1. BACKGROUND INFORMATION ON THE GROUP

Sopharma Group (the Group) is comprised of the parent company and its seventy-six (31 December 2022: seventy-seven) subsidiaries. In addition, the Group has investments in three associates and one joint venture (31 December 2022: in two associates and one joint venture).

Parent company

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

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

Subsidiaries

The Group subsidiaries as at 30 September 2023 are as follows:

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

- Sopharmacy 4 EOOD – a business entity registered in Bulgaria by Decision No. 20160229093338/29.02.2016 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 5 EOOD – a business entity registered in Bulgaria by Decision No. 20160301155620/01.03.2016 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 6 EOOD – a business entity registered in Bulgaria by Decision No. 20140127170842/27.01.2014 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 7 EOOD – a business entity registered in Bulgaria by Decision No 20170315161212/15.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 8 EOOD – a business entity registered in Bulgaria by Decision No 20170627142803/27.06.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12';
- Sopharmacy 9 EOOD – a business entity registered in Bulgaria by Decision No 20170911100706/11.09.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 10 EOOD – a business entity registered in Bulgaria by Decision No 20170911101412/11.09.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 11 EOOD – a business entity registered in Bulgaria by Decision No 20170302125338 /02.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 12 EOOD – a business entity registered in Bulgaria by Decision No 20170306085236/06.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 13 EOOD – a business entity registered in Bulgaria by Decision No 20170306080850/06.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 14 EOOD – a business entity registered in Bulgaria by Decision No 20170306081205/06.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;

- Sopharmacy 15 EOOD – a business entity registered in Bulgaria by Decision No 20170302134305/02.03.2017 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 16 EOOD – a business entity registered in Bulgaria by Decision No 20180515105543/15.05.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 17 EOOD – a business entity registered in Bulgaria by Decision No 20180515105543/15.05.2018 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Sopharmacy 18 EOOD – a business entity registered in Bulgaria by Decision No 20190228133836/28.02.2019 of the Registry Agency, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 12;
- Veta Pharma AD - a business entity registered in Bulgaria under company file No. 581 dated 05.04.1999 of the Veliko Tarnovo District Court and with its seat and management address - the city of Veliko Tarnovo, 32 "Dulga Laka" Street;
- Sopharmacy 19 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226110235 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 20 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090518182226 dated 18.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 21 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519084124 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 22 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090320091825 dated 20.03.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 23 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090604184353 dated 04.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 24 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090604170149 dated 04.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;

- Sopharmacy 25 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519080611 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 26 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226120647 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 27 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090604181926 dated 04.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 28 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227145039 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 29 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090605085738 dated 05.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 30 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227160338 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 31 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20080630143914 dated 30.06.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 32 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20080630143914 dated 30.06.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 33 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226112827 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 34 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226165512 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 35 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090513180047 dated 13.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 36 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519083827 dated19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;

- Sopharmacy 37 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226102708 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 38 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519090345 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 39 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227150054 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 40 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20081220153409 dated 20.12.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 41 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519080839 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 42 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090518183127 dated 18.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 43 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226105948 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 44 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090605134931 dated 05.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 45 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519091916 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 46 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519083054 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 47 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227154137 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 48 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227155742 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;

- Sopharmacy 49 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090518162442 dated 18.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 50 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227152516 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 51 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227153607 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 52 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090518174837 dated 18.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 53 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090226101122 dated 26.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 54 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519085825 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 55 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090414165833 dated 14.04.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 56 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519071228 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 57 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090604164039 dated 04.06.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 58 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090227160132 dated 27.02.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 59 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090114162615 dated 14.01.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 60 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20080422121447 dated 22.04.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;

- Sopharmacy 61 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090114170550 dated 14.01.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 62 EOOD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20080512090050 dated 12.05.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 63 EAD - a business entity registered in Bulgaria by Decision of the Registry Agency, No2008041018022 dated 10.04.2008; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 64 AD - a business entity registered in Bulgaria by Decision of the Registry Agency, No 20080411103252 dated 11.04.2008; with a seat and management address: Sofia, 1220, Nadezhda Residential Area, 16, Rozhen Blvd;
- Sopharma Poland Z.O.O., Poland, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554/04.11.2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and management address: Poland, Warsaw, 58, Shashkova St.;
- Sopharma Warsaw SP. Z.O.O., Poland – a business entity registered in Poland by Decision No. DSR 0000372245 of 17 December 2010 by XII Economic Division of the State Court Register of Warsaw, with a seat and management address: Poland, Warsaw, 8, Halubinskiego St.;
- OOO Sopharma Ukraine, Ukraine – a business entity registered in Ukraine by Decision No. 10691020000029051/07.08.2012 in the Unified State Register of Legal Entities and Physical Entities-Entrepreneurs, with a seat and management address: Ukraine, Kiev, Oblonski Region, prospect Moskovskii No. 9, unit 4, floor 2, office 4-203;
- PAO Vitamini, Ukraine – a business entity registered in Ukraine by Decision No. 133/15.04.1994 of Uman City Court, with a seat and management address: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri St.;
- Sopharma Trading, Serbia – a business entity registered in Serbia by Decision No 07829531/ 05.02.1992 of the Business Registers Agency – Serbia, Belgrade, 48b Zorana Djindjica Boulevard;
- TOO Sopharma Kazakhstan, Kazakhstan – a business entity registered in Kazakhstan by Decision No 5286-1910-04-TOO/06.11.2014 of the Ministry of Justice, Auezov District, with seat and management address: Kazakhstan, Almaty, Auezov District, Mamir-4, home 190;
- Pharmachim EOOD, Serbia – business entity registered in Serbia with BD 27219.2020 dated 14.04.2020 by the Business Registry Agency of Belgrade, with seat and management address: Republic of Serbia, Belgrade, 6, Vladimira Popovicha St.

On 23.08.2023, the merger of Biopharm Engineering into Sopharma AD was entered in the Commercial Register at the Registration Agency. The merger of Biopharm Engineering AD (merging company) into the parent company Sopharma AD (acquiring company) was implemented through the legal form of transformation regulated in the Commercial Law. As a result of the transaction, all assets of Biopharm Engineering AD are transferred to Sopharma AD, and Biopharm Engineering AD is terminated without liquidation.

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

• restructuring of the companies in the Sopharma group in order to eliminate duplicate activities;

• focusing efforts on production and commercial activities, respectively to optimizing 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.

Accounting method of accounting for the merger

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.

On 11.11.2022, the Group divests of its participation in the company Rap Pharma International OOD.

Joint ventures

As at 30 September 2023, the Group's joint venture is:

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

Associates

The Group's associates as at 30 September 2023 are as follows:

- Doverie Obedinen Holding AD – a business entity registered in Bulgaria by Sofia City Court under Company File No. 13056 of 1996, with a seat and management address: 1594 Sofia, 82, Knyaz Dondukov Blvd;
- Sopharma Imoti REIT – a business entity registered in Bulgaria by Decision No. 1/24.03.2006 of Sofia City Court, with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St.
- Sopharma Buildings REIT – a commercial company registered in the Sofia City Court with decision No. 1/14.08.2007 and with its registered office and management address, Sofia 1756, 5 Lachezar Stanchev Street.

1.1. Ownership and management of the parent company

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

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

	%
Donev Investments Holding AD	35.26
Telecomplect Invest AD	20.68
Sopharma AD (treasury shares)	10.00
MUPF Allianz Bulgaria	5.23
Other legal entities	18.75
Individuals	10.08
	10.19

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 Chairperson
Bisera Lazarova	Member
Alexander Chaushev	Member
Ivan Badinski	Member

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

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

The composition of the Audit Committee is as follows:

Vasil Naidenov	Chairman
Tsvetanka Zlateva	Member
Kristina Atanasova – Elliot	Member

1.2. Structure of the Group and principal activities

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

Subsidiaries ***Companies in Bulgaria***	***30.06.2023 Interest %***	***31.12.2022 Interest %***	***Date of acquisition of control***	***Date of disposal of control/***
Sopharma Trading AD*	87.45	87.25	08.06.2006	
Pharmalogistica AD	89.39	89.39	15.08.2002	
Electroncommerce EOOD	100.00	100.00	09.08.2005	
Biopharm Engineering AD	-	97.15	10.03.2006	
Phyto Palauzovo AD	95.00	95.00	21.09.2012	

Veta Pharma AD	99.98	99.98	11.11.2016
Sopharmacy EOOD**	87.45	87.25	19.01.2015
Sopharmacy 2 EOOD**	87.45	87.25	17.06.2015
Sopharmacy 3 EOOD**	87.45	87.25	02.12.2015
Sopharmacy 4 EOOD**	87.45	87.25	29.02.2016
Sopharmacy 5 EOOD**	87.45	87.25	01.03.2016
Sopharmacy 6 EOOD**	87.45	87.25	03.12.2015
Sopharmacy 7 EOOD**	87.45	87.25	15.03.2017
Sopharmacy 8 EOOD**	87.45	87.25	27.06.2017
Sopharmacy 9 EOOD**	87.45	87.25	11.09.2017
Sopharmacy 10 EOOD**	87.45	87.25	11.09.2017
Sopharmacy 11 EOOD**	87.45	87.25	07.12.2017
Sopharmacy 12 EOOD**	87.45	87.25	07.12.2017
Sopharmacy 13 EOOD**	87.45	87.25	07.12.2017
Sopharmacy 14 EOOD**	87.45	87.25	07.12.2017
Sopharmacy 15 EOOD**	87.45	87.25	07.12.2017
Sopharmacy 16 EOOD**	87.45	87.25	15.05.2018
Sopharmacy 17 EOOD**	87.45	87.25	15.05.2018
Sopharmacy 18 EOOD**	87.45	87.25	28.02.2019
Sopharmacy 19 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 20 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 21 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 22 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 23 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 24 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 25 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 26 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 27 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 28 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 29 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 30 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 31 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 32 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 33 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 34 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 35 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 36 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 37 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 38 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 39 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 40 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 41 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 42 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 43 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 44 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 45 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 46 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 47 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 48 EOOD **	87.45	87.25	01.10.2020

Sopharmacy 49 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 50 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 51 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 52 EOOD **	87.45	87.25	01.10.2020
Sopharmacy 53 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 54 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 55 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 56 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 57 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 58 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 59 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 60 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 61 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 62 EOOD**	87.45	87.25	01.10.2020
Sopharmacy 63 EAD**	87.45	87.25	01.10.2020
Sopharmacy 64 AD**	87.45	87.25	01.10.2020

** effective percentage of interest*
*** indirect interest*

Subsidiaries ***Companies abroad***	***30.06.2023 Interest %***	***31.12.2022 Interest%***	***Date of acquisition of control***	***Date of disposal of control***
PAO Vitamini	100.00	100.00	18.01.2008	
Sopharma Warsaw SP. Z.O.O.	100.00	100.00	23.11.2010	
Sopharma Poland Z.O.O., Poland, in liquidation	60.00	60.00	16.10.2003	
OOO Sopharma Ukraine	100.00	100.00	07.08.2012	
TOO Sopharma Kazakhstan	100.00	100.00	06.11.2014	
Rap Pharma International OOD	-	-	14.04.2017	11.11.2022
Sopharma Trading d.o.o.**	87.45	87.25	09.08.2017	
Pharmachim EOOD	100.00	100.00	14.04.2020	

** effective percentage of interest*
*** indirect interest*

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

- Sopharmacy 6 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 6 EOOD;
- Sopharmacy 7 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 7 EOOD;
- Sopharmacy 8 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 8 EOOD;
- Sopharmacy 9 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 9 EOOD;
- Sopharmacy 10 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 10 EOOD;
- Sopharmacy 11 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 11 EOOD;
- Sopharmacy 12 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 12 EOOD;
- Sopharmacy 13 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 13 EOOD;
- Sopharmacy 14 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 14 EOOD;
- Sopharmacy 15 EOOD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 15 EOOD;
- Sopharmacy 16 EOOD is a subsidiary through Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 16 EOOD;
- Sopharmacy 17 EOOD is a subsidiary thro of Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 17 EOOD;
- Sopharmacy 18 EOOD is a subsidiary through Sopharmacy EOOD whereas the latter holds 100% of the capital of Sopharmacy 18 EOOD;
- Sopharmacy 19 EOOD is a subsidiary through Sopharmacy 61 EOOD whereas the latter holds 100% of the capital of Sopharmacy 19 EOOD;
- Sopharmacy 20 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 20 EOOD;
- Sopharmacy 21 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 21 EOOD;
- Sopharmacy 22 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 22 EOOD;

- Sopharmacy 23 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 23 EOOD;
- Sopharmacy 24 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 24 EOOD;
- Sopharmacy 25 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 25 EOOD;
- Sopharmacy 26 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 26 EOOD;
- Sopharmacy 27 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 27 EOOD;
- Sopharmacy 28 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 28 EOOD;
- Sopharmacy 29 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 29 EOOD;
- Sopharmacy 30 EOOD is a subsidiary through Sopharmacy 61 EOOD whereas the latter holds 100% of the capital of Sopharmacy 30 EOOD;
- Sopharmacy 31 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 31 EOOD;
- Sopharmacy 32 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 32 EOOD;
- Sopharmacy 33 EOOD is a subsidiary through Sopharmacy 61 EOOD whereas the latter holds 100% of the capital of Sopharmacy 33 EOOD;
- Sopharmacy 34 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 34 EOOD;
- Sopharmacy 35 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 35 EOOD;
- Sopharmacy 36 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 36 EOOD;
- Sopharmacy 37 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 37 EOOD;
- Sopharmacy 38 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 38 EOOD;
- Sopharmacy 39 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 39 EOOD;

- Sopharmacy 40 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 40 EOOD;
- Sopharmacy 41 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 41 EOOD;
- Sopharmacy 42 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 42 EOOD;
- Sopharmacy 43 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 43 EOOD;
- Sopharmacy 44 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 44 EOOD;
- Sopharmacy 45 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 45 EOOD;
- Sopharmacy 46 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 46 EOOD;
- Sopharmacy 47 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 47 EOOD;
- Sopharmacy 48 EOOD is a subsidiary through Sopharmacy 61 EOOD whereas the latter holds 100% of the capital of Sopharmacy 48 EOOD;
- Sopharmacy 49 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 49 EOOD;
- Sopharmacy 50 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 50 EOOD;
- Sopharmacy 51 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 51 EOOD
- Sopharmacy 52 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 52 EOOD;
- Sopharmacy 53 EOOD is a subsidiary through Sopharmacy 40 EOOD whereas the latter holds 100% of the capital of Sopharmacy 53 EOOD;
- Sopharmacy 54 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 54 EOOD;
- Sopharmacy 55 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 55 EOOD;
- Sopharmacy 56 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 56 EOOD;

- Sopharmacy 57 EOOD is a subsidiary through Sopharmacy 59 EOOD whereas the latter holds 100% of the capital of Sopharmacy 57 EOOD;
- Sopharmacy 58 EOOD is a subsidiary through Sopharmacy 60 EOOD whereas the latter holds 100% of the capital of Sopharmacy 58 EOOD;
- Sopharmacy 59 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 59 EOOD;
- Sopharmacy 60 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 60 EOOD;
- Sopharmacy 61 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 61 EOOD;
- Sopharmacy 62 EOOD is a subsidiary through Sopharmacy 63 EOOD whereas the latter holds 100% of the capital of Sopharmacy 62 EOOD;
- Sopharmacy 63 EAD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 63 EAD;
- Sopharmacy 64 AD is a subsidiary through Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharmacy 64 AD;
- Sopharma Trading d.o.o., Serbia is a subsidiary of Sopharma Trading AD whereas the latter holds 100% of the capital of Sopharma Trading d.o.o.;

The core business activities of the Group companies are focused on the pharmaceutical sector except for separate companies having business activities also in the field of investment in securities.

The parent company holds a permit for production/import of pharmaceuticals № BG / MIA-0384 / 28.06.2023, issued by the Bulgarian Drug Agency (BDA).

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

- Sopharma AD – production and trade in medicinal substances (active ingredients) and finished drug forms; research and development activities in the field of medicinal products;
- Sopharma Trading AD – trade in pharmaceutical products;
- Pharmalogistica AD – secondary packaging of pharmaceutical products and real estate leases;
- Electroncommerce EOOD – trade, transportation and packaging of radioactive materials and nuclear equipment for medicinal use, household electronics and electrical equipment;
- Phyto Palauzovo AD – production, harvesting, purchase, growing and trade in herbs and medicinal plants;
- Veta Pharma AD – production of medicinal, non-medicinal and other products;
- Sopharmacy EOOD – franchising, know-how, renting of property, trade and other;

- Sopharmacy 2 EOOD – Sopharmacy 62 EOOD (with the exception of Sopharmacy 6 EOOD) – retail trade in medicinal products;
- Sopharmacy 6 EOOD – online and off-line retail trade in medicinal products;
- Sopharmacy 63 EAD and Sopharmacy 64 EOOD – retail trade in medicinal products, franchising and other services;
- PAO Vitamini, Ukraine – production and trade in pharmaceuticals;
- OOO Sopharma Ukraine, Ukraine – trade in pharmaceuticals and market and public opinion research;
- Sopharma Trading d.o.o. – wholesale trade in medicinal products;
- Sopharma Poland Z.O.O., Poland, in liquidation – market and public opinion research;
- Sopharma Warsaw SP. Z.O.O., Poland – wholesale trade in pharmaceutical and medicinal products and market and public opinion research;
- TOO Sopharma Kazakhstan, Kazakhstan – trade in pharmaceuticals;
- Pharmachim EOOD, Serbia – consultancy.

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

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

As at 30 September 2023, the interest of the Group in ***joint ventures*** is as follows:

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

As at 30 September 2023, the interest of the Group in ***associates*** is as follows:

- Doverie Obedinen Holding AD – 24.993% interest of Sopharma AD. The principal activities of the company include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies – legal entities.

- Sopharma Imoti REIT – 41.09% interest of Sopharma AD. The principal activities of the company include investing cash raised by issues of securities in real estate through purchase of right of ownership and other rights on them over real estate, construction and enhancements in order to provide the real estate for management, lease and/or sale.

- Sopharma Buildings REIT – 30.07% participation of Sopharma AD. The principal activities of the company are the investment of funds raised through the issuance of securities in real estate (real estate securitization) through the purchase of ownership and other rights to real estate, renting, leasing, leasing and/or sale.

As of the date of these interim consolidated financial statements, the average number of Group's personnel was 4,741workers and employees (2022: 4,764 workers and employees).

1.3. Main indicators of the economic environment

Currency exchange rates are among the main economic indicators of the business environment that have affected the activities of the Group companies throughout the period 2021 – 2023. The relevant exchange rates are presented in the table below:

Indicator	**2021**	**2022**	**2023**
USD/BGN average for the year/period	1.65419	1.86030	1.80604
USD/BGN at end of the year/period	1.72685	1.83371	1.84617
PLN/BGN average for the year/period	0.42841	0.41760	0.42706
PLN/BGN at end of the year/period	0.42547	0.41784	0.42265
RSD/BGN average for the year/period	0.01663	0.01665	0.01668
RSD/BGN at end of the year/period	0.01663	0.01667	0.01669
UAH/BGN average for the year/period	0.06065	0.05795	0.04936
UAH/BGN at end of the year/period	0.06329	0.05022	0.05073
EUR/BGN average for the year/period	1.95583	1.95583	1.95583
EUR/BGN at end of the year/period	1.95583	1.95583	1.95583
1 BYN/BGN average for the year/period	0.65183	-	-
1 BYN/BGN at end of the year/period	0.67921	-	-
KZT/BGN average for the year/period	0.00388	0.00404	0.00399
KZT/BGN at end of the year/period	0.00401	0.00397	0.00388
MDL/BGN average for the year/period	0.09352	0.09835	-
MDL/BGN at the end of the year/period	0.09736	0.09597	-

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

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for preparation of the consolidated financial statements

The interim consolidated financial statements have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting

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

The adoption of these standards and/or interpretations, applicable to entities in Bulgaria for annual reporting periods beginning on 1 January 2023 at the earliest, has not caused changes in Group's accounting policies with the exception of some new and the expansion of already introduced disclosures, without leading to other changes in the classification or measurement of individual reporting items and transactions.

