as cash and cash equivalents.
- proceeds under factoring agreements are stated within cash flows from financing activities.

2.20. Trade and other payables

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

2.21. Interest-bearing loans and other borrowings

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

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

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

2.22. Capitalisation of borrowing costs

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

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

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

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

2.23. Leases

Lessee

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.

The Company as elected to state all lease payments under short-term leases (up to 12 months) as current expenses over a straight-line basis for the lease term.

Initial recognition

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

The acquisition cost of the right-of-use asset 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 lessee;
- provisions for expenses related to dismantling and removing the underlying asset.

The Company 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.

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

The lease liabilities include the net present value of the following lease payments:

- fixed lease payments less any lease inceptives receivable;
- variable lease payments that depend on an index or rate;
- the exercise price of the purchase options, if the lessee is reasonably certain to exercise this option;
- payments of penalties for terminating the lease;

• residual value guarantees.

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 financial cost (interest) and the respective portion of the lease liability (principal). Financial costs for the lease are presented in the statement of comprehensive income 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.

Subsequent measurement

The Company has elected to apply the acquisition cost model for all of its right-of-use assets. They are presented at acquisition cost less the depreciation accumulated, impairment losses and adjustments from restatement and adjustments to the lease liability.

The Company 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.

Accounting for revaluation and modifications to leases

As a result of revaluation, the lessee recognises the amount of revaluation of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the asset is lower, the residual amount of revaluations is recognised within profit or loss.

The Company remeasures the lease liabilities whenever:

• the modification increases the scope of the lease by adding another right-of-use of one or more additional underlying assets;

• the lease payment increases by an amount corresponding to the standalone price of the increase in the scope and potential adjustments reflecting circumstances of the respective lease.

Payments related to short-term leases and leases in which the underlying asset is of a low value, as well as variable lease payments are recognised directly as current expenses in the statement of comprehensive income on a straight-line basis over the lease term.

Lessor

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

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

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

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

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

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

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

Short-term benefits

Short-term benefits in the form of remuneration, bonuses and social payments and benefits (due for payment within 12 months after the end of the period when the employees have rendered the service or have satisfied the required terms) are recognised as an expense in the statement of comprehensive income (within profit or loss for the year) for the period when the service thereon has been rendered and/or the requirements for their receipt have been met, unless a particular IFRS requires capitalisation thereof to the cost of an asset, and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount.

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

Tantieme and bonus schemes

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

Long-term retirement benefits

Defined contribution plans

The major duty of the Company as an employer in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, the Guaranteed Receivables of Workers and Employees (GRWE) Fund and for health insurance. The rates of the social security and health insurance contributions are defined annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC).

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

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

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

Defined benefit plans

In accordance with the Labour Code, the Company in its capacity as an employer in Bulgaria is obliged to pay an indemnity to its personnel when coming of age for retirement, at an amount which, depending on the length of service with the entity, varies between two and six gross monthly salaries at the employment termination date. In their nature these are unfunded defined benefit schemes.

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

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

Share-based payments

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

Termination benefits

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

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

2.25. Share capital and reserves

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

According to the requirements of the Commercial Act and the Articles of Association, the Company is obliged to set aside a ***Reserve Fund*** by using the following resources:

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

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

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

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

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

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

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

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

The reserve for financial assets at fair value through other comprehensive income is formed by the effects of fair-value measurement of other long-term equity investments. Upon derecognition of these investments, the reserve form is transferred to ‘retained earnings’.

The other capital components *represent a reserve on issued warrants, which is formed by the difference between the issue value of the subscribed warrants and the transaction costs related to the issue. The warrants are issued and subscribed at a fixed price denominated in BGN and carry future rights for conversion into a fixed number of ordinary, dematerialized, registered, freely transferable shares of the company, therefore they are classified as equity instruments.*

2.26. Financial instruments

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

Financial assets

Initial recognition, classification and measurement

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

The Company initially measures financial assets at fair value, and in the case of financial assets which are not stated at fair value through profit and loss, the direct transaction costs are added. An exception to this rule are trade receivables that do not contain a significant financing component – they are measured based on the transaction price determined under IFRS 15 *(Note 2.6.1.).*

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

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

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

Subsequent measurement

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

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

<u>Classification groups</u>

Financial assets at amortised cost (debt instruments)

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

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

Financial assets at amortised cost are subsequently measured using the effective interest method.

They are subject to impairment. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) upon asset disposal, modification or impairment.

The company's financial assets at amortized value include: cash and cash equivalents in banks, trade receivables, incl. from related parties, loans granted to related enterprises, receivables under assignment agreements and loans granted to third parties (*Note 19, Note 20, Note 22, Note 23, Note 24 (a) and Note 25).*

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

Upon their initial recognition, the Company may make an irrevocable choice to classify certain equity instruments as financial instruments at fair value through other comprehensive income, but only if they meet the equity definition under IAS 32 *Financial Instruments*. The classification is determined at the level of individual instruments.

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

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

Derecognition

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

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

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

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

Impairment of financial assets

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

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

Expected credit losses are recognised at two stages:

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

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

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

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

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

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

In order to calculate expected credit losses for *trade receivables and contract assets* the Company has elected and applies a simplified approach based on an expected credit losses calculation matrix and does not monitor subsequent changes in their credit risk. In this approach, it recognises an allowance (impairment provision) based on lifetime expected credit losses at each reporting date. The Company has developed and applies a provisioning matrix based on its historical experience with credit losses, adjusted with forecast factors specific for debtors and the economic environment, for which a correlation has been established with the percentage of credit losses (*Note 41).*

Derecognition

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

Financial liabilities

Initial recognition, classification and measurement

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

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

Subsequent measurement

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

<u>*Classification groups*</u>

Loans and borrowing

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

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

Derecognition

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

Offsetting (netting) of financial instruments

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

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

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

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

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

- the offsetting should be enforceable and legally defendable during (cumulatively):

  - the Company’s usual business operations;
  - in case of default/delay, and
  - in case of insolvency.

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

2.27. Financial guarantee contracts

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

Financial guarantee contracts are recognised a financial liabilities at guarantee issuance. The liability is initially measured at fair value, and subsequently – at the higher of the following:

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

The fair value of financial guarantees is 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 at the amount of expected losses under financial guarantee contracts is included in the statement of financial position, within “other current liabilities”.

2.28. Income taxes

Company's *current income taxes* are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate in Bulgaria for 2023 is 10% (2022: 10%).

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

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

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

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

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

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

The deferred tax assets of the Company are presented net against its deferred tax liabilities when and as much as it is the tax payer for them in the respective jurisdiction (Bulgaria), and this is only in cases where the Company is legally entitled to perform or receive net payments of current tax liabilities or income tax receivables.

As of 30 September 2023 the deferred income tax liabilities of the Company were assessed at a rate valid for 2023, at the amount of 10% (31 December 2022: 10%).

2.29. Government grants

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

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

Government funding represents various forms of grants from the state (local and central authorities and institutions) and/or intergovernmental agreements and organizations.

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

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

2.30. Net earnings or loss per share

2.30.1. Basic net earnings or loss per share

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

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

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

2.30.2. Net earnings or loss per diluted share

Net gain or loss on diluted shares is calculated because there are potential diluted shares (warrants) issued.

In calculating diluted net profit or loss, net profit or loss for the period allocable to common stockholders and the weighted average number of shares outstanding is adjusted for the effect of any potential diluted common stock value.

Profit or loss for the period allocable to common stockholders is increased by the amount of after-tax dividends and interest recognized in the period in respect of the potential diluted common stock and adjusted by any other changes in earnings or the costs that could arise as a result of the conversion of potential ordinary shares at a reduced value.

The weighted average number of common shares outstanding during the period is increased by the weighted average number of additional common shares that would be outstanding if all potential diluted common shares were converted.

2.31. Segment reporting

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

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

Information by operating segments

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

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

The Company manages its investments in securities, trade accounts and financial resources granted/received as well as taxes at entity's level and they are not allocated at segment level.

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

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

2.32. Fair value measurement

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

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

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

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

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

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

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

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

The Company has developed internal rules and procedures for measuring the fair value of various types of assets and liabilities. For the purpose, a specifically designated individual, subordinated to the

Company's Finance Director, organised the performance of the overall valuation process and also coordinates and observes the work of the external valuators.

The Company uses the expertise of external certified appraisers to determine the fair value of the following assets and liabilities: *financial assets at fair value through other comprehensive income* Level 1 and Level 2, *investment property* – Level 2, *property, plant and equipment* – Level 2 and Level 3. The choice of licensed appraisers is made on an annual basis using the following criteria: applied professional standards, professional experience and knowledge, reputation and market status. The need for rotation of external appraisers is periodically assessed – every three to five years. The applied valuation approaches and techniques as well as the used inputs for each case of fair value measurement are subject to mandatory discussion and coordination between the external experts – appraisers and the specifically designated individual, engaged with measurements, and so is the acceptance of the issued appraiser's reports – especially with regard to the significant assumptions and the final conclusions and proposals for the fair value amount. The final fair value measurements are subject to approval by Company's Finance Director and/or Chief Accountant, Executive Director and the Board of Directors.

In accordance with Company's accounting policy, at the end of each reporting period the specifically designated individual, engaged with measurements, performs a general analysis of collected in advance information about the movement in the values of the Company's assets and liabilities that are subject to valuation or to a disclosure at fair value, the type of available data and the possible factors for the observed changes, and proposes for approval to the Finance Director, the approach for measuring the fair value of the respective assets and liabilities at that date. Where necessary, this is explicitly consulted with the involved external appraisers.

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

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

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

Fair value measurement of equity investments

When the fair value of equity investments carried in the statement of financial positions cannot be obtained based on quoted prices on active markets, their fair value is determined by using other valuation models and techniques, including the discounted cash flows model.

The input used in these models is obtained from observable markets, where possible, but when this cannot be done, significant judgement is applied to determine fair values. Such judgement involves the review, analysis and assessment of input, for instance regarding liquidity risk, credit risk, and volatility. The changes in assumptions for these factors may impact the amount of the fair value of financial instruments stated. The main key assumptions and components of the model are disclosed in *Note 18*.

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

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

In order to apply these requirements, the Company's management makes a number of material judgements, such as: a) determining criteria to identify and measure significant credit risk increases; b) selection of suitable models and assumptions to measure expected credit losses; c) establishing groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses; d) establishing and assessing the correlation between historical default rates and the behaviour of certain macro indicators to reflect the effects of forecasts for these macro indicators in the calculation of expected credit losses. (*Note 41)*.

Regarding trade receivables, including from related parties

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

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

The assessment of the relation between observable historical default rates, the forecast economic conditions and expected credit losses is a significant accounting judgement.

The amount of expected credit losses is sensitive to changes in circumstances and forecast conditions. The Company's historical credit closes and the forecast economic conditions may deviate from actual collection rates in the future.

Information about expected credit losses from trade receivables and contract losses is disclosed in *Note 19*, *Note 20, Note 22, Note 23 and Note 24b.*

For 2023, impairment of trade receivables was recovered, incl. from related parties in the amount of BGN 1,876 thousand, net of the accrued (2022: accrued impairment of trade receivables, incl. from related parties in the amount of BGN 11,899 thousand, net of the recovered) *(Note 8, Note 20, Note 22 and Note 23 and Note 24 b).*

Regarding loans and guarantees granted:

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

ECL is the expected credit losses indicator;

EAD is the exposure at default indicator;

PD is the probability of default indicator;

LGD is the loss given default indicator.

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

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

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

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

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

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

The main matters related to the policy and set of criteria to assess the Company's exposure to credit risk related to loans granted are disclosed in *Note 41*.

Information about expected credit losses from loans and sureties and financial guarantees is disclosed in *Note 19, Note 20, Note 22, Note 23 and Note 38.*

For 2023, the accrued impairment for expected credit losses on granted loans is in the amount of BGN 793 thousand, net of the recovered (2022: the accrued impairment for expected credit losses on granted loans is in the amount of BGN 1,270 thousand, net of the recovered) *(Note 10, Note 11, Note 19, Note 20, Note 22 and Note 24 a).*

For 2023, there is no accrued impairment for expected credit losses under financial guarantee contracts (2022: the accrued impairment for expected credit losses under financial guarantee contracts in the amount of BGN 570 thousand) *(Note 11 and Note 38).*

For 2023, there are no recovered expected credit losses due to guaranty fees (2022: recovered expected credit losses due to guaranty fees in the amount of BGN 58 thousand, net of the charge). *(Note 11 and Note 22).*

Cash

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

Leasing contracts

The application of IFRS 16 requires the management to perform various assessments, estimates and assumptions that impact the accounting for right-of-use assets and lease liabilities. The main key assessments concern determining an appropriate discount rate and determining the term of each lease, including whether it is reasonably certain that the extension/termination options will be exercised. As a result of the uncertainty regarding these assumptions and estimates, significant adjustments may be made to the respective assets and liabilities in the future, respectively the revenue and expenses stated (*Note 30, Note 31, Note 35 and Note 38).*

Revenue from contracts with customers

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

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

Inventories

Normal capacity

Company's normal production capacity is determined on the basis of management assessments (made after relevant analyses) for optimum load of the production facilities and return on the investments made therein, with structure of the manufactured finished goods accepted as being common for the Company. When the actually achieved volume for individual articles is below the volume at the normal production capacity, set by the Company, the relevant recalculation are made for the fixed overheads, included in the cost of stocks of finished goods and work in progress.

Impairment

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

As a result of the reviews and analyzes made in 2023 impairment of inventories was reported in the amount of BGN 152 thousand (2022: none) *(Note 5).*

Revaluation of property, plant and equipment

As of 31.12.2021 a comprehensive review of the occurred price changes in the fair value of the fixed tangible assets of the company, as well as their physical and technical condition, mode of operation and residual useful life has been performed. Accordingly, a revaluation has been made, as the five-year policy period for their revaluation ends on that date. The review and re-evaluation are performed with the professional assistance of independent licensed appraisers.

The licensed appraisers have also developed a test of the sensitivity of their proposed fair value estimates, determined by the various valuation methods, according to reasonably possible changes in the underlying assumptions, and a comment on the deviations obtained.

The management has made a detailed analysis of the reports of the licensed appraisers, incl. the sensitivity tests. As a result, a revaluation was recorded and a new revaluation reserve was recognized in the amount of BGN 8,338 thousand, net of impairment.

At each balance sheet date, management reviews and analyzes whether there are indicators of impairment of property, plant and equipment.

As a result of the calculations made in 2023, it was found necessary to recognize the depreciation of property, machinery and equipment in the amount of BGN 1,726 thousand. (2022: none) *(Note 9).*

Goodwill impairment

At each reporting date, the management determines whether indicators exist for goodwill impairment. The calculations are made by the management with support from independent licensed appraisers.

As a result of the calculations made in 2023, no need to recognize goodwill impairment was identified (2022: none) (*Note 14)*.

Impairment of investments in subsidiaries

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

As a result of the calculations made in 2023, no need to recognize impairment of investments in subsidiaries was established (2022: none) (*Note 16*).

Impairment of investments in associates and joint ventures

At each balance sheet date, management assesses whether there are indicators of impairment of its investments in associates and joint ventures. Calculations are made by management with the assistance of independent licensed appraisers.

As a result of the calculations made in 2023, no need to recognize impairment of investments in associates and joint ventures was established (2022: none) (*Note 17*).

Actuarial calculations

Calculations of certified actuaries have been used when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor. They are disclosed in *Note 32*.

As a result of the calculations made in 2022 a liability for long-term income of the personnel in the amount of BGN 4,522 thousand was reported. (31.12.2022: BGN 4,137 thousand) *(Note 32)*.

Deferred tax assets

There are unrecognised deferred tax assets at the amount of BGN 3,604 thousand (31 December 2022: BGN 3,605 thousand), that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference on which no tax asset is recognised amounts to BGN 36,038 thousand (31 December 2022: BGN 36,046 thousand) (*Note 28*)

Litigation provisions

With regard to the pending litigations against the Company, the management, jointly with Company's lawyers, has decided that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, it has not included provisions for litigation payables in the statement of financial position as at 30 September 2023.

3. REVENUE

Company’s revenue includes:

	2023 BGN '000	2022 BGN '000
Revenue from contracts with customers	187,200	160,316
Other revenue	1,592	1,763
Total	**188,792**	**162,079**

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

	2023 BGN '000	2022 BGN '000
Export	117,521	94,095
Domestic market	69,679	66,221
Total	**187,200**	**160,316**

Revenue from domestic sales by product are as follows:

	2023 BGN '000	2022 BGN '000
Tablets	88,894	72,132
Ampoules	11,772	10,527
Syrups	8,265	5,260
Unguents	5,372	4,041
Lyophilic products	948	558
Medical cosmetics	779	276
Drops	577	438
Plasters	277	195
Dressings products	236	130
Sachets	186	56
Veterinary vaccines	96	81
Substances	68	-
Suppositories	51	400
Sanitary and hygienic products	-	1
Total	**117,521**	**94,095**

Revenue from export sales by product are as follows*:*

	2023	*2022*
	BGN '000	*BGN '000*
Tablets	37,447	36,847
Ampoules	11,331	10,332
Dressings products	4,972	4,924
Syrups	3,010	2,072
Unguents	2,839	2,271
Plasters	2,458	2,434
Lyophilic products	2,276	4,492
Veterinary vaccines	2,226	11
Sachets	862	781
Drops	796	519
Haemodialysis concentrates	492	526
Sanitary and hygienic products	471	493
Suppositories	343	294
Medical cosmetics	156	126
Infusion solutions	-	62
Inhalers	-	37
Total	**69,679**	**66,221**

The distribution of sales revenues by geographical regions is as follows:

	2023 BGN '000	*Relative share*	*2022 BGN '000*	*Relative share*
Europe	96,190	51%	78,736	51%
Bulgaria	69,679	37%	66,221	41%
Other countries	21,331	11%	15,359	10%
Total	**187,200**	**100%**	**160,316**	**100%**

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

	2023 BGN '000	*% of revenue*	*2022 BGN '000*	*% of revenue*
Client 1	67,864	36%	66,024	41%
Client 2	47,450	25%	35,152	22%
Client 3	15,600	8%	17,526	11%

The balances on contracts with customers are as follows:

	30.09.2023 BGN '000	***31.12.2022 BGN '000***
Receivables under contracts with customers – related parties, net of impairment *(Note 22)*	70,839	55,334
Receivables under contracts with customers – third parties, net of impairment *(Note 23)*	17,367	10,555
	88,206	**65,889**

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

Reimbursement obligations as of 30 September 2023 amount to BGN 4,700 thousand (31.12.2022: BGN 4,896 thousand). These include liabilities under retrospective trade volume discounts payable under contracts with customers which have been or will be reimbursed over the next reporting period. *(Note 38).*

3.2. The other revenues of the company are from provided assets under leasing contracts and amount to BGN 1,592 thousand (2022: BGN 1,763 thousand).

