

SOPHARMA GROUP**CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDING ON 30 SEPTEMBER 2022**

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1. BACKGROUND INFORMATION ON THE GROUP

Sopharma Group (the Group) is comprised of the parent company and its seventy-eight (31 December 2021: seventy-eight) subsidiaries. In addition, the Group has investments in two associates and one joint venture (31 December 2021: in two associates and in 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 Shosse St.

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

Subsidiaries

The Group subsidiaries as at 30 September 2022 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;
- Pharnallogistica 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 Shosse St.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and management address: Sliven, 75, Trakiya Blvd.;
- Phyto Palauzovo AD – 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;
- Sopharmacy 19 EOOD (until 27 January 2021 it was called Valentina Vasileva – Lyulin 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 (until 16 February 2021 it was called Vasilka Lilovska 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 (until 4 February 2021 it was called Venera Mutashka 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 (until 17 February 2021 it was called Veselka Vassileva 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 (until 17 February 2021 it was called Victoria Angelova 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 (until 4 February 2021 it was called Desislava Yordanova 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 (until 4 February it was called Dimka Vladeva 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 (until 4 February 2021 it was called Donka Chivganova 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 (until 18 February 2021 it was called Ekaterina Mihaylova Shumen 1 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 (until 27 January 2021 it was called Elka Neykova 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 (until 17 February 2021 it was called Emilia Angelova 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 (until 27 January 2021 it was called Zhuliana Kotova 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 (until 27 January 2021 it was called Ivan Ivanov 1 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 (until 2 February 2021 it was called Iliana Kalushkova 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 (until 4 February 2021 it was called Irina Toncheva 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 (until 17 February 2021 it was called Kapka Nikolova – Voenna Bolnitsa 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 (until 16 February it was called Kostadin Gorchev 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 (until 4 February it was called Krasimira Shunina EOOD), a business entity registered in Bulgaria by Decision of the Registry Agency, No 20090519083827 dated 19.05.2009; with a seat and management address: Sofia, Izgrev Region, 5 Lachezar Stanchev St., Sopharma Business Towers, Building A, floor 13;
- Sopharmacy 37 EOOD (until 4 February 2021 it was called Lora Doncheva 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 (until 4 February 2021 it was called Lyudmila Zlatkova 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 (until 16 February 2021 it was called Lyudmila Kovacheva 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 (until 2 February 2021 it was called Manik Burgazyan 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 (until 27 January 2021 it was called Mariyks Zhaygarova 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 (until 17 February 2021 it was called Maria Agova 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 (until 4 February 2021 it was called Maria Gancheva 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 (until 4 february 2021 it was called Maria Kenova 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 (until 4 February 2021 it was called Maria Hristova – Motopista 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 (until 17 February 2021 it was called Mariyana Markova 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 (until 17 February it was called Mary Ivanova 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 (until 2 February it was called Nelly Stavreva 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 (until 4 February 2021 it was called Preslava Becheva 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 (until 27 January 2021 it was called Rayna Madzharova – St. Geori Sofiyski 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 (until 27 January 2021 it was called Rumyana Ignatova - Gancheva 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 (until 17 February 2021 it was called Sashka Todorova 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 (until 7 February 2021 it was called Svetla Harizanova 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 (until 17 february 2021 it was called Svetlana Pirpirova 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 (until 27 January 2021 it was called Ceiba Blagoevgrad 1 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 (until 17 February 2021 it was called Silvia Veneva 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 (until 18 February 2021 it was called Siyana Milanova 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 (until 27 January 2021 it was called Stoyanka Radenkova 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 (until 8 February 2021 it was called Ana Advzhieva 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 (until 2 February 2021 it was called Radina Bekova 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 (until 2 February 2021 it was called Rumen Raynov 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 (until 2 February 2021 it was called Hani Modhi 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 EOOD (until 2 February 2021 it was called CSC Franchise EAD), a business entity registered in Bulgaria by Decision of the Registry Agency, No 2008041018022 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 EOOD (until 6 July 2021 it was called Sanita Franchising 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 GROUP

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- 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: Kazakshran, Almaty, Auezov District, Mamir-4, home 190;
- Rap Pharma International OOD, Moldova – a business entity registered in Moldova with decision No 1004601000376/ 11.02.2004 of the Moldova State Chamber of Registration, with seat at: Moldova, Kishinev, 58 Mitropolit Varlaam St., and management address: Moldova, Kishinev, 9/1 Uzinelor St.;
- 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.

As from 10 March 2021 the company Momina Krepost AD obtained the status of a joint venture for the Group.