The new and/or amended standards and interpretations include:

- *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements (in force for annual periods beginning on or after 1 January 2023, endorsed by EC).* These amendments provide guidelines and examples regarding the application of the materiality concept upon judgements and decisions makings related to disclosures of the accounting policy, such as a) they replace the requirement for disclosing **material** accounting policies information instead of **significant** accounting policies; b) they provide clarifications on how the entities can identify material accounting policy information and to give examples of when accounting policy information is likely to be material; c) clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial; d) clarify that accounting policy information is material if users of the entity's financial statements would need it to understand certain material information in the financial statements; and d) clarify that the entity needn't disclose immaterial accounting policy information, this shall not result in omitting or obscuring obscure material accounting information. Earlier application is permitted. The management has completed an analysis and has determined that these changes do not assess the effects of the changes that would have a material impact on the accounting policy and on the values and classification of the assets, liabilities, operations and results of the company.
- *Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (in force for annual periods beginning on or after 1 January 2023, endorsed by EC).* These amendments are related to clarifications aimed at a more accurate distinction between changes to the accounting policy, error adjustments and changes to accounting estimates, such as: a) "the definition of a change in accounting estimates" is replaced with a "definition of accounting estimates" – under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty"; b) the entity develops and applies accounting estimates if the accounting policies require items in the financial statements to be measured in a way that involves measurement uncertainty; c) a

clarification is made that a change in accounting estimate may result from a change in input or valuation technique, as well as from new information or new developments, unless it is the correction of a prior-year error; d) a change in an accounting estimate may affect only the current's period profit or loss, or the profit or loss of both the current period and future periods. Earlier application is permitted. The management has completed an analysis and has determined that these changes do not assess the effects of the changes that would have a material impact on the accounting policy and on the values and classification of the assets, liabilities, operations and results of the company.

- *IAS 12 Income Taxes (in force for annual periods since 1 January 2023, endorsed by EC).* Amendments to IAS 12 – Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments restrict the scope of exemption from recognition of deferred tax liabilities, as a result of which it is not applied for transactions in which equal taxable and deductible temporary differences may arise upon initial recognition. Such transactions are the recognition of a right-of-use asset and lease liability by the lessee at the commencement date of a lease, as well as in the accrual of liabilities for dismantling, removing or restoring included as part of the cost of an asset. Upon the amendments coming into force, the entities should recognize each deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability (for all deductible temporary differences) in accordance with the IAS 12 criteria for transactions related to assets and liabilities arising from a single transaction on or after the beginning of the earliest comparative period presented in the financial statements. The entities recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at that date. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, and earlier application is permitted. The management has completed an analysis and has determined that these changes do not assess the effects of the changes that would have a material impact on the accounting policy and on the values and classification of the assets, liabilities, operations and results of the company.

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

- *Amendments 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 is in the process of researching, analyzing and evaluating the effects of changes that would have an impact on the accounting policy and on the classification and presentation of the Group's liabilities.

- *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. The management has made research, analysis and assessment and has determined that these changes would not have a material impact on the accounting policy and on the classification and presentation of the Group's liabilities.

- *Amendments to IFRS 16 "Leases" (in force for annual periods beginning from 1 January 2024, not endorsed by EC).* The amendment aims to clarify requirements to the seller-lessee upon measuring a lease liability in sale and leaseback transactions. It requires a seller-lessee to subsequently (after the date of providing the underlying asset) determine lease payments and revised leased payments in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendments do not apply to the recognition of gains or losses in relation to partial or full termination of a lease. The amendments are applied retrospectively. Earlier application is permitted. The management has conducted research and has determined that these changes would not have a material impact on the Group's assets and liabilities, transactions and results.

- *Amendments to IAS 1 "Presentation of Financial Statements, Non-Current Liabilities with Covenants" (in force for annual periods from 1 January 2024, not endorsed by EC).* These amendments specify that only covenants with which an entity is required to comply on or before the reporting date affect the entity's right to defer the respective liabilities for at least twelve months after the reporting date and respectively, only these are to be considered upon assessing the classification of liabilities as current or non-current. These amendments have an impact on whether the right exists at the reporting date, even if compliance with the conditions is determined thereafter (for instance, a covenant based on the entity's financial position at the reporting date, but assessed thereafter). Covenants calculated based on the entity's financial position after the reporting date (for instance, based on the entity's financial position six months after the reporting date) shall not be considered upon determining the classification od liabilities and the right of deferral thereof. Nevertheless, entities shall disclose information about the covenants comprising an observable period within 12 months from the end of the reporting period, in order to assess the risk of whether the liabilities would become due. The amendments are applied retrospectively. Earlier application is permitted, but simultaneously with the application of amendments to IAS 1 Presentation of Financial Statements regarding the classification of liabilities as current and non-current. The management has conducted research and has determined that these changes would not have a material impact on the Group's assets and liabilities, transactions and results.

Additionally, for the following new standards, amended standards and adopted interpretations that have been issued, effective for annual periods beginning on or after 1 January 2023, management has determined that the following would not have the potential effect of changes in accounting policy and the classification and values of reporting objects in the consolidated financial statements of the Group, namely:

- *Improvements to IFRS 17 Insurance Contracts (in force for annual periods beginning on or after 1 January 2023, endorsed by EC).* The amendments are related to the Initial Application of IFRS 17 and IFRS 9 – Comparative Information. They provide a transitional provision regarding the comparative information on financial assets upon initial application of IFRS 17 in order to reduce accounting mismatches between financial assets and liabilities under insurance contracts in the comparative information upon initial application of IFRS 17 and IFRS 9. The application of the changes is optional and only applies to the presentation of comparative information upon initial application of IFRS 17.
- *IFRS 17 "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2023, endorsed by EC).* This is an entirely new accounting standard on all types of insurance contracts, including some guarantees and financial instruments, and includes rules and principles on recognition and measurement, presentation and disclosure. The standard will supersede the effective standard up to date related to insurance contracts – IFRS 4. It establishes an entirely new overall model for insurance contracts' accounting, covering all relevant accounting and reporting aspects.

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

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

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

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

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

The presentation of the consolidated annual financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the consolidated financial statements.

These estimates, accruals and assumptions are based on the information, which is available as of the date of the consolidated financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed in *Note 2.32 and Notes 15, 16, 17, 18, 19, 20, 21, 40.*

2.2. Definitions

Parent company

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

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

Subsidiary

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

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

The subsidiaries are presented in *Note 1.2.*

Joint venture

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

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

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

Associate

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

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

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

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

2.3. Consolidation principles

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

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

2.3.1. Consolidation of subsidiaries

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

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

2.3.2. Acquisition of subsidiaries

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

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

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

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

2.3.3. Disposal of subsidiaries

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

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

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

2.3.4. Transactions with non-controlling interests

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

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

2.3.5. Consolidation of associates and joint ventures

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

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

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

2.4. Comparatives

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

2.5. Functional currency and recognition of exchange differences

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

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

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

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

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

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

(a) all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency thereto at 31 December or at the date of disposal of the company;

(b) all income and expenses are restated to the currency of the Group at average rate of the local currency thereto for the reporting period *(Note 2.6 and Note 2.7);*

(c) all exchange differences resulting from the restatements are recognised and presented as a separate component of equity in the consolidated statement of financial position – 'translation of foreign operations reserve', and

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

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

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

2.6. Revenue

2.6.1. Recognition of revenue under contracts with customers

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

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

Measurement of contracts with customers

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

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

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

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

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

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

When another party is involved in providing goods or services to a customer, the Group shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent). The Group is a principal and recognises as revenue the gross amount of consideration if it controls the specified goods and/or services prior to their transfer to the customers. If, however, the Group does not obtain control over the specified goods and/or services and its obligation is only to arrange for a third party to provide these specified goods and/or services, the Group is an agent and recognises as revenue the net amount it retains for the goods or services to be provided in its capacity as agent.

2.6.2. Measurement of revenue under contracts with customers

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

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

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

2.6.3. Performance liabilities under contracts with customers

<u>Sales of finished goods</u>

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

Sales of finished goods based on the Group's specifications

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

Upon *domestic sales*, this is usually upon handover of the products and the physical possession of the customer thereof, when the customer has the ability to direct the use of, and by obtaining substantially all of the remaining benefits from, the finished goods.

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

Sales of products based on the customer's specifications

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

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

If in the specific contract the Group does not have a legally enforceable right to payment, revenue is recognised *at a point in time,* when control of the finished goods sold is transferred to the customer: when the finished goods are provided to the customer and it has physical possession thereon (for domestic sales) and in accordance with the contract's applicable INCOTERMS (for export sales).

<u>Sales of pharmaceuticals and medical goods</u>

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

Wholesale

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

Retail sales

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

Customer loyalty programmes

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

Medical equipment (appliances) sales

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

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

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

Warranty service

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

Transportation of the finished goods and goods sold

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

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

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

Revenue from the sales of transportation services are recognised *over time*, since it is not necessary for the work performed to date to be repeated if another party has to perform the remaining work, therefore, the customer simultaneously receives and consumes the benefits provided by the Group's performance as the

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

Bill-and-hold arrangements

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

<u>Sales of services</u>

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

Extra-warranty (maintenance) service

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

The extra-warranty service comprises various tasks/activities of continuous and/or repetitive nature, which are distinct and form part of an integrated service. They constitute a series of distinct services and are therefore a *single performance obligation*, since: a) the integrated maintenance service covers numerous distinct time periods (usually one month); b) the services are substantially the same, since the customer obtains continuous benefit therefrom for each separate time period (each month) even of the tasks performed differ in their nature and quantity; c) control is transferred over time, since the customer simultaneously receives and consumes the benefits provided by the Group as the Group performs the service and none need for another company to substantially repeat the work done by the Group company at a given date if this other company has to perform the remaining portion of the performance obligation.

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

Other services

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

2.6.4. Refund liabilities under contracts with customers

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

Refund liabilities under contracts with customers are stated within "Other current liabilities" in the statement of financial position.

2.6.5. Transaction price and payment terms

Finished goods, pharmaceutical and medical produces

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

Variable consideration

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

- *Volume discounts:* Retrospective trade discounts provided to the customer upon reaching monthly, quarterly and/or annual turnover determined in advance, set as a uniform threshold and/or progressive bonus scheme. Upon measuring the variable consideration, the Group determines the customer's estimated turnover by using the most probable outcome method. The discounts granted are offset against the amounts due by the customer.

- *Price discounts from the common price list:* under the pricing policy adopted, upon wholesale, the selling price from the common price list is reduced by the discount usually applicable for the respective product. The discount applicable for each customer is determined based on the turnover agreed for a certain period as compared to the total potential turnover with the customer. These price discounts are granted to the customer upon each sale and/or at the end of each month. If the customer fails to meet the turnover targets and does not compensate the difference over the next period, the Group is entitled to claiming *default compensation* set as a percentage of the turnover default.
- *Price protection:* With regards to domestic sales, the Group is obliged, upon price reduction imposed by a state regulatory body, to compensate the buyer and/or its customers for finished goods purchased at a higher price and not yet sold to end clients. The payment of this consideration depends on the state policy on medicinal products price regulation and is beyond the Group's control.
- *Compensation for hidden flaws:* the customer may claim returns due to hidden flaws (quality claims) throughout the validity period of the finished goods sold, which may vary from one to five years. Quality claims are settled by the provision of new replacement goods or by refund of the amount paid by the customer. Upon determining the compensations for hidden flaws due at the end of the reporting period, the Group takes into consideration the quality assurance system implemented thereby and the accumulated experience.
- *Compensations due to the customer:* in case of inaccurate performance of contractual liabilities by the Group, usually in relation of failure to meet the negotiated delivery deadline. These are included within a decrease of the transaction price only if the payment is very likely. The Group's experience shows that historically, contract terms are complied with, and the Group has not recorded liabilities for payment of compensations.
- *Right of return:* Some sales contracts allow the customer to return the goods within a given period. The Group accounts for the right of return as a form of variable consideration and recognises revenue from sales only at the amount of consideration it is reasonably assured it is entitled to (considering the goods expected to be returned). Upon determining what proportion of the goods sold is expected to be returned, the Group uses historical data about goods returned by customers over the past year.
- *Compensations owed by the customer:* variable consideration in the form of compensations for delayed payment by the customer. Receiving such consideration depends on the customer's actions and is beyond the Group's control. They are included within the transaction price only when the uncertainty regarding their receipt has been resolved.

Including compensations (owed by and due to the customer) as part of the transaction price is determined for each individual contract and is subject to reassessment at the end of each reporting period.

The variable consideration expected in the form of various discounts, defaults and compensations is determined and measured based on the accumulated experience and is recognised as adjustment of the transaction price only and respectively the revenue (as an increase or a decrease) only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, including due to assessment restrictions. Any subsequent changes to amount of the variable consideration are recognised as adjustment of revenue (as an increase or a decrease) at the date of change and/or resolving the uncertainty. At the end of each reporting period, the Group updates the transaction prices, including whether the estimated price contains restrictions, so as to accurately present circumstances existing and occurring during the reporting period. Upon assessing the variable consideration, the Group uses the most likely outcome approach.

Discounts accrued but not settled at the end of the reporting period, to which the customer still does not have unconditional right, are presented as refund liabilities in the statement of financial position.

Consideration due to the customer

The consideration due to the customer includes amounts that the Group companies pay and/or have promised to pay to the customer. It is included as a component of the transaction price, unless the payment to the customer is in return to distinct goods and/or services which the customer transfers and/or grants to the Group companies and the fair value of these distinct goods and/or services does not exceed the amount of consideration paid by the Group. If the latter is higher than the fair value of the goods and/or service received by the customer, only the excess is included within the transaction price. The consideration paid to the customer is recognised as contract assets and are included within the transaction price, *respectively in a decrease of revenue from contracts with customers*, upon transfer of control over the goods sold or when the Group promises to pay, *whichever occurs later*.

Significant financing component

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

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

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

The interest income recognised due to not paying within the agreed payment period by customers, which are hospitals, are presented as finance income in the statement of comprehensive income (*Note 11*).

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

Medical equipment (Appliances)

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

Significant financing component

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

For contracts with deferred payment of over 1 year, the Group has determined that a *financing component exists which is significant for revenue*. *In these cases* the transaction price is adjusted so as to reflect the impact of the time value of money by using a discount rate reflecting the credit characteristics of the counterparty receiving the financing (the customer). The payments collected in advance from the customer are presented in the statement of financial position as contract liabilities, and the interest charged – as finance income in the statement of comprehensive income *(Notes 11 and 40)*.

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

Sales of services

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

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

2.6.6. Contract costs

The Group states as contract costs the following:

- the incremental and directly related expenses it incurs upon concluding a contract with a customer, which it expects to recover over a period longer than twelve months *(costs to obtain a contract with a customer)* and
- the expenses it incurs to fulfil a contract with a customer and which are directly related to the specific contract, enhance the generation of resources to be used in the contract fulfilment and the Group expects to recover them over a period longer than twelve months (*costs of fulfilling contracts with customers)*.

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

2.6.7. Contract balances

Trade receivables and contract assets

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

Contract liabilities

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

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

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

Right of return assets from contracts with customers

The right of return is the Group's right to receive sold goods which are expected to be returned by the customers (*Note 22)*. This right is initially measured at the carrying amount of the goods which are expected to be returned, less any expected costs to recover the goods, including any potential decreases in the value of products returned, including due to passage of their expiry date. At the end of each reporting period the Group reassess the measurement of right of return assets recognised related to changes in expectations about the volume of goods returned and other decreases in their value.

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

2.7. Expenses

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

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

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

2.8. Finance income and costs

2.8.1. Finance income

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

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

2.8.2. Finance costs

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

2.9. Property, plant and equipment

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

Initial acquisition

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

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

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

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

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

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- installations – 5-30 years;
- machinery and equipment – 6-35 years;
- computers and mobile devices – 2-5 years;
- motor vehicles – 5-17 years;
- servers and systems – 4-18 years;
- furniture and fixtures – 3-13 years;
- other tangible assets – 3-12 years.

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

Impairment of assets

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

Gains and losses on disposal

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

2.10. Biological assets

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

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

2.11. Intangible assets

Goodwill

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

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

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

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

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

Other intangible assets

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

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

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

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

2.12. Investment property

Investment property is property lastingly held by the Group to earn rentals and/or for capital appreciation. They are presented in the consolidated statement of financial position at fair value (*Note 17*). Gains or losses arising from a change in the fair value of investment property are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as 'other operating income/(losses), net' for the period in which they arise. The income gained on investment property is presented in the same item of the consolidated statement of comprehensive income.

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

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

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

2.13. Investments in associates and joint ventures

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

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

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

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

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

2.14. Other long-term equity investments

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

Initial measurement

Equity investments are initially recognised at cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition *(Note 2.25)*.

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

Subsequent measurement

The equity investments held by the Group are subsequently measured at fair value (*Note 2.31*) determined with support by an independent licensed valuator.

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

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

Dividend income

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

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

2.15. Inventories

Inventories are valued in the consolidated financial statements as follows:

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

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

- raw materials, materials and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage (sale);
- finished products, semi-finished products and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs.

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

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

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

- for production of plastic medical disposable products – planned cost of manufactured finished products.

The parent company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard purchase cost' for basic raw materials and other production materials. At the end of each reporting period the management performs analysis of factors leading to variances on: (a) the supply of raw materials and other production materials – by comparing the actual and standard acquisition costs, and (b) the production of finished products, semi-finished products and work in progress – by comparing the actual and standard production costs.

Where necessary, the value of inventories, included in the financial statements, is adjusted. On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the consolidated financial statements.

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

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

2.16. Trade receivables

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

Initial measurement

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

Subsequent measurement

The Group holds trade receivables only for the purpose of collecting contractual cash flows and subsequently measures them at amortised cost less the amount of impairment accumulated for expected credit losses. (*Note 2.25 Financial instruments*).

Impairment

The Group applies the expected credit losses model for the entire term of all trade receivables, using the simplified approach under IFRS 9, and based on the matrix model for loss percentage *(Note 23)*.

2.17. Interest-bearing loans and other financial resources granted

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

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

Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) the Group has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period *(Note 2.25).*

2.18. Cash and cash equivalents

Cash includes cash on hand and cash at current accounts, and cash equivalents – bank deposits with original maturity up to three months, and funds in deposits with longer maturity which are readily available to the Group under its agreements with the banks over the deposits' terms (*Note 2.25*).

Subsequent measurement

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

For the purposes of the statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on investment purpose loans received is reported as payments for financial activities while the interest on loans for current activities (for working capital) is included in the operating activities;
- interest received on overdue trade receivables is reported as receipts from customer in cash flows from operating activities;
- interest received from bank deposits is included within cash flows from investing activities;
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line 'taxes paid' while that paid on assets purchased from local suppliers is presented as 'cash paid to suppliers' in the cash

flows from operating activities as far as it represents a part of the operating flows of the Group companies and is recovered therewith in the respective period (month).