4. OTHER OPERATING INCOME AND LOSSES

The other income from the company's activity is as follows:

	2023 BGN '000	***2022 BGN '000***
Income from provision of services	5,078	2,116
Income on sale of goods	*4,835*	*1,425*
Carrying amount of goods sold	*(3,004)*	*(1,156)*
Profit on sale of goods	1,831	269
Proceeds from the sale of fixed assets	*8,550*	*90*
Carrying amount of fixed assets sold	*(6,904)*	*(49)*
Profit/ (loss) on sale of fixed assets	1,646	41
Income from government grants under European projects	1,210	545
Income from sales of materials	*1,451*	*1,092*
Book value of sold materials	*(1,225)*	*(1,019)*
Profit on sales of materials	226	73
Excess assets	39	-
Revenues from financing for agricultural land	36	17
Written off liabilities	7	160

Lease liabilities written off	*174*	*98*
Carrying amount of written off assets under leasing contracts	*(169)*	*(122)*
Profit / (loss) from leases	5	(24)
Amounts awarded	1	12
Proceeds from liquidation of fixed assets	*25*	-
Liquidation costs of fixed assets	*(26)*	-
(Losses) / Gains on liquidation of fixed assets	(1)	-
(Losses)/ Gains from revaluation of agricultural produce (yellow acacia) to fair value (Note 20)	(9)	-
Net profit / (loss) on foreign exchange differences on trade receivables and payables and current accounts	(204)	303
Other income	82	200
Total	**9,947**	**3,712**

Revenues from the sale of materials are mainly from the sale of substances, chemical products and packaging materials.

Services rendered include:

	2023	***2022***
	BGN '000	***BGN '000***
Manufacturing services	4,219	1,349
Social activities	212	216
Gamma irradiation	202	235
Disinfection, disinsection and deratization services	140	149
Regulatory services	130	16
Laboratory analyses	75	85
Transport organisation	37	27
Other	63	39
Total	**5,078**	**2,116**

Sales of goods include:

	2023	***2022***
	BGN '000	***BGN '000***
Medical supplies	3,485	105
Food products	1,212	1,306
Food supplements	119	-
Goods for technical purposes	19	14
Total	**4,835**	**1,425**

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

	2023	***2022***
	BGN '000	***BGN '000***
Medical supplies	1,903	42
Food products	1,013	1,090
Food supplements	71	-
Goods for technical purposes	17	24
Total	**3,004**	**1,156**

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and supplies includes*:

	2023	***2022***
	BGN '000	***BGN '000***
Basic materials	47,780	42,355
Electric energy	4,341	5,689
Heat power	3,454	5,161
Laboratory materials	3,133	2,236
Technical materials	1,738	1,053
Spare parts	972	930
Auxiliary materials	772	577
Working clothes and personal protective equipment for labour	683	726
Fuels and lubricating materials	535	577
Water	374	300
Depreciation of materials	152	-
Scrapped materials	28	25
Total	**63,962**	**59,629**

Expenses on basic materials include:

	2023	***2022***
	BGN '000	***BGN '000***
Substances	18,833	18,779
Packaging materials	9,070	8,376
Liquid and solid chemicals	9,005	7,074
Aluminium and PVC foil	2,279	1,893
Sanitary-hygienic and dressing materials	2,217	2,368

Herbs	1,993	222
Vials	1,729	1,393
Ampoules	1,394	1,731
Tubes	922	492
Materials for the production of veterinary vaccines	336	24
Materials for the production of infusion solutions	2	3
Total	**47,780**	**42,355**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2023	***2022***
	BGN '000	***BGN '000***
Advertising and marketing services	7,485	3,826
Manufacturing of medical products	5,145	3,108
Transport and forwarding services	2,892	2,370
Consulting services	2,558	3,045
Building and equipment maintenance	2,332	1,417
Subscription fees	1,956	1,395
Local taxes and charges	1,027	1,031
Security	979	975
Logistic services – domestic market	885	1,583
State and regulatory fees	814	605
Services under civil contracts	603	399
License remunerations	565	412
Medical care	529	536
Translation of documentation	449	299
Logistic services (export)	413	255
Vehicles repair and maintenance	381	330
Insurance	330	417
Announcements and communications	268	514
Rentals	251	69
Taxes on expenses	225	158
Courier services	152	84
Fees and charges on current bank accounts	99	107
Medicinal products registration	95	203
Destruction of pharmaceuticals	93	127
Commission fees	64	19
Patent fees	16	39
Clinical trial services	12	28

Other	273	538
Total	**30,891**	**23,889**

Rental costs include:

	2023	*2022*
	BGN '000	*BGN '000*
Rents related to short - term leases	146	64
Rents related to variable consideration under long-term leases	99	-
Rents related to lease contracts of low value assets	6	5
Total	**251**	**69**

7. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2023	*2022*
	BGN '000	*BGN '000*
Current wages and salaries	37,065	29,404
Social security contributions	6,795	5,457
Social benefits and payments	2,559	1,727
Tantieme	1,171	732
Accruals for unused leaves	911	1,584
Accruals for long-term retirement benefit obligations *(Note 32)*	360	360
Accruals for insurance over leaves	174	307
Total	**49,035**	**39,571**

8. OTHER OPERATING EXPENSES

Other expenses include:

	2023	*2022*
	BGN'000	*BGN'000*
Representative events	1,144	522
Business trip costs	657	289
Donations	158	222
Training courses	144	85
Unrecognized input tax under VATA	116	55
Scrapped fixed assets	62	-
Scrapped finished products and work in progress	46	31

Amounts awarded		
Scrapped goods	46	3
Other taxes and payments to the budget	34	-
Costs related to the conversion of a subsidiary	34	71
Interest and penalties on trade payables	23	38
Accrued/(recovered) impairments for credit losses on receivables, incl. related parties, net	(1,876)	11,899
Complaints	-	62
Written off receivables	-	9
Other	161	224
Total	**775**	**13,510**

9. IMPAIRMENT OF NON-CURRENT ASSETS

Impairments of non-current assets include:

	2023	***2022***
	BGN '000	***BGN '000***
Impairment of property, machinery and equipment *(Note 13)*	1,726	-
Total	**1,726**	**-**

10. FINANCIAL INCOME

Financial income includes*:*

	2023	***2022***
	BGN'000	***BGN'000***
Interest income on loans extended	2,044	1,540
Equity income	1,711	1,520
Income from fees on provided guarantees	621	348
Net profit from securities investment operations	143	-
Incl. net gain on sale of investments in subsidiaries	*87*	-
Incl. net gain on sale of investments in associates	*56*	-
Income from interest on assignment contracts *(Note 19)*	95	-
Net gain from exchange differences on receivable from sale of subsidiary	24	560
Reimbursed impairment for credit losses under provided guarantees	-	*59*
Impairment for credit losses on receivables under provided guarantees	-	*(1)*
Net change in impairment on guarantees provided	-	58
Total	**4,638**	**4,026**

11. FINANCIAL COSTS

Financial costs include:

	2023	*2022*
	BGN'000	*BGN'000*
Interest expense on loans received	1,063	340
Impairment for credit losses on commercial loan receivables	793	1,270
Bank fees and charges on loans and guarantees	315	406
Interest expenses on leasing contracts	225	86
Expenses related to the payment of dividends	6	-
Net loss from exchange differences on lease contracts	2	-
Accrued provision for financial guarantees	-	*594*
Reimbursed provision for financial guarantees	-	*(24)*
Net provision for financial guarantees	-	570
Total	**2,404**	**2,672**

12. OTHER COMPREHENSIVE INCOME

Other comprehensive income include:

	2023	*2022*
	BGN '000	*BGN '000*
Net change in the fair value of equity investments designated for measuring at fair value through other comprehensive income	168	(1,167)
Subsequent revaluations of property, plant and equipment	32	-
Subsequent valuations of defined benefit pension plan liabilities	(14)	-
Income tax related to components of other comprehensive income that will not be reclassified	(3)	-
Other comprehensive income for the year, net of taxes	**183**	**(1,167)**

The tax effects related to the other components of comprehensive income are as follows:

	2023			**2022**		
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
	Value before tax	**Tax effects recognized in equity**	**Value net of tax**	**Value before tax**	**Tax effects recognized in equity**	**Value net of tax**
Components that will not be reclassified to profit or loss						

Net change in fair value of equity investments designated for measurement at fair value through other comprehensive income	168	-	168	(1,167)	-	(1,167)
Gains (losses) on revaluations of property, machinery and equipment	32	(3)	29	-	-	-
Subsequent valuations of defined benefit pension plan liabilities	(14)	-	(14)	-	-	-
Total other comprehensive income for the year	**186**	**(3)**	**183**	**(1,167)**	**-**	**(1,167)**

13. PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment of the company are as follows:

	Land and buildings		***Plant and equipment***		***Other***		***Assets in progress***		***Total***	
	2023 BGN ‘000	***2022 BGN ‘000***	***2023 BGN ‘000***	***2022 BGN ‘000***	***2023 BGN ‘000***	***2022 BGN ‘000***	***2023 BGN ‘000***	***2022 BGN ‘000***	***2023 BGN ‘000***	***2022 BGN ‘000***
Reporting value										
Balance at 1 January	**193,737**	**178,558**	**227,962**	**219,300**	**22,755**	**22,908**	**4,527**	**4,170**	**448,981**	**424,936**
Acquired assets	888	17,327	2,161	1,161	2,357	1,449	5,478	14,024	10,884	33,961
Transfer to property, plant and equipment	1,164	3,198	5,249	9,045	119	753	(6,532)	(12,996)	-	-
Transfer to investment properties	(354)	-	(107)	-	(86)	-	-	-	(547)	-
Effect from remeasurement to fair value	-	-	20	-	13	-	-	-	33	-
Impairment	-	(1,306)	-	-	-	-	-	-	-	(1,306)
Disposals	(10,176)	(4,040)	(3,591)	(1,544)	(2,464)	(2,355)	-	(671)	(16,231)	(8,610)
Balance at 30 September/ 31 December	**185,259**	**193,737**	**231,694**	**227,962**	**22,694**	**22,755**	**3,473**	**4,527**	**443,120**	**448,981**
Accumulated depreciation										
Balance at 1 January	**52,766**	**49,734**	**148,069**	**138,808**	**18,246**	**18,373**	**-**	**-**	**219,081**	**206,915**
Depreciation accrued	4,722	5,921	9,562	10,691	1,402	2,080	-	-	15,686	18,692
Impairment	1,727	991	-	-	-	-	-	-	1,727	991

Transfer to investment properties	(204)	-	(87)	-	(72)	-	-	-	(363)	-
Depreciation written off	(3,266)	(3,880)	(3,524)	(1,430)	(2,272)	(2,207)	-	-	(9,062)	(7,517)
Balance at 30 September/ 31 December	**55,745**	**52,766**	**154,020**	**148,069**	**17,304**	**18,246**	**-**	**-**	**227,069**	**219,081**
Balance at 30 September/ 31 December	**129,514**	**140,971**	**77,674**	**79,893**	**5,390**	**4,509**	**3,473**	**4,527**	**216,051**	**229,900**
Carrying amount at 1 January	**140,971**	**128,824**	**79,893**	**80,492**	**4,509**	**4,535**	**4,527**	**4,170**	**229,900**	**218,021**

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

- Buildings of carrying amount BGN 86,907 thousand (31.12.2022: BGN 92,240 thousand);
- Land amount BGN 42,607 thousand (31.12.2022: BGN 48,731 thousand).

The Company's *other tangible fixed assets* as at 30 September / 31 December include*:*

- Transportation vehicles with carrying amount BGN 3,720 thousand (31.12.2022: BGN 2,665 thousand);
- Business inventory with carrying amount BGN 1,185 thousand (31.12.2022: BGN 1,320 thousand);
- Biological assets (carriers) with carrying amount of BGN 485 thousand (31.12.2022: BGN 524 thousand).

Cost of acquisition of tangible fixed assets as at 30 September/ 31 December include:

- Advances granted for the purchase of machines and equipment – BGN 2,335 thousand (31.12.2022: BGN 2,468 thousand);
- Expenses on new buildings - BGN 1,115 thousand (31.12.2022: BGN 1,503 thousand);
- Reconstruction of buildings - none (31.12.2022: BGN 511 thousand);
- Biological assets (bearing) - none (31.12.2022: none)

- Other – BGN 23 thousand (31.12.2022: BGN 45 thousand).

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

- for a tablet production facility at the amount of BGN 5,443 thousand (31.12.2022: BGN 6,021 thousand);
- compact line for filling vials under an insulator – BGN 3,645 thousand (31.12.2022: 3,895 thousand BGN);
- for ampoule production at the amount of BGN 2,728 thousand (31.12.2022: BGN 3,032 thousand).

- combined exchange ventilation and air conditioning installation for the production of medical products at the amount of BGN 428 thousand (31.12.2022: BGN 474 thousand).
- for the production of innovative eye drops, "artificial tears" type, at the amount of BGN 114 thousand (31.12.2022: BGN 133 thousand);
- machines and equipment for the production of infusion solutions - zero value (31.12.2022: BGN 916 thousand).

Leasing

The assets with the right to use the company are as follows:

	Lands and buildings		***Machines, facilities and equipment***		***Other***		***Total***	
	2023	***2022***	***2023***	***2022***	***2023***	***2022***	***2023***	***2022***
	BGN'000	***BGN '000***	***BGN'000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Reporting value								
Balance at 1 January	**17,248**	**3,886**	**88**	**-**	**2,295**	**2,781**	**19,631**	**6,667**
Acquired assets	873	17,327	1,124	88	2,169	1,022	4,166	18,437
Written off	(710)	(3,965)	-	-	(1,232)	(1,508)	(1,942)	(5,473)
Balance at 30 September / 31 December	**17,411**	**17,248**	**1,212**	**88**	**3,232**	**2,295**	**21,855**	**19,631**
Accumulated depreciation								
Balance at 1 January	**747**	**3,145**	**28**	**-**	**1,199**	**1,782**	**1,974**	**4,927**
Depreciation accrued	1,419	1,423	128	28	606	852	2,153	2,303
Depreciation written off	(710)	(3,821)	-	-	(1,063)	(1,435)	(1,773)	(5,256)
Balance at 30 September / 31 December	**1,456**	**747**	**156**	**28**	**742**	**1,199**	**2,354**	**1,974**
Carrying amount at 30 September / 31 December	**15,955**	**16,501**	**1,056**	**60**	**2,490**	**1,096**	**19,501**	**17,657**
Carrying amount ad 1 January	**16,501**	**741**	**60**	**-**	**1,096**	**999**	**17,657**	**1,740**

The lands and buildings with the right of use of the company as of 30 September /31 December are as follows:

- Buildings of carrying amount BGN 15,953 thousand (31.12.2022: BGN 16,498 thousand);
- Land amount BGN 2 thousand (31.12.2022: BGN 3 thousand).

The other fixed tangible assets with right of use of the company as of 30 September/31 December include:

- Transportation vehicles with carrying amount BGN 2,441 thousand (31.12.2022 : BGN 1,021 thousand);
- Business inventory with BGN 49 thousand (31.12.2022: BGN 75 thousand).

The Company included the usable assets in the same position in which the assets would be represented if they were own.

The company has provided long-lasting tangible assets to related parties with a balance sheet value as of 30 September 2023 in the amount of BGN 15 thousand. (31.12.2022: zero book value).

Also, fixed tangible assets with a book value as of 30 September 2023 in the amount of BGN 1,124 thousand have been leased to third parties (31.12.2022: BGN 1,185 thousand).

Other data

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

- Buildings – BGN 6,511 thousand (31.12.2022: BGN 7,736 thousand);
- Machines, plant and equipment – BGN 67,038 thousand (31.12.2022: BGN 62,457 thousand);
- Other – BGN 11,212 thousand (31.12.2022: BGN 10,473 thousand).

As of 30 September 2023 there were established burdens on property, plant and equipment as follows:

- Land and buildings with a carrying amount of BGN 15,148 thousand and BGN 15,498 thousand (31.12.2022: respectively BGN 21,370 thousand and BGN 43,008 thousand) *(Note 27, Note 33 and Note 39);*
- Pledges on equipment – BGN 19,039 thousand (31.12.2022: BGN 25,621 thousand) *(Note 27, Note 33 and Note 39).*

Periodical fair value remeasurement

As at 31 December 2021, property, plant and equipment were revalued with the assistance of independent licensed appraisers in order to determine the fair value of the assets, in accordance with the requirements of IFRS 13 and IAS 16.

This revaluation shall apply the following basic approaches and valuation methods to measure the fair value of the different types of tangible fixed assets:

• "Market approach" through the "Method of market analogues" - for land in regulation and agricultural land for which there is a real market, analog properties and transactions with them are observed, and is on a person basis for comparability - their market price, determined by the comparative method is accepted for fair value;

• "Cost approach" through the "Amortised recoverable amount method" and "Method based on costs for the creation or replacement of the asset" - for specialized buildings, machinery, equipment, equipment and other assets for which there is no real market and comparable sales of analogue assets – their depreciated recoverable amount based on the indexed historical value of the asset and on the basis of running costs for the creation or replacement of the asset is considered to be fair value.

• "Revenue approach" through "Capitalized income from the fertilization / production of biological assets" - for perennials of yellow acacia in the life stage of fertilization.

From the assessment made, a revaluation reserve of BGN 8,298 thousand was recognised net of impairment.

14. INTANGIBLE ASSETS

Intangible assets of the company are as follows:

	Goodwill		*Intellectual property rights*		*Software*		*Assets in progress*		*Total*	
	2023	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*	*2023*	*2022*
	BGN‘000	*BGN ‘000*	*BGN ‘000*	*BGN‘000*	*BGN ‘000*	*BGN ‘000*	*BGN ‘000*	*BGN ‘000*	*BGN‘000*	*BGN ‘000*
Book value										
Balance at 1 January	**9,406**	**9,406**	**9,046**	**9,212**	**4,602**	**4,453**	**1,356**	**771**	**24,410**	**23,842**
Additions	-	-	17	3	14	64	1,152	723	1,183	790
Transfer	-	-	68	51	67	87	(135)	(138)	-	-
Written-off	-	-	-	(220)	(3)	(2)	-	-	(3)	(222)
Balance at 30 September /31 December	**9,406**	**9,406**	**9,131**	**9,046**	**4,680**	**4,602**	**2,373**	**1,356**	**25,590**	**24,410**
Accumulated depreciation and impairment										
Balance at 1 January	**8,638**	**8,638**	**7,277**	**6,923**	**4,248**	**3,957**	**-**	**-**	**20,163**	**19,518**
Accumulated depreciation	-	-	366	574	181	293	-	-	547	867
Depreciation written-off	-	-	-	(220)	(3)	(2)	-	-	(3)	(222)
Balance at 30 September / 31 December	**8,638**	**8,638**	**7,643**	**7,277**	**4,426**	**4,248**	**-**	**-**	**20,707**	**20,163**
Carrying amount at 30 September / 31 December	**768**	**768**	**1,488**	**1,769**	**254**	**354**	**2,373**	**1,356**	**4,883**	**4,247**
Carrying amount at 1 January	**768**	**768**	**1,769**	**2,289**	**354**	**496**	**1,356**	**771**	**4,247**	**4,324**

Goodwill impairment

The goodwill, which is result from the merger of subsidiaries (Bulgarian Rose – “Sevtopolis” AD, “Medica” AD, “Unipharm” AD and “Biopharm-Engineering” AD) into the parent company (Note 2.12).