As from 8 June 2021 the investment in Sopharma Buildings REIT was classified as other long-term equity investment for the Group, due to the sale of a significant portion thereof.

On 1 January 2021 the Group disposed of its interest in UAB Recessus.

On 2 November 2021 SIA BAH was incorporated – a subsidiary of SIA Briz, from which the Group is released as of 30.11.2021.

On 30 November 2021 the Group disposed of its interest in the companies SOOO Brititrade, OOO Tabina, OOO Pharmacevt Plus, OOO Galenapharm, DOO Medjel, DOO Alenpharm-plus, DOO Salusline, ZAO Interpharm, OOO Zdorovey, BOOO SpetzAfarmacia, OOO Bellerofon, OOO Zdorovey Plus and SIA BAH.

On 30 December 2021 the Group disposed of its interest in the companies SIA Briz and SIA Briz Trading.

Joint ventures

As at 30 September 2022, 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 St.

SOPHARMA GROUP**CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDING ON 30 SEPTEMBER 2022*****Associates***

The Group's associates as at 30 September 2022 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.

1.1. Ownership and management of the parent company

Sopharma AD is a public company under the Bulgarian Law on Public Offering of Securities. 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 30 September 2022 is as follows:

	%
“Donev Investments Holding” AD	27.89
“Telecomplect Invest” AD	20.68
“Sopharma” AD (treasury shares)	10.00
MUPF “Allianz Bulgaria”	5.23
“Telso” AD	5.01
Other legal entities	21.03
Individuals	10.16
	100.00

Sopharma AD has a one-tier management system with a five-member Board of Directors. Company's management in the form of Board of Directors is composed as at 30 September 2022 as follows:

Ognian Donev, PhD	Chairman
Vessela Stoeva	Deputy Chairman
Bisera Lazarova	Member
Alexandar Tchaoushev	Member
Ivan Badinski	Member

The parent company is represented and managed by its Executive Director Ognian Donev, PhD. The Company has two procurators – Ivan Badinski and 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

SOPHARMA GROUP**CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDING ON 30 SEPTEMBER 2022*****1.2. Structure of the Group and principal activities***

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

<i>Subsidiaries</i>	<i>30.09.2022</i>	<i>31.12.2021</i>	<i>Date of</i>	<i>Date of</i>
<i>Companies in Bulgaria</i>	<i>Interest %</i>	<i>Interest %</i>	<i>acquisition</i>	<i>disposal</i>
			<i>of control</i>	<i>of control/m</i>
				<i>erger</i>
Sopharma Trading AD*	86.05	81.34	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	97.15	10.03.2006	
Sopharma Buildings REIT	-	-	04.08.2008	07.06.2021
Momina Krepost AD	-	-	01.01.2008	10.03.2021
Phyto Palauzovo AD	95.00	95.00	21.09.2012	
Veta Pharma AD	99.98	99.98	11.11.2016	
Sopharmacy EOOD**	86.05	81.34	19.01.2015	
Sopharmacy 2 EOOD**	86.05	81.34	17.06.2015	
Sopharmacy 3 EOOD**	86.05	81.34	02.12.2015	
Sopharmacy 4 EOOD**	86.05	81.34	29.02.2016	
Sopharmacy 5 EOOD**	86.05	81.34	01.03.2016	
Sopharmacy 6 EOOD**	86.05	81.34	03.12.2015	
Sopharmacy 7 EOOD**	86.05	81.34	15.03.2017	
Sopharmacy 8 EOOD**	86.05	81.34	27.06.2017	
Sopharmacy 9 EOOD**	86.05	81.34	11.09.2017	
Sopharmacy 10 EOOD**	86.05	81.34	11.09.2017	
Sopharmacy 11 EOOD**	86.05	81.34	07.12.2017	
Sopharmacy 12 EOOD**	86.05	81.34	07.12.2017	
Sopharmacy 13 EOOD**	86.05	81.34	07.12.2017	
Sopharmacy 14 EOOD**	86.05	81.34	07.12.2017	
Sopharmacy 15 EOOD**	86.05	81.34	07.12.2017	
Sopharmacy 16 EOOD**	86.05	81.34	15.05.2018	
Sopharmacy 17 EOOD**	86.05	81.34	15.05.2018	
Sopharmacy 18 EOOD**	86.05	81.34	28.02.2019	
Sopharmacy 19 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 20 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 21 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 22 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 23 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 24 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 25 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 26 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 27 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 28 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 29 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 30 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 31 EOOD**	86.05	81.34	01.10.2020	
Sopharmacy 32 EOOD**	86.05	81.34	01.10.2020	