- overdraft proceeds and payments are stated net by the Company.
- permanently blocked funds for a period of more than 3 months are not treated as cash and cash equivalents.
- proceeds under factoring agreements are stated within cash flows from financing activities.

2.19. Trade and other payables

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

2.20. Interest-bearing loans and other borrowings

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

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

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

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

2.21. Capitalisation of borrowing costs

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

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

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

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

2.22. Leases

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

Lessee

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

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

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

a) right-of-use assets

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

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

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group in its capacity as lessee;
- costs for dismantling and removing the underlying asset, restoring the site on which the asset is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

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

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

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

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

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

b) lease liabilities

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

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

Variable lease payments that do not depend on an index or a rate, but are dependent on performance or use of the underlying asset, are not included in the measurement of the lease liability and the right-of-use asset.

They are recognised as current expenses in the period when the event or circumstance resulting in these payments arises.

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

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

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

The Group subsequently measures the lease liability by:

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

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

- the lease term has changes or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

- the lease payments change due to changes in an index or rate or a change in expected payment under a residual value guarantee, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged (original) discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

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

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

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

Lessor

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

Operating lease

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

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

Finance lease

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

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

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

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

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

Short-term benefits

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

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

Tantieme

In accordance with the Group companies' Articles of Association and upon a decision of the General Meeting of Shareholders, the Executive Director and/or other management are entitled to one-off remuneration (tantieme), usually determined as a percentage of the Company's net profit. These remuneration expenses are recognised in the statement of comprehensive income (within profit or loss) within "employment benefit expenses". When a certain portion is required to be deferred for a period of more than 12 months, this portion is measured at present value at the reporting date and is stated within non-current liabilities in the statement of financial position in the item 'payables to personnel'.

Bonus schemes

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

Long-term retirement benefits

Defined contribution plans

For Bulgaria

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

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

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

For companies abroad

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

None established and functioning private voluntary social security scheme at the Group. The contributions, payable by the companies of the Group under defined contribution plans for social security and health insurance, are recognised as a current expense in the statement of comprehensive income (within profit or loss for the year) unless a particular IFRS requires this amount to be capitalised to the cost of an asset, and as a current liability at their undiscounted amount along with the accrual of the respective employee benefits to which the contributions refer and in the period of rendering the underlying service.

Defined benefit plans

In accordance with the Labour Code, the Group in its capacity as an employer in Bulgaria is obliged to pay an indemnity at the amount of the respective employee's gross remuneration for two months upon termination of employment relations due to retirement. If the employee has acquired within the company of the same Group ten years' service over the last twenty years, the indemnity amounts to the gross remuneration for six months. In their nature these are unfunded defined benefit schemes.

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

In their nature these are unfunded defined benefit schemes.

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

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

Share based payments

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

Termination benefits

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

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

2.24. Share capital and reserves

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

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

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

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

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

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

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

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

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

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

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

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

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

2.25. Financial instruments

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

Financial assets

Initial recognition, classification and measurement

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

The Group initially measures financial assets at fair value, and in the case of financial assets which are not stated at fair value through profit and loss, the direct transaction costs are added. An exception to this rule are trade receivables that do not contain a significant financing component – they are measured based on the transaction price determined under IFRS 15 *Revenue from contracts with customers (Note 2.6.2).*

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

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

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

Subsequent measurement

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

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

Classification groups

Financial assets at amortised cost (debt instruments)

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

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

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

The Group's financial assets at amortised cost include: cash and cash equivalents at banks, trade receivables, including from related parties, loans to related and third parties (*Note 20, Note 21, Note 22, Note 23, Note 24 and Note 25).*

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

At initial recognition, the Group companies may make an irrevocable election to classify certain equity instruments as financial instruments at fair value through other comprehensive income, but only if they meet the equity definition under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined at an individual level, on an instrument by instrument basis.

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

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

Derecognition

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

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

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

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

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

Impairment of financial assets

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

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

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

Expected credit losses are recognised at two stages:

a. A financial asset which is not credit impaired at its initial recognition/acquisition is classified in Stage 1. These are loans granted to debtors with low risk of default, classified as performing and not overdue.

Since its initial recognition, its credit risk and characteristics are subject to continuous monitoring and analyses. The expected credit losses for the financial assets classified in Stage 1 are determined based on credit losses resulting from probable events or default that are possible in the next 12 months of the respective asset’s lifetime (12-month expected credit losses for the instrument).

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

The Group’s management has developed a policy and a set of criteria to analyse, ascertain and assess the occurrence of a condition of “significant increase in credit risk”. The main points of the policy and set of criteria are disclosed in *Note 42.*

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

The Group's management has performed the respective analyses, based on which it has determined a set of criteria for default events. One of them is delay in contract payments by over 90 days, unless circumstances exist for a certain instrument that make such claim refutable. Along with that, there are other events, based on internal and external information, which indicate that the debtor is not able to repay all contracted amounts due, including in consideration of all loan collaterals and credit enhancements held by the Group. The main points of the policy and set of criteria are disclosed in *Note 42*.

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

In order to calculate expected credit losses for *trade receivables and contract assets* the Group has elected and applies a simplified approach based on an expected credit losses calculation matrix and does not monitor subsequent changes in their credit risk. In this approach, it recognises an allowance (impairment provision) based on lifetime expected credit losses at each reporting date. The Group has developed and applies a provisioning matrix based on its historical experience with credit losses, adjusted with forecast factors specific for debtors and the economic environment, for which a correlation has been established with the percentage of credit losses (*Note 42).*

Derecognition

Impaired financial assets are derecognised when none reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition, classification and measurement

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

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

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

Subsequent measurement

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

Classification groups

Loans and borrowing

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

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

Derecognition

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

Offsetting (netting) of financial instruments

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

This requirement results from the concept of the economic substance of the Group's relations with a given counterparty stating that in the simultaneous presence of these two requirements the expected actual future cash flow and rewards for the Group is the net flow, i.e. the net amount reflects the Group's actual right and obligation resulting from these financial instruments – in all cases to only receive or pay the net amount. If the two conditions are not simultaneously met, it is assumed that the Group's rights and liabilities 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 usual business operations;
  - in case of default/delay, and
  - in case of insolvency

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

2.26. Financial guarantee contracts

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

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

The subsequent measurement of financial guarantee liabilities is the higher of the following:

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

The provision for expected credit losses on financial guarantee contracts is included in the consolidated statement of financial position as 'other current liabilities".

2.27. Income taxes

Current income taxes of the Bulgarian companies of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for 2023 is 10% (2022: 10%).

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

Country	***Tax rate***	
	2023	***2022***
Ukraine	18%	18%
Serbia	15%	15%
Poland	19%	19%
Kazakhstan	20%	20%
Moldova	n/a	12%

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

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

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

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

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

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

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

2.28. Government grants

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

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

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

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

2.29. Net earnings or losses per share

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

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

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

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

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

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

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

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

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

Diluted net earnings or losses per share is calculated based on the calculated base net earnings or loss per share, adjusted as follows:
(a) the profit or loss for the period attributable to holders of ordinary shares of the parent, is increased by the amount of post-tax dividend and interest recognised in the period in relation to the dilutive potential ordinary shares, and is adjusted for all other changes in profit and loss that might arise as a result of the conversion of dilutive potential ordinary shares; and

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

2.30. Segment reporting

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

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

Information by operating segments

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

Segment assets, liabilities, respective revenue, expenses and results include those that are and can be directly attributable to the respective segment as well as such that can be allocated on a reasonable basis. Usually they include: (a) for revenue - sales of finished products; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration, cost of goods sold; (c) for assets - property, plant and equipment and inventories, receivables from related parties, trade receivables and cash and cash equivalents; (d) for liabilities - payables to personnel and for social security, payables to related parties, trade payables and bank loans for direct financing (long-term and short-term).

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

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

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

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

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

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

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

2.31. Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

The results of the assessment of the fair value measurement procedure are presented to the audit committee and to the independent auditors of the respective companies as well as to the Finance Director and the independent auditors of the Group.

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

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

Revenue from contracts with customers

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

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

Fair value measurement of equity investments

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

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

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

In order to apply these requirements, the Group's management makes a number of material judgements, such as:

(a) determining criteria to identify and measure significant credit risk increases;

(b) selection of suitable models and assumptions to measure expected credit losses;

(c) establishing groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses,

(d) establishing and assessing the correlation between historical default rates and the behaviour of certain macro indicators to reflect the effects of forecasts for these macro indicators in the calculation of expected credit losses. (*Note 42).*

Regarding trade receivables, including from related parties

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

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

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

Regarding loans and guarantees granted:

The Group has adopted the general approach for calculating impairment based expected credit losses of the loans granted, pursuant to IFRS 9. For this purpose, the Group applies a model of its choice. Its application goes through several stages. First, the debtor's credit rating is determined by means of several rating agencies' methodologies for the respective economic sectors and ratios, quantitative and qualitative parameters and indicators of the entity. Second, by using statistical models including historical default probability data (PD), transfer between ratings, macro-economic data and forecast, the relevant marginal PD are calculated by year for each rating.

Third, based on this analysis and the determined rating, and based on a set of indicators for the instrument's characteristics at the date of each financial statements, the following parameters are determined: instrument stage (Stage 1, Stage 2 or Stage 3), PD needed for the instrument's lifetime, as well as loss given default (LGD). The main formula used to calculate expected credit losses is: ECL=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 Group's expectation for loss amount upon exposure default over the next 12 months.

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

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

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

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

Cash

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

Recognition of tax assets

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

Inventories

Normal capacity

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

Impairment

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

Revaluation of property, plant and equipment

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

The management has performed detailed analysis of the licensed appraisers' reports, incl. the sensitivity tests. As a result, it has stated revaluation, and has recognized new revaluation reserve at the amount of BGN 9,466 thousand, net of impairment and deferred tax (*Note 15*) and deferred tax and has stated current impairment expense at the amount of BGN 9,779 thousand. In addition, a current expense for impairment was stated at the amount of BGN 697 thousand of PPE in process.

The Group has decided to not revalue the following groups of assets: a/fully depreciated assets acquired before 31 December 2006, as far as the potential additional depreciation costs thereon are already offset by the increased maintenance costs; b/ assets acquired in 2021 – as far as these asset's acquisition cost was close to their fair value; c/ right-of-use assets for which under agreements for consideration the right of control over the use of assets for a certain period of time is obtained, which as at 31 December 2021 is between 2 and 4 years; and d/ assets from all groups (with the exception of properties) for which the market analyses show that the changes in the value of these assets are not affected by price or market changes over the period, but result from differences in assumptions regarding useful life.

The outcomes of the fair value measurement process are presented to the Group auditors.

In 2023, an impairment charge on property, plant and equipment of BGN 1,1726 thousand was recorded (2022: none).

Actuarial calculations

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

Cash pool

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

Litigation provisions

With regard to the pending litigations against companies of the Group, the management of respective companies have judged, jointly with their lawyers, that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, no provisions for payables under litigations have been included in the interim consolidated statement of financial position as at 30 September 2023 (31 December 2022: none).

3. INCOME FROM CONTRACTS WITH CUSTOMERS

Revenues from contracts with customers of the Group include:

	1 January - 30 September 2023	*1 January - 30 September 2022*
	BGN'000	***BGN'000***
Revenue from the sale of goods	1,139,374	1,014,905
Income from the sale of finished products	235,608	203,895
Total	**1,374,982**	**1,218,800**

Balances under contracts with customers are as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Receivables under contracts with customers - third parties, net of impairment *(Note No. 23)*	239,828	195,208
Receivables under contracts with customers - related parties, net of impairment *(Note No. 24)*	2,222	250
Liabilities under contracts with customers - third parties *(Note No. 40)*	3,477	2,664

Liabilities under contracts with customers as of 30.09.2023 include advance payments received for the supply of medical equipment 3,282 BGN thousand (30.12.2023: BGN 2,652 thousand) and for the supply of medicinal and medical products BGN 195 thousand. (30.12.2023: BGN 12 thousand).

The change in liabilities under contracts with customers for the period 01.01.202 3 - 30.09.2023 is as follows:

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Balance on January 1 (Note No. 40)	**2,664**	**978**
Reported revenue that was recognized as a liability under the contract, including:	(2,512)	(978)
- *Advance payments received*	(2,512)	(978)
Payments received from customers (excluding those recognized as revenue during the period)	3,325	2,664
Balance on 30 September / 31 December	**3,477**	**2,664**

The recovery payables to 30.09.2023 in the amount of BGN 9,276 thousand(31.12.2022: BGN 7,877 thousand) include liabilities for retrospective trade discounts for volume, due under contracts with customers, which have been or will be reimbursed in the next reporting period *(Note No. 40)*.

4. OTHER OPERATING INCOME AND LOSSES

The other income and losses from the activity, net include:

	1 January - 30 September 2023	*1 January - 30 September 2022*
	BGN'000	*BGN'000*
Services provided	8,230	5,162
Gain on sale of fixed assets	1,897	385
Government funding	1,268	619
Rentals	630	885
(Losses) / gains from exchange differences on trade receivables and payables and current accounts	(612)	717
Profit from sale of materials	227	65
Social activities and events services	212	216
Interest on checking accounts	144	89
Liabilities written off and provisions for liabilities released	92	248
Profits / (losses) from leasing	84	(24)
Other income	828	809
Total	**13,000**	**9,171**

Services provided include:	*1 January - 30 September 2023*	*1 January - 30 September 2022*
	BGN'000	*BGN'000*
Fabrication services	3,974	936
NHIF fees	1,362	1,419
Advertising and marketing	1,096	863
Pre-distribution	521	602
Gamma radiation	202	235
Secondary packaging	125	172
Transport services	116	102
Laboratory analysis services	85	262
Others	749	571
Total	**8,230**	**5,162**

5. COSTS 3A MATERIALS

	1 January - 30 September 2023	*1 January - 30 September 2022*
	BGN'000	*BGN'000*

Basic materials	52,098	46,450
Spare parts, laboratory and technical materials	6,626	4,941
Electricity	6,513	8,235
Heat energy	3,782	5,368
Fuels and lubricants	2,824	3,157
Promotional materials	1,536	1,372
Work clothing and personal protective equipment for work	912	932
Stationery	882	674
Auxiliary materials	772	564
Water	402	339
Assets below materiality threshold	224	210
Depreciation of materials	152	-
Samples	140	103
Others	104	143
Total	**76,967**	**72,488**

Basic materials costs include:	***1 January - 30 September 2023***	***1 January - 30 September 2022***
	BGN'000	***BGN'000***
Substances	21,122	21,014
Liquid and solid chemicals	9,759	7,806
Packaging materials	9,582	8,785
Foil	2,406	2,007
Sanitary-hygienic and dressing materials	2,247	2,368
Herbs	1,993	211
Vials	1,869	1,393
Ampoules	1,394	1,872
Tubes	922	492
Polypropylene, polyethylene, polystyrene	431	382
Materials for the production of veterinary vaccines	336	24
Others	37	96
Total	**52,098**	**46,450**

6. COSTS 3A EXTERNAL SERVICES

Costs for external services include:	***1 January - 30 September 2023***	***1 January - 30 September 2022***
	BGN'000	***BGN'000***
Advertising	22,529	13,835
Crafting	5,143	3,108

Consulting services	4,318	8,688
Forwarding and transport services	3,693	3,184
Maintenance of buildings and equipment	3,176	2,166
Rents and related overheads	3,137	2,149
Messages and Communications	2,857	1,572
Subscription Fees	2,793	3,336
Bank and regulatory fees	2,002	1,660
Security	1,636	1,505
Local taxes and fees	1,564	1,557
Insurances	878	945
Car repair	678	630
Courier services	664	551
Commission fees	569	908
Medical care	538	545
Others	4,130	3,758
Total	**60,305**	**50,097**

7. STAFF COSTS

	1 January - 30 September 2023	*1 January - 30 September 2022*
	BGN'000	***BGN'000***
Current remuneration	99,357	86,369
Social security contributions	17,167	14,944
Social benefits and payments	5,135	3,601
Royalties	1,262	732
Accrued amounts for unused leave	1,100	1,778
Accrued costs for long-term benefits of staff at retirement (Note No. 30)	360	770
Accrued amounts for vacation insurance	212	346
Total	**124,593**	**108,540**

8. OTHER COSTS FOR THE ACTIVITY

	1 January - 30 September 2023	*1 January - 30 September 2022*
	BGN'000	***BGN'000***
Net change in the impairment allowance for credit losses on commercial, legal and other receivables (Note No. 9)	(1,909)	6,676
Business trips	1,409	821
Representative events	1,349	660

Marriage and lack of goods	1,011	1,704
Donations	391	294
Unrecognized tax credit	291	147
Training	227	149
Write-off of Fixed Assets	158	90
Fines and penalties to suppliers	137	187
Payments to the budget for taxes and interest on taxes	88	71
Recovered impairment of goods, production and work-in-progress	(50)	(643)
Write-offs and shortages of finished goods and work-in-progress	46	31
Receivables written off	19	61
Others	722	884
Total	**3,889**	**11,132**

9. IMPAIRMENT OF ASSETS

	1 January - 30 September 2023	*1 January - 30 September 2022*
	BGN'000	***BGN'000***
Accrued impairment for credit losses on receivables, including from related parties	*79*	*8,809*
Reimbursed impairment for credit losses on receivables, including from related parties	*(1,988)*	*(2,133)*
Net change in the adjustment for impairment for credit losses on receivables, incl. from related parties *(Note No. 8)*	(1,909)	6,676
Recovered depreciation of goods, production and work in progress *(Note No. 8)*	(50)	(643)
Depreciation of materials *(Note No. 5)*	152	-
Total	**(1,807)**	**6,033**

10. IMPAIRMENT OF NON-CURRENT ASSETS OUTSIDE THE SCOPE OF IFRS 9

	1 January - 30 September 2023	*1 January - 30 September 2022*
	BGN'000	***BGN'000***
Depreciation of property, plant and equipment (*Note No. 15)*	1,726	-
Total	**1,726**	**-**

11. FINANCIAL INCOME

Financial income includes:	***1 January - 30 September 2023***	***1 January - 30 September 2022***
	BGN'000	***BGN'000***
Income from interest on granted loans	1,940	1,539
Interest income on overdue trade receivables	233	513
Income from provided sureties and guarantees	119	97
Interest income on assignment contracts	95	-
Interest on receivables under special contracts	88	117
Net gain on sale of investments in associates	56	-
Equity income (dividends)	26	33
Net gain from exchange differences on receivables from securities transactions	24	560
Income from interest on bank deposits	-	4
Net change in the impairment of guarantee fees	-	1
Total	**2,581**	**2,864**

12. FINANCIAL EXPENSES

Financial costs include:	***1 January - 30 September 2023***	***1 January - 30 September 2022***
	BGN'000	***BGN'000***
Interest expense on loans received	5,579	3,080
Lease interest expense	1,272	850
Bank fees on loans and guarantees	1,132	857
Net change in the allowance for credit losses on commercial loans granted	793	1,354
Other interest expense	661	247
Net loss from exchange differences on foreign currency loans and leases	75	377
Factoring interest and commission costs	71	79
Expenses related to the payment of dividends	6	-
Provision for financial guarantees	-	16
Total	**9,589**	**6,860**