At each balance sheet date, management assesses whether there are indicators of impairment of existing goodwill with the assistance of independent licensed appraisers.

In 2023 and 2022, there was no need to recognize impairment of goodwill.

Intellectual property rights mainly include development products, trademarks and licenses.

Expenses for acquisition of intangible fixed assets as of 30 September / 31 December include:

- the cost of implementing a software product in the amount of BGN 1,239 thousand (31.12.2022: BGN 611 thousand);
- costs for the acquisition of licences and marketing authorisations for medicinal products of BGN 846 thousand (31.12.2022: BGN 745 thousand).
- intellectual property rights – BGN 288 thousand (31.12.2022: none).

The carrying amount of fully amortized intangible fixed assets used in the Company's activity by asset group is as follows:

• intellectual property rights - BGN 5,293 thousand (31.12.2022: BGN 4,576 thousand);
• software products - BGN 2,463 thousand (31.12.2022: BGN 1,986 thousand).

15. INVESTMENT PROPERTY

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

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Balance at 1 January	**49,267**	**47,302**
Additions	241	405
Transfer of property, machinery and equipment	184	-
Written-off	-	(6)
Net profit (loss) from adjustment to fair value measurement included in profit or loss (*Note 4*)	-	1,566
Balance at 30 September / 31 December	**49,692**	**49,267**

Investments property in asset group are as follows:

Group of assets	***30.09.2023***	***31.12.2022***

	BGN '000	***BGN '000***
Warehouse premises	46,143	45,902
Offices	1,662	1,662
Production buildings	1,193	1,193
Social objects	510	510
Retail outlets	184	-
Total	**49,692**	**49,267**

As at 30 September 2023 there are established encumbrances on investment properties as follows:

- mortgage of warehouse premises – BGN 13,892 thousand (31.12.2022: BGN 13,892 thousand) *(Note 33);*
- pledges on attached equipment – BGN 4,438 thousand (31.12.2021: BGN 4,428 thousand) *(Note 33)*.

Fair value measurements

Fair value hierarchy

The fair value measurements of the investment property groups are categorized as Level 2 fair values based on the inputs used in the valuation technique.

The revaluation made as of 31.12.2022 of the investment properties to fair value is repeatable (annual) and is due to the application of the fair value model under IAS 40. It is carried out regularly on the date of each annual financial statement. The measurement of the fair value was realized with the assistance of independent licensed appraisers.

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

	Warehouse premises	***Offices***	***Production buildings***	***Social objects***	***Retail outlets***	***Acquisition costs***	***Total***
	BGN '000	***BGN'000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN'000***
Balance at 1 January 2022	**44,354**	**1,457**	**1,036**	**455**	**-**	**-**	**47,302**
Additions	58	-		-	-	347	405
Transfer	347	-	-	-	-	(347)	-
Written-off	(6)	-	-	-	-	-	(6)
Remeasurement to fair value through profit or loss - unrealized	1,149	205	157	55	-	-	1,566

Balance at 31 December 2022	**45,902**	**1,662**	**1,193**	**510**	**-**	**-**	**49,267**
Acquired	-	-	-	-	184	241	425
Transfer	241	-	-	-		(241)	-
Balance at 30 September 2023	**46,143**	**1,662**	**1,193**	**510**	**184**	**-**	**49,692**

At each balance sheet date, management analyzes and evaluates the fair values of the group of assets within the scope of investment properties. Calculations are made by management with the assistance of independent licensed appraisers.

Valuation technique and significant unobservable inputs

The table below presents a description as of 31.12.2022 of the valuation techniques used in determining the fair value of all groups of investment property Level 2, as well as the significant unobservable inputs used:

Asset Groups (Level 2)	Assessment approaches and techniques	Significant unobservable inputs
Warehouses	*a. Income approach* Evaluation technique: Capitalized rental income method as a scheme for applying discounted cash flows (basic valuation technique)	a. Weighted rate of return b. Term of implementation of rental transactions
	b. Cost method Evaluation technique: Creation or replacement cost method - depreciated recoverable amount (as a valuation aid)	Adjusted prices for construction of identical objects and for delivery prices of analogues of machinery and equipment
Offices, production buildings and social facilities	*Income approach* Evaluation technique: Capitalized rental income method as a scheme for applying discounted cash flows (basic valuation technique)	a. Weighted rate of return b. Term of implementation of rental transactions

The key assumptions used in the calculations of the fair value of the investment properties as of 31.12.2022 are:

- rate of return – from 3.50% to 8.50%;
- period of implementation of rental transactions - from 3 to 12 months.

As a result of the calculations made in 2022, it was found necessary to recognize a gain from revaluation to fair value in the amount of BGN 1,566 thousand.

16. INVESTMENTS IN SUBSIDIARIES

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

		30.09.2023	***Interest***	***31.12.2022***	***Interest***
		BGN '000	***%***	***BGN '000***	***%***
“Sopharma Trading” AD	Bulgaria	63,754	87.45	63,248	87.25
“Sopharma Ukraine” EOOD	Ukraine	9,669	100.00	9,669	100.00
“Veta Pharma” AD	Bulgaria	6,754	99.98	6,754	99.98
“Vitamini” AD	Ukraine	1,283	100.00	1,283	100.00
“Pharmalogistica” AD	Bulgaria	961	89.39	961	89.39
“Sopharma Kazakhstan” EOOD	Kazakhstan	502	100.00	502	100.00
“Electroncommerce” EOOD	Bulgaria	384	100.00	384	100.00
“Sopharma Warsaw” EOOD	Poland	323	100.00	323	100.00
Total		**83,630**		**83,124**	

As at 30 September 2023 the composition of investments in subsidiaries also includes the investment in the subsidiary Sopharma Poland OOD - in liquidation, Poland, which is fully depreciated (31.12.2022: fully depreciated investment in Sopharma Poland OOD - in liquidation, Poland and Phyto Palauzovo AD).

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

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

- “Pharmalogistica” AD – Scope of activities: secondary packaging and real estate leases. Date of acquisition – 15 August 2002.
- “Sopharma Poland” OOD – in liquidation – Scope of activities: market and public opinion research. Date of acquisition – 16 October 2003. The company is in a procedure of liquidation.
- “Electroncommerce” EOOD – Scope of activities: trade, transportation and packaging of radioactive materials and nuclear equipment, household electronics and electrical equipment. Date of acquisition – 9 August 2005.
- “Sopharma Trading” AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- “Vitamina” AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 18 January 2008.
- “Sopharma Warsaw” EOOD – Scope of activities: market and public opinion research. Date of

acquisition – 23 November 2010.

- “Sopharma Ukraine” EOOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 7 August 2012.
- “Phyto Palauzovo” AD – Scope of activities: production, collection of crops and trade in herbs and medicinal plants. Date of acquisition (as from the merger of a subsidiary) – 1 January 2014.
- TOO “Sopharma Kazakhstan” – Scope of activities: trade in pharmaceuticals. Date of acquisition – 31 September 2014.
- “Veta Pharma” AD – Scope of activities: production of medicinal, non-medicinal and other products. Date of acquisition – 11 November 2016.
- “Pharmachim” EOOD - Scope of activities: consulting services. Date of acquisition – 14 April 2020.

On 14.07.2023, in accordance with the requirements of Art. 100 of the LPOS, Sopharma AD notified the Bulgarian Stock Exchange and the Warsaw Stock Exchange that the company has signed a contract for the phased acquisition of the Serbian pharmaceutical manufacturer Pharmanova within two years. The deal is subject to approval by the Serbian Competition Commission and will start with the acquisition of 25% of the company, followed by the acquisition of 50% after one year and 25% after two years, respectively.

The movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
	30.09.2023	***31.12.2022***
Acquisition cost	***BGN '000***	***BGN '000***
Balance at 1 January	**90,235**	**80,598**
Acquired additional participations	544	10,859
Balance on January 1 (adjusted)	**110,480**	**100,843**
Additional holdings acquired	551	10,859
Interests sold with loss of control	(45)	(1,222)
Balance at 30 September / 31 December	**110,986**	**110,480**
Impairment accrued		
Balance on January 1 (originally reported)	**27,356**	**33,778**
Effects of the merger of a subsidiary	-	(6,422)
Balance on January 1 (adjusted)	**27,356**	**27,356**
Impairment accrued	-	-
Balance on 30 September / 31 December	**27,356**	**27,356**
Book value on 31 December	**83,630**	**83,124**
Book value on 1 January	**83,124**	**73,487**

Impairment of investments in subsidiaries

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

As a result of the calculations, in 2023 no need to recognize impairment of certain investments in subsidiaries was established (2022: none)

Net gain on sale of investments in subsidiaries

The company has reported the result of sales of investments in subsidiaries as follows:

	2023	***2022***
	BGN '000	***BGN '000***
Gain on sale of investments in subsidiaries	87	-
Net gain on sale of investments in subsidiaries	**87**	**-**

In connection with a loan received from a related party, the company provided a special pledge of shares from the capital of a subsidiary with a book value as of 30.09.2023 in the amount of BGN 9,992 thousand (31.12.2022: none) (*Note 39*);

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures are as follows*:*

	30.09.2023	***Interest***	***31.12.2022***	***Interest***
	BGN ,000	***%***	***BGN ,000***	***%***
"Sopharma Imoti" REIT	69,912	45.65	60,028	41.05
"Sopharma Buildings" REIT	27,508	30.07	-	-
"Doverie Obedinen Holding" AD	9,247	24.97	9,243	24.998
"Momina Krepost" AD	101	37.46	101	37.46
Total	**106,768**		**69,372**	

"Doverie Obedinen Holding" AD is an associated company with subject of activity acquisition, management, valuation and sale of units and / or shareholdings in Bulgarian and foreign companies - legal entities.

"Sopharma Imoti" REIT is an associate company with the activity of investing funds raised through the issuance of securities in real estate through the purchase of property rights and other real rights over real estate, construction and improvements in them in order to provide them for management , renting, leasing, leasing and / or selling them.

"Sopharma Buildings" REIT is an associated company and the transfer from other long-term capital investments was carried out on 08.09.2023. Its subject of activity is investing cash collected through the issuance of securities in real estate (real estate securitization) through the purchase of a right of ownership and other real rights over real estate, renting, leasing, leasing and/or selling them.

The movement of investments in associates and joint ventures is presented below:

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
Balance at 1 January	**69,271**	**52,791**
Acquired shares in associated companies	21,947	16,480
Transfer from other long-term capital investments	15,463	-
Sold shares in associated companies	(14)	-
Balance at 30 September / 31 December	**106,667**	**69,271**

Momina Krepost AD is a joint venture with a subject of activity development, implementation and production of medical devices for human and veterinary medicine.

The movement of investments in joint ventures is presented below:

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
Balance at 1 January	**101**	**1,694**
Impairment	-	(1,593)
Balance at 30 September / 31 December	**101**	**101**

Impairment of investments in associates and joint ventures

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

The assessments of the management for impairment of investments are made through the prism of its projections and intents on the future economic benefits, which are expected from the associates and joint ventures, including trade and industrial experience, ensuring position in the Bulgarian and in foreign markets, expectations for future sales, etc.

In 2023, there was no need to recognize impairment of investments in associated and joint companies (2022: BGN 1,593 thousand).

Net gain on sales of investments in associates

The Company has reported a net gain on sales of investments in associates as follows:

	2023	*2022*
	BGN '000	*BGN '000*
Gain on sale of investments in associates	56	-

Net gain on sale of investments in associates	**56**	**-**

18. OTHER LONG-TERM EQUITY INVESTMENTS

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

	30.09.2023 BGN '000	***Interest %***	***31.12.2022 BGN '000***	***Interest %***
“Lavena” AD“	2,042	13.21	3,788	13.22
MFG “Invest” AD	150	0.46	169	0.46
“Chimimport” AD	141	0.08	367	0.19
“Imventure 1” KDS	50	1.36	50	1.36
“Achieve Life Science Inc.” – USA	16	0.01	8	0.01
“Ecobulpack” AD	7	0.37	7	0.37
“UniCredit Bulbank” AD	3	0.001	3	0.001
“Expo Group” AD	1	1.04	1	1.04
“Bulgarian Stock Exchange” AD	-	-	202	0.34
“Sopharma Buildings” REIT	-	-	111	10.25
Total	**2,410**		**4,706**	

All above companies except for “Achieve Life Science Inc.” - USA have their seat and operations in Bulgaria.

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

			30.09.2023			***31.12.2022***
Equity investments	***Number of shares***	***Fair value per share***	***Fair value as per the statement of financial position***	***Number of shares***	***Fair value per share***	***Fair value as per the statement of financial position***
		BGN	***BGN '000***		***BGN***	***BGN '000***
“Lavena” AD	1,310,115	1.56	2,042	1,311,183	2.89	3,788
MFG “Invest”	50,000	3.00	150	50,000	3.38	169.00
“Chimimport”AD	201,426	1.56	141	463,476	0.79	367
“Achieve Life Science Inc.” – USA	1,796	4.70	16	1,796	4.70	8
“Bulgarian Stock Exchange” AD	-	-	-	22,300	9.04	202
“Sopharma Buildings” REIT	-	-	-	66,627	1.67	111
Total			**2,349**			**4,645**

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

Equity investments	*Fair value*	*Level 1*	*Level 2*
	30.09.2023		
	BGN'000	*BGN'000*	*BGN'000*
“Lavena” AD	2,042	-	2,042
MFG “Invest” AD	150	150	-
“Chimimport” AD	141	141	-
“Achieve Life Science Inc.” – USA	16	16	-
Total	**2,349**	**307**	**2,042**

Equity investments	*Fair value*	*Level 1*	*Level 2*
	31.12.2022		
	BGN'000	*BGN'000*	*BGN'000*
“Lavena” AD	3,788	-	3,788
“Chimimport” AD	367	367	-
“Bulgarian Stock Exchange” AD	202	202	-
MFG “Invest” AD	169	169	-
“Sopharma Buildings” REIT	111	-	111
“Achieve Life Science Inc.” – USA	8	8	-
Total	**4,645**	**746**	**3,899**

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

Equity investments	*Level 1*	*Level 2*	*Total*
	BGN '000	*BGN '000*	*BGN '000*
Balance at 1 January 2022	**641**	**5,004**	**5,645**
Purchases	674	1	675
Sales	(624)	(4)	(628)
Unrealised profit/(loss), net, included in other comprehensive income *(Note 12)*	55	(1,102)	(1,047)
Balance at 31 December 2022	**746**	**3,899**	**4,645**
Purchases	38	12,781	12,819
Capital issue	-	620	620
Sales	(430)	(10)	(440)
Transfer to investments in associates	-	(15,463)	(15,463)

Unrealised profit/(loss), net, included in other comprehensive income *(Note 12)*	(47)	215	168
Balance at 30 September 2023	**307**	**2,042**	**2,349**

Valuation techniques and approaches

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

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

19. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Long-term loans granted	47,342	63,354
Impairment for credit losses	*(156)*	*(156)*
	47,186	63,198
Receivables under assignment contracts	3,851	3,757
Deposits provided under leasing contracts *(Note 30)*	516	516
Total	**51,553**	**67,471**

The granted long-term loans and their terms as of 30.09.2023 are as follows:

Company	***UIC***	***Connectivity type***	***Type of currency***	***Agreed amount***	***Contract № / year***	***Date of last additional agreement to the contract***	***Maturity***	***Interest %***	***Market value of collateral***	***30.09.2023***	
				'000					***BGN'000***	***BGN'000***	***BGN'000***
											в т.ч. лихва
Doverie Invest EAD	*205426924*	*company controlled by an associate company*	*BGN*	83,400	113/2019	18.03.2022	31.12.2025	3.00%	-	*40,556*	*140*

Industrial Holding Doveri eAD	*121683066*	*company controlled by an associate company*	*BGN*	10,000	409/2022	25.11.2022	31.12.2024	4.36%	20,706	*6,630*	*69*
									20,706	***47,186***	***209***

The granted long-term loans and their terms as of 31.12.2022 are as follows:

Company	***UIC***	***Connectivity type***	***Type of currency***	***Agreed amount***	***Contract № / year***	***Date of last additional agreement to the contract***	***Maturity***	***Interest %***	***Market value of collateral***	***31.12.2022***	
				'000					***BGN'000***	***BGN'000***	***BGN'000 в т.ч. лихва***
Doverie Invest EAD	*205426924*	*company controlled by an associate company*	*BGN*	83,400	113/2019 г	18.03.2022 г.	31.12.2025 г.	3.00%	-	*51,147*	*731*
Industrial Holding Doverie AD	*121683066*	*company controlled by an associate company*	*BGN*	10,000	409/2022 г	25.11.2022 г.	31.12.2024 г.	4.36%	17,781	*10,040*	*40*
Doeverie Obedinen Holding AD	*121575489*	*associate company*	*BGN*	2,000	344/2022 г	26.10.2022 г.	31.12.2024 г.	3.09%	3,072	*2,011*	*11*
									20,853	***63,198***	***782***

The long-term loans granted to related enterprises are for the purpose of supporting the financing of activities of these enterprises for common strategic goals. They are secured by pledges of securities (shares) and promissory notes.

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

	2022	***2023***
	BGN '000	***BGN '000***
Balance on 1 January	**156**	**97**
Increase in credit loss adjustment recognized in profit or loss for the year	-	59
Balance at 30 September / 31 December	**156**	**156**

Receivables under assignment contracts are in BGN with a maturity date of 06.07.2025 and bear interest. They were acquired in 2022 in connection with the repayment of bank loans of a joint venture, on which Sopharma AD is a co-debtor.

All receivables under the assignment contracts are secured by a mortgage on land and buildings, as well as a pledge on machinery and equipment.

Deposits provided are under leasing contracts. They are in euros with a maturity of 01.08.2032.

20. OTHER LONG-TERM RECEIVABLES

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

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Receivables under transactions in securities	*3,693*	*3,668*
Impairment of credit losses	*(142)*	*(142)*
Receivables under transactions in securities, net	3,551	3,526
Total	**3,551**	**3,526**

Receivables from securities transactions represent a receivable from a sold investment in a subsidiary with a maturity date of 30.09.2024, which is tied to the completion of certain regulatory actions regarding registrations of authorizations for medical products.