13. PROFITS AND LOSSES FROM ASSOCIATES AND JOINT VENTURES

	1 January - 30 September 2023	***1 January - 30 September 2022***

	BGN'000	BGN'000
Earnings from associates, net	18,482	17,908
Losses from joint ventures, net	(177)	(100)
	18,305	**17,808**

Profits from associates include:	*1 January - 30 September 2023*	*1 January - 30 September 2022*
	BGN'000	*BGN'000*
Share of the Group in the current profit of associated companies	18,482	17,908
Total	**18,482**	**17,908**

Losses from joint ventures, net include:	*1 January - 30 September 2023*	*1 January - 30 September 2022*
	BGN'000	*BGN'000*
The Group's share of the current loss of joint ventures	(166)	(92)
Effects of transactions with Group companies	(11)	(8)
Total	**(177)**	**(100)**

14. OTHER COMPREHENSIVE INCOME

The other components of comprehensive income include:

	Other components of comprehensive income relating to the Group		**Other components of comprehensive income relating to the non-controlling interest**		**Total other components of comprehensive income**	
	1 January - 30 September 2023	***1 January - 30 September 2022***	***1 January - 30 September 2023***	***1 January - 30 September 2022***	***1 January - 30 September 2023***	***1 January - 30 September 2022***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Components that will not be reclassified to profit or loss						
Revaluation of property, machinery and equipment	32	-	-	-	32	-
Net change in fair value of equity investments designated for measurement at fair value through other comprehensive income	168	(1,167)	-	-	168	(1,167)
Subsequent valuations of defined benefit pension plans	(14)	-	-		(14)	-

Income tax related to components of other comprehensive income	(3)	-	-	-	(3)	-
Components that can be reclassified to profit or loss						
Exchange rate differences from translation of foreign operations	327	(3,260)	1	-	328	(3,260)
Share of other comprehensive income of associates	6,530	5,300	-	-	6,530	5,300
Other comprehensive income for the year	**7,040**	**873**	**1**	**-**	**7,041**	**873**

1 5. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		Machines, facilities and equipment		Others		In process of acquisition		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
Reporting value										
Balance on January 1st	**333,813**	**305,758**	**279,086**	**269,771**	**53,508**	**51,271**	**5,513**	**4,798**	**671,920**	**631,598**
Acquired	14,383	54,257	4,499	3,602	6,467	5,892	10,180	17,256	35,529	81,007
Effect of revaluation	-	-	19	-	13	-	-	-	32	-
Effects of Currency Translations	46	(1,155)	71	(1,593)	8	(384)	1	(20)	126	(3,152)
Written off	(16,067)	(18,824)	(3,441)	(2,121)	(4,062)	(3,965)	(361)	(2,230)	(23,931)	(27,140)
Written-off book value of assets on disposal of subsidiaries	-	(503)	-	(47)	-	(254)	-	-	-	(804)
Depreciation	-	(9,589)	-	-	-	-	-	-	-	(9,589)
Transfer to property, machinery and equipment	2,663	3,869	6,003	9,474	371	948	(9,037)	(14,291)	-	-
Transfer from/to investment properties	(354)	-	(107)	-	(86)	-	-	-	(547)	-
Balance on 30 September / 31 December	**334,484**	**333,813**	**286,130**	**279,086**	**56,219**	**53,508**	**6,296**	**5,513**	**683,129**	**671,920**
Accumulated depreciation and impairment										
Balance on January 1st	**89,957**	**78,719**	**172,578**	**160,348**	**32,978**	**30,138**	**-**	**-**	**295,513**	**269,205**
Accumulated depreciation for the period	16,178	20,602	12,988	15,041	5,422	6,723	-	-	34,588	42,366
Depreciation	1,726	991	-	-	-	-	-	-	1,726	991
Effects of Currency Translations	15	(349)	42	(859)	14	(253)	-	-	71	(1,461)
Depreciation written off	(4,723)	(9,552)	(3,098)	(1,918)	(3,805)	(3,437)	-	-	(11,626)	(14,907)
Depreciation of assets written off on disposal of subsidiaries	-	(454)	-	(34)	-	(193)	-	-	-	(681)
Transfer from/to investment properties	(204)	-	(87)	-	(72)	-	-	-	(363)	-
Balance on 30 September / 31 December	**102,949**	**89,957**	**182,423**	**172,578**	**34,537**	**32,978**	**-**	**-**	**319,909**	**295,513**
Book value on September 30 / December 31	**231,535**	**243,856**	**103,707**	**106,508**	**21,682**	**20,530**	**6,296**	**5,513**	**363,220**	**376,407**
Book value on January 1	**243,856**	**227,039**	**106,508**	**109,423**	**20,530**	**21,133**	**5,513**	**4,798**	**376,407**	**362,393**

As of 30.09.2023, the "Land and buildings" group includes: lands worth BGN 54,135 thousand (31.12.2022: BGN 60,252 thousand) and buildings with book value BGN 177,400 thousand (31.12.2022: BGN 183,604 thousand).

The costs of acquisition of fixed tangible assets as of September 30 include:

- costs of construction of new buildings – BGN 1,115 thousand (31/12/2022: 1,495 BGN thousand);
- reconstruction of buildings – BGN 996 thousand (31.12.2022: BGN 813 thousand);
- delivery of equipment – BGN 323 thousand (31.12.2022: BGN 488 thousand);
- granted advances – BGN 3,838 thousand (31.12.2022: 2,567 BGN thousand);
- others – BGN 24 thousand (31.12.2022: BGN 150 thousand).

The total cash outflow under lease contracts in 2023 it is in the amount of BGN 13,986 thousand. (2022: BGN 12,086 thousand).

As of 30.09.2023, the Group has leased tangible tangible assets to third parties with a book value of BGN 1,195 thousand (31.12.2022: BGN 1,260 thousand).

As of 30.09.2023, Property, plant and equipment include assets with the right to use with a balance sheet value, respectively, in the Land and buildings group - BGN 77,100 thousand. (31.12.2022: BGN 78,470 thousand), in the plant, equipment and equipment group – BGN 1,076 thousand. (31.12.2022: BGN 97 thousand), in the Others group – BGN 7,967 thousand (31.12.2022: BGN 6,449 thousand). The assets with the right of use are disclosed in detail in Note No. 31.

Other data

As of September 30, 2023, there are encumbrances on the Group's fixed tangible assets in connection with received loans (*Notes No. 28 and No. 34*), as follows:

- Land and buildings with a balance sheet value of 2 1, 241 respectively BGN thousand and 30,868 _ _ BGN thousand (31.12.2022: BGN 27,459 thousand and BGN 58,194 thousand);
- Bets on equipment, means of transport and inventory – BGN 23,575 thousand (31.12.2022: BGN 30,045 thousand);
- Pledges of facilities with book value – none (31.12.2022: BGN 13,100);

Periodic revaluation at fair value

As of 31.12.2021, a revaluation of property, machinery and equipment was carried out 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, IAS 16 and the Group's accounting policy.

In this revaluation, the following basic approaches and valuation methods were applied to measure the fair value of the individual types of fixed tangible assets:

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

• "Cost approach" through "Depreciated replacement value method" and "Cost-based method to create or replace with analogues" - for the specialized buildings, machines, facilities, equipment and other assets for which none real market and comparable sales of analogues assets - their amortized replacement value based on the indexed historical value of the asset and on the basis of current costs of creation or replacement with analogs is considered a fair value.

• "Income approach" through "Capitalized income from fruit use / production of biological assets" - for permanent plantations of yellow acacia in the life stage of fruiting.

16. INTANGIBLE ASSETS

	Reputation		*Software products*		*Intellectual property rights and others*		*In process of acquisition*		*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*
Reporting value										
Balance on January 1st	**31,011**	**31,308**	**36,983**	**33,265**	**60,793**	**61,638**	**2,757**	**2,847**	**131,544**	**129,058**
Acquired	-	-	2,149	2,624	173	81	2,596	1,442	**4,918**	**4,147**
Effects of Currency Translations	11	(257)	(2)	(25)	5	19	-	-	**14**	**(263)**
Transfer	-	-	1,153	1,134	79	51	(1,232)	(1,185)	-	-
Written-off book value of assets on disposal of subsidiaries	-	(40)	-	-	-	(643)	-	-	-	**(683)**
Written off	-	-	(3)	(15)	(4)	(353)	(58)	(347)	**(65)**	**(715)**
Balance on 30 September / 31 December	**31,022**	**31,011**	**40,280**	**36,983**	**61,046**	**60,793**	**4,063**	**2,757**	**136,411**	**131,544**
Accumulated depreciation and impairment										
Balance on January 1st	**27,489**	**17,888**	**19,052**	**15,707**	**33,330**	**27,622**	**-**	**-**	**79,871**	**61,217**
Accumulated depreciation for the period	-	-	2,903	3,366	4,764	6,496	-	-	**7,667**	**9,862**
Depreciation	-	9,601	-	-	-	-	-	-	**-**	**9,601**
Effects of Currency Translations	-	-	(3)	(17)	-	20	-	-	**(3)**	**3**
Depreciation of assets written off on disposal of subsidiaries	-	-	-	-	-	(473)	-	-	**-**	**(473)**
Depreciation written off	-	-	(3)	(4)	(4)	(335)	-	-	**(7)**	**(339)**
Balance on 30 September / 31 December	**27,489**	**27,489**	**21,949**	**19,052**	**38,090**	**33,330**	**-**	**-**	**87,528**	**79,871**
Book value on September 30 / December 31	**3,533**	**3,522**	**18,331**	**17,931**	**22,956**	**27,463**	**4,063**	**2,757**	**48,883**	**51,673**
Book value on January 1	**3,522**	**13,420**	**17,931**	**17,558**	**27,463**	**34,016**	**2,757**	**2,847**	**51,673**	**67,841**

Costs for the acquisition of long-term intangible assets as of September 30 include:

- costs for acquiring licenses and permits for the use of medicinal products – BGN 1,210 thousand. (31.12.2022: BGN 1,117 thousand);
- costs for the acquisition of software products - BGN 2,335 thousand. (31.12.2022: BGN 1,356 thousand);
- granted advances – BGN 109 thousand (31.12.2022: BGN 99 thousand);
- intellectual property rights – BGN 288 thousand (31.12.2022: none);
- others – BGN 121 thousand (31.12.2022: BGN 185 thousand);

As of September 30, 2023, there are encumbrances in connection with loans received from the Group on software products with a book value of BGN 2,503 thousand. (31.12.2022: BGN 2,856 thousand) *(Notes No. 28 and No. 34).*

Intellectual property rights include development products related to medicinal substances (active ingredients) and forms, acquired patents and trademarks and complex intangible assets (licenses and networks of pharmacy locations).

The total volume of the Group's intellectual property includes internally created trademarks that are not capitalized in the consolidated statement of financial position.

The group holds a patent for the production of a dosage form containing Ranitidine.

Acquired intangible assets, as a result of implemented business combinations, mainly in Serbia, include exclusive contracts with counterparties, licenses and a distribution network.

Impairment of goodwill

The management of the Group has made the necessary procedures to carry out the mandatory test for impairment of the goodwill recognized in the consolidated statement of financial position following the acquisition of the subsidiaries. For this purpose, it is assumed that each individual company appears as a "cash flow generating entity ".

As a basis for cash flow forecasts (before taxes), the financial budgets developed by the managements of the respective companies and of the Group as a whole, covering a three to five year period, as well as other medium and long-term plans and intentions for the development and restructuring of the activities within the Group. The recoverable amount of each object generating cash flows is determined on a "value in use" basis.

The key assumptions used in the calculations are determined specifically for each goodwill entity, treated as a separate cash-generating unit, and in accordance with its specific activity, business environment and risks.

The Group's management's tests and judgments for the impairment of recognized goodwill are made through the prism of its forecasts and intentions regarding the future economic benefits that the Group expects to receive from subsidiaries, incl. by using their internal created trademarks, commercial and industrial experience and the revenues generated and expected in the future from them, securing positions on Bulgarian and foreign markets (development and preservation), expectations for future sales and restructuring of the activity, etc.

a result of the analyzes carried out by the management of the Group as of 30.09.2023. no impairment of goodwill was recognized (31.12.2022: BGN 9,601 thousand).

17. INVESTMENT PROPERTIES

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
Balance on January 1st	**10,568**	**9,446**
Transfer of property, machinery and equipment (Note No. 15)	184	**-**
Net profit from adjustment to fair value valuation included in profit or loss (*Note No. 4*)	-	1,125
Written off	-	(3)
Balance on 30 September / 31 December	**10,752**	**10,568**

Investment properties are buildings and adjacent lands, specially designated parts of buildings for independent operation, intended for long-term rental. By asset group, they are as follows:

A group of assets	*30.09.2023*	*31.12.2022*
	BGN '000	*BGN '000*
Warehouses	5,139	5,139
Production buildings	2,720	2,720
Offices	2,199	2,199
Social objects	510	510
Retail outlets	184	-
Total	**10,752**	**10,568**

Fair value measurements
Fair value hierarchy

Fair value assessments of investment property groups are categorized as Level 2 fair values based on the inputs used in the valuation technique. The revaluation of investment properties to fair value is repeated and is due to the application of the fair value model under IAS 40. It is carried out regularly on the date of each consolidated financial statement. The measurement of the fair value was realized with the assistance of independent licensed appraisers.

The table below shows a comparison between the opening and closing fair value balances of investment properties assessed at Level 2:

	Warehouses	*Offices*	*Production buildings*	*Social objects*	*Retail outlets*	*Total*
Balance on January 1, 2022	**4,534**	**1,825**	**2,639**	**448**	**-**	**9,446**
Revaluation to fair value through profit or loss - unrealized	608	374	81	62	-	1,125
Written off	(3)	-	-	-	-	(3)

Balance as of December 31, 2022	**5,139**	**2,199**	**2,720**	**510**	**-**	**10,568**
Transfer from/to property, machinery and equipment (Note No. 15)	-	-	-	-	184	184
Balance on 30 September 2023	**5,139**	**2,199**	**2,720**	**510**	**184**	**10,752**

Valuation technique and significant unobservable inputs

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

Asset groups Level 2	**Assessment approaches and techniques**	**Significant unobservable incoming data**
Warehouse Production premises buildings	*a. Revenue approach* Evaluative Technique: Capitalized rental income method as a scheme for applying discounted cash flows (basic valuation technique) *b. Expendable approach* Evaluative Technique: Creation or replacement cost method - depreciated recoverable amount (as a supporting valuation aid)	a. Weighted rate of return b. Term of implementation of rental transactions Adjusted construction prices of identical objects and delivery prices of similar machinery and equipment
Offices Holiday bases	*a. Revenue approach* Evaluative Technique: Capitalized rental income method as a scheme for applying discounted cash flows (basic valuation technique) *b. Market approach* Evaluative Technique: Method of market analogues (as an auxiliary valuation)	a. Weighted rate of return b. Period of realization of rental transactions Adjustments made for comparability

18. INVESTMENTS IN ASSOCIATED AND JOINT COMPANIES

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Investments in associates	223,598	162,678
Investments in joint ventures	-	166
Total	**223,598**	**162,844**

The movement of investments in associates is presented below:

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
Balance on January 1st	**162,678**	**125,337**
Share of current profit for the period	18,482	22,866
Share in other components of comprehensive income	6,530	(790)
Acquisition of shares	21,947	16,480
Transfer from other long-term capital investments	15,463	-
Dividends	(1,488)	(1,215)
Sale of shares	(14)	-
Balance on 30 September / 31 December	**223,598**	**162,678**

The movement of investments in joint ventures is presented below:

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
Balance on 01 January	**166**	**1,983**
Depreciation	-	(1,593)
Share of current loss for the period	(166)	(224)
Balance on 30 September / 31 December	**-**	**166**

1 9. OTHER LONG-TERM CAPITAL INVESTMENTS

Other long-term capital investments include holdings (shares) in the following companies:

	Country	*30.09.2023*	*Participation*	*31.12.2022*	*Participation*
		BGN '000	*%*	*BGN '000*	*%*
Traded securities					
Lavena AD	Bulgaria	2,042	13.21	3,788	13.22
Chemimport AD	Bulgaria	141	0.08	367	0.19
MFG Invest AD	Bulgaria	150	0.46	169	0.46
Achieve Life Sciences Inc - USA	Bulgaria	16	0.01	8	0.01
Bulgarian Stock Exchange AD	Bulgaria	-	-	202	0.34
Sopharma Buildings REIT	Bulgaria	-	-	111	10.25
		2,349		**4,645**	
Non-traded securities					
Balkanfarma Razgrad AD	Bulgaria	70	0.33	70	-
Imventure I KDA	Bulgaria	50	1.36	50	1.36
Others		13	-	13	-
		133		**133**	

Total	**2,482**	**4,778**

As of September 30, 2023, long-term capital investments amounting to BGN 13,000 were presented as "other". (31.12.2022: BGN 13 thousand), representing small minority holdings of the Group in the capital of a total of four companies (31.12.2022: four companies).

The fair price per share as of September 30, 2023 and as of December 31, 2022 by company is as follows:

Capital investments	*number of shares held*	*fair price per share*	*30.09.2023*	*number of shares held*	*fair price per share*	*31.12.2022*
			BGN '000			*BGN '000*
Lavena AD	1,310,115	1.56	2,042	1,311,183	2.89	3,788
Chemimport AD	201,426	1.56	141	463,476	0.79	367
MFG Invest AD	50,000	3.00	150	50,000	3.38	169
Achieve Life Sciences Inc - USA	1,796	4.70	16	1,796	4.70	8
Central Cooperative Bank AD	-	-	-	1	1.64	-
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 the Group's other long-term capital investments by fair value levels in the interim consolidated statement of financial position:

Capital 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	-
Chemimport AD	141	141	-
Achieve Life Sciences Inc - USA	16	16	-
Total	**2,349**	**307**	**2,042**

Capital investments	*Fair value*	*(Level 1)*	*(Level 2)*
	31.12.2022		
	BGN'000	*BGN'000*	*BGN'000*
Lavena AD	3,788	-	3,788
Chemimport AD	367	367	-
Bulgarian Stock Exchange AD	202	202	-
MFG Invest AD	169	169	-
Sopharma Buildings REIT	111	-	111

Achieve Life Sciences Inc - USA	8	8	-
Total	**4,645**	**746**	**3,899**

The movement between the opening and closing fair value balances of Level 1 and Level 2 is presented in the following table:

	Level 1	***Level 2***	***Total***
	BGN'000	***BGN'000***	***BGN'000***
Balance as of January 1, 2022	**641**	**5,004**	**5,645**
Shopping	674	1	675
Sales	(624)	(4)	(628)
Unrealized gain/(loss) net included in other comprehensive income (Note No. 14)	55	(1,102)	(1,047)
Balance as of December 31, 2022	**746**	**3,899**	**4,645**
Shopping	38	12,781	12,819
Issue of capital	-	620	620
Sales	(430)	(10)	(440)
Transfer to investments in associates	-	(15,463)	(15,463)
Unrealized gain/(loss) net included in other comprehensive income (Note No. 14)	(47)	215	168
Balance as of September 30, 2023	**307**	**2,042**	**2,349**

20. LONG-TERM RECEIVABLES FROM AFFILIATES

Long-term receivables from related enterprises as of September 30 are:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Provided long-term loans to related enterprises	47,343	63,355
Allowance for credit losses	(157)	(157)
Long-term loans granted to related enterprises, net	47,186	63,198
Receivables under assignment contracts	3,851	3,757
Lease deposits provided	580	580
Allowance for credit losses	(64)	(64)
Lease deposits provided, net	516	516
Total	**51,553**	**67,471**

Long-term loans were granted to companies controlled by an associated company (31.12.2022: to an associated company and companies controlled by an associated company).