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

	2022	***2022***
	BGN '000	***BGN '000***
Balance on 1 January	**142**	**216**
Decrease in the credit loss allowance recognised in profit or loss for the year	-	(74)
Balance at 30 September/ 31 December	**142**	**142**

21. INVENTORIES

Company's *inventories* include:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Materials	45,969	42,302
Finished products	40,213	27,832
Goods	4,414	120
Semi-finished products	3,161	1,982
Work in progress	2,138	10,524
Total	**95,895**	**82,760**

The materials by type are as follows:

	30.09.2023	*31.12.2022*
	BGN '000	***BGN '000***
Basic materials	44,991	39,980
Technical materials	412	413
Auxiliary materials	392	376
Spare parts	171	222
Materials in the process of delivery	-	1,257
Other	3	54
Total	**45,969**	**42,302**

The main materials by type are as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Substances	20,419	19,800
Chemicals	9,095	7,689
Ampoules	3,867	2,834
Aluminium and PVC foil	3,519	3,222
Herbs	2,873	1,875
incl. own production	*21*	*5*
Packaging materials	1,881	2,206
Sanitary and hygienic and dressing materials	1,633	1,785
Tubes	1,093	199
Vials	589	361
Materials for the production of veterinary vaccines	19	5
Materials for the production of infusion solutions	3	4
Total	**44,991**	**39,980**

The movement of herbs of own production (agricultural production, including harvested seeds of milk thistle and yellow acacia) is as follows:

	2022	***2021***
	BGN '000	***BGN '000***
Agricultural production on 1 January	**5**	**26**
Cost of production harvested during the year	25	-
Loss of fair value measurement	(9)	-
Invested in production	-	(21)

Agricultural production as at 30 September/ 31 December	**21**	**5**

The finished product is as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Tablets	21,769	14,464
Ampoules	6,813	5,446
Lyophilic products	2,671	2,450
Syrups	2,617	1,654
Unguents	3,197	1,382
Dressing products	1,313	1,342
Drops	405	289
Sachets	402	99
Suppositories	348	82
Plasters	266	317
Sanitary and hygienic products	257	156
Hemodialysis concentrates	86	56
Medical cosmetics	69	95
Total	**40,213**	**27,832**

Goods by types are as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Medicinal products	3,916	46
Food additives	411	-
Food products	87	74
Total	**4,414**	**120**

As of 30 September 2023 on available inventories of the company with a book value in the amount of BGN 45,213 thousand there are established pledges as collateral for bank loans (31 December 2022: BGN 27,832 thousand) *(Note 33 and Note 39)*.

22. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Receivables from subsidiaries	*73,239*	*59,149*

Impairment of credit losses	*(3,767)*	*(3,767)*
Receivables from subsidiaries, net	69,472	55,382
Receivables from companies controlled by an associate	*12,781*	*12,713*
Impairment of credit losses	*(57)*	*(57)*
Receivables from companies controlled by an associate, net	12,724	12,656
Receivables from associates	2,085	-
Receivables from joint ventures	*2,137*	*1,343*
Impairment for credit losses	*(2,134)*	*(1,340)*
Receivables from joint ventures, net	3	3
Receivables from joint venture companies registered under the PPE	161	158
Impairment for credit losses	*(158)*	*(158)*
	3	-
Total	**84,287**	**68,041**

The receivables from related parties by type are as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Receivables under contracts with customers	*74,661*	*59,156*
Impairment of credit losses	*(3,822)*	*(3,822)*
Receivables under contracts with customers, net	70,839	55,334
Trade loans granted	*14,872*	*13,996*
Impairment of credit losses	*(2,133)*	*(1,340)*
Trade loans granted, net	12,739	12,656
Receivables under sureties and guarantees	315	53
Impairment for credit losses	*(2)*	*(2)*
Receivables from guarantees and sureties, net	313	51
Advances granted	393	-
Other receivables	161	158
	(158)	*(158)*
	3	-
Total	**84,287**	**68,041**

The receivables under contracts with customers - related parties are interest-free and of which BGN 60,371 thousand are in BGN (31.12.2022: BGN 42,037 thousand) and in EUR – BGN 10,468 thousand (31.12.2022: BGN 13,297 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and as of 30 September 2023 amounted to BGN 58,586 thousand or 82.70% of all receivables under contracts with customers - related parties (31.12.2022: BGN 42,037 thousand – 75.97%).

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

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

	2023	*2022*
	BGN '000	*BGN '000*
Balance on 1 January	**3,822**	**1,366**
Increase in the credit loss allowance recognised within profit or loss for the year	-	3,822
Decrease in the credit loss allowance recognised within profit or loss for the year	-	(1,366)
Balance at 30 September/ 31 December	**3,822**	**3,822**

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

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
up to 30 days	12,767	13,654
from 31 to 90 days	21,563	22,419
from 91 to 180 days	32,287	17,746
from 181 to 365 days	977	-
over 365 days	-	-
Gross amount of non-matured (regular) receivables from related parties	*67,594*	*53,819*
Impairment of credit losses	*(1,120)*	*(1,120)*
Non-matured (regular) receivables from related parties, net	**66,474**	**52,699**

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

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
up to 30 days	284	284
from 31 to 90 days	467	467
from 91 to 180 days	369	369
from 181 to 365 days	-	-

over 365 days	-	-
Total	**1,120**	**1,120**

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

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
from 91 to 180 days	1,167	116
from 180 to 365 days	2,274	1,687
over 365 days	3,626	3,534
Gross amount of past due receivables from related parties	*7,067*	*5,337*
Impairment of credit losses	*(2,702)*	*(2,702)*
Past due receivables from related parties, net	**4,365**	**2,635**

The Company applies the simplified approach under IFRS 9 to measure expected credit losses for trade receivables from related companies, recognizing expected losses for the entire term of the instrument for all trade receivables from related companies *(Note 2.17)*.

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

30 September 2023		*Regular*	*Up to 90 days past due*	*Over 90 days past due*	*Over 180 days past due*	*Over 365 days past due*	**Total**
Expected average percentage of credit losses		2%	5%	2%	60%	100%	
Trade receivables (gross carrying amount)	*BGN '000*	67,594	1,556	1,684	3,062	765	74,661
Expected credit loss (Impairment allowance)	*BGN '000*	(1,120)	(74)	(31)	(1,832)	(765)	(3,822)

On this basis, the allowance for credit losses as of 31 December is determined as follows:

31 December 2022		*Regular*	*Up to 90 days past due*	*Over 90 days past due*	*Over 180 days past due*	*Over 365 days past due*	**Total**
Expected average percentage of credit losses		2%	5%	8%	52%	97%	
Trade receivables (gross carrying amount)	*BGN '000*	53,819	1,419	401	1,811	1,706	59,156

Expected credit loss (Impairment allowance)	***BGN '000***	(1,120)	(73)	(31)	(945)	(1,653)	(3,822)

As of 30 September 2023, special pledges have been established as collateral for received bank loans on receivables from related parties in the amount of BGN 64,786 thousand (31 December 2022: BGN 48,531 thousand) *(Note 33)*.

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

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Companies controlled by an associate	12,724	12,656
Subsidiaries	15	-
Joint ventures	2,133	1,340
Impairment of credit losses	(2,133)	(1,340)
	-	-
Total	**12,739**	**12,656**

The conditions under which the loans were granted by types of related parties as of 30.09.2023 are as follows:

Company	***UIC***	***Connectivity type***	***Type of currency***	***Agreed amount***	***Contract № / year***	***Date of last additional agreement to the contract***	***Maturity***	***Interest %***	***Market value of collateral***	***30.09.2023***	
				'000					***BGN'000***	***BGN'000***	***BGN'000***
											в т.ч. лихва
Doverie Grizha EAD	*204956297*	*company controlled by an associate company*	*BGN*	10,997	265a/2017 г.	15.11.2022 г.	31.12.2023 г.	3.10%	*11,350*	*8,690*	*642*
Doverie Capital AD	*130362127*	*company controlled by an associate company*	*BGN*	4,000	319/2021 г.	15.11.2022 г.	31.12.2023 г.	3.33%	*6,497*	*4,034*	*34*
Phyto Palauzovo AD	*202236204*	*subsidiary*	*BGN*	15	14a/2023 г.	24.01.2023 г.	31.12.2023 г.	3.00%	*-*	*15*	*-*
									17,847	**12,739**	**676**

The conditions under which the loans were granted by types of related parties as of 31.12.2022 are as follows:

Company	*UIC*	*Connectivity type*	*Type of currency*	*Agreed amount '000*	*Contract № / year*	*Date of last additional agreement to the contract*	*Maturity*	*Interest %*	*Market value of collateral BGN'000*	*31.12.2022 BGN'000*	*в т.ч. лихва*
Doverie Grizha EAD	*204956297*	*company controlled by an associate company*	*BGN*	10,997	265a/2017	15.11.2022	31.12.2023	3.10%	*11,296*	*8,512*	*463*
Doverie Capital AD	*130362127*	*company controlled by an associate company*	*BGN*	4,000	319/2021.	15.11.2022	31.12.2023	3.33%	*6,213*	*4,144*	*144*
									17,509	**12,656**	**607**

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

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

	2023	***2022***
	BGN '000	***BGN '000***
Balance at 1 January	**1,340**	**-**
Increase in the credit loss allowance recognised within profit or loss for the year	793	1,340
Balance at 30 September/ 31 December	**2,133**	**1,340**

The receivables under guarantees by types of related companies are as follows*:*

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Subsidiaries	311	49
Impairment for credit losses	*(1)*	*(1)*
	310	48
Receivables from joint ventures	4	4
Impairment for credit losses	*(1)*	*(1)*
	3	3
Total	**313**	**51**

The receivables under sureties are interest-free and 165 thousand of them are in BGN (31.12.2022: BGN 3 thousand) and in EUR - BGN 148 thousand. (31.12.2022: BGN 48 thousand).

The movement of the adjustment for impairment of receivables from guarantees from related companies is as follows:

	2023	*2022*
	BGN '000	*BGN '000*
Balance at January 1	**2**	**59**
Increase in credit loss adjustment recognized in profit or loss for the year	-	2
Decrease in credit loss adjustment recognized in profit or loss for the year	-	(59)
Balance at 30 September/ 31 December	**2**	**2**

The other receivables are as follows:

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
Receivables from joint venture companies registered under the PPE	161	158
Impairment for credit losses	*(158)*	*(158)*
Total	**3**	**-**

The other receivables are in BGN and are interest-free.

The movement of the adjustment for impairment of other receivables is as follows:

	2023	*2022*
	BGN '000	*BGN '000*
Balance at 1 January	**158**	**-**
Increase in allowance for credit losses recognized in profit or loss during the year	-	158
Balance at 30 September / 31 December	**158**	**158**

23. TRADE RECEIVABLES

Trade receivables include:

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
Receivables under contracts with customers	*19,544*	*14,606*

Impairment of credit losses	*(2,177)*	*(4,051)*
Receivables under contracts with customers, net	17,367	10,555
Receivables from assignment agreements	4,890	4,890
Advances granted	4,568	2,670
Total	**26,825**	**18,115**

The *receivables from clients* are interest-free and BGN 2,852 thousand are denominated in BGN (31.12.2022: BGN 908 thousand), in EUR – BGN 10,986 thousand (31.12.2022: BGN 6,827 thousand) and in USD – BGN 3,529 thousand (31 December 2022: BGN 2,820 thousand).

One main counterpart of the Company is accountable for about 25.78% of the receivables from clients (31.12.2022: one main counterpart accountable for 26.71% of the receivables from clients)

The Company usually agrees with its clients payment terms from 30 to 180 days for receivables under sales except for the cases when new markets and products are being developed and new trade counterparts are being attracted.

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

	2023	***2022***
	BGN '000	***BGN '000***
Balance at 1 January	**4,051**	**1,877**
Increase in the credit loss allowance recognised within profit or loss for the year	-	4,047
Decrease in the credit loss allowance recognised within profit or loss for the year	(1,874)	(1,873)
Balance at 30 September/ 31 December	**2,177**	**4,051**

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

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
up to 30 days	5,597	4,238
from 31 to 90 days	2,802	2,929
from 91 to 180 days	640	1,647
from 181 to 365 days	415	-
Gross amount of non-matured (regular) trade receivables	*9,454*	*8,814*
Impairment of credit losses	*(127)*	*(127)*
Non-matured (regular) trade receivables, net	**9,327**	**8,687**

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

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
up to 30 days	58	58
from 31 to 90 days	44	44
from 91 to 180 days	25	25
Total	**127**	**127**

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

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
from 31 to 90 days	5,201	1,288
from 91 to 180 days	1,633	14
from 181 to 365 days	1,382	2,748
over 365 days	1,874	1,742
Gross amount of past due trade receivables	*10,090*	*5,792*
Impairment of credit losses	*(2,050)*	*(3,924)*
Past due trade receivables, net	**8,040**	**1,868**

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

Based on that, the loss allowance as at 30 September/ 31 December is determined as follows:

30 September 2023		***Regular***	***Up to 90 days past due***	***Over 90 days past due***	***Over 180 days past due***	***Over 365 days past due***	***Total***
Expected average percentage of credit losses		1%	1%	28%	0%	95%	
Trade receivables (gross carrying amount)	***BGN '000***	9,454	5,832	1,329	1,216	1,713	19,544
Expected credit loss (Impairment allowance)	***BGN '000***	(127)	(43)	(373)	(6)	(1,628)	(2,177)

On this basis, the loss allowance as of 31 December is determined as follows:

31 December 2022	***Regular***	***Up to 90 days past due***	***Over 90 days past due***	***Over 180 days past due***	***Over 365 days past due***	***Total***
Expected average percentage of credit losses	1%	3%	55%	87%	100%	

Trade receivables (gross carrying amount)	*BGN '000*	8,814	1,323	676	2,161	1,632	14,606
Expected credit loss (Impairment allowance)	*BGN '000*	(127)	(43)	(373)	(1,876)	(1,632)	(4,051)

As at 30 September 2023 no special pledges have been established as collateral of bank loans received on trade receivables (31.12.2022: BGN 283 thousand) (*Note 33 and Note 39*).

Receivables from assignment contracts are in euros, interest-free with maturity on 31.12.2023.

The *advances granted to suppliers* are for the purchase of:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Services	2,659	2,161
Inventories	1,909	509
Total	**4,568**	**2,670**

The *advances granted* are regular. They include: in BGN – 566 thousand (31.12.2022: BGN 339 thousand), in EUR – BGN 2,209 thousand (31.12.2022: BGN 1,967 thousand), in USD: BGN 1,634 thousand (31.12.2022: BGN 284 thousand) and in other currency – BGN 159 thousand (31.12.2022: BGN 80 thousand).

24(A). LOANS GRANTED TO THIRD PARTIES

The loans granted to third parties are as follow:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Provided commercial loans to third parties	11,232	8,320
Commercial loans granted	*(3)*	*(3)*
Total	**11,229**	**8,317**

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

	2023	***2022***
	BGN '000	***BGN '000***
Balance on 1 January	**3**	**-**
Transfer from other long-term receivables	-	6

Decrease in the allowance for credit losses recognized in profit or loss during the year	-	(3)
Balance on 30 September / 31 December	**3**	**3**

The loans granted to third parties and the conditions under which they were granted as of 30.09.2023 are as follows:

Company	*UIC*	*Currency*	*Contract amount*	*Договор № / година*	*Date of last additional agreement to the contract*	*Maturity %*	*Interest %*	*Market value of collateral*	*30.09.2023*	
			'000					*BGN'000*	*BGN'000*	*BGN'000*
										Incl.interest
Sopharmacy MC	*1017600023754*	*EUR*	3,000	330/2018	15.01.2020	29.06.2023	3.05%	*8,125*	*6,624*	*756*
Alliance Energy Companies AD	*206936182*	*BGN*	2,740	52/2023	31.03.2023	31.10.2023	4.37%	*-*	*2,760*	*20*
Sopharmacy MC	*1017600023754*	*EUR*	695	470/2017	01.06.2018	31.12.2023	3.05%	*2,075*	*1,599*	*240*
Pharmaplant AD	*201837643*	*BGN*	4,184	95a/2012	16.11.2021.	31.12.2023	4.30%	*374*	*188*	*-*
Pharmaplant AD	*201837643*	*BGN*	949	396/2014	16.11.2021	31.12.2023	4.70%	*181*	*58*	*-*
								10,755	**11,229**	**1,017**

The loans granted to third parties and the conditions under which they were granted as of 31.12.2022 are as follows:

Company	*UIC*	*Currency*	*Contract amount*	*Договор № / година*	*Date of last additional agreement to the contract*	*Maturity %*	*Interest %*	*Market value of collateral*	*31.12.2022*	
			'000					*BGN'000*	*BGN'000*	*BGN'000*
										Incl.interest
Sopharmacy MC	*1017600023754*	*EUR*	3,000	330/2018	15.01.2020	31.12.2023	3.05%	*7,704*	*6,490*	*622*
Sopharmacy MC	*1017600023754*	*EUR*	695	470/2017	01.06.2018	31.12.2023	3.05%	*1,985*	*1,568*	*209*
Pharmaplant AD	*201837643*	*BGN*	4,184	95a/2012	16.11.2021	31.12.2023	4.30%	*357*	*187*	*-*
Pharmaplant AD	*201837643*	*BGN*	949	396/2014	16.11.2021	31.12.2023	4.70%	*159*	*72*	*-*
								10,205	**8,317**	**831**

The loans provided to third parties are intended to support the financing of the activities of these enterprises under common strategic objectives. They are secured by pledges of securities (shares), pledges of machinery and equipment and real estate mortgages.

24(B). OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Funds provided for payment of dividends	72,572	-
Tax recovery	4,382	4,697
Prepaid expenses	731	1,188
Receivables under deposits granted as guarantees	*325*	*104*
Impairment of credit losses	*(35)*	*(35)*
Receivables under deposits granted as guarantees, net	290	69
Claims on deposits provided as guarantees in court cases	25	25
Funds provided to an investment intermediary	4	46
Litigation and claims	*155*	*160*
Impairment of credit losses from court and awarded receivables	*(154)*	*(160)*
Awarded receivables, net	1	-
Other	436	53
Total	**78,441**	**6,078**

Taxes refundable include:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Excise duties	4,382	4,249
Value added tax	-	448
Total	**4,382**	**4,697**

Prepayments include:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Subscriptions	372	630
Insurance	178	232
Licence and patent fees	98	126
Advertising	60	83
Rentals	5	9
Vouchers	3	10
Consulting services	1	4
Bank fees and commissions	-	72
Other	14	22

Total	**731**	**1,188**

Deposits placed as guarantees include:

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
Guarantees under contracts for the supply of veterinary vaccines	*223*	*40*
Impairment of credit losses	*(35)*	*(35)*
Guarantees under contracts for the supply of veterinary vaccines, net	188	5
Guarantees under contracts for the implementation of systems	40	-
Guarantees under rental contracts	31	20
Guarantees under leasing contracts	15	15
Guarantees under contracts for fuel supply	6	6
Guarantees under construction contracts	4	4
Guarantees under contracts for electricity supply	3	3
Guarantees under insurance contracts	1	1
Guarantees under contracts for supply of medicinal products	-	14
Other	2	1
Total	**290**	**69**

Claims on deposits provided as guarantees under contracts are interest-free, and BGN 255 thousand of them are in BGN (31.12.2022: BGN 65 thousand), in Euro – BGN 43 thousand (31.12.2022: BGN 17 thousand), in US dollars - BGN 12 thousand (12.31.2022: BGN 12 thousand) and in other currencies - BGN 5 thousand (31.12.2022: none).