The movement of the adjustment for the impairment of receivables from related enterprises for granted long-term loans is as follows:

	30.09.2023	*31.12.2022*
	BGN '000	*BGN '000*
Balance on January 1st	**157**	**97**
Increase in allowance for credit losses recognized in profit or loss during the year	-	60
Balance on 30 September / 31 December	**157**	**157**

The terms of the granted long-term loans to related enterprises are as follows:

Type of currency	*Agreed amount*	*Maturity*	*Interest %*	*30.09.2023*		*31.12.2022*	
	'000			*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
					including. interest		*including. interest*
leva	83,400	31.12.2025	3.00%	*40,556*	*140*	*51,147*	*731*
leva	10,000	31.12.2024	4.36%	*6,630*	*69*	*10,040*	*40*
leva	2,000	31.12.2024	3.09%	-	-	*2,011*	*11*
				47,186	**209**	**63,198**	**782**

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

21. OTHER LONG-TERM RECEIVABLES

other long-term receivables *include:*

	30.09.2023	*31.12.2022*
	BGN'000	*BGN'000*
Receivables from securities transactions	3,693	3,668
Allowance for credit losses	(142)	(142)
Receivables from securities transactions, net	3,551	3,526
Given loans	3,912	1,956
Allowance for credit losses	(459)	(459)
Loans granted, net	3,453	1,497

Deposits on long-term rental contracts	699	642
Others	20	29
Total	**7,723**	**5,694**

Receivables from securities transactions represent receivables 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 of the adjustment for impairment of granted loans is as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Balance on January 1st	**459**	**6**
Increase in loss allowance recognized in profit or loss during the year	-	459
Transfer of the adjustment to other short-term receivables	-	(6)
Balance on 30 September / 31 December	**459**	**459**

The movement of the adjustment for impairment of receivables from securities transactions is as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Balance on January 1st	**142**	**216**
A reduction in the allowance for credit losses recognized in profit or loss during the year	-	(74)
Balance on 30 September / 31 December	**142**	**142**

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

Type of currency	***Agreed amount***	***Maturity***	***Interest %***	***30.09.2023***		***31.12.2022***	
	'000			***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
					including. interest		***including. interest***
euro	2,000	22.12.2024	0.10%	3,453	-	1,497	-
				3,453	***-***	***1,497***	***-***

22. INVENTORIES

Material stocks include:	***30.09.2023***	***31.12.2022***
	BGN'000	***BGN'000***
Goods	208,459	192,795

Materials	49,577	45,168
Ready production	48,221	28,097
Semi-finished products	3,161	1,983
Work in progress	2,181	10,540
Total	**311,599**	**278,583**

Materials by type are as follows:	***30.09.2023***	***31.12.2022***
	BGN'000	***BGN'000***
Basic materials	46,982	41,570
Spare parts and consumables	1,396	1,194
Auxiliary materials	422	392
Technical materials	407	344
Materials in process of delivery	-	1,257
Others	370	411
Total	**49,577**	**45,168**

The main materials by type are as follows:	***30.09.2023***	***31.12.2022***
	BGN'000	***BGN'000***
Substances	21,632	20,729
Chemicals	9,479	8,061
Vials, tubes and ampoules	5,589	3,411
PVC and aluminum foil	3,635	3,294
Herbs	2,873	1,875
Packaging materials	2,067	2,341
Sanitary-hygienic and dressing materials	1,633	1,785
Others	74	74
Total	**46,982**	**41,570**

As at 30.09.2023, special pledges were established on material stocks in the amount of BGN 201,614 thousand (31.12.2022: BGN 167,446 thousand) as collateral for bank loans received by the Group and bank guarantees issued (*Notes No. 28, No. 3 4 and No. 41).*

23. TRADE RECEIVABLES

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Accounts Receivable	*244,220*	*201,500*
Allowance for credit losses	*(4,392)*	*(6,292)*
Accounts receivable, net	239,828	195,208

Granted advances and other receivables from suppliers	27,970	24,511
Allowance for credit losses	-	(167)
Advances granted and other receivables from suppliers, net	27,970	24,344
Receivables under assignment contracts	4,890	4,890
Total	**272,688**	**224,442**

Receivables from customers are interest-free and are mainly in Bulgarian leva, Serbian dinars and euros.

Typically, Group companies agree with customers on a payment term for trade receivables in the range of 30 to 180 days, unless there are specific maturity terms for certain customers or in cases where new markets and products are being developed and new trade partners are being attracted. The group has set a normal credit period of up to 60 days for customers and pharmacies, and up to 180 days for other customers, for which it does not charge interest to customers, except in cases of restructured receivables with a special contract, where a longer term has been agreed with a repayment plan and interest. In the case of sales of medical equipment in the hospital market, the credit period could reach up to and over 2 years due to the financial specifics of the counterparties.

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

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Balance on January 1st	**6,459**	**4,681**
(Decrease) / increase in allowance for credit losses recognized in profit or loss during the period, net	(1,885)	3,999
Effect of currency and exchange rate recalculations	(1)	(42)
Transfer to judgment and judgment claims	(20)	150
Transfer to Receivables from Related Enterprises	(158)	-
Amounts written off for bad debts	(3)	(1,803)
Impairments written off on sale of subsidiary	-	(526)
Balance on 30 September / 31 December	**4,392**	**6,459**

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	130,065	80,282
from 31 to 90 days	77,052	80,029
from 91 to 180 days	3,309	3,057
from 181 to 365 days	1,070	750
from 1 to 2 years	1,202	2,496
over 2 years	2,372	3,002
Gross value of outstanding (regular) trade receivables	215,070	169,616

Expected credit losses	(370)	(325)
Past due (regular) trade receivables, net	**214,700**	**169,291**

The allowance for credit losses on non-past (regular) trade receivables is as follows:

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
up to 30 days	200	196
from 31 to 90 days	103	100
from 91 to 180 days	26	26
from 1 to 2 years	1	1
over 2 years	40	2
Total	**370**	**325**

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

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
from 31 to 90 days	15,431	18,101
from 91 to 180 days	8,139	6,248
from 181 to 365 days	1,647	3,623
from 1 to 2 years	2,332	2,804
over 2 years	1,601	1,108
Gross value of overdue trade receivables	*29,150*	*31,884*
Allowance for credit losses	*(4,022)*	*(5,967)*
Past due trade receivables, net	**25,128**	**25,917**

The allowance for credit losses on overdue trade receivables is as follows:

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
from 31 to 90 days	37	47
from 91 to 180 days	6	14
from 181 days to 365 days	369	2,231
over 1 year	3,610	3,675
Total	**4,022**	**5,967**

Most of the overdue receivables are from public hospitals. The Group's policy is to charge, invoice and collect additional interest on all overdue receivables, through which the delay in payments and incurred costs/losses are fully compensated, both with special agreements for the respective debtor hospital and through court cases.

The Group applies the simplified approach of IFRS 9 to measure expected credit losses on trade receivables, recognizing expected losses for the entire term of the instrument for all trade receivables (Note No. 2.16). On this basis, the credit loss adjustment as of September 30, 2023. and 31 December 2022 is defined as follows:

September 30, 2023		***Current***	***Overdue up to 90 days***	***Past due over 90 to 365 days***	***More than 365 days past due***	***Total***
Expected % of credit losses		0.17%	0.36%	4.34%	94.38%	1.80%
Trade receivables (gross book value)	***BGN'000***	215,070	16,062	9,316	3,772	244,220
Expected Credit Loss (Impairment Allowance)	***BGN'000***	(370)	(58)	(404)	(3,560)	(4,392)

December 31, 2022		***Current***	***Overdue up to 90 days***	***Past due over 90 to 365 days***	***More than 365 days past due***	***Total***
Expected % of credit losses		0.19%	0.28%	23.03%	95.34%	3.12%
Trade receivables (gross book value)	***BGN'000***	169,616	18,136	9,946	3,802	201,500
Expected Credit Loss (Impairment Allowance)	***BGN'000***	(325)	(51)	(2,291)	(3,625)	(6,292)

As of September 30, 2023, special pledges were established on trade receivables in the amount of BGN 125,218,000. (31.12.2022: BGN 82,262 thousand) as collateral for bank loans received by the Group and issued bank guarantees (*Notes No. 28, No. 34 and No. 41*).

The advances and other receivables from suppliers are current, mainly in BGN and EUR and are for the purchase of:

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Goods	21,160	19,214
Services	3,974	3,026
Raw materials	2,834	1,957
Others	2	314
Allowance for credit losses	-	(167)
Total	**27,970**	**24,344**

24. RECEIVABLES FROM AFFILIATED COMPANIES

Receivables from related enterprises by type are as follows:

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

Commercial loans provided	14,857	13,996
Allowance for credit losses	(2,133)	(1,340)
Commercial loans granted, net	12,724	12,656
Receivables under contracts with customers	2,279	307
Allowance for credit losses	(57)	(57)
Accounts receivable under contracts with customers, net	2,222	250
Receivables under provided sureties and guarantees	4	4
Allowance for credit losses	(1)	(1)
Receivables under provided sureties and guarantees, net	3	3
Other receivables	161	-
Allowance for credit losses	(158)	-
Other receivables, net	3	-
Total	**14,952**	**12,909**

Provided commercial loans to related parties are unsecured and are as follows:

Type of currency	*Agreed amount*	*Maturity*	*Interest rate*	*30.09.2023*		*31.12.2022*	
	'000		*%*	*BGN'000*	*BGN'000 including. interest*	*BGN'000*	*BGN'000 including. interest*
of companies controlled by an associated company							
leva	10,997	31.12.2023	3.10%	8,690	642	8,512	463
leva	4,000	31.12.2023	3.33%	4,034	34	4,144	144
Total				**12,724**	**676**	**12,656**	**607**

Receivables under contracts with customers are interest-free and are in BGN.

Usually, the companies of the Group agree on a payment period for product sales receivables between 90 and 180 days, and for material sales receivables (including substances - active ingredients) up to 30 days.

The Group applies the simplified approach of IFRS 9 to measure expected credit losses on trade receivables from related enterprises, recognizing expected losses for the entire term of the instrument for all trade receivables (Note No. 2.16).

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

	30.09.2023	*31.12.2022*
	BGN'000	*BGN'000*
Balance on January 1st	**1,398**	**47**
Increase in allowance for credit losses recognized in profit or loss during the year	793	1,398
Transfer of trade receivables	158	-
A reduction in the allowance for credit losses recognized in profit or loss during the year	-	(47)
Balance on 30 September / 31 December	**2,349**	**1,398**

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

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
up to 30 days	2,109	250
from 31 to 90 days	113	-
Total	**2,222**	**250**

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

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
from 1 to 2 years	57	57
Gross value of overdue receivables from related enterprises	57	57
Allowance for credit losses	(57)	(57)
Total	**-**	**-**

25. OTHER SHORT-TERM RECEIVABLES AND ASSETS

other receivables and prepaid expenses include:

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Funds provided for payment of dividends	72,572	-
Tax recovery	13,409	13,019
Litigation and claims	13,595	*13,649*
Impairment for credit losses on judgment and judgment receivables	*(998)*	*(1,002)*
Judgments and judgments, net	12,597	12,647
Loans granted to third parties	11,232	8,320
Impairment for credit losses on loans granted to third parties	*(3)*	*(3)*
Loans granted to third parties, net	11,229	8,317
Prepaid expenses	1,803	2,236
Claims on deposits provided as guarantees	345	147
Provided funds to investment intermediaries	4	46
Others	866	290
Total	**112,825**	**36,702**

Refund taxes include:	***30.09.2023***	***31.12.2022***
	BGN'000	***BGN'000***
VAT	7,242	6,984
Excise duty	5,103	4,823

Income taxes	1,054	1,188
Local taxes and fees and other taxes	10	24
Total	**13,409**	**13,019**

Prepaid expenses include:	***30.09.2023*** ***BGN'000***	***31.12.2022*** ***BGN'000***
Subscriptions	837	970
Insurances	362	540
Rentals	174	64
License and patent fees	98	126
Advertising	90	227
Vouchers	16	19
Others	226	290
Total	**1,803**	**2,236**

Loans granted to third parties in the amount of BGN 11,229,000. (31.12.2022: BGN 8,317,000) were granted to three enterprises - counterparties with the aim of supporting the financing of activities of these enterprises for common strategic goals. The annual agreed interest on these loans for 2023 is between 3.05% and 4.7% (2022: 3.05% and 4.7%).

The movement of the adjustment for the impairment of judgment and awarded receivables is as follows:

	30.09.2023 ***BGN'000***	***31.12.2022*** ***BGN'000***
Balance on January 1st	**1,002**	**1,639**
(Decrease) / increase in allowance for credit losses recognized in profit or loss during the year, net	(24)	(488)
Transfer of trade receivables	20	-
Transfer to Trade Receivables	-	(150)
Effect of currency and exchange rate recalculations	-	1
Balance on 30 September / 31 December	**998**	**1,002**

26. CASH AND CASH EQUIVALENTS

	30.09.2023 ***BGN'000***	***31.12.2022*** ***BGN'000***
Cash in current accounts	10,973	12,318
Cash in cash register	3,782	3,304
Short-term deposits	2,584	4,155

Short-term blocked cash	80	74
Cash and cash equivalents presented in the consolidated statement of cash flows	**17,419**	**19,851**
Blocked funds due to legal claims and issued bank guarantees	8	4
Cash and cash equivalents presented in the consolidated statement of financial position	**17,427**	**19,855**

The cash and cash equivalents available to the Group are mainly denominated in BGN, euro and Polish zlotys (31.12.2022: leva, Ukrainian hryvnias and euros).

As of September 30, 2023, the short-term blocked funds amount to BGN 80,000. (31.12.2022: BGN 74 thousand) mainly represent blocked funds under performance guarantees.

27. EQUITY

Principal share capital

As of September 30, 2023, the registered share capital of Sopharma AD amounted to BGN 134,798,000, divided into 134,797,899 shares with a nominal value of one BGN per share.

The shares of Sopharma AD are ordinary, dematerialized with the right to receive a dividend and a liquidation share and are registered for trading on the Bulgarian Stock Exchange - Sofia AD and the Warsaw Stock Exchange.

In contrast, the repurchased own shares are 13,478,336 in the amount of BGN 52,200 thousand. (31.12.2020: 13,479,188 in the amount of BGN 52,203 thousand).

Legal reserves in the amount of BGN 68,628 thousand (31.12.2022: BGN 68,628 thousand) were formed from the distribution of the profit of the parent company and fully include the amounts for the "Reserve" fund.

The revaluation reserve - for property, machinery and equipment in the amount of BGN 30,932 thousand (31.12.2022: 3 5, 2 63 thousand BGN) is formed by the positive difference between the balance sheet value of the properties, machines, equipment of the companies of the Group and their fair values on the dates of the respective regular revaluations. The effect of deferred taxes on the revaluation reserve is reported directly through other components of comprehensive income for the year.

The ***reserve for financial assets at fair value through other comprehensive income*** in the amount of BGN 1,150 thousand. – *negative* amount (31.12.2022: BGN 560 thousand) is formed by the effects of fair value measurement of other long-term capital investments (including the consolidated share of the change in this reserve in associated companies when valuing them using the equity method). When these investments are written off, the reserve formed is not recycled through the statement of comprehensive income (through profit or loss for the period).

The reserve from recalculation in the currency of presentation of foreign activities in the amount of BGN *2,112* thousand. (31.12.2022: BGN 4,745 thousand - negative value) is formed by the exchange rate differences that arose as a result of the recalculation of the currency of the financial statements of the foreign companies in the presentation currency of the Group.

Other capital components (***issue warrants)***

Pursuant to Article 25 of the Articles of Association of Sopharma AD on 21.05.2021, the Board of Directors determines the parameters and makes a decision to issue warrants during the primary public offering. With Decision No. 804 - E of 04.11.2021, the Financial Supervision Commission registers an issue in the amount of 44,932,633 non-cash, freely transferable and registered warrants, with an issue value of BGN 0.28, issued by "Sopharma" AD in accordance with Art. 112 b, para. 11 of the Civil Procedure Code. The underlying asset of the issued warrants are future ordinary, registered, non-deductible, freely transferable shares, giving the right to one vote in the General Meeting of Shareholders, which will be issued by the company under a condition, solely for the benefit of the owners of the warrants. Each subscribed warrant entitles its holder to subscribe for one share of a future issue. Warrant holders can exercise their right to subscribe for the corresponding number of shares from a future increase in the company's capital within a 3-year period 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 was registered in "Central Depository" AD - 16.11.2021.

The warrants are admitted to trading on the BSE main market of the Bulgarian Stock Exchange-Sofia AD, as of 17.11.2021.

The funds raised from the issue of warrants in the amount of BGN 12,479 thousand. (31.12.2022: BGN 12,488) are presented as other capital components in the statement of financial position, net of issue costs.

The "Retained earnings" reserve includes the "other reserves" component, which contains distributed amounts of realized profits from past years of Group companies and the "accumulated profits and losses" component.

As of September 30 ***retained earnings*** amount to BGN 520,824 thousand (31.12.2020: BGN 509,869 thousand), includes the recognized accumulated actuarial loss in the amount of BGN 1,263 thousand (31.12.2022: BGN 1,249 thousand), reported in subsequent assessments of plans with defined pension benefits in connection with the change in IAS 19 *Pension and other benefits of employed persons.*

Basic net earnings per share

	1.1.2023 - 30.09.2023	***1.1.2022 - 30.09.2022***
Weighted average number of shares	121,318,901	121,553,398
Net profit for the year attributable to equity holders of the parent company (BGN'000)	77,741	67,884
Net profit per share (BGN)	**0.64**	**0.56**

Net earnings per diluted share

	30.09.2023	***30.09.2023***
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 attributable to equity holders of the parent company (BGN'000)	77,741	67,884
	0.60	**0.57**

28. LONG-TERM BANK LOANS

	'000 Agreed loan amount	*Maturity*	*30.09.2023*			*31.12.2022*		
			Long - term part	*Short - term part*	*Total*	*Long - term part*	*Short - term part*	*Total*
			BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Lines of credit and loans for working capital								
Serbian dinar/euro	8,100	31.08.2025	15,800	-	15,800	15,797	-	15,797
euro	15,000	31.08.2025	14,835	-	14,835	-	-	-
euro	1,100	31.10.2025	2,151	-	2,151	2,151	-	2,151
Investment loans								
euro	5,210	31.03.2026	2,966	1,690	4,656	4,233	1,693	5,926
leva	4,330	10.07.2028	1,544	416	1,960	1,860	416	2,276
euro	2,062	30.04.2025	470	870	1,340	1,075	797	1,872
euro	12,000	25.06.2024	-	2,717	2,717	1,779	3,755	5,534
leva	16,000	30.06.2024	-	1,622	1,622	801	2,667	3,468
euro	583	27.02.2023	-	-	-	63	378	441
leva	4,250	16.04.2023	-	-	-	-	52	52
Total			**37,766**	**7,315**	**45,081**	**27,759**	**9,758**	**37,517**

The group has gradually established a policy of annual renegotiation of the terms of initially agreed long-term credit lines, incl. the maturity dates. From the date of the renegotiation, extended credit lines are presented as short-term bank loans (*Note No. 34*). The received bank loans in euros are mainly agreed at an interest rate determined on the basis of EURIBOR plus a surcharge of up to 2.6 %, for leva loans – up to 1.8% fixed, for Serbian dinar – interest rate determined on the basis of BELIBOR plus an allowance up to 3.25 % (2022: for euros - EURIBOR plus a surcharge of up to 2.1%, for leva loans - up to 2.8 % fixed). Loans are for working capital.

Investment loans are intended for the purchase of durable tangible assets and expansion of the business.

For the benefit of the creditor banks, the following have been established as collateral for the above-mentioned loans:

- Real estate mortgages (*Note No. 15*);
- Special bets on:
  - machines and equipment (*Note No. 1 5*);
  - material stocks (*Note No. 22*);
  - trade receivables (*Note No. 23*).

29. LONG-TERM LIABILITIES TO RELATED PARTIES

Long-term liabilities to related parties as of September 30 include:

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Liabilities under leasing contracts	17,540	17,906
Liabilities related to the purchase of shares	-	6,588
	17,540	**24,494**

The lease installments due within 12 months are presented in the consolidated annual report on the financial situation in current liabilities, in the article "Liabilities to related enterprises" (*Note No. 36*).

30. LONG-TERM LIABILITIES TO EMPLOYEES

Long-term liabilities to personnel as of September 30 include:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Long-term liabilities to personnel on retirement	6,487	6,306
Long-term royalty income obligations	258	235
Total	**6,745**	**6,541**

Long-term liabilities to personnel on retirement

Long-term liabilities to personnel include the present value of the liability of the companies of the Group operating mainly in *Bulgaria and Ukraine,* for the payment of benefits to employed personnel as of the date of the statement of financial position upon reaching retirement age. According to the *Bulgarian* Labor Code, every employee has the right to compensation in the amount of two gross salaries upon retirement, and if he has worked for the same employer during the last 10 years of his working experience, the compensation is in the amount of six gross salaries at the time of retirement (*Note No. 2.23*).

The employer's liabilities to the staff upon retirement for companies outside Bulgaria are as follows:

- *Ukraine* - the employer is obliged to pay between 250 and 500 Ukrainian hryvnias (between BGN 12 and BGN 25) according to the employee's length of service and social pensions, which the company charges after the employees retire due to specific working conditions;
- *Kazakhstan* - according to Kazakhstani legislation, the employer has no legal obligation to the staff upon retirement ;
- *Serbia* - the employer is obliged to pay 3 average wages.

Long-term royalty income obligations

As of 30.09.2023 258 thousand BGN are also included in the value of long-term liabilities to the staff. (31.12.2022 year: BGN 235 thousand), representing liabilities to the staff related to the payment of bonuses for a period of more than 12 months - until 2026 (2022: until 2025 d.).

31. LEASING LIABILITIES

The liabilities under leasing contracts to third parties and related parties included in the statement of financial position are presented net of the interest payable in the future and are as follows:

	30.09.2023			***31.12.2022***		
	Lease obligations	***Lease liabilities to related parties (Annex No. 29 and 36)***	***Total***	***Lease obligations***	***Lease liabilities to related parties (Annex No. 29 and 36)***	***Total***
Term	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Up to a year	12,998	2,781	15,779	12,874	2,710	15,584
Over a year	53,778	17,540	71,318	52,058	17,906	69,964
	66,776	**20,321**	**87,097**	**64,932**	**20,616**	**85,548**

Lease liabilities to related parties are presented in Long-term liabilities to related parties (*Note No. 29*) and Liabilities to related enterprises (*Note No. 36*).

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

	30.09.2023			***31.12.2022***		
	Third parties BGN'000	***Affiliates BGN'000***	***Total BGN'000***	***Third parties BGN'000***	***Affiliates BGN'000***	***Total BGN'000***
Term						
Up to a year	14,349	3,019	17,368	14,036	2,779	16,815
Over a year	56,979	18,401	75,380	55,057	18,179	73,236
	71,328	**21,420**	**92,748**	**69,093**	**20,958**	**90,051**
Future finance expense under finance lease	(4,552)	(1,099)	(5,651)	(4,161)	(342)	(4,503)
Present value of liabilities under lease contracts to third parties and related parties	**66,776**	**20,321**	**87,097**	**64,932**	**20,616**	**85,548**

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

	Land and buildings		***Machinery, plant and equipment***		***Others***		***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 on January 1st	**102,508**	**69,379**	**259**	**166**	**12,707**	**11,409**	**115,474**	**80,954**
Increases/acquired	13,635	52,839	1,124	97	4,083	3,082	18,842	56,018
Discounts / written off	(6,852)	(19,710)	(91)	(4)	(2,223)	(1,784)	(9,166)	(21,498)
Balance on 30 September / 31 December	**109,291**	**102,508**	**1,292**	**259**	**14,567**	**12,707**	**125,150**	**115,474**
Accumulated depreciation								
Balance on January 1st	**24,038**	**21,253**	**162**	**76**	**6,258**	**5,202**	**30,458**	**26,531**
Accumulated depreciation for the period	10,434	12,927	136	86	2,397	2,739	12,967	15,752
Depreciation written off	(2,281)	(10,142)	(82)	-	(2,055)	(1,683)	(4,418)	(11,825)
Balance on 30 September / 31 December	**32,191**	**24,038**	**216**	**162**	**6,600**	**6,258**	**39,007**	**30,458**
Book value on September 30 / December 31	**77,100**	**78,470**	**1,076**	**97**	**7,967**	**6,449**	**86,143**	**85,016**
Book value on January 1	**78,470**	**48,126**	**97**	**90**	**6,449**	**6,207**	**85,016**	**54,423**

32. GOVERNMENT FUNDING

As of September 30, government funding of Group companies includes:

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Long-term part of government funding	5,076	6,155
Short-term part of government financing (*Note No. 40*)	603	747
Total	**5,679**	**6,902**

As of September 30, the government funding received was from the following Group companies:

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Sopharma AD	5,514	4,007
Veta Pharma AD	165	179
Biopharm Engineering AD	-	2,716
Total	**5,679**	**6,902**

Government funding is under European operational programs and is mainly related to the acquisition of machinery and equipment. (*Note No. 15).* The short-term part of the financing in the amount of 603 BGN thousand (31.12.2022: BGN 747 thousand) will be recognized as current income in the next 12 months from the date of the interim consolidated financial statement and is presented as "other current liabilities" (*Note No. 40).*

33. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as of September 30 include:	*30.09.2023*	*31.12.2022*
	BGN'000	*BGN'000*
Liabilities related to the purchase of shares	6,595	6,594
	6,595	**6,594**

34. SHORT-TERM BANK LOANS

The Group's ***short-term bank loans as of*** September 30 are as follows:

Type of currency	*Agreed amount*	*Maturity*	*30.09.2023*	*31.12.2022*
Bank loans (overdrafts)	*'000*		*BGN'000*	*BGN'000*
euro	31,963	31.10.2023	40,899	63,030
leva	41,500	31.07.2024	39,873	32,704
leva	35,000	24.09.2024	24,895	-
leva	20,000	09/05/2024	19,940	5
leva	20,000	09/05/2024	19,939	-
leva	20,000	31.07.2024	19,925	-
euro	10,000	09/05/2024	19,554	-
Serbian dinar/euro	8,000	27.2.2024 - 4.9.2024	15,647	7,158
euro	10,000	29.12.2023	10,837	-
leva	9,779	09/05/2024	9,777	-
euro	5,000	25.07.2024	9,750	9,757
euro	3,000	25.07.2024	5,852	5,859
leva	5,000	31.07.2024	4,919	-
euro	2,488	09/01/2024	2,933	2,934
euro	1,000	03/01/2024	1,956	1,956
Ukrainian hryvnias	128,000	20.01.2023	-	1,212
			246,696	**124,615**

Type of currency	*Agreed amount*	*Maturity*	*30.09.2023*	*31.12.2022*
	'000		*BGN'000*	*BGN'000*
Credit lines				
leva	20,000	31.03.2024	19,879	11,729
euro	6,165	25.07.2024	12,014	12,025
leva	10,000	31.07.2023	-	9,986
			31,893	**33,740**
Total			**278,589**	**158,355**

interest rate determined on the basis of EURIBOR plus a surcharge of up to 3.2 % ; for BGN loans - reference interest rate of the respective bank plus a surcharge of up to 3.25% (2022: EURIBOR plus a surcharge of up to 2.55% or fixed up to 3%; for BGN loans - reference interest rate of the respective bank plus a surcharge of up to 1.35% and fixed up to 1.45 %; for dinar – interest rate determined on the basis of BEL IBOR 1.95%; for Ukrainian hryvnias 22 % fixed). Loans are for working capital.

For the benefit of creditor banks, special pledges have been established to secure the above-mentioned loans:

- machines and equipment (*Note No. 15*);
- raw materials, materials and finished products (*Note No. 22*);
- trade receivables (*Note No. 23*).

As of September 30, 2023, a special lien was established on receivables from related parties subject to consolidation and eliminated for the purposes of the consolidated annual financial statement in the amount of BGN 64,786,000. (31.12.2022: BGN 48,531 thousand) as collateral for bank loans received by the Group and issued bank guarantees (*Notes No. 28, No. 3 4 and No. 41*).

35. COMMERCIAL LIABILITIES

Trade liabilities include:	***30.09.2023***	***31.12.2022***
	BGN'000	***BGN'000***
Liabilities to suppliers	152,948	152,483
Advances received from customers	1,306	23,084
Total	**154,254**	**175,567**

Payables to suppliers are to:	***30.09.2023***	***31.12.2022***
	BGN'000	***BGN'000***
Suppliers outside Bulgaria	102,449	105,634
Suppliers from Bulgaria	50,499	46,849
Total	**152,948**	**152,483**

Accounts payable are current, interest-free and are for materials, goods and services received. The average credit period for which no interest is usually charged on trade payables is up to 180 days.

36. LIABILITIES TO AFFILIATES

Liabilities to related enterprises include:

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Liabilities to companies shareholders with significant influence	45,292	1,098

Liabilities to joint ventures and associates	2,798	2,697
Liabilities to companies related through key management personnel	1,077	901
Liabilities to companies controlled by an associate company	259	202
Other related parties	4,087	6
Total	**53,513**	**4,904**

Liabilities to related enterprises by type are:

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Dividend Obligations	49,310	-
Short-term liabilities under leasing contracts	2,781	2,710
Liabilities for supplies of goods and materials	1,348	964
Delivery of services	68	68
Liabilities related to the purchase of shares	-	1,031
Liabilities for advances	-	125
Others	6	6
Total	**53,513**	**4,904**

Liabilities to related enterprises are current, in BGN, interest-free and are not additionally secured by a special pledge or guarantee from the Group.

37. FACTORING AGREEMENT OBLIGATIONS

A company from the Group has concluded a factoring contract with a financial institution (Factor) from 19.01.2016 for the transfer of existing unclaimed receivables from its customers. The factor has the right of counterclaim (right of recourse) for all amounts paid in advance, regardless of whether or not they are included in the approved credit limit. The approved credit limit as of September 30, 2023 is BGN 15,000 thousand. (2022: BGN 15,000 thousand) Transferred invoices are paid in advance up to 90% (ninety percent) of their value including VAT. The interest for the funds transferred in advance is 1M RLP +1.55% on an annual basis and is deducted for a one-month period at the end of each calendar month.

As of September 30, 2023, the company has no liabilities under the factoring agreement (31.12.2022: BGN 1,875 thousand).

The total funding provided in 2023 is BGN 700,000. (2022: BGN 25, 800 thousand) (Note No. 2.17).

38. EMPLOYEE AND SOCIAL SECURITY OBLIGATIONS

Liabilities to staff and social security include:

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Duties to the staff, including:	17,322	17,949

current remuneration obligations	9,509	10,137
royalties	4,143	3,591
accruals for unused compensable leave	3,670	4,221
Social security obligations, including:	3,985	3,831
current social security contribution obligations	3,413	3,174
accruals for unused compensable leave	572	657
Total	**21,307**	**21,780**

39. TAX OBLIGATIONS

Tax liabilities include:

	30.09.2023 ***BGN'000***	***31.12.2022*** ***BGN'000***
VAT	4,246	6,327
Taxes on profit	2,185	996
Personal income taxes	1,526	730
Taxes on expenses	423	365
Local taxes and fees	16	16
Taxes at source	-	2
Total	**8,396**	**8,436**

Until the date of issue of this interim consolidated report, audits and inspections have been carried out in the companies of the Group, as follows:

Company	**Full tax audit**	**VAT audit**	**Check under insurance legislation**
Sopharma AD	31.12.2011	31.12.2011	30.09.2013
Sopharma Trading AD	31.12.2011	31.12.2017	30.04.2018
Biopharm Engineering AD	31.12.2014	31.01.2023	30.04.2009
Pharmalogistika AD	31.12.2005	31.12.2007	none
Electronic commerce EOOD	31.12.2005	30.04.2006	none
Veta Pharma AD	none	31.08.2023	30.06.2016
Sopharmacy EOOD	none	31.07.2020	none
Sopharmacy 2 Ltd	none	30.06.2019	none
Sopharmacy 3 Ltd	none	30.11.2017	none
Sopharmacy 4 Ltd	none	30.06.2022	none
Sopharmacy 5 Ltd	none	31.08.2020	none
Sopharmacy 6 Ltd	none	30.05.2023	none
Sopharmacy 7 Ltd	none	31.05.2019	none
Sopharmacy 8 Ltd	none	31.08.2020	none
Sopharmacy 9 Ltd	none	31.12.2020	none
Sopharmacy 10 Ltd	none	30.11.2022	none
Sopharmacy 11 Ltd	none	31.07.2022	none

Sopharmacy 12 Ltd	none	31.07.2022	none
Sopharmacy 13 Ltd	none	31.07.2022	none
Sopharmacy 14 Ltd	none	31.12.2018	none
Sopharmacy 15 Ltd	none	30.06.2022	none
Sopharmacy 16 Ltd	none	31.12.2019	none
Sopharmacy 17 Ltd	none	31.12.2020	none
Sopharmacy 18 Ltd	none	30.10.2021	none
Sopharmacy 19 Ltd	none	31.08.2023	none
Sopharmacy 20 EOOD	none	31.12.2013	none
Sopharmacy 21 EOOD	none	none	31.08.2017
Sopharmacy 22 EOOD	none	31.12.2012	30.04.2020
Sopharmacy 23 EOOD	none	31.05.2014	30.04.2020
Sopharmacy 24 EOOD	none	none	30.04.2020
Sopharmacy 25 EOOD	none	31.01.2023	30.04.2020
Sopharmacy 26 EOOD	none	31.08.2017	none
Sopharmacy 27 EOOD	none	31.12.2013	none
Sopharmacy 2 8 EOOD	none	30.04.2023	none
Sopharmacy 29 EOOD	none	31.07.2023	none
Sopharmacy 30 Ltd	none	31.07.2023	30.04.2020
Sopharmacy 31 EOOD	none	31.07.2022	30.04.2020
Sopharmacy 32 EOOD	31.12.2010	31.12.2019	30.04.2020
Sopharmacy 33 EOOD	none	none	30.04.2020
Sopharmacy 34 EOOD	none	none	30.04.2020
Sopharmacy 35 EOOD	none	31.12.2013	30.04.2020
Sopharmacy 36 EOOD	none	31.01.2015	31.05.2021
Sopharmacy 37 EOOD	none	31.10.2022	30.04.2020
Sopharmacy 38 Ltd	none	31.07.2017	30.04.2020
Sopharmacy 40 Ltd	none	none	30.04.2020
Sopharmacy 41 EOOD	none	28.02.2023	31.05.2019
Sopharmacy 42 EOOD	none	none	30.11.2020
Sopharmacy 43 EOOD	31.12.2016	none	31.05.2019
Sopharmacy 44 EOOD	none	31.12.2013	30.04.2020
Sopharmacy 45 EOOD	none	None	30.04.2020
Sopharmacy 46 EOOD	none	31.05.2023	none
Sopharmacy 47 EOOD	none	31.11.2016	31.03.2020
Sopharmacy 48 EOOD	none	30.06.2021	31.08.2017
Sopharmacy 49 EOOD	31.12.2015	31.12.2014	31.05.2020
Sopharmacy 50 Ltd	none	31.12.2018	31.03.2020
Sopharmacy 51 EOOD	none	30.09.2018	30.04.2020
Sopharmacy 52 EOOD	none	none	31.12.2015
Sopharmacy 53 EOOD	none	30.06.2021	31.08.2017
Sopharmacy 54 EOOD	none	31.08.2015	31.03.2020
Sopharmacy 55 EOOD	none	31.12.2014	31.03.2020
Sopharmacy 56 EOOD	none	31.12.2015	30.04.2020
Sopharmacy 57 EOOD	none	none	31.05.2020
Sopharmacy 58 Ltd	none	31.07.2018	none
Sopharmacy 63 EAD	31.12.2012	none	31.12.2019
Sopharmacy 64 AD	31.12.2016	none	none

PAO Vitamins	31.12.2013	31.12.2013	04.01.2014
OOO Sopharma Ukraine	31.12.2014	31.12.2014	30.06.2016
Sopharma Warsaw SP. Z.O.O	none	none	07.06.2017
Sopharma Trading D.o.o., Serbia	31.03.2017	30.06.2017	15.04.2017

For companies in Bulgaria, a tax audit is carried out within a period of five years from the end of the year in which the tax return for the relevant liability was submitted. The audit finally confirms the tax liability of the relevant company-taxable person, except in the cases expressly provided for by the legislation. For companies outside Bulgaria, a tax audit is carried out as follows: in Ukraine - in a three-year period, in Poland and Kazakhstan - in a five-year period and in Serbia - in a ten-year period.

The companies Fitopalauzovo AD, TOO Sopharma Kazakhstan, Pharmachim EOOD, Sopharmacy 59 EOOD, Sopharmacy 60 EOOD, Sopharmacy 61 EOOD, Sopharmacy 62 EOOD and Sopharmacy 39 EOOD were not conducted full tax audits, audits by VAT and checks under insurance legislation.

40. OTHER CURRENT LIABILITIES

Other current liabilities include:	***30.09.2023 BGN'000***	***31.12.2022 BGN'000***
Dividend liabilities	23,370	456
Reimbursement liabilities under customer contracts	9,276	7,877
Liabilities under contracts with customers	3,477	2,664
Liabilities related to the purchase of shares	1,135	1,032
Government funding (*Note No. 32*)	603	747
Provision for financial guarantees	155	158
Liabilities on deposits received as guarantees	135	144
Deductions from wages	70	50
Amounts awarded in court cases	16	16
Others	688	653
Total	**38,925**	**13,797**

41. CONTINGENT LIABILITIES AND COMMITMENTS

Warranties and guarantees provided

Sopharma AD

The company has provided the following guarantees in favor of banks for loans received from associated companies:

In favor of Doverie United Holding AD	***30.09.2023***	***12/31/2022***

	BGN '000	***BGN '000***
Buildings	7, 579	7, 867
Land	6,624	6,624
Total	**14, 203**	**14, 491**

The company is a co-debtor for received bank loans, issued bank guarantees, concluded leasing contracts, as well as a guarantor to banks and suppliers of the following companies:

	Maturity period	**Type of currency**	**Contract size**		**Size of the sum assured**
			Original Currency	***BGN'000***	***30.09.2023*** **BGN'000**
Trust United Holding AD	2027	BGN	30,000	30,000	17,500
Energoinvestment AD	2024	BGN	2000	2000	1,600
Total					**19, 100**

<u>Bank guarantees</u>

Sopharma Trading AD

The bank guarantees issued for the company as of 30.09.2023 amount to BGN 17,337 thousand (31.12.2022: BGN 14,716 thousand) and are for guaranteeing payment to suppliers of goods, for good performance - guaranteeing future supplies of medicinal and medical products to hospitals under concluded supply contracts, customs guarantee, participation in auctions and guarantees under rental contracts for commercial establishments (pharmacies).