The movement of the adjustment for impairment of guarantees under contracts for the supply of veterinary vaccines is as follows:

	2023	*2022*
	BGN '000	*BGN '000*
Balance on January 1	**35**	**-**
Increase in allowance for credit losses recognized in profit or loss during the year	-	35
Balance on 30 September / 31 December	**35**	**35**

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

	2023	*2022*
	BGN '000	*BGN '000*
Balance at 1 January	**160**	**148**

Increase in the credit loss allowance recognised within profit or loss for the year	**-**	**12**
Decrease in the credit loss allowance recognised within profit or loss for the year	(6)	-
Balance at 30 September/ 31 December	**154**	**160**

25. CASH AND CASH EQUIVALENTS

Cash includes:

	30.09.2023	*31.12.2022*
	BGN '000	***BGN '000***
Cash at current bank accounts	2,950	4,585
Cash in hand	146	123
Blocked cash under issued bank guarantees	226	185
Cash and cash equivalents	**3,322**	**4,893**

Cash structure at current bank accounts is as follows: in BGN: BGN 586 thousand (31.12.2022: BGN 2,105 thousand), in EUR – BGN 2,289 thousand (31.12.2022: BGN 2,348 thousand), in USD – BGN 25 thousand (31.12.2022: BGN 74 thousand) and in other currency – BGN 50 thousand (31.12.2022: BGN 58 thousand). Cash in hand is as follows: in BGN 146 thousand (31.12.2022: BGN 123 thousand).

Blocked cash include*:*

	30.09.2023	*31.12.2022*
	BGN '000	***BGN '000***
Short-term deposits abroad	159	124
Bank guarantees issued	67	61
	226	**185**

The cash blocked are as follows: in BGN – BGN 54 thousand (31.12.2022: BGN 54 thousand), in EUR – BGN 13 thousand (31.12.2022: 7 thousand) and in Russian rubles – BGN 159 thousand (31.12.2022: BGN 124 thousand.). Short-term deposits abroad are due on 02.10.2023.

As a result of the analyses made and the methodology applied to calculate expected credit losses for cash and cash equivalents, the management has determined that no impairment is necessary of cash and cash equivalents. Therefore, the company has not recognized a provision for impairment for expected credit losses of cash and cash equivalents as of 30 September 2023 and 31.12.2022.

26. EQUITY

Share capital

As at 30 September 2023, the registered share capital of “Sopharma” AD amounted to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

Ordinary shares issued and fully paid	*Shares*	*Share capital net of treasury shares*
	number	*BGN '000*
Balance at 1 January 2022	**121,742,899**	**84,514**
Treasury shares bought	(424,188)	(1,909)
Expense on treasury shares bought	-	(10)
Balance at 31 December 2022	**121,318,711**	**82,595**
Effects of the merger of a subsidiary	852	3
Balance at 30 September 2023	**121,319,563**	**82,598**

The table below presents the paid joint-stock capital of the Company:

	31.12.2023	*31.12.2022*
	BGN '000	*BGN '000*
Share capital (registered), nominal	134,798	134,798
Premium reserve	8,785	8,785
Total paid capital	**143,583**	**143,583**

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

The ***treasury shares*** are 13,478,336 at the amount of BGN 52,199 thousand (31.12.2022: 13,479,188 shares at the amount of BGN 52,203 thousand). During the current year, there were no treasury shares (2022: 424,188 shares purchased). The effect of the merger of a subsidiary is 852 shares for BGN 3 thousand.

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

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
Statutory reserves	68,628	68,628
Property, plant and equipment revaluation reserve	23,010	27,260
Reserve for financial assets at fair value through other comprehensive income	(1,150)	560

Additional reserves	332,551	365,155
Total	**423,039**	**461,603**

Statutory reserves at the amount of BGN 68,628 thousand (31.12.2022: BGN 68,628 thousand) represent the Reserve Fund, which is set aside under a requirement of the Commercial Act and Company's Articles of Association, and includes two components: (a) amounts from distribution of profit for the Reserve Fund – BGN 59,843 thousand (31.12.2022: BGN 59,843 thousand), and (b) share premium representing the excess of the issue value over the nominal value of the issued shares on the merger of a subsidiary into "Sopharma" AD – BGN 8,785 thousand (31.12.2022: BGN 8,785 thousand).

The movements of statutory reserves were as follows:

	2023	***2022***
	BGN '000	***BGN '000***
Balance at 1 January	**68,628**	**66,201**
Distribution of profit	-	2,427
Balance at 30 September/ 31 December	**68,628**	**68,628**

The ***property, plant and equipment revaluation reserve***, amounting to BGN 23,010 thousand (31.12.2022: BGN 27,277 thousand), is formed by the positive difference between the carrying amount of property, plant and equipment and their fair value at the date of the respective revaluation. The deferred tax effect on the revaluation reserve was directly carried to this reserve.

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

	2023	***2022***
	BGN '000	***BGN '000***
Balance at 1 January (originally reported)	**27,260**	**28,614**
Effects of the merger of a subsidiary	-	154
Balance on January 1 (adjusted)	**27,260**	**28,768**
Profit / (Loss) from revaluation of property, plant and equipment, net	32	(991)
Deferred tax relating to revaluations	(3)	99
Effects of the merger of a subsidiary	(131)	-
Transfer to retained earnings	(4,148)	(616)
Balance at 30 September/ 31 December	**23,010**	**27,260**

The reserve for financial assets at fair value through other comprehensive income, which is a negative value in the amount of BGN 1,150 thousand (31.12.2022: BGN 560 thousand) is formed of the effects of fair-value measurement of other long-term equity investments. Upon derecognition of these investments, the reserve formed is transferred to the "retained earnings" component.

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

	2023	*2022*
	BGN '000	*BGN '000*
Balance at 1 January	**560**	**1,644**
Net income from revaluation of available-for-sale financial assets	168	(1,047)
Transfer to retained earnings	(1,878)	(37)
Balance at 30 September/ 31 December	**(1,150)**	**560**

Additional reserves at the amount of BGN 332,551 thousand (31.12.2022: BGN 365,155 thousand) are formed by the distribution of profits under a decision of shareholders and can be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additional reserves are as follows:

	2023	*2022*
	BGN '000	*BGN '000*
Balance at 1 January	**365,155**	**342,581**
Allocation of reserves for dividends	-	22,574
Distributed profit in the year	(32,604)	-
Balance at 30 September/ 31 December	**332,551**	**365,155**

Other capital components (issue warrants)

Pursuant to Article 25 of the Articles of Association of "Sopharma" AD on 21 May 2021, the Board of Directors determines the parameters and decides on the issuance of warrants for the initial public offering. By Decision № 804 - E of 04.11.2021, the Financial Supervision Commission approves the Issue Prospectus for 44,932,633 dematerialized, freely transferable and registered warrants, with an issue value of BGN 0.28, issued by Sopharma AD under Art. 112 b, para. 11 of the LPOS. The underlying asset of the issued warrants are future ordinary, registered, dematerialized, freely transferable shares, giving the right to one vote in the General Meeting of Shareholders, which will be issued by the company on condition only in favor of the owners of warrants. Each subscribed warrant entitles its holder to subscribe for one share of a future issue. Holders of warrants may exercise their right to subscribe for the respective number of shares from a future increase in the company's capital within 3 years at a fixed price of BGN 4,13 per share. The right to exercise arises from the date on which the issue of 44,925,943 warrants is registered in Central Depository AD – 16 November 2021.

The warrants have been admitted to trading on the main BSE market of the Bulgarian Stock Exchange-Sofia AD, as of 17 November 2021.

The table below presents information on the issue of warrants as of 30 September/ 31 December:

Warrants issued and fully paid	*Warrants*	*Other capital components*
	number	*BGN '000*
Balance at 1 January 2022	**44,925,943**	**12,512**
Transaction costs	-	(24)
Balance on 31 December 2022	**44,925,943**	**12,488**
Transaction costs	**-**	**(9)**
Balance on 30 September 2023	**44,925,943**	**12,479**

Base net earnings per share

	30.09.2023	***30.09.2022***
Weighted average number of shares	121,318,901	121,553,398
Net profit for the year (BGN '000)	38,413	23,750
Base net earnings per share (BGN)	**0.32**	**0.20**

Net earnings per diluted share

	30.09.2023	***30.09.2022***
Weighted average number of shares outstanding	*121,495,503*	*121,318,711*
Cumulative effect of warrants	*8,422,344*	*(2,704,437)*
Shares in circulation with warrants	129,917,847	118,614,274
Net profit for the year (BGN '000)	38,413	23,750
Net earnings per diluted share	**0.30**	**0.20**

As of 30 September 2023, ***the retained earnings amount*** to BGN 40,635 thousand. (31.12.2022: BGN 35,990 thousand).

The movement in retained earnings is as follows:

	2023	***2022***
	BGN '000	***BGN '000***
Balance at 1 January (originally reported)	**36,269**	**28,137**
Effects of the merger of a subsidiary	-	(4,752)
Balance on 1 January (adjusted)	**36,269**	**23,385**
Net profit for the year	38,413	39,429
Transfer from revaluation reserve of property, plant and equipment	4,148	616
Transfer from reserve of financial assets at fair value through other comprehensive income	1,878	37
Effects of the merger of a subsidiary	128	(2,848)

Effects of Actuarial Losses on Subsequent Valuations on Subsidiary Mergers	(14)	26
Distribution of profit for dividends	(40,187)	-
Actuarial losses from subsequent valuations	-	522
Effects of sold rights on issued warrants	-	103
Profit distribution for reserves	-	(25,001)
Balance at 30 September/ 31 December	**40,635**	**36,269**

27. LONG-TERM BANK LOANS

Long-term bank loans include:

Currency	*Contracted loan amount*	*Maturity*	*30.09.2023* Non-current portion	*30.09.2023* Current portion	*30.09.2023* Total	*31.12.2022* Non-current portion	*31.12.2022* Current portion	*31.12.2022* Total
	'000		*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Extended credit lines								
EUR	10,000	31.08.2024	-	-	-	-	-	-
Investment loans								
BGN	4,330	10.07.2028	1,544	416	1,960	1,860	416	2,276
EUR	4,250	16.04.2023	-	-	-	-	52	52
			16,379	**416**	**16,795**	**1,860**	**468**	**2,328**

Bank loans received in euro are agreed at an interest rate determined on the basis of one-month EURIBOR plus a margin of 1.1 points but not less than 1.1 points and for those in BGN – from 1.75% to 2.80% (2022: one-month EURIBOR plus a margin of 1.1 points, but not less than 1.1 points and for those in BGN – from 1.75% to 2.80%).

To secure these loans, the following are established:

- **Mortgages of real estate with book value as at 30 September 2023: BGN 11,438 thousand (31.12.2022: BGN 12,795 thousand) (*Note 13*);**
- **Special pledges on machinery and equipment with book value as at 30 September 2023: BGN 11,057 (31.12.2022: BGN 16,716 thousand) *(Note 13)*.**

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

Reconciliation of the movement of liabilities from financing activities

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

	01.01.2023	*Changes in cash flows from financing activities*	*Newly arising liabilities over the year*	*Other non-cash changes*	*30.09.2023*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Bank loans	14,062	107,730	-	(166)	121,626
Liabilities under leases to related companies	16,376	(1,447)	1,841	165	16,935
Liabilities under leasing contracts to third parties	1,396	(680)	2,324	(236)	2,804
Dividends and unexercised warrant rights	215	(10)	72,791	(485)	72,511
Total	**32,049**	**105,593**	**76,956**	**(722)**	**213,876**
Treasury shares	(52,203)	-	3	-	(52,200)
Received government funding for agricultural land	-	36	-	(36)	-
Reserve for warrants issued	12,488	(9)	-	-	12,479
Net cash flows from financing activities	**(7,666)**	**105,620**	**76,959**	**(758)**	**174,155**

	01.01.2022	*Changes in cash flows from financing activities*	*Newly arising liabilities over the year*	*Other non-cash changes*	*31.12.2022*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Bank loans	56,363	(46,031)	3,686	44	14,062
Liabilities under leases to related companies	587	(1,327)	17,327	(211)	16,376
Leasing liabilities to third parties	1,198	(866)	1,110	(46)	1,396
Dividends and unexercised warrant rights	269	(11)	-	(43)	215
Total	**58,417**	**(48,235)**	**22,123**	**(256)**	**32,049**
Treasury shares	(50,284)	(1,919)	-	-	(52,203)
Warrant rights sold	-	103	-	(103)	-
Received government funding for agricultural land	-	34	-	(34)	-
Reserve for warrants issued	12,512	(24)	-	-	12,488
Net cash flows from financing activities	**20,645**	**(50,041)**	**22,123**	**(393)**	**(7,666)**

28. DEFERRED TAX LIABILITIES

Deferred income taxes as at 30 September/ 31 December are related to the following items of the statement of financial position:

Deferred tax liabilities/(assets)	*temporary difference*	*tax*	*temporary difference*	*tax*
	30.09.2023	***30.09.2023***	***31.12.2022***	***31.12.2022***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	55,724	5,572	64,227	6,422
including revaluation reserve	*21,383*	*2,138*	*26,138*	*2,614*
Investment property	15,877	1,588	14,475	1,448
including revaluation reserve	*534*	*53*	*501*	*50*
Intangible assets	-	-	97	10
Total deferred tax liabilities	**71,601**	**7,160**	**78,799**	**7,880**
Receivables	(9,247)	(925)	(10,379)	(1,038)
Payables to personnel	(8,811)	(881)	(9,082)	(908)
Accrued contractual obligations	(6,682)	(668)	(6,604)	(660)
Inventories	(1,034)	(103)	(1,745)	(175)
Accrued liabilities	(21)	(2)	-	-
Conversion costs	-	-	(14)	(1)
Total deferred tax assets	**(25,795)**	**(2,579)**	**(27,824)**	**(2,782)**
Net deferred income tax liabilities	**45,806**	**4,581**	**50,975**	**5,098**

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

No deferred tax assets have been recognized as follows:

Unrecognized deferred tax assets	*temporary difference*	*tax*	*temporary difference*	*tax*
	30.09.2023	***30.09.2023***	***31.12.2022***	***31.12.2022***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Impairment of investments in subsidiaries	(27,997)	(2,800)	(34,418)	(3,442)
Impairment of investments in associates	(5,197)	(520)	(5,205)	(521)
Impairment of investments in joint ventures	(2,844)	(284)	(2,844)	(284)
Total	**(36,038)**	**(3,604)**	**(42,467)**	**(4,247)**

The change in the deferred tax balance for 2023 is as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2023*	*Recognized in profit and loss*	*Recognised in equity*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 30 September 2023*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(6,422)	723	-	127	(5,572)
Investment property	(1,448)	(137)	(3)	-	(1,588)
Receivables	1,038	(113)	-	-	925
Payables to personnel	908	(27)	-	-	881
Obligations under contracts	660	8	-	-	668
Inventories	175	(72)	-	-	103
Intangible assets	(10)	12	-	-	2
Conversion costs	1	(1)	-	-	-
Total	**(5,098)**	**393**	**(3)**	**127**	**(4,581)**

The change in the balance of deferred taxes for 2022 was as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2022*	*Recognized in profit and loss*	*Recognised in equity*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 31 December 2022*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(7,325)	674	99	130	(6,422)
Investment property	(1,110)	(338)	-	-	(1,448)
Intangible assets	(62)	52	-	-	(10)
Payables to personnel	841	67	-	-	908
Receivables	436	602	-	-	1,038
Inventories	333	(158)	-	-	175
Accrued liabilities	110	550	-	-	660
Conversion costs	-	1	-	-	1
Total	**(6,777)**	**1,450**	**99**	**130**	**(5,098)**

29. GOVERNMENT GRANTS

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

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

	30.09.2023			*31.12.2022*		
	Non-current portion	*Current portion*	*Total*	*Non-current portion*	*Current portion*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Acquisition of machinery and equipment for a new tablets production line	1,831	179	**2,010**	1,921	179	**2,100**
Acquisition of a compact line for bottling vials under an insulator						
Implementation of innovative products in the production of ampoule dosage forms	1,200	200	**1,400**	1,300	200	**1,500**
Acquisition on non-current assets and building reconstruction	283	8	**291**	287	8	**295**
Acquisition of combined exchange ventilation and air conditioning installation	61	9	**70**	65	9	**74**
Implementation of innovative "artificial tears" eye drops production	2	24	**26**	14	24	**38**
Acquisition of machines and equipment for infusion solutions						
Total	**3,377**	**420**	**3,797**	**3,587**	**420**	**4,007**

The short-term part of the financing will be recognized as current income in the next 12 months from the date of the individual statement of financial position and is presented as "other current liabilities" (*Note 38*).

30. LEASING CONTRACT LIABILITIES TO RELATED PARTIES

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

Term	***30.09.2023***	***31.12.2022***
	BGN '000	***BGN '000***

Up to 1 year	1,733	1,637
Over 1 year	15,202	14,739
Total	**16,935**	**16,376**

The minimum lease payments to related parties are due as follows:

Term	***30.09.2023***	***31.12.2022***
	BGN '000	***BGN '000***
Up to 1 year	1,929	1,657
Over 1 year	15,994	14,916
	17,923	**16,573**
Future financial expense under leases contracts	(988)	(197)
Current value of operating lease obligations to related parties	**16,935**	**16,376**

The term of the leasing contracts to related enterprises is 01.08.2032.

The company has provided deposits under the lease contracts as collateral for the obligations under them in the amount of BGN 516 thousand. (31.12.2022: BGN 516 thousand) *(Note 19).*

Liabilities under leases to related companies are in EUR.