Bank guarantees are issued by:

	30.09.2023 ***BGN '000***	***31.12.2022*** ***BGN '000***
DSK AD	7, 828	7,508
KBC Bank Bulgaria EAD	5,135	4,870
ING bank N.V.	4,374	2,338
	1 7, 337	**14,716**

To 30.09.2023 Sopharma Trading AD has provided bank guarantees in the amount of BGN 1,737 thousand (31.12.2022: BGN 2,152 thousand) as collateral under lease contracts for commercial establishments (pharmacies) to which its subsidiaries are parties.

Sopharma Trading D.o.o., Serbia

To 30.09.2023 bank guarantees issued for the company amount to 14,108 BGN thousand (31.12.2022: BGN 12,247 thousand) and are for guaranteeing payment to suppliers of goods, for good performance - guaranteeing future supplies of medicinal and medical products to hospitals under concluded supply contracts, customs guarantee and participation in auctions.

Bank guarantees are issued by:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Raiffeisenbank AD Belgrade	11,205	8,315
Eurobank AD Belgrade	1,952	1,350
Bank Inteza AD Belgrade	951	357
OTP Bank Serbia AD Belgrade (SG Expressbank AD Belgrade)	-	2,225
	14,108	**12,247**

Performance Bond Insurance

Sopharma Trading AD

As of 30.09.2023, the company has signed contracts for insurance of performance guarantees in tenders for the supply of medicines and consumables for the benefit of medical facilities and the Ministry of Health in the amount of 9,231 BGN thousand (31.12.2022: BGN 4,813 thousand).

Assets received in custody

Sopharma Trading AD

According to concluded pre-distribution contracts, the company has taken custody as of 30.09.2023 goods in the amount of BGN 5,951 thousand (31.12.2022: at BGN 4,318 thousand).

Significant Irrevocable Contracts and Commitments

Sopharma AD

The company received government funding under the operational program Development of the competitiveness of the Bulgarian economy 2007-2013 and the operational program Energy efficiency *(Notes No. 32 and No. 40),* related to the acquisition of fixed assets, reconstruction of buildings and technological renewal and modernization of the tablet production, implementation of innovative products in ampoule production, acquisition of general exchange installations for ventilation and air conditioning in the production of medical products and implementation of innovative "artificial tears" type eye drops (Note *No. 15).*

The company has undertaken for a period of 5 years after the completion of the relevant projects not to make significant changes affecting the nature and conditions of implementation or giving rise to unjustified benefits for the company, as well as changes resulting from a change in the nature of the ownership of the acquired assets related to the funding. In case of non-fulfilment of these requirements, the provided financing is subject to refund. As of the date of preparation of the report, all requirements under the contracts have been met.

Veta Pharma AD

The company received government funding under the operational program "Development of the competitiveness of the Bulgarian economy" 2007-2013 *(Notes No. 32 and No. 40)* related to increasing the efficiency of enterprises and developing a favorable business environment *(Note No. 15)*. The company has undertaken for a period of 3 years after the completion of the relevant projects not to carry out significant changes affecting the nature and conditions of implementation or giving rise to unjustified benefits for the company, as well as changes resulting from a change in the nature of the ownership of the acquired assets, related to the funding. In case of non-fulfilment of these requirements, the provided financing is subject to refund. As of the date of preparation of the report, all requirements under the contracts have been met.

42. FINANCIAL RISK MANAGEMENT

In the course of its normal business activity, the Group may be exposed to various financial risks, the most important of which are: market risk (including currency risk, fair value risk and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows.

The general risk management is focused on the difficulties in predicting the financial markets and achieving minimization of the potential negative effects that may affect the financial results and condition of the Group.

Currently, financial risks are identified, measured and monitored with the help of various control mechanisms introduced in order to determine adequate prices of the products and services of the companies of the Group and of the borrowed capital attracted by them, as well as to adequately assess the market circumstances of the of them, investments and the forms of maintaining free liquid funds, without allowing unjustified concentration of a given risk.

Risk management is carried out on an ongoing basis by the management of the parent company and respectively the management of the subsidiaries according to the policy determined by the Board of Directors of the parent company. The Board of Directors has adopted basic principles for the general management of financial risk, on the basis of which specific procedures have been developed for the management of individual specific risks, such as currency, price, interest rate, credit and liquidity, and for the risk in the use of non-derivative instruments.

The structure of financial assets and liabilities as of September 30, 2023 is as follows:

Categories of financial instruments:	***30.09.2023***	***31.12.2022***
	BGN '000	***BGN '000***
Financial actives		
Financial assets at amortized value, including:	**360,082**	**326,563**
Receivables and loans (Notes No. 20, No. 21, No. 23, No. 24 and No. 25)	342,663	306,712
Cash and cash equivalents (Note No. 26)	17,419	19,851
Financial assets at fair value through other comprehensive income including:	**2,482**	**4,778**
Capital investments (Note No. 19)	2,482	4,778
Total financial assets	**362,564**	**331,341**

Financial liabilities		
Financial liabilities at amortized value, including:	**650,289**	**456,168**
Short-term and long-term bank loans (Notes No. 28 and No. 34)	323,670	195,872
Other loans and liabilities (Notes No. 33, No. 35, No. 36 and No. 40)	239,522	174,748
Lease liabilities (Note No. 31)	87,097	85,548
Total financial liabilities	**650,289**	**456,168**

The net effect of accrued/ (recovered) impairments related to financial assets and financial guarantees recognized in the statement of comprehensive income (in profit or loss) is as follows:

	30.09.2023 BGN '000	***30.09.2022 BGN '000***
Trade and other receivables, including from related parties	(1,885)	6,697
Loans provided at amortizable value	793	1,354
Litigation and claims	(24)	(22)
Total	**(1,116)**	**8,029**

Credit risk

Credit is the risk that the Group's customers will not be able to pay in full and within the usual terms the amounts owed by them on trade receivables.

The Group's credit risk arises both from its main activity, through trade receivables, and from its financial activity, including the provision of loans to related parties and third parties, commitments for loans and guarantees and deposits in banks. The Group has developed policies, procedures and rules for control and monitoring of credit risk behavior.

Trade receivables

In its commercial practice, the Group has implemented various distribution schemes until it has achieved the current effective approach, in line with the market environment of operation, with the various payment methods, as well as with the inclusion of trade discounts. The group works with counterparties with a history of relationships in its main markets, partnering with over 70 Bulgarian and foreign licensed drug dealers.

Working with the NHIF and with distributors who work with state hospitals also require a deferred payment policy in Bulgaria. In this sense, regardless of the fact that there is a concentration of credit risk, it is controlled through selection, ongoing monitoring of the liquidity and financial stability of trading partners, as well as direct communication with them and seeking quick measures at the first indicators of problems.

The Group's credit policy stipulates that each new customer is investigated for creditworthiness before standard terms of delivery and payment are offered.

The Group uses matrices to provide for expected credit losses on trade receivables and assets under contracts with customers. The latter are grouped into groups (portfolios) of different customer segments that have similar characteristics, incl. for credit risk.

The provisioning percentages applied in the matrices are based on the days past due for each individual portfolio. Initially, the percentages of each matrix are determined on the basis of historical data observed by the companies of the Group, over a period of three years. The basis of the method is the analysis of the history and the evaluation of the behavior of each invoice in a given group, issued for at least the last three years in terms of days overdue, passage by period between different overdue ranges, payments and uncollected amounts, etc. On this basis, the percentage of loss is determined as the uncollectibility of a given group of invoices to overdue invoices by days.

The period for occurrence of economic loss from uncollectibility is determined by customer portfolios: wholesalers, pharmacy market, hospital market and by geographic regions. This period is studied and evaluated historically. The Group does not have the practice of requiring collateral for receivables from its customers, nor does it insure them. Secondly, the Group refines the impairment provisioning matrices of each portfolio by adjusting the specified percentages based on historical data on the behavior of payments on issued invoices and historical uncollectibility losses by including forecast information on certain macro factors. Historical rates are adjusted to reflect the effect of future behavior of macroeconomic factors that are statistically correlated and believed to affect customers' ability to service and settle their obligations.

Litigation and claims

When assessing the collectability of legal and awarded receivables, the management makes an individual analysis of the entire exposure from each counterparty (type of counterparty) with a view to establishing the real possibility of their collection. When high uncertainty is established regarding the collectability of a given receivable (group of receivables), an assessment is made as to what part of it (them) is secured (pledge, mortgage, guarantees, bank guarantee) and thus their collectability is guaranteed (through possible future realization of the security or payment by a guarantor). Receivables or the part of them for which the management considers that there is a very high uncertainty of their collection and are not secured, are written down at 100%.

Loans and financial guarantees provided

Valuation of any credit exposure for risk management purposes is a process that requires the use of models that reflect the impact on the exposure of changes in market conditions, expected cash flows and time to maturity. The assessment of the credit risk of the loans granted leads to further judgments about the probability of default, the loss ratios associated with these judgments and the correlations between counterparties. The Group measures credit risk using probability of default (PD), exposure at default (EAD) and loss given default (LGD).

To determine the credit risk of granted loans and financial guarantees, as well as certain individual receivables, the Group's management has developed a methodology that includes two main components: determining the debtor's credit rating, and statistical models for calculating marginal PDs by year for each rating. Regarding the rating, it uses internal assessments of the credit rating of individual counterparties based on global methodologies of leading global rating agencies. The rating reflects financial ratios of leverage, liquidity, profitability, etc., quantitative (eg sales levels) and qualitative (eg financial policy, diversification, etc.) criteria according to the relevant methodology and industry.

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

Based on the established specific rating and the analysis of characteristics of the debtor and the loan/guarantee, including the changes that have occurred in them, compared to the previous period, the stage of the instrument is determined (Stage 1, Stage 2 or Stage 3). The Group considers that a financial instrument has experienced *a significant increase in credit risk* when one or more of the following quantitative or qualitative criteria are met:

Quantitative criteria:

- The lifetime probability of default (PD) of the financial asset at the reporting date relative to the lifetime probability of default at the date the asset was first recognized;
- The borrower is more than 30 days but less than 90 days in arrears;
- Actual or expected significant adverse changes in the borrower's operating results, above the permissible range of change, as measured by the debtor's key financial and operating indicators;
- A significant change in the value of the collateral, which is expected to increase the loss and risk of default.

Quality criteria:

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

The criteria used to determine a significant increase in credit risk are monitored and reviewed periodically for appropriateness by the Group CFO.

The Group designates a financial instrument *in default and with an incurred credit loss* when it meets one or more of the following criteria:

Quantitative criteria

- The borrower is more than 90 days overdue on his contractual payments;
- Occurred or imminent significant adverse changes and events in the borrower's business, financial conditions and economic environment, measured by a serious decline in the debtor's main financial and operational indicators;
- The borrower reports a series of losses and negative net assets;
- Occurred or forthcoming significant adverse changes in the value of key loan collateral, incl. collateral losses.

Qualitative criteria

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

- The borrower is in breach of the financial agreement, e.g. interest payments, collateral;
- Adverse changes in the borrower's business;
- Discounts made in connection with financial difficulties of the borrower;
- It is likely that the borrower will be declared bankrupt.

The definition of default has been applied consistently to model probability of default (PD), exposure given default (EAD) and loss given default (LGD) throughout the Group's expected loss calculations.

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

- PD represents the probability that the borrower will default on a financial obligation either in the next 12 months or over the lifetime of the financial asset (lifetime PD), determined on the basis of public PD data of generally accepted sources and statistical models for the effects of forecast macroeconomic factors. Also, the company's management has 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 owed to the Group by the borrower at the time of default, during the next 12 months or during the remaining term of the loan, determined according to the specific characteristics of the instrument (amount due, repayment plans, interest, term, etc.);
- LGD represents the Group's expectation of the amount of loss given an exposure in default. LGD varies according to the type of counterparty, the type and seniority of the claim and the availability of collateral or other credit support. LGD is measured as the percentage loss for the exposed exposure at the time of 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 without an applicable interest rate - the risk-free rate for the relevant period, currency, etc.

The Group applies a number of policies and practices to reduce the credit risk of loans granted. The most common is the acceptance of collateral. The group commissions the preparation of an evaluation by external experts - independent evaluators of the received collateral as part of the loan granting process. This assessment is reviewed periodically, but at least once a year.

The table below presents the quality of the Group's financial assets and assets under contracts, as well as the maximum exposure to credit risk according to the accepted credit rating assessment:

30.09.2023	***Applications***	***Internal categorization for credit risk***	***Expected credit losses (IFRS 9)***	***Gross book value BGN '000***	***Impairment loss (adjustment) BGN '000***	***Book value BGN '000***
Provided long-term loans to related enterprises	20	Initial-contracted loans Stage 1	For life (credit guarantee)	47,343	(157)	**47,186**
Receivables under assignment contracts from related enterprises	20	Regular Stage 1	For life (credit guarantee)	3,851	-	**3,851**
Provided short-term loans to related enterprises	24	Initial-contracted loans Stage 1	For life (credit guarantee)	4,034	-	**4,034**
Provided short-term loans to related enterprises	24	Renegotiated Stage 2	For life (credit guarantee)	10,823	(2,133)	**8,690**
Long-term loans granted to third parties	21	Initial-contracted loans Stage 1	For life (credit guarantee)	3,912	(459)	**3,453**
Provided short-term loans to third parties	21	Initial-contracted loans Stage 1	For life (credit guarantee)	2,760	-	**2,760**
Provided short-term loans to third parties	25	Renegotiated Stage 2	For life (credit guarantee)	8,472	(3)	**8,469**

Trade and other receivables from related enterprises	20, 24	not applicable	For a 12-month period	3,024	(280)	**2,744**
Trade and other receivables from third parties	21, 23, 25	not applicable	For a 12-month period	267,043	(5,567)	**261,476**
including. legal claims	25			*13,595*	*(998)*	**12,597**
Financial actives				**351,262**	**(8,599)**	**342,663**

31.12.2022	***Applications***	***Internal categorization for credit risk***	***Expected credit losses (IFRS 9)***	***Gross book value***	***Impairment loss (adjustment)***	***Book value***
				BGN '000	***BGN '000***	***BGN '000***
Provided long-term loans to related enterprises	20	Initial-contracted loans Stage 1	For life (credit guarantee)	63,355	(157)	**63,198**
Provided short-term loans to related enterprises	2 4	Initial-contracted loans Stage 1	For life (credit guarantee)	4,144	-	**4,144**
Provided short-term loans to related enterprises	24	Renegotiated Stage 2	For life (credit guarantee)	9,852	(1,340)	**8,512**
Long-term loans granted to third parties	21	Initial-contracted loans Stage 1	For life (credit guarantee)	1,956	(459)	1,497
Provided short-term loans to third parties	25	Renegotiated Stage 2	For life (credit guarantee)	8,320	(3)	**8,317**
Receivables under assignment contracts from related enterprises	20	Regular Stage 1	For life (credit guarantee)	3,757	-	**3,757**
Trade and other receivables from related enterprises	20, 24	not applicable	For a 12-month period	891	(122)	**769**
Trade and other receivables from third parties	21, 23, 25	not applicable	For a 12-month period	223,954	(7,436)	**216,518**
including. legal claims	25			*13,649*	*(1,002)*	**12,647**
Financial actives				**316,229**	**(9,517)**	**306,712**

The table below provides information on the Group's exposure to credit risk and impairments for credit losses for granted loans, trade receivables and other receivables as of 09.30.2023:

Category	***Correspondence with external credit rating***	***Average percentage of expected impairment loss***	***Gross value***	***Impairment loss (adjustment)***
			BGN '000	***BGN '000***
Initial-contracted loans (Stage 1)	B3	1.38%	44,625	(616)
Initial-contracted loans (Stage 1)	Ba3	0.00%	9,390	-
Renegotiated Loans (Stage 2)	Caa1	0.00%	8,936	-
Renegotiated Loans (Stage 2)	B3	0.04%	8,226	(3)

Initial-contracted loans (Stage 1)	Ba1	0.00%	4,034	-
Receivables under assignment contracts from related enterprises (Stage 1)	B1	0.00%	3,851	-
Renegotiated Loans (Stage 2)	B1	100.00%	2,133	(2,133)
Trade and other receivables, including related parties (Stage 1)	not applicable	1.89%	256,472	(4,849)
Hard-to-collect receivables (judgment and judgment receivables)	not applicable	7.34%	13,595	(998)
Total			**351,262**	**(8,599)**

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

	30.09.2023	***31.12.2022***
	BGN'000	***BGN'000***
Customer 1	60.98%	63.63%
Customer 2	13.07%	12.49%
Customer 3	9.97%	10.59%

The Group currently manages the concentration of receivables from related parties by applying credit limits and additional collateral in the form of pledge of securities and other assets and application of promissory notes.

The concentration of the top five customers in the Group's trade receivables is as follows:

	30.09.2023	***% credit exposure relative to the total amount of trade receivables***	***31.12.2022***	***% credit exposure relative to the total amount of trade receivables***
	BGN'000	%	***BGN'000***	%
Customer 1	18,525	8%	17,124	9%
Customer 2	9,592	4%	7,704	4%
Customer 3	4,664	2%	5,303	3%
Customer 4	4,477	2%	4,499	2%
Customer 5	4,181	2%	4,126	2%

Financial assets

The Group's cash and payment operations are mainly concentrated in various 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 firms such as Moody's, Fitch, S&P, BCRA and Bloomberg and reference public PD (probabilities of default) data., corresponding to the rating of the respective bank. The management continuously monitors the change in the rating of the respective bank in order to assess the presence of an increased credit risk, the current management of incoming and outgoing cash flows and the distribution of available funds among bank accounts and banks.

Currency risk

The companies of the Group carry out their activities in active exchange with foreign suppliers and customers and therefore they are exposed to currency risk.

The group, through the companies in Ukraine and Serbia, carries out business operations in these countries and accordingly has significant exposures in Ukrainian hryvnias and Serbian dinars. The currency risk is related to the negative movement of the exchange rate of these currencies against the Bulgarian lev in future business operations, on recognized foreign currency assets and liabilities, and on net investments in foreign companies. The rest of the companies abroad realize their sales mainly on local markets, which leads to currency risk in relation to their currencies - Polish zloty, US dollar, British pound and Kazakh tenge. Most of the operations of the Group companies are usually denominated in Bulgarian Lev, with the Bulgarian Lev pegged to the Euro, which reduces potential currency volatility for these Group companies.

To control currency risk, there is a Group-wide system in place for planning import deliveries, for sales in foreign currency, and procedures for daily monitoring of movements in the exchange rate of the US dollar and control of pending payments. The exposures of almost all subsidiaries in Bulgaria to currency risk are insignificant, since almost all sales are realized on the local market in Bulgarian leva. The import of goods is mainly carried out in euros. Loans, when denominated in a foreign currency, are mainly granted in euros.