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

31. LEASING CONTRACT LIABILITIES TO THIRD PARTIES

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

Term	***30.09.2023***	***31.12.2022***
	BGN '000	***BGN '000***
Up to 1 year	818	802
Over 1 year	1,986	594
Total	**2,804**	**1,396**

The minimum lease payments to third parties are due as follows:

Term	***30.09.2023***	***31.12.2022***
	BGN '000	***BGN '000***
Up to 1 year	894	880

Over 1 year	2,112	700
	3,006	**1,580**
Future financial expense under leases contracts	(202)	(184)
Current value of operating lease obligations to related parties	**2,804**	**1,396**

The table below shows the obligations by types of leasing contracts to related parties:

		30.09.2023			*31.12.2022*	
	Long-term part BGN'000	***Short-term part BGN'000***	***Total BGN'000***	***Long-term part BGN'000***	***Short-term part BGN'000***	***Total BGN'000***
Under car leasing contracts	1,817	647	**2,464**	436	650	**1,086**
Under lease agreements for buildings	106	97	**203**	81	83	**164**
Under leasing Agreements for transmission devices	59	30	**89**	30	30	**60**
Under equipment leasing contracts	4	37	**41**	46	34	**80**
Under land lease contracts	-	7	**7**	1	5	**6**
Total	**1,986**	**818**	**2,804**	**594**	**802**	**1,396**

Liabilities under lease contracts to third parties in BGN amount to 137 thousand (31.12.2022: BGN 172 thousand), in EUR: BGN 2,144 thousand (31.12.2022: BGN 786 thousand), in USD: BGN 374 thousand. (31.12.2022: BGN 371 thousand) and in other currencies – BGN 149 thousand. (31.12.2022: BGN 67 thousand).

The company has provided deposits under the lease contracts as collateral for the obligations under them in the amount of BGN 15 thousand. (31.12.2022: BGN 15 thousand) (*Note 24 b*).

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

32. LONG-TERM PAYABLES TO PERSONNEL

Long-term payables to personnel include:

	30.09.2023 BGN '000	***31.12.2022 BGN '000***
Long-term retirement benefit obligations	4,522	4,137
Long-term benefit obligations for tantieme	231	203
Total	**4,753**	**4,340**

Long-term retirement benefit obligations

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

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

To determine these liabilities, the company has made an actuarial valuation as of 31.12.2022, using the services of a certified actuary.

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

	2023	***2022***
	BGN '000	***BGN '000***
Present value of the obligation at 1 January	**4,137**	**4,695**
Expense for current work experience	367	472
Interest cost	4	30
Net actuarial profit/ loss recognised for the period	-	(38)
Payments made in the year	-	(474)
Effects of subsequent assessments of obligations to staff upon retirement, including from:	14	(548)
Actuarial gains/ losses on changes in demographic assumptions	(2)	(48)
Actuarial gains/losses from changes in financial assumptions	4	(833)
Actuarial losses/ (gains) on adjustments due to past experience	12	333
Present value of the obligation at 30 September/ 31 December	**4,522**	**4,137**

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

	2023	***2022***
	BGN '000	***BGN '000***
Expense for current work experience		
Interest cost		
Net actuarial profit/ loss recognised for the period	240	240
Cost components of defined benefit plans recognized in profit or loss *(Note 7)*	**240**	**240**

	2023	***2022***
	BGN '000	***BGN '000***

Effects of subsequent assessments of obligations to staff upon retirement, including from:		
Actuarial gains/ losses on changes in demographic assumptions	(2)	-
Actuarial gains/losses from changes in financial assumptions	4	-
Actuarial losses/ (gains) on adjustments due to past experience	12	-
Components of defined benefit plan expenses recognized in other components of comprehensive income *(Note 12)*	**14**	**-**
Total	**385**	**360**

In determining the present value as of 30.09.2023, the following actuarial assumptions have been made:

- a rate based on an annual interest rate of 3.8% (2022: 4.50% for Biopharm Engineering AD and 6% for Sopharma AD) was used to determine the discount factor. The assumption made is based on the yield data of long-term government securities with a 10-year maturity;
- the assumption for the future level of salaries is based on the information provided by the management of the company and amounts to 5% annual growth compared to the previous reporting period (2022: 5%);
- mortality - according to the NSI mortality table for the total mortality of the population of Bulgaria for the period 2020 - 2022 (2022: 2019 - 2021);
- turnover rate - between 3% and 16%, depending on five different age groups (2022: between 1% and 16%);
- early retirement due to illness - between 0.03% and 0.32%, depending on five distinct age groups (2022: between 0.03% and 0.32%).

This defined benefit plan creates an exposure of the company to the following risks: investment, interest rate, longevity risk, and wage increase risk. The management of the company defines them as follows:

- for the investment - insofar as it is an unfunded plan, the company should monitor and balance the

forthcoming payments on it on an ongoing basis with the provision of sufficient financial resources. Historical experience, as well as the structure of the obligation, show that the resource required by years is not material to the commonly held liquidity funds;

- for interest rates - any decrease in the yield of government securities with a similar maturity leads to an increase in the plan obligation;
- for longevity risk - the present value of the obligation to retirement staff is calculated using the best

estimate and up-to-date information on the mortality of plan participants. An increase in life expectancy would have the potential to increase the debt. In recent years, there has been a relative sustainability of this indicator; and

- risks related to salary increases - the present value of the obligation to staff at retirement is calculated applying the best estimate of the future increase in the salaries of plan participants. Such an increase would increase the obligation of the plan.

Long-term liabilities for tantieme are as follows:

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
Long-term benefit obligations for tantieme with maturity in 2026	137	-
Long-term benefit obligations for tantieme with maturity in 2025	94	95
Long-term benefit obligations for tantieme with maturity in 2024	-	108
Total	**231**	**203**

33. SHORT-TERM BANK LOANS

Short-term bank loans include:

Currency	*Contracted amount '000*	*Maturity*	*30.09.2023*	*31.12.2022*
			BGN '000	*BGN '000*
Extended bank loans (overdrafts)				
BGN	20,000	05.09.2024	19,940	5
BGN	20,000	31.07.2024	19,925	-
EUR	10,000	05.09.2024	19,554	-
EUR	10,000	29.12.2023	10,837	-
BGN	9,779	05.09.2024	9,777	-
BGN	5,000	31.07.2024	4,919	-
			84,952	**5**
Extended credit lines				
BGN	20,000	31.03.2024	19,879	11,729
			19,879	**11,729**
Total			**104,831**	**11,734**

The bank loans in EUR are agreed at an interest rate determined on the basis of one-month EURIBOR plus a margin of 1 point, and for those in BGN - from 1.3% to 1.45% and prime rate plus 1 point (2022: loans in EUR are agreed at an interest rate, determined on the basis of one-month EURIBOR plus a surcharge of 1.5 points, and for those in BGN - from 1.3% to 1.45% and an average deposit index plus 1 point). The loans are for working capital.

The following collateral has been established:

- Mortgages of real estate with a carrying amount of BGN 18,561 thousand as at 30 September 2023 (31.12.2022: BGN 18,876 thousand) *(Note 13 and Note 15);*

- Special pledges on:

  - machines and equipment with a carrying amount of BGN 12,420 thousand as at 30 September 2023 (31.12.2022: BGN 13,333 thousand) *(Note 13 and Note 15);*
  - inventories with a carrying amount of BGN 40,213 thousand as at 30 September 2023 (31.12.2022: BGN 27,832 thousand) *(Note 21)*;
  - receivables from related parties with a carrying amount of BGN 64,786 thousand as at 30 September 2023 BGN (31.12.2022: BGN 48,531 thousand) *(Note 22*);
  - trade receivables with a carrying amount as at 30 September 2023 - none (31.12.2022: BGN 11,735 thousand) *(Note 23*);
  - trade receivables from third parties of a subsidiary with a carrying amount of BGN 7,823 thousand as at 30 September 2023 (31.12.2022: BGN 7,823 thousand).

Part of the absorbed credits as of 30.09.2023 in the amount of BGN 25 thousand. (31.12.2022: BGN 13 thousand) are in the form of bank guarantees issued in favor of the NHIF to cover liabilities.

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

33. TRADE PAYABLES

Trade payables include:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Payables to suppliers	10,087	17,040
Advances received	1,196	23,009
Total	**11,283**	**40,049**

Payables to suppliers by type are as follows*:*

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Payables to suppliers for inventories	5,920	7,103
Payables to suppliers for long – term assets	2,112	6,620
Payables to suppliers for services	2,055	3,317
Total	**10,087**	**17,040**

Payables to suppliers are as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Payables to local suppliers	5,674	11,859

Payables to foreign suppliers	4,413	5,181
Total	**10,087**	**17,040**

The payables to suppliers are regular and interest-free. The payables in BGN amount to BGN 5,541 thousand (31.12.2022: BGN 10,671 thousand), in EUR – BGN 3,473 thousand (31.12.2022: BGN 3,744 thousand), in USD – BGN 1,072 thousand (31.12.2022: BGN 2,593 thousand), and in other currency – BGN 1 thousand (31.12.2022: BGN 32 thousand).
The common credit period for which no interest is charged on trade payables, is 180 days. The Company has no past due trade payables.

Advances received from customers are for purchases of:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Finished products	1,060	22,504
Fixed assets	136	462
Services	-	43
Total	**1,196**	**23,009**

The advances received from customers as at 30 September/ 31 December are current. Of these, in BGN are 136 thousand (31.12.2022: BGN 541 thousand) and in EUR are BGN 1,060 thousand (31.12.2022: BGN 22,468 thousand).
The Company has placed deposits as security for payables to suppliers under commercial transactions at the amount of BGN 392 thousand (31.12.2022: BGN 153 thousand) *(Note 24 b, Note 25, Note 33*).

35. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Liabilities to shareholders with significant influence	49,371	59
Liabilities to associates	1,748	1,655
Liabilities to companies related through key managing personnel	1,077	900
Liabilities to subsidiaries	103	10
Liabilities to companies controlled by an associate	6	8
Total	**52,305**	**2,632**

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

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***

Dividend Obligations	49,310	-
Liabilities under leasing contracts *(Note 30)*	1,733	1,637
Liabilities for delivery of inventories	1,160	917
Supply of services	102	78
Total	**52,305**	**2,632**

Liabilities to related companies are current. The BGN liabilities amount to BGN 50,469 thousand. (31 December 2022: BGN 989 thousand) and in EUR – 1,834 thousand (31 December 2022: BGN 1,643 thousand) and in Polish zlotys – BGN 2 thousand (31.12.2022: none).

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

36. TAX PAYABLES

Tax payables include:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Income tax	943	203
Personal income taxes	715	350
Taxes on expenses	395	339
Value added tax	240	-
Total	**2,293**	**892**

The company and its subsidiaries have undergone tax audits as follows:

“Sopharma” AD:
- under VAT Act – until 31 December 2011;
- full-scope tax audit – until 31 December 2011;
- National Social Security Institute – until 31 September 2013.

“Bulgarian Rose –“Sevtopolis”AD (transforming company)
- under VAT Act – until 31 December 2014;
- full-scope tax audit – until 31 December 2013;
- National Social Security Institute – until 31 December 2013.

“Medica” AD (transforming company)
- under VAT Act – until 31 January 2013;
- full-scope tax audit – until 31 December 2002;
- National Social Security Institute – until 31 December 2016.

“Unipharm” AD (transforming company)
- under VAT Act – until 31 August 2018;

- full-scope tax audit – until 31 December 2017;
- National Social Security Institute – until 31 December 2017.

“Biopharm Engineering” AD (transforming company)

- under VAT Act – until 31 October 2022;
- full-scope tax audit – until 31 December 2014;
- National Social Security Institute – until 30 April 2009.

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

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Payables to personnel, including:	7,951	8,275
tantieme	*4,095*	*3,531*
current liabilities	*2,203*	*2,499*
accruals on unused compensated leaves	*1,653*	*2,245*
Payables for social security/health insurance, including:	1,557	1,529
current liabilities	*1,278*	*1,162*
accruals on unused compensated leaves	*279*	*367*
Total	**9,508**	**9,804**

38. OTHER CURRENT LIABILITIES

Other current liabilities are as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Dividend obligations and unexercised Warrant Rights	23,201	215
Reimbursement obligations under contracts with clients *(Note 2.6.6)*	4,700	4,896
Provision for financial guarantees granted *(Note 2.27)*	1,958	1958
Liabilities under leasing contracts to third parties *(Note 31)*	818	802
Government grants *(Note 29)*	583	727

Deductions from salaries	57	49
Liabilities for financial deposits received as guarantees	1	9
Total	**31,318**	**8,656**

The provision for financial guarantees granted, at the amount of BGN 1,958 thousand (31.12.2022: BGN 1,958 thousand), arises as a result of commitment undertaken by the Company to perform payments for a debtor which failed to make payment in accordance with a debt instrument (*Note 2.27*).

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

	2023	***2022***
	BGN '000	***BGN '000***
Balance at 1 January	**1,958**	**666**
Increase in provision for financial guarantees recognized in profit or loss during the year	-	1,316
Decrease in provision for financial guarantees recognized in profit or loss during the year	-	(24)
Balance at 30 September/ 31 December	**1,958**	**1,958**

The commitments made by the company to make certain payments on behalf of a debtor who has not made a payment in accordance with a debt instrument are as follows:

	2023	***2022***
	BGN '000	***BGN '000***
Commitments to banks - creditors on debt instruments of related companies	1,943	1,943
Commitments to banks - creditors on debt instruments of third parties	15	15
Total	**1,958**	**1,958**

39. CONTINGENT LIABILITIES AND COMMITMENTS

Significant irrevocable agreements and commitments

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

Issued and granted guarantees

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

a) under loans of subsidiaries:

• Mortgages of real estate with a carrying amount of BGN 37,937 thousand as at 30 September 2023 (31.12.2022: BGN 40,563 thousand) (*Note 13*);

• Special pledges on:

- Machines and equipment with a carrying amount of BGN 10,923 thousand as at 30 September 2023 (31.12.2022: BGN 11,760 thousand) (*Note 13*);

- shares from the capital of a subsidiary with a book value as of 30 September 2023: BGN 9,992 thousand. (31.12.2022: none) (*Note 16*);

- Inventories with a carrying amount of BGN 7,000 thousand as at 30 September 2023 (31.12.2022: BGN 7,000 thousand) (*Note 21*);

- Trade receivables with book value as of 30 September 2023: none (31.12.2021: BGN 283 thousand) (*Note 23).*

b) *on loans to associates:*

- real estate mortgages with carrying amount of BGN 14,203 thousand as at 31 December 2023 (31.12.2022: BGN 14,491 thousand) *(Note 13)*;

The Company is a co-debtor and guarantor under received bank loans and issued bank guarantees and concluded lease agreements of the following companies:

Company	**Maturity**	**Currency**	**Contract amount**		**Amount of Sum Assured to 30.09.2023**
			Original currency	**BGN'000**	**BGN'000**
"Sopharma Trading" AD	2024	BGN	137,125	137,125	94,221
"Sopharma Trading" AD	2023 - 2024	EUR	65,000	127,129	78,996
"Sopharma Trading" Doo, Belgrade	2024 - 2026	EUR	35,010	68,474	49,461
"Doverie obedinen holding" AD	2027	BGN	30,000	30,000	17,500
"Energoinvestment" AD	2024	BGN	2,000	2,000	1,600
Total					**241,778**

40. RECOMMUNICATIONS AS A RESULT OF MERGER

In its financial report for 2023, Sopharma AD presents comparative information for 2022 on the basis of combining the individual financial statements of the merged (Biopharm Engineering AD) and receiving (Sopharma AD) companies *(Note 2.3.)*, as follows:

40.1. Introductory report on the financial situation as of the date of merger - 01.01.2023.

The introductory report on the financial status of Sopharma AD as a result of the merger on 01.01.2023 has been prepared based on the balance sheet values of the assets and liabilities of the two companies from their individual financial statements as of 31.12.2022.

As far as the date of the accounting reflection of the merger is 01.01.2023, the data in the statement of financial position as of that date correspond to the data for the comparable comparative period as of 31.12.2022.

The assets and liabilities of the two companies combined as of the accounting date of the merger 01.01.2023, in terms of structure and size, are as follows:

BALANCE SHEET	**Sopharma AD**	**Biopharm Engineering AD**	**Merger corrections**	**Consolidated Statement of Financial Position**
	31 December 2022 BGN'000	**31 December 2022 BGN'000**	**31 December 2022 BGN'000**	**31 December 2022 BGN'000**
ASSETS				
Non-current assets				
Property, plant and equipment	217,894	11,738	268	229,900
Intangible assets	4,247	-	-	4,247
Investment property	49,267	-	-	49,267
Investments in subsidiaries	90,235	-	(7,111)	83,124
Investments in associates and joint ventures	69,372	-	-	69,372
Other long-term equity investments	4,706	-	-	4,706
Long-term receivables from related parties	67,471	-	-	67,471
Other long-term receivables	3,526	-	-	3,526
	506,718	**11,738**	**(6,843)**	**511,351**
Current assets				
Inventories	82,618	142	-	82,760
Receivables from related parties	74,682	6	(6,647)	68,041
Trade receivables	18,095	26	(6)	18,115
Loans granted to third parties	8,317	-	-	8,317
Other receivables and prepayments	6,057	21	-	6,078
Cash and cash equivalents	4,761	132	-	4,893
	194,530	**327**	**(6,653)**	**188,204**
TOTAL ASSETS	**701,248**	**12,065**	**(13,496)**	**699,817**
EQUITY AND LIABILITIES				

EQUITY				
Basic share capital	134,798	5,540	(5,540)	134,798
Premium reserve	-	1,091	(1,091)	-
Treasury shares	(52,203)	-	-	(52,203)
Reserves	461,449	788	(634)	461,603
Other capital components	12,488	-	-	12,488
Retained earnings	43,843	(8,596)	1,022	36,269
	600,375	**(1,177)**	**(6,243)**	**592,955**
LIABILITIES				
Non-current liabilities				
Long-term bank loans	-	1,860	-	1,860
Deferred tax liabilities	4,728	375	(5)	5,098
Government grants	3,587	2,409		5,996
Liabilities under leasing contracts to related parties	14,739	-	-	14,739
Liabilities under leasing contracts to third parties	594	-	-	594
Long-term liabilities to staff	4,192	148	-	4,340
	27,840	**4,792**	**(5)**	**32,627**
Current liabilities				
Short-term bank loans	11,734	-	-	11,734
Short-term part of long-term bank loans	-	468	-	468
Trade payables	40,031	18	-	40,049
Payables to related parties	2,632	7,248	(7,248)	2,632
Tax payables	885	7	-	892
Payables to personnel and for social security	9,410	394	-	9,804
Other current liabilities	8,341	8	307	8,656
Government funding	-	307	(307)	-
	73,033	**8,450**	**(7,248)**	**74,235**
TOTAL LIABILITIES	**100,873**	**13,242**	**(7,253)**	**106,862**
TOTAL EQUITY AND LIABILITIES	**701,248**	**12,065**	**(13,496)**	**699,817**

The corrections made in the reports on the financial status of the two companies for their merger are mainly the result of: a) unification of the accounting policy and b) eliminations of the investment in a subsidiary company and of intra-group calculations between the two companies, incl. the related effects on deferred taxes. The net effect on the accumulated profits as of 01.01.2023 is a loss in the amount of BGN 7,574 thousand.