The assets and liabilities of the Group, denominated in Bulgarian levs, presented in the various foreign currencies, are as follows:

September 30, 2023	***in BGN BGN '000***	***in EUR BGN '000***	***in RSD BGN '000***	***in USD BGN '000***	***in UAH BGN '000***	***in another currency BGN '000***	***Total BGN '000***
Capital investments	2,466	-	-	16	-	-	2,482
Financial assets at amortized value, including:	239,038	34,147	66,281	7,380	6,706	6,530	360,082
Receivables and loans	*230,274*	*30,967*	*65,869*	*7,338*	*4,792*	*3,423*	*342,663*
Cash and cash equivalents	*8,764*	*3,180*	*412*	*42*	*1,914*	*3,107*	*17,419*
Total financial assets	**241,504**	**34,147**	**66,281**	**7,396**	**6,706**	**6,530**	**362,564**

September 30, 2023	***in BGN BGN '000***	***in EUR BGN '000***	***in RSD BGN '000***	***in USD BGN '000***	***in UAH BGN '000***	***in another currency BGN '000***	***Total BGN '000***
Short-term and long-term bank loans	199,859	121,562	2,249	-	-	-	323,670
Other loans and liabilities	133,598	61,514	40,721	1,747	1,452	490	239,522
Lease obligations	65,417	20,889	-	374	53	364	87,097
Total financial liabilities	**398,874**	**203,965**	**42,970**	**2,121**	**1,505**	**854**	**650,289**

December 31, 2022	***in BGN BGN '000***	***in EUR BGN '000***	***in RSD BGN '000***	***in USD BGN '000***	***in UAH BGN '000***	***in another currency BGN '000***	***Total BGN '000***
Capital investments	4,770	-	-	8	-	-	4,778
Financial assets at amortized value, including:	222,660	23,821	60,126	6,790	7,258	5,908	326,563
Receivables and loans	*212,483*	*21,084*	*59,343*	*6,695*	*3,252*	*3,855*	*306,712*
Cash and cash equivalents	*10,177*	*2,737*	*783*	*95*	*4,006*	*2,053*	*19,851*
Total financial assets	**227,430**	**23,821**	**60,126**	**6,798**	**7,258**	**5,908**	**331,341**

December 31, 2022	***in BGN BGN '000***	***in EUR BGN '000***	***in RSD BGN '000***	***in USD BGN '000***	***in UAH BGN '000***	***in another currency BGN '000***	***Total BGN '000***

Short-term and long-term bank loans	123,272	67,555	3,833	-	1,212	-	195,872
Other loans and liabilities	65,480	60,357	45,299	2,697	435	480	174,748
Lease obligations	65,695	18,997	-	417	141	298	85,548
Total financial liabilities	**254,447**	**146,909**	**49,132**	**3,114**	**1,788**	**778**	**456,168**

Currency sensitivity analysis

The currency sensitivity of the Group's exposures is mainly related to the Ukrainian hryvnia and the Serbian dinar. Compared to the other currencies in which the Group operates or in which certain companies of the Group operate - Polish zloty, US dollar and Kazakhstani tenge, the Group's currency risk is limited, as their exposures in these currencies are relatively small and more easily regulated by the of the managements of the respective subsidiaries.

the Serbian dinar, the Ukrainian hryvnia, the US dollar and in total against other currency exposures based on the structure of foreign exchange assets and liabilities as of September 30 and assuming that ignores the impact of other variables is measured and presented as an impact on the consolidated financial result after tax and on the equity belonging to the Group.

The impact for 2023 of a 10% increase/decrease in the exchange rates of the Serbian dinar, the Ukrainian hryvnia, the US dollar against the Bulgarian lev on the Group's profit (after tax) is:

	30.09.2023			**30.09.2022**		
	RSD	***USD***	***UAH***	***RSD***	***USD***	***UAH***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Financial result	1,981	475	426	1,220	447	448
Retained earnings	1,981	475	426	1,220	447	448

Mainly included in other currency: 3,026 thousandin Polish zlotys and BGN 2,647 thousand in Kazakh tenge net financial assets (as of 30.09.2022: BGN 2,418 thousand in Polish zlotys and BGN 1,821 thousand in Kazakh tenge net financial assets and BGN 53 thousand in Moldovan lei net financial liabilities.

In the case of an increase/decrease of 10%, respectively, in the exchange rate of the Polish zloty and the Kazakh tenge (for 2022 and for the Moldovan leu) against the Bulgarian lev, the final effect on the Group's profit (after tax) is:

	30.09.2023			**30.09.2022**		
	PLN	***KZT***	***MDL***	***PLN***	***KZT***	***MDL***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Financial result	245	212	-	196	182	(5)
Retained earnings	245	212	-	196	182	(5)

The effect on equity is of the same value and in the direction of reduction and is reflected in the "retained earnings" component.

The Group analyzes the currency exposure and takes timely measures to reduce its effects on the results for the Group.

Price risk

The companies of the Group are exposed to price risk for material stocks from three main factors:

a) a possible increase in the delivery prices of the raw materials, materials, insofar as a significant part of the raw materials used are imported and occupy a significant share of the production costs;

b) possible increase in the delivery prices of the goods; and

c) the increasing competition in the Bulgarian pharmaceutical market, which is also reflected in the prices of medicines.

To minimize this influence, the Group's management implements a company strategy aimed at optimizing production costs, validating alternative suppliers offering favorable commercial conditions, expanding the nomenclature by developing new generic products for the market and, last but not least, a flexible marketing and pricing policy.

Pricing policy is a function of three main factors - cost structure, competitors' prices and consumer purchasing power.

The Group is also exposed to significant price risk in relation to its holdings of shares classified as other long-term capital investments, mainly through the parent company. For this purpose, its management monitors and analyzes all changes in the securities market, as well as uses the consulting services of one of the country's most authoritative investment intermediaries. Additionally, at the current stage, the management has decided to reduce the operations on the stock markets, to retain the purchased shares in a longer-term horizon with ongoing monitoring of the financial and business indicators reported by the respective issuer, as well as the development of the activity in the conditions of the crisis.

Liquidity risk

Liquidity risk is expressed in the negative situation of the Group not being able to unconditionally meet all its liabilities according to their maturity.

The group generates and maintains a significant volume of liquid funds. An internal source of liquidity for the Group is the main economic activity of its companies, generating sufficient operating flows. External sources of financing are banks and other permanent partners. In order to isolate the possible general liquidity risk, the Group works with a system of alternative action mechanisms and forecasts, the final effect of which is the maintenance of good liquidity, respectively the ability to finance its business activity. This is complemented by ongoing monitoring of the maturities of assets and liabilities, control over outgoing cash flows and ensuring their current balancing against incoming ones, incl. renegotiation of maturities and optimization of debt structure, increase and internal restructuring of self-generated funds and their investment.

Maturity analysis

The financial non-derivative liabilities of the Group are presented below, classified by residual maturity determined in relation to the agreed maturity at the date of the consolidated annual report. The table is prepared on the basis of undiscounted cash flows and the earliest date on which the liability is due. Amounts include principal and interest.

Maturity analysis

September 30, 2023	***up to 1 m***	***from 1 to 3 m***	***from 3 to 6 m***	***from 6 to 12 m***	***from 1 to 2 years***	***from 2 to 5 years***	***over 5 years***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Short-term and long-term bank loans	5,385	55,223	30,502	205,697	35,127	4,257	-	**336,191**
Other loans and liabilities	89,921	140,211	2,368	410	1,169	3,508	2,339	**239,926**
Lease obligations	1,434	3,033	4,379	8,523	15,940	34,871	24,568	**92,748**
Total liabilities	**96,740**	**198,467**	**37,249**	**214,630**	**52,236**	**42,636**	**26,907**	**668,865**

Maturity analysis December 31, 2022	***up to 1 m***	***from 1 to 3 m***	***from 3 to 6 m***	***from 6 to 12 m***	***from 1 to 2 years***	***from 2 to 5 years***	***over 5 years***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Short-term and long-term bank loans	1,804	80,271	5,270	84,122	24,925	3,437	202	**200,031**
Other loans and liabilities	98,687	51,821	8,543	2,645	2,475	4,675	7,013	**175,859**
Lease obligations	1,405	2,923	4,217	8,270	15,182	32,552	25,502	**90,051**
Total liabilities	**101,896**	**135,015**	**18,030**	**95,037**	**42,582**	**40,664**	**32,717**	**465,941**

Interest-bearing cash flow risk

In the structure of the Group's assets, the interest-bearing assets are: cash, bank deposits and loans granted, which have a fixed interest rate.

On the other hand, the funds raised by the Group in the form of long-term and short-term loans are usually with a variable interest rate. This circumstance partially exposes the Group's cash flows to interest rate risk. Coverage of this risk is achieved in two ways:

a) optimization of the sources and structure of credit resources to achieve a relatively lower cost of the borrowed funds; and b) a combined structure of the interest rates on the loans themselves, which contains two components - permanent and variable, the ratio between which and their absolute value are maintained at a favorable level for the companies of the Group. The permanent component has a relatively low absolute value and a sufficiently large relative share in the total interest rate. This circumstance eliminates the possibility of a significant change in interest rates in the event of an update of the variable component. Thus, the probability of a change in an unfavorable direction of the cash flows is minimized.

The managements of the companies of the Group, together with that of the parent company, currently monitor and analyze the exposure of the respective company to changes in interest rates. Different scenarios of refinancing, renewal of existing positions and alternative financing are simulated. On the basis of these scenarios, the effect on the financial result and equity is measured in the event of a change by certain points or percentages. For each simulation, the same interest rate change assumption applies to all major currencies. Calculations are made for the significant interest-bearing positions.

Interest analysis September 30, 2023	***interest free***	***with floating interest %***	***with fixed interest %***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***

Capital investments	2,482	-	-	2,482
Financial assets at amortized value, including:	257,466	3,159	99,457	360,082
Receivables and loans	*245,377*	*15*	*97,271*	342,663
Cash and cash equivalents	*12,089*	*3,144*	*2,186*	17,419
Total financial assets	**259,948**	**3,159**	**99,457**	**362,564**

Interest analysis September 30, 2023	***interest free***	***with floating interest %***	***with fixed interest %***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Short-term and long-term bank loans	-	322,048	1,622	323,670
Other loans and liabilities	239,520	-	2	239,522
Lease obligations	-	68	87,029	87,097
Total financial liabilities	**239,520**	**322,116**	**88,653**	**650,289**

Interest analysis December 31, 2022	***interest free***	***with floating interest %***	***with fixed interest %***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Capital investments	4,778	-	-	4,778
Financial assets at amortized value, including:	224,175	5,133	97,255	326,563
Receivables and loans	*213,234*	*15*	*93,463*	306,712
Cash and cash equivalents	*10,941*	*5,118*	*3,792*	19,851
Total financial assets	**228,953**	**5,133**	**97,255**	**331,341**

Interest analysis December 31, 2022	***interest free***	***with floating interest %***	***with fixed interest %***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Short-term and long-term bank loans	9	191,183	4,680	195,872
Other loans and liabilities	172,851	1,895	2	174,748
Lease obligations	-	4,289	81,259	85,548
Total financial liabilities	**172,860**	**197,367**	**85,941**	**456,168**

The table below shows the sensitivity of the Group to possible changes of 0.50 basis points in the interest rate based on the structure of assets and liabilities as at 30 September and assuming that the impact of other variables is ignored. The effect is measured and presented as an impact on the financial result after tax and on equity.

Increase/decrease of the interest rate	***Effect on financial result and equity after tax profit/(loss)***	
	30.09.2023	**30.09.2022**
	BGN'000	**BGN'000**
Raise	(1,450)	(1,037)
Reduction	1,450	1,037

Capital risk management

With capital management, the Group aims to create and maintain opportunities for it to continue functioning as a going concern and to provide the appropriate return on invested funds to shareholders, 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. An analogous approach is also applied at the level of an individual company from the Group in terms of its capital structure and financing.

The Group is currently monitoring the provision and capital structure based on the leverage ratio. This ratio is calculated between the net debt capital to the total amount of committed capital. Net debt capital is defined as the difference between all borrowed funds (short-term and long-term) as shown in the consolidated annual statement of financial position and cash and cash equivalents. The total amount of committed capital is equal to equity capital (including non-controlling interest) and net debt capital. The characteristic of both presented periods is that the Group finances its activities both from its own generated profits and by maintaining a certain level of commercial and other short-term liabilities and loans (bank, commercial). The management strategy of the parent company is to maintain a ratio within 25-35% at the "group" level.

The table below presents the debt ratios based on capital structure:

	30.09.2023 ***BGN'000***	***31.12.2022*** ***BGN'000***
Total debt capital, including:	**410,767**	**283,295**
Loans from banks	323,670	195,872
Leasing and factoring obligations	87,097	87,423
Reduced by: cash and cash equivalents	**(17,419)**	**(19,851)**
Net debt capital	**393,348**	**263,444**
Total equity belonging to the group	**731,385**	**716,634**
Total capital belonging to the group	**1,124,733**	**980,078**
Debt ratio	0.35	0.27

The liabilities shown in the table above are disclosed in *Notes No. 28, No. 31, No. 34 and No. 37).*

Fair value measurement

The concept of fair value implies the realization of financial instruments through sale, based on the position, assumptions and judgments of independent market participants in the main or most advantageous market for a given asset or liability. In most cases, however, especially with regard to trade receivables and payables, loans and bank deposits, the Group expects to realize these financial assets also through their full repayment or respective repayment over time. Therefore, they are presented at their depreciable value.

Also, a large part of the financial assets and liabilities are either short-term in nature (trade receivables and payables, short-term loans) or are reflected in the consolidated annual statement of financial position on a market value basis (bank deposits provided, securities investments, loans with a variable interest rate) and therefore their fair value is approximately equal to their book value.

In the case of receivables and loans with a fixed interest rate, the applied methodology for its determination uses the Group's current observations regarding market interest rates as a starting point for the calculations.

To the extent that nonet yet a sufficiently developed market, with stability and liquidity for purchases and sales of some financial assets and liabilities, sufficient and reliable market price quotations are not available for them, which is why other alternative valuation methods and techniques are used.

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

4 3. RELATED PARTY TRANSACTIONS

Affiliates	***Type of relation***	***Period***	
Telekomplect Invest AD	Company shareholder with significant influence	2023	2022
Donev Investments Holding AD	Company shareholder with significant influence	2023	2022
Momina Fortress AD	A joint venture	2023	2022
Sopharma Imoti REIT	Associated company	2023	2022
Doverie United Holding AD	Associated company	2023	2022
Sopharma Buildings REIT	Associated company	from 09/08/2023	-
Companies from the DUH Group	Companies controlled by an associate company	2023	2022
Sofprint Group AD	Company related through key management personnel	2023	2022
Sofconsult Group AD	Company related through key management personnel	2023	2022
VES Electroinvest Systems EOOD	Company related through key management personnel	2023	2022
Eco Solar Invest OOD	Company related through key management personnel	2023	2022
Alfa in EOOD	Company related through key management personnel	2023	2022
Consumpharm OOD	Company related through key management personnel	2023	2022
DZZD "Veterinary Diagnostics"	Civil societies for the implementation of joint activity (direct participation)	2023	-

Related Party Supplies	***1 January - 30 September 2023***	***1 January - 30 September 2022***
	BGN '000	***BGN '000***
Supplies of material stocks from:		
Companies related through key management personnel	7,806	7,779
Joint ventures	267	283
Associated companies	80	81
Companies controlled by an associate company	37	32
	8,190	**8,175**

Supply of services by:

Companies controlled by an associate company	857	833
Companies shareholders with significant influence	424	294
Associated companies	350	375
Companies related through key management personnel	178	198
Joint ventures	4	2
	1,813	**1,702**
Deliveries of fixed assets from:		
Companies controlled by an associate company	1,813	1,015
	1,813	**1,015**
Supplies for the acquisition of fixed assets:		
A company controlled by an associate company	1,822	-
	1,822	**-**
Other deliveries from:		
Companies controlled by an associate company	174	155
	174	**155**
Interest expenses:		
Companies shareholders with significant influence	467	-
	467	**-**
Accrued dividends on:		
Companies shareholders with significant influence	45,229	-
Key management personnel	4,081	-
	49,310	**-**
Total deliveries	**63,589**	**11,047**
Sales to related parties		
Inventory sales for:		
Companies related through key management personnel	940	862
Companies controlled by an associate company	814	1,116
	1,754	**1,978**
Sales of services for:		
Companies related through key management personnel	160	168
Companies controlled by an associate company	110	202
Associated companies	6	6
	276	**376**

Fees for sureties and guarantees of:		
Joint ventures	-	7
	-	**7**
Interest on granted loans:		
Companies controlled by an associate company	1,685	1,417
Joint ventures	44	34
Associated companies	31	-
	1,760	**1,451**
Interest on assignment contracts:		
Joint ventures	95	-
	95	**-**
Other incomes:		
Companies controlled by an associate company	-	12
	-	**12**
	3,885	**3,824**

Lease contracts

During the reporting period, the company has recognized assets, liabilities, expenses, payments in connection with ***lease contracts with related parties.***

Lease liabilities as at 30 September in relation to lease agreements with related parties are as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Lease liabilities recognized on January 1	**20,616**	**4,314**
Increases	1,842	19,305
Lease liability payments for the period	(2,137)	(2,462)
Lease liabilities written off	-	(541)
Lease liabilities as of September 30 / December 31	**20,321**	**20,616**

Right-of-use assets as at 30 September in relation to lease agreements with related parties are as follows:

	30.09.2023	***31.12.2022***
	BGN '000	***BGN '000***
Right-of-use assets as of January 1	**20,524**	**4,315**
Increases	1,877	19,263
Accrued depreciation	(2,246)	(2,482)
Write-off book value of right-of-use assets	(82)	(572)
Right-of-use assets as of September 30 / December 31	**20,073**	**20,524**

The new right-of-use assets and leasing liabilities arising during the period are under lease agreements with an associated company.

Settlements with related enterprises are disclosed in *Notes No. 20, No. 24, No. 29, No. 36.*

The composition of key personnel is disclosed in *Note No. 1*.

The remuneration and other income of the key management personnel and the executive directors, the members of the Board of Directors and the managers of the subsidiaries of the Group are in the amount of BGN 2,934 thousand (2022: BGN 2,825 thousand), including:

- current remuneration - 2,449 BGN thousand (2022: BGN 2,501 thousand);
- bonuses – BGN 485 thousand (2022: 324 BGN thousand);

44. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 24.11.2023, an extraordinary General Meeting of Sopharma AD was held with the following agenda:

- Adoption of the company's financial statements for the first half of 2023.
- Making a decision under Article 30, Paragraphs 5 - 7 of the Articles of Association of Sopharma AD to distribute the profit and pay an interim dividend based on the six-month financial report. Based on the report prepared by the Board of Directors in accordance with the requirements of Art. 115a of the Law on Public Offering of Securities, the proposal is to distribute a gross dividend in the amount of BGN 0.90 per share.
- Various

On 06.10.2023, the capital increase of the parent company was entered in the Commercial Register through the issuance of 44,625,943 ordinary, registered, non-present, with voting rights, with a nominal value of BGN 1 each and an issue value of BGN 4.13 per share, subject to the increase shares being subscribed by the warrant holders.

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.

On 10.11.2023 Sopharma AD acquired 25% of the capital on Pharmanova doo, Serbia.

There are no other significant events occurring after September 30, 2023 that would require additional adjustments and/or disclosures in the consolidated financial statements as of September 30, 2023.