40.2. Comparative information

In the financial report for 2023 of Sopharma AD (the receiving company), the comparative data for 2022 and the earliest comparable period - 01.01.2022 - has been recalculated solely for the purposes of comparability. These recalculations were made to combine the data in: a) the financial statement as of 31

December 2022;. (b) the statement of comprehensive income for the year ending 31 December 2022; c) the statement of cash flows for the year ending 31 December 2022 and d) the statement of the financial position as of 01.01.2022 of the two companies, as if the inflowing and receiving companies had always been merged.

The effects of the merger in the respective accounts are presented as follows::

a) financial statement as of 31.12.2022:

The data from the introductory report on the financial situation as of 01.01.2023 are presented as comparative data as of 31.12.2022 in this report *(Note 40.1)*.

b) statement of comprehensive income for the period ending 30 September 2022:

STATEMENT OF COMPREHENSIVE INCOME	**Sopharma AD**	**Biopharm Engineering AD**	**Merger corrections**	**Consolidated Statement of Financial Position**
	2022	**2022**	**2022**	**2022**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**
Revenue	161,977	303	(201)	162,079
Other operating income/(losses), net	3,275	371	66	3,712
Changes in inventories of production and work in progress	10,419	171	-	10,590
Raw materials and consumables used	(59,433)	(268)	72	(59,629)
Hired services expense	(23,672)	(229)	12	(23,889)
Employee benefits expense	(38,722)	(849)	-	(39,571)
Depreciation and amortisation expense	(13,454)	(900)	-	(14,354)
Accounting value of goods sold	-	(52)	52	-
Other operating expenses	(13,443)	(23)	(44)	(13,510)
Profit from operations	**26,947**	**(1,476)**	**(43)**	**25,428**
				-
Finance income	4,189	1	(164)	4,026
Finance costs	(2,688)	(205)	221	(2,672)
Finance income / (costs), net	**1,501**	**(204)**	**57**	**1,354**
				-
Profit before income tax	**28,448**	**(1,680)**	**14**	**26,782**
Income tax expense	(3,045)	-	13	(3,032)
Net profit for the year	**25,403**	**(1,680)**	**27**	**23,750**
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Net change in fair value of other long-term equity investments	(1,167)	-		(1,167)

Other comprehensive income for the year, net of tax	**(1,167)**	**-**	**-**	**(1,167)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**24,236**	**(1,680)**	**27**	**22,583**

The effect in the total comprehensive income for the period from 01.01.2022 to 09.30.2022 as a result of the merger of the subsidiary is a loss in the amount of BGN 1,653 thousand. and is formed as follows:

a) the total comprehensive income for the year of Biopharm Engineering AD is a loss in the amount of BGN 1,680 thousand;

b) the effects of the eliminations of intra-group transactions between the two companies and the related deferred taxes is a profit in the amount of BGN 27 thousand.

c) statement of cash flows for the period ending 30 September 2022:

CASH FLOW STATEMENT	**Sopharma AD**	**Biopharm Engineering AD**	**Merger corrections**	**Consolidated statement of cash flows**
	2022 BGN'000	**2022 BGN'000**	**2022 BGN'000**	**2022 BGN'000**
Cash flows from operating activities				
Cash receipts from customers	195,002	402	-	195,404
Cash paid to suppliers	(108,658)	(656)	-	(109,314)
Cash paid to employees and for social security	(36,604)	(773)	-	(37,377)
Taxes paid (except income taxes)	(5,495)	(235)	-	(5,730)
Taxes refunded (except income taxes)	2,899	43	-	2,942
Profit Taxes (Paid)/Reimbursed, Net	(1,621)	-	-	(1,621)
Interest paid and bank charges on working capital loans	(799)	-	-	(799)
Exchange rate differences, net	(74)	-	-	(74)
Other proceeds/(payments), net	(1,268)	132	-	(1,136)
Net cash flows from operating activities	**43,382**	**(1,087)**	**-**	**42,295**
Cash flows from investing activities				
Purchases of property, plant and equipment	(7,947)	(182)	-	(8,129)
Proceeds from sales of property, plant and equipment	38	-	-	38
Purchases of intangible assets	(134)	-	-	(134)
Purchases of equity investments	(186)	-	-	(186)
Purchases of shares in associates	(5,266)	-	-	(5,266)
Purchases of other long-term capital investments	(486)	-	-	(486)

Proceeds from the sale of other long-term capital investments	599	-	-	599
Purchases of shares/shares in subsidiaries	(8,411)	-	-	(8,411)
Proceeds from sale of shares and stakes in subsidiaries	417	-	-	417
Dividend income from investments in subsidiaries	272	-	-	272
Dividend receipts from associated companies	1,215	-	-	1,215
Dividend income from capital investments	33	-	-	33
Loans granted to related parties	(1,750)	-	250	(1,500)
Reimbursed loans granted to related parties	684	-	-	684
Interest received on granted loans	816	-	-	816
Proceeds from charges under guarantees	201	-	-	201
Net cash flows from / (used in) investment activities	**(19,905)**	**(182)**	**250**	**(19,837)**
Cash flows from financing activities				
Proceeds/ Repayment from long-term bank loans	3,178	(470)	-	2,708
(Repayment) / Proceeds from short-term bank loans (overdraft), net	(34,189)	-	-	(34,189)
Loans received from related enterprises	-	250	(250)	-
Interest and fees paid on loans for investment purposes	-	(44)	-	(44)
Treasury shares	(1,919)	-	-	(1,919)
Dividends paid and unexercised warrants	(8)	-	-	(8)
Lease payments to related parties	(917)	-		(917)
Payments under leasing contracts to third parties	(649)	-	-	(649)
Received government funding for agricultural land	17	-	-	17
Proceeds / (payments), net, related to other capital components (warrants)	78	-	-	78
Net cash flows (used in) / from financial activities	**(34,409)**	**(264)**	**(250)**	**(34,923)**
Net increase (decrease) in cash and cash equivalents	**(10,932)**	**(1,533)**	**-**	**(12,465)**
Cash and cash equivalents at 1 January	**15,618**	**1,570**	**-**	**17,188**

Cash and cash equivalents at 30 September	**4,686**	**37**	**-**	**4,723**

The adjustments made in the statement of cash flows are mainly the result of eliminations of cash flows related to intra-group transactions between the two companies.

d) financial statement as of 01.01.2022:

The assets and liabilities of the two companies merged as of 01.01.2022, in terms of structure and size, are as follows:

BALANCE SHEET	**Sopharma AD**	**Biopharm Engineering AD**	**Merger corrections**	**Consolidated Statement of Financial Position**
	1 January 2022 BGN'000	**1 January 2022 BGN'000**	**1 January 2022 BGN'000**	**1 January 2022 BGN'000**
ASSETS				
Non-current assets				
Property, plant and equipment	205,090	12,649	282	218,021
Intangible assets	4,324	-	-	4,324
Investment property	47,302	-	-	47,302
Investments in subsidiaries	80,598	-	(7,111)	73,487
Investments in associates and joint ventures	54,485	-	-	54,485
Other long-term equity investments	5,706	-	-	5,706
Long-term receivables from related parties	49,695	-	-	49,695
Other long-term receivables	9,546	-	-	9,546
	456,746	**12,649**	**(6,829)**	**462,566**
Current assets				
Inventories	63,222	406	-	63,628
Receivables from related parties	87,706	143	(5,803)	82,046
Trade receivables	26,631	7	108	26,746
Loans granted to third parties	1,804	-	-	1,804
Other receivables and prepayments	7,372	182	35	7,589
Cash and cash equivalents	15,618	1,570	-	17,188
	202,353	**2,308**	**(5,660)**	**199,001**
TOTAL ASSETS	**659,099**	**14,957**	**(12,489)**	**661,567**
TOTAL ASSETS				
EQUITY AND LIABILITIES				
EQUITY	134,798	5,540	(5,540)	134,798
Basic share capital	-	1,091	(1,091)	-
Premium reserve	(50,284)	-	-	(50,284)
Treasury shares	439,040	788	(634)	439,194
Reserves	12,512	-	-	12,512

Other capital components	28,137	(5,658)	906	23,385
	564,203	**1,761**	**(6,359)**	**559,605**
LIABILITIES				
Non-current liabilities				
Long-term bank loans	6,750	2,327	-	9,077
Deferred tax liabilities	6,389	378	10	6,777
Government grants	4,007	2,717	-	6,724
Liabilities under leasing contracts to third parties	496	-	-	496
Long-term liabilities to staff	4,794	163	-	4,957
	22,436	**5,585**	**10**	**28,031**
Current liabilities				
Short-term bank loans	46,663	-	-	46,663
Short-term part of long-term bank loans	-	623	-	623
Trade payables	12,671	35	-	12,706
Payables to related parties	1,609	6,140	(6,140)	1,609
Tax payables	700	135	-	835
Payables to personnel and for social security	8,034	363	-	8,397
Other current liabilities	2,783	8	307	3,098
Government funding	-	307	(307)	-
	72,460	**7,611**	**(6,140)**	**73,931**
TOTAL LIABILITIES	**94,896**	**13,196**	**(6,130)**	**101,962**
TOTAL EQUITY AND LIABILITIES	**659,099**	**14,957**	**(12,489)**	**661,567**

The corrections made in the reports on the financial status of the two companies for their merger are mainly the result of: a) unification of the accounting policy and b) eliminations of the investments in the subsidiaries and of intra-group settlements between the three companies, incl. the related effects on deferred taxes. The net effect on accumulated profits as of 01.01.2022 is a loss in the total amount of BGN 4,752 thousand

The effect on the revaluation reserve of property, machinery and equipment on 01.01.2022 is in the direction of an increase in the amount of BGN 154 thousand.

41. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows. The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Company.

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

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

The structure of financial assets and liabilities is as follows:

Categories of financial instruments

Financial assets	***30.09.2023***	***31.12.2022***
	BGN '000	***BGN '000***
Financial assets at fair value through other comprehensive income, incl.:	***2,410***	***4,706***
Equity investments	*2,410*	*4,706*
Financial assets at amortised cost, incl.:	***176,121***	***167,787***
Receivables and loans granted, incl.:	*172,799*	*162,894*
Long - term receivables from related parties	51,553	67,471
Other long - term receivables	3,551	3,526
Receivables from related parties	83,894	68,041
Trade receivables	22,257	15,445
Loans granted to third parties	11,229	8,317
Other current receivables	315	94
Cash and cash equivalents	*3,322*	*4,893*
Total financial assets	**178,531**	**172,493**

Financial liabilities	***30.09.2023***	***31.12.2022***
	BGN '000	***BGN '000***
Financial liabilities at amortised cost, incl.:		
Long-term and short-term bank loans	***121,626***	***14,062***
Liabilities under leases to related companies	***16,935***	***16,376***
Liabilities under leasing contracts to third parties	***2,804***	***1,396***
Other loans and payables, incl.	***83,861***	***18,259***
Trade obligations	10,087	17,040
Liabilities to related parties	50,572	995
Other current liabilities	23,202	224
Total financial liabilities	**225,226**	**50,093**

As of 30 September 2023 the recognized liabilities under financial guarantees amount to BGN 1,958 thousand (31 December 2022: BGN 1,958 thousand) *(Note 41)*.

(Profits) / Impairment losses, net of recoveries, relating to financial assets and financial guarantees recognized in the statement of comprehensive income are as follows:

	30.09.2023	*30.09.2022*
	BGN '000	*BGN '000*
Granted loans at amortized value *(Note 11)*	793	1,270
Accounts Receivable *(Note 8)*	(1,876)	11,899
Financial guarantees provided *(Note 11)*	-	570
Receivables under provided guarantees *(Note 11)*	-	(58)
Total	**(1,083)**	**13,681**

Credit risk

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

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

Trade receivables

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

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

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

Expected credit losses are calculated at the date of each reporting period.

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

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

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

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

Given the short-term horizon of receivables and the forecasts of international institutions (EC, IMF, World Bank) for the next year 2024 for the development of the Bulgarian and world economy, the management's analysis shows that the effects of changes in the macroeconomic environment on the provisioning matrix are insignificant in size as of 30.09.2023.

Court and awarded receivables

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

The receivables or portion thereof for which the management determines are highly unlikely to be collected, are 100% impaired.

Loans, warranty 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 and warranty to further judgement on the possibility of default, on the loss coefficients related to this judgement and to correlation between counterparts. The Company measures credit risk by using probability of default (PD), exposure at default (EAD) and loss given default (LGD).

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

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

Based on the specific rating established and the analysis of the debtor's characteristics and the loan /warranty//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 Company considers that a 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:

- Increase in the likelihood of default (PD) for the life of the financial asset at the reporting date compared to the likelihood of a life of default at the date when the asset was first recognized;
- The borrower is past due more than 30 days but less than 90 days;
- Actual or anticipated significant adverse changes in the borrower's operating results beyond the allowable change range measured through the principal financial and operating indicators of the borrower;
- A significant change in the value of the collateral expected to increase the loss and the risk of default.

Quality criteria:

- Significant adverse changes in the business, financial and / or economic conditions under which the borrower operates;
- Actual or expected significant adverse changes in the borrower's operating results;
- A significant change in the value of the collateral expected to increase the loss and the risk of default.
- Early signs of cash flow / liquidity problems, such as delays in servicing lenders / 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 Company's Finance Director.

The Company defines a financial instrument in default and with a credit loss when it meets one or more of the following criteria:

Quantitative criteria:

- The borrower is past due more than 90 days;
- Substantial adverse changes and events in the business, financial conditions and business environment of the borrower have occurred or are expected to occur, as measured by a serious decline in the principal financial and operating indicators of the debtor;
- The borrower reports a series of losses and negative net assets;
- Substantial or forthcoming material adverse changes in the value of the key loan collateral, incl. loss of collateral.

Quality criteria:

The borrower is unable to pay due to significant financial difficulties. These are cases where:

- The borrower is in breach of the financing contract, e.g. interest payments, collateral;
- Negative changes in the borrower's business;
- Discounts were made in relation to the borrower's financial difficulties;
- The borrower is likely to be declared bankrupt.

The default definition is applied sequentially to model the probability of default (PD), default exposure (EAD) and default loss (LGD) over the calculation of the company's expected losses.

Expected credit losses are calculated by discounting the resulting value of the product of: probability of default (PD), default exposure (EAD), and default loss (LGD), determined as follows:

- PD represents the possibility that the borrower will default on its financial obligation either over the next 12 months or throughout the life of the financial asset (PD for life) determined on the basis of public PD data of generally accepted sources and statistical models for the effects of forecast macroeconomic factors . The company's management has also performed a historical analysis and identified the main economic variables affecting credit risk and expected credit losses for each type of loan (portfolio);
- EAD is the amount due to the company by the borrower at the time of default, over the next 12 months, or over the remaining loan period, determined according to the specific characteristics of the instrument (amount due, repayment plans, interest rates, term, etc.);
- LGD represents the Company's expectation of the amount of default loss. LGD varies by counterparty type, claim type and seniority, and availability of collateral or other credit support. LGD is measured as the percentage of loss for open exposure at default;
- The discount rate used in the calculation of the expected credit loss (ECL) is the original effective interest rate on the loan or, in the case of financial guarantees and other instruments, with no applicable interest rate - risk-free rate for the relevant period, currency, etc.

The Company applies a number of policies and practices to lower the credit risk from loans granted. Most frequently, it accepts collateral. The Company assigns valuation to external experts – independent valuators, 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 tables below presents the quality of financial assets, contractual assets and financial guarantee contracts of the company, as well as the maximum exposure to credit risk according to the credit rating accepted as of 30 September 2023:

Financial assets	***Note***	***Internal credit risk categorization***	***Expected credit losses (IFRS 9)***	***Gross book value***	***Impairment loss (adjustment)***	***Book value As at 30.09.2023***
				BGN '000	***BGN '000***	***BGN '000***
Trade receivables from related parties	22	not applicable	*For 12 – months period*	74,821	(3,979)	70,842
Long-term loans granted to related parties	19	Regular loans (Stage 1)	*Lifetime (secured)*	47,342	(156)	47,186
Trade receivables from third parties	20,23	not applicable	*For 12 – months period*	23,210	(2,319)	20,891

Short-term loans granted to third parties	24 (a)	Renegotiated (Stage 2)	*Lifetime (secured)*	11,232	(3)	11,229
Short-term loans granted to related parties	22	Regular loans (Stage 1)	*Lifetime (secured)*	10,823	(2,133)	8,690
Receivables under contracts of assignment from third parties	23	not applicable	*For 12 – months period*	4,890	-	4,890
Short-term loans granted to related parties	22	Renegotiated (Stage 2)	*Lifetime (secured)*	4,049	-	4,049
Receivables under contracts of assignment from related parties	19	Regular loans (Stage 1)	*Lifetime (secured)*	3,851	-	3,851
Deposit receivables under leasing contracts	19	not applicable	*For 12 – months period*	516	-	516
Receivables under provided sureties and guarantees of related parties	22	not applicable	*For 12 – months period*	315	(2)	313
Total:				**181,049**	**(8,592)**	**172,457**

The table below presents the quality of financial assets, contractual assets and financial guarantee contracts of the company, as well as the maximum exposure to credit risk according to the credit rating accepted as of 31 December 2022:

Financial assets	***Note***	***Internal credit risk categorization***	***Expected credit losses (IFRS 9)***	***Gross book value***	***Impairment loss (adjustment)***	***Book value as at 31.12.2022***
				BGN '000	***BGN '000***	***BGN '000***
Long-term loans granted to related parties	19	Regular Stage 1	*Lifetime (secured)*	63,354	(156)	63,198
Trade receivables from related parties	22	not applicable	*For 12 – months period*	59,155	(3,822)	55,333
Trade receivables from third parties	20,23	not applicable	*For 12 – months period*	18,442	(4,360)	14,082
Short-term loans granted to related parties	22	Renegotiated loans (Stage 2)	*Lifetime (secured)*	9,852	(1,340)	8,512

Short-term loans granted to third parties	24 (a)	Renegotiated loans (Stage 2)	*Lifetime (secured)*	8,320	(3)	8,317
Receivables under contracts of assignment from third parties	23	not applicable	*For 12 – months period*	4,890	-	4,890
Short-term loans granted to related parties	22	Regular Stage 1	*Lifetime (secured)*	4,144	-	4,144
Receivables under assignment contracts from related companies	19	Regular Stage 1	*Lifetime (secured)*	3,757	-	3,757
Receivables on provided deposit under leasing contracts	19	not applicable	*For 12 – months period*	516	-	516
Receivables under provided sureties and guarantees of related parties	22	not applicable	*For 12 – months period*	53	(2)	51
Financial assets				**172,483**	**(9,683)**	**162,800**

The table below provides information about the Company’s exposure to credit risk and the impairment of credit losses for loans granted and trade receivables as at 30 September 2023:

Category	**Correlation to an external credit rating**	**Average percentage of expected impairment loss**	**Gross carrying amount as of 30.09.2023**	**Impairment loss *(allowance)* as of 30.09.2023**
			BGN '000	***BGN '000***
Regular trade receivables (Stage 1)	*not applicable*	*6.42%*	98,031	(6,298)
Regular loans (Stage 1)	B3	*0.38%*	40,712	(156)
Renegotiated loans (Stage 2)	Caa1	*0.00%*	8,936	-
Renegotiated loans (Stage 2)	B3	*0.04%*	8,226	(3)
Regular loans (Stage 1)	Ba3	*0.00%*	6,630	-
Receivables under contracts of assignment from third parties	*not applicable*	*0.00%*	4,890	-
Regular loans (Stage 1)	Ba1	*0.00%*	4,034	-
Receivables under contracts of assignment from related parties	B1	*0.00%*	3,851	-
Renegotiated loans (Stage 2)	Ba3	*0.00%*	2,760	-
Renegotiated loans (Stage 2)	B1	*100.00%*	2,133	(2,133)

Receivables from deposits provided under leasing contracts	*not applicable*	*0.00%*	516	-
Receivables under provided sureties and guarantees of related parties	*not applicable*	*0.78%*	315	(2)
Uncollectible trade receivables (court,award and simplified receivables)	*not applicable*	*99.35%*	155	(154)
Regular loans (Stage 1)	Caa1	*0.00%*	15	-
Общо:			**181,204**	**(8,746)**

The table below provides information on the company's exposure to credit risk and impairments for credit losses for granted loans and trade receivables as of 31.12.2022:

Category	**Correlation to an external credit rating**	**Average percentage of expected impairment loss**	**Gross carrying amount as of 31.12.2022**	**Impairment loss *(allowance)* as of 31.12.2022**
			BGN '000	***BGN '000***
Regular Trade Receivables (Stage 1)	*not applicable*	*10.54%*	77,597	(8,182)
Regular loans (Stage 1)	B3	*0.30%*	51,304	(156)
Regular loans (Stage 2)	Ba3	*0.00%*	10,039	-
Renegotiated loans (Stage 2)	Caa1	*0.00%*	8,771	-
Renegotiated loans (Stage 2)	B3	*0.04%*	8,061	(3)
Receivables under contracts of assignment from third parties	*not applicable*	*0.00%*	4,890	-
Regular loans (Stage 1)	Ba1	*0.00%*	4,144	-
Receivables under contracts of assignment from related parties	B1	*0.00%*	3,757	-
Regular loans (Stage 1)	B1	*0.00%*	2,011	-
Renegotiated loans (Stage 2)	B1	*100.00%*	1,340	(1,340)
Receivables from deposits provided under leasing contracts	*not applicable*	*0.00%*	516	-
Uncollectible trade receivables (court,award and simplified receivables)	*not applicable*	*100.00%*	151	(151)
Receivables under provided sureties and guarantees of related parties	*not applicable*	*3.77%*	53	(2)
Total:			**172,634**	**(9,834)**

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

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Client 2	44%	56%
Client 1	44%	32%

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

The Company has concentration of trade receivables from a client who is not a related party, amounting to 26% of all trade receivables (31.12.2022: trade receivables from one customer outside of related parties - 27%).

Cash

The Company's cash and payment operations are concentrated in different first-class banks. A rating model is applied to calculate expected credit losses on cash and cash equivalents, using bank ratings determined by internationally recognized rating companies such as Moody's, Fitch, S&P, BCRA and Bloomberg and PD benchmarks (default probabilities) corresponding 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.

Currency risk

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Company supplies part of its basic raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies.

The remaining part of Company's operations is usually denominated in BGN and/or EUR. The Company sells significant part of its finished products in Euro and thus eliminates the currency risk. The accounts and balances with the subsidiaries in Ukraine are also denominated in Euro. Nevertheless, in relation with the instability in the country and the devaluation of the Ukrainian Hryvnia, for the purpose of mitigating the currency risk the Company, through its subsidiaries, exercises currency policy that includes the immediate translation in EUR of proceeds in a local currency as well as using higher trade margins to compensate eventual future devaluation of the Hryvnia.

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

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

30 September 2023	**in USD**	**in EUR**	**in BGN**	**in other currency**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Equity investments	16	-	2,394	-	2,410
Receivables and loans granted	7,092	35,274	130,428	5	172,799
Cash and cash equivalents	25	2,302	786	209	3,322
Total financial assets	**7,133**	**37,576**	**133,608**	**214**	**178,531**

Long-term and short-term bank loans	-	45,226	76,400	-	121,626
Liabilities under leases to related companies	-	16,935	-	-	16,935
Leasing contract liabilities to third parties	374	2,144	137	149	2,804
Other loans and liabilities	1,072	3,574	79,212	3	83,861
Total financial liabilities	**1,446**	**67,879**	**155,749**	**152**	**225,226**

31 December 2022	**in USD**	**in EUR**	**in BGN**	**in other currency**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Equity investments	8	-	4,698	-	4,706
Receivables and loans granted	6,358	33,653	122,883	-	162,894
Cash and cash equivalents	74	2,355	2,282	182	4,893
Total financial assets	**6,440**	**36,008**	**129,863**	**182**	**172,493**
Long-term and short-term bank loans	-	-	14,062	-	14,062
Leasing liabilities to related parties	-	16,376	-	-	16,376
Leasing liabilities to third parties	371	786	172	67	1,396
Other loans and liabilities	2,429	3,914	11,884	32	18,259
Total financial liabilities	**2,800**	**21,076**	**26,118**	**99**	**50,093**

Foreign currency sensitivity analysis

The effect of Company’s sensitivity to 10% increase/decrease in current exchange rates of BGN to USD and to other currency exposures, based on the structure of foreign currency assets and liabilities at 31 December and on the assumption that the influence of all other variables is ignored, the end effect has been measured and presented as impact on the post-tax financial result and on the equity.

		USD	
		30.09.2023	**30.09.2022**
		BGN '000	**BGN '000**
Financial result	+	512	480
Accumulated profits	+	512	480
Financial result	-	(512)	(480)
Accumulated profits	-	(512)	(480)

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2023 would be an increase by BGN 512 thousand (1.33%) (2022: increase at the amount of BGN 480 thousand) (2.02%). The same effect in terms of value would be seen on equity – 'retained earnings' component.

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

The impact of the remaining currencies (other than USD) on 10% increase in their exchange rates to BGN on Company’s (post-tax) profit is insignificant. The ultimate effect thereon for 2023 is a decrease by BGN 284 thousand (-0.74 %) (2022: a decrease by BGN 58 thousand (-0.24%). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

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

Price risk

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

(a) contingent increase of supplier prices of raw and starting materials, since more than 80% of the raw and starting materials are imported and they represent 50% on the average of all production costs; and

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

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

On the other hand, the Company is exposed to a price risk related to the held thereby shares, classified as other long-term equity investments. For this purpose, the management monitors and analyses all changes in security markets and also uses consulting services of one of the most authoritative in the country investments intermediaries. At this stage, because of the economic and financial crisis, the management has taken a decision for a significant reduction in its operations on stock markets, retaining of the purchased shares for longer periods with current monitoring of the reported by the respective issuer financial and business indicators.

Liquidity risk

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

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

Maturity analysis

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

30 September 2023	**up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**over 5 years**	**Total**
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN '000***	***BGN '000***	***BGN '000***
Long-term and short-term bank loans	518	11,871	21,324	76,187	16,076	1,228	-	**127,204**
Leasing contract liabilities to related parties	161	321	482	965	1,929	5,787	8,278	**17,923**
Leasing contract liabilities to third parties	82	172	240	400	814	1,298	-	**3,006**
Other loans and payables	5,437	78,123	47	254	-	-	-	**83,861**
Total liabilities	**6,198**	**90,487**	**22,093**	**77,806**	**18,819**	**8,313**	**8,278**	**231,994**

31 December 2022	**up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**over 5 years**	**Total**
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN '000***	***BGN '000***	***BGN '000***
Long-term and short-term bank loans	80	11,847	130	233	458	1,312	200	**14,260**
Leasing contract liabilities to related parties	138	276	414	829	1,673	5,119	8,124	**16,573**
Leasing contract liabilities to third parties	91	174	297	318	449	251	-	**1,580**
Other loans and payables	14,241	3,669	28	321	-	-	-	**18,259**
Total liabilities	**14,550**	**15,966**	**869**	**1,701**	**2,580**	**6,682**	**8,324.00**	**50,672**

Risk of interest-bearing cash flows

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

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

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

30 September 2023	**Interest-free**	**With floating interest rate**	**With fixed interest rate**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Equity investments	2,410	-	-	2,410
Receivables and loans granted	97,808	-	74,991	172,799
Cash and cash equivalents	213	3,109	-	3,322
Total financial assets	**100,431**	**3,109**	**74,991**	**178,531**
Long-term and short-term bank loans	-	121,626	-	121,626
Liabilities under leasing contracts to related parties	-	-	16,935	16,935
Liabilities under leasing contracts to third parties	-	68	2,736	2,804
Other loans and liabilities	83,861	-	-	83,861
Total financial assets	**83,861**	**121,694**	**19,671**	**225,226**

31 December 2022	**Interest-free**	**With floating interest rate**	**With fixed interest rate**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Equity investments	4,706	-	-	4,706
Receivables and loans granted	77,257	-	85,637	162,894
Cash and cash equivalents	184	4,709	-	4,893
Total financial assets	**82,147**	**4,709**	**85,637**	**172,493**
Long-term and short-term bank loans	5	14,057	-	14,062

Leasing contract liabilities to related parties	-	-	16,376	16,376
Leasing contract liabilities to third parties	-	84	1,312	1,396
Other loans and liabilities	18,259	-	-	18,259
Total financial assets	**18,264**	**14,141**	**17,688**	**50,093**

The table below demonstrates the Company's sensitivity to possible changes in interest rates by 0.50 points based on the structure of assets and liabilities as at 30 September/ 31 December and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and on equity.

2023

	Increase/ decrease in interest rate	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	Increase	(289)	(289)
BGN	Increase	(346)	(346)
AZN	Increase	1	1
USD	Increase	(2)	(2)
EUR	Decrease	289	289
BGN	Decrease	346	346
AZN	Decrease	(1)	(1)
USD	Decrease	2	2

2022

	Increase/ decrease in interest rate	*Impact on post-tax financial result profit/(loss)*	*Impact on equity increase/(decrease)*
EUR	Increase	(77)	(77)
BGN	Increase	(66)	(66)
USD	Increase	(2)	(1)
EUR	Decrease	77	77
BGN	Decrease	66	66
USD	Decrease	1	1

Capital risk management

The capital management objectives of the Company are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital.

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

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

Capital risk management

	2023	***2022***
	BGN '000	***BGN '000***
Total borrowings, including:	**141,365**	**31,834**
bank loans	*121,626*	*14,062*
leasing contract liabilities related companies	*16,935*	*16,376*
leasing contract liabilities to third parties	*2,804*	*1,396*
Less: Cash and cash equivalents	**(3,322)**	**(4,893)**
Net debt	**138,043**	**26,941**
Total equity	**558,751**	**592,676**
Total capital	**696,794**	**619,617**
Gearing ratio	**0.20**	**0.04**

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

Fair value measurement

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

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the statement of financial position at market value determined by applying a particular valuation method (investments in securities, loans with floating interest rate) and therefore, their fair value is almost equal to their carrying amount. With regard to loans, extended with fixed interest rate, the method used for setting this rate uses as a starting point for the calculations the current observations of the Company with regard to the market interest levels.

As far as the Bulgarian market of various financial instruments is still not sufficiently active – with stability, satisfactory volumes and liquidity for purchases and sales of certain financial assets and liabilities

– there are no sufficient and reliable market price quotations for them, and for this reason, the Company uses other alternative valuation methods and techniques.

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

42. RELATED PARTY TRANSACTIONS

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

Related parties	***Relation type***	***Relation period***
"Donev Investments Holding" AD	Company shareholder with significant ingluence	2022 and 2023
"Telecomplect invest"AD	Company shareholder with significant ingluence	2022 and 2023
"Sopharma Trading" AD	Subsidiary	2022 and 2023
"Pharmalogistica" AD	Subsidiary	2022 and 2023
"Sopharma Poland" OOD – in liquidation	Subsidiary	2022 and 2023
"Electroncommerce" EOOD	Subsidiary	2022 and 2023
"Vitamina" AD	Subsidiary	2022 and 2023
"Momina Krepost" AD	Subsidiary	2022 and 2023
"Sopharma Warsaw" EOOD	Subsidiary	2022 and 2023
"Sopharma Ukraine" EOOD	Subsidiary	2022 and 2023
"Sopharma Kazakhstan" EOOD	Subsidiary	2022 and 2023
"Phyto Palauzovo" AD	Subsidiary	2022 and 2023
"Veta Pharma" AD	Subsidiary	2022 and 2023
"Rap Pharma International" OOD	Subsidiary	Until 11.11.2022
"Pharmahim" EOOD	Subsidiary	2022 and 2023
"Sopharma Trading" OOD, Serbia	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 2 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 3 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 4 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 5 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 6 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 7 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 8 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 9 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 10 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 11 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy " 12 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 13 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 14 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023
"Sopharmacy" 15 EOOD	Subsidiary through "Sopharma Trading" AD	2022 and 2023

“Sopharmacy” 16 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 17 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 18 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 19 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 20 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 21 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 22 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 23 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 24 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 25 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 26 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 27 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 28 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 29 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 30 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 31 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 32 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 33 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 34 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 35 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 36 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 37 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 38 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 39 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 40 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 41 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 42 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 43 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 44 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 45 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 46 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 47 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 48 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 49 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 50 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 51 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 52 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 53 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 54 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 55 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 56 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 57 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 58 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 59 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 60 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 61 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023

“Sopharmacy” 62 EOOD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy” 63 EAD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharmacy 64” AD	Subsidiary through “Sopharma Trading” AD	2022 and 2023
“Sopharma Imoti” REIT	Associate	2022 and 2023
“Doverie Obedinen Holding” AD	Associate	2022 and 2023
Companies to DOH group	Companies controlled by an associate	2022 and 2023
“Sopharma Buildings” AD	Associate	Since 08.09.2023
“Sofprint Group” AD	Company related through key management personnel	2022 and 2023
“Sofconsult Group” AD	Company related through key management personnel	2022 and 2023
“VES electroinvest systems” EOOD	Company related through key management personnel	2022 and 2023
“Eco Solar Invest” OOD	Company related through key management personnel	2022 and 2023
“Alpha in” EOOD	Company related through key management personnel	2022 and 2023
“Consumpharm” OOD	Company related through key management personnel	2022 and 2023
DZZD "Veterinary Diagnostics"	Civil societies for the implementation of joint activity (direct participation)	2022 and 2023

The sales made by Sopharma AD to companies related to it as of 30 September are as follows:

Sales to related parties	***2023***	***2022***
	BGN '000	***BGN '000***
Sales of finished products to:		
Subsidiaries	92,245	93,358
	92,245	**93,358**
Sales of goods and materials to:		
Companies related through key management personnel	940	862
Subsidiaries	3,915	181
	4,855	**1,043**
Sales of services to:		
Subsidiaries	1,983	1,875
Associates	6	6
Companies related through key management personnel	6	2
	1,995	**1,883**
Interest on loans granted to:		
Company controlled by an associate	1,685	1,417
Subsidiaries	104	-

Joint venture	44	34
Associates	31	-
	1,864	**1,451**
Dividend income from:		
Associates	1,488	1,215
Subsidiaries	197	272
	1,685	**1,487**
Fees and guarantees of:		
Joint venture	553	367
Subsidiaries	-	7
	553	**374**
Interest under contracts for assignments of:		
Joint venture	95	-
	95	**-**
Sales of fixed assets to:		
Subsidiaries	-	48
	-	**48**
Total sales of related companies	**103,292**	**99,644**

The deliveries made to Sopharma AD by companies related to it as of 30 September are as follows:

Supplies from related parties	***2023***	***2022***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies related through key management personnel	7,798	7,779
Associates	67	49
Joint venture	185	44
Subsidiaries	1,967	18
Company controlled by an associate	23	4
	10,040	**7,894**
Supply of services from:		
Subsidiaries	2,543	2,531
Company controlled by an associate	539	561
Shareholder companies with significant influence	424	293
Associates	308	299
Companies related through key management personnel	162	182

	3,976	**3,866**
Deliveries of fixed assets related to leasing contracts from:		
Associates	1,447	917
	1,447	**917**
Dividends paid to:		
Companies shareholders with significant influence	45,229	-
Key management personnel	4,081	-
	49,310	**-**
Costs of acquisition of investment properties from:		
Companies controlled by an associate	-	183
Subsidiaries	-	57
	-	**240**
Costs of acquisition of fixed assets from:		
Companies controlled by an associate company	-	3
	-	**3**
Deliveries of fixed tangible assets from:		
Subsidiaries	-	1
Companies connected through key management personnel	-	-
	-	**1**
Other deliveries from:		
Company controlled by an associate	8	1
Subsidiaries	13	1
Associates	1	-
	22	**2**
Total deliveries from related companies	**64,795**	**12,923**

The sold and acquired shares/shares from the capital of Sopharma AD companies as of 30 September are as follows:

	2023	***2022***
	BGN '000	***BGN '000***

Sales of investments in:		
Subsidiaries	132	98
Associates	70	-
	202	**98**

	2023	***2022***
	BGN '000	***BGN '000***
Acquired investments in:		
Subsidiaries	9,902	8,410
Associates	551	5,266
	10,453	**13,676**

The accounts and balances with related parties are presented in *Notes 19, 22, 30 and 35.*
The members of the key personnel are disclosed in *Note 1.*

Salaries and other short-term benefits of key managing personnel are current and amount to BGN 1,288 thousand (2022: BGN 1,381 thousand) are as follows:

- current – BGN 894 thousand (2022 : BGN 1,138 thousand);
- tantieme – BGN 394 thousand (2022: BGN 243 thousand).

43. EVENTS AFTER THE REPORTING PERIOD

On 24.11.2023, an extraordinary General Meeting of the company will be held with the following agenda:

- Adoption of the financial statements for the first half of 2023.
- Taking a decision under art. 30, para 5-7 of the Articles of association of the company for profit distribution and payment of an interim dividend based on the adopted 6-month financial statement.

On 06.10.2023, the increase in the company's capital was entered in the Commercial Register by issuing 44,625,943 ordinary, registered, non-present, voting shares, with a nominal value of BGN 1 each and an issue value of BGN 4.13 per share, under provided that the shares of the increase are subscribed by the holders of the warrants.

The new shares from the company's capital increase were admitted to trading on the Bulgarian Stock Exchange on 18.10.2023.

On 13.10.2023, a subsidiary was registered in Russia with 100% ownership of Sopharma AD from the capital of the newly established company.

No other significant events have occurred after the reporting period date that would require additional corrections and/or disclosures in the Company's individual financial statements for the period ending 30 September 2023.