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Sopharmacy 33 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 34 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 35 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 36 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 37 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 38 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 39 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 40 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 41 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 42 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 43 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 44 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 45 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 46 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 47 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 48 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 49 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 50 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 51 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 52 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 53 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 54 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 55 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 56 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 57 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 58 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 59 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 60 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 61 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 62 EOOD**	86.05	81.34	01.10.2020
Sopharmacy 63 EAD**	86.05	81.34	01.10.2020
Sopharmacy 64 AD**	86.05	81.34	01.10.2020

* effective percentage of interest

** indirect interest

<i>Subsidiaries</i>	<i>30.09.2022</i>	<i>31.12.2021</i>	<i>Date of</i>	<i>Date of</i>
<i>Companies abroad</i>	<i>Interest %</i>	<i>Interest %</i>	<i>acquisition</i>	<i>disposal</i>
			<i>of control</i>	<i>of</i>
				<i>control/merger</i>
SIA Briz	-	-	10.11.2009	30.12.2021
SOOO Brititrade **	-	-	10.11.2009	30.11.2021
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 Tabina**	-	-	08.04.2011	30.11.2021
OOO Sopharma Ukraine	100.00	100.00	07.08.2012	

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OOO Pharmacevt Plus **	-	-	31.05.2013	30.11.2021
TOO Sopharma Kazakhstan	100.00	100.00	06.11.2014	
OOO Galenapharm **	-	-	28.02.2015	30.11.2021
DOO Medjel **	-	-	28.02.2015	30.11.2021
DOO Alenpharm-plus **	-	-	30.06.2015	30.11.2021
DOO Salusline **	-	-	18.11.2016	30.11.2021
Rap Pharma International OOD	100.00	80.00	14.04.2017	
ZAO Interpharm**	-	-	26.04.2017	30.11.2021
Sopharma Trading d.o.o.**	86.05	81.34	09.08.2017	
OOO Zdorovey **	-	-	16.08.2017	30.11.2021
BOOO SpetzAfarmacia **	-	-	16.08.2018	30.11.2021
OOO Bellerofon **	-	-	07.03.2019	30.11.2021
UAB Recessus**	-	-	26.09.2019	01.10.2021
OOO Zdorovey Pharm**	-	-	02.03.2020	30.11.2021
Pharmachim EOOD	100.00	100.00	14.04.2020	
SIA Briz Trading **	-	-	15.02.2021	30.12.2021
SIA BAH **	-	-	02.11.2021	30.11.2021

* *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 Pharma Online EOOD;
- Sopharmacy 8 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharmacy 9 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online EOOD;
- Sopharmacy 10 EOOD is a subsidiary of Sopharmacy EOOD whereas the latter holds 100% of the capital of Pharma Online 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;

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- 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 61 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 No BG / MIA-0310 / 20.06.2022, 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;
- Biopharm Engineering AD – production and trade in infusion solutions;
- Pharmalogistica AD – secondary packaging of pharmaceutical products and real estate leases;
- Electroncommerce EOOD – trade, transportation and packaging of radioactive materials and nuclear equipment for medicinal use, household electronics and electrical equipment;
- Momina Krepost AD – development, implementation and production of medical goods for human and veterinary medicine;
- 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 (except Sopharmacy 6 EOOD) - retail of medicinal products;
- Sopharmacy 6 EOOD – online and off-line retail trade in medicinal products;
- Sopharmacy 63 EAD and Sopharmacy 64 AD – 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;
- Rap Pharma International OOD, Moldova – trade in pharmaceuticals;
- Pharmachim EOOD, Serbia – consultancy.

SOPHARMA GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDING ON 30 SEPTEMBER 2022

The parent company and the subsidiaries Sopharma Trading AD, Pharmalogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Phyto Palauzovo AD, Sopharmacy EOOD, 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, and Rap Pharma International OOD – in Moldova.

As at 30 September 2022, 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 2022, the interest of the Group in *associates* is as follows:

- Doverie Obedinen Holding AD – 24.998% interest of Sopharma AD. The principal activities of the company include acquisition, management, assessment and sale of shares in Bulgarian and foreign companies – legal entities.
- Sopharma Imoti REIT – 35.65% interest of Sopharma AD. The principal activities of the company include investing cash raised by issues of securities in real estate through purchase of right of ownership and other rights in real estate, construction and enhancements in order to provide the real estate for management, lease and/or sale.

As of the date of these interim consolidated financial statements, the average number of Group's personnel was 4,735 workers and employees (2021: 5,507 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 2020 – 2022. The relevant exchange rates are presented in the table below:

Indicator	2020	2021	2022
USD/BGN average for the year/period	1.71619	1.65419	1.84056
USD/BGN at end of the year/period	1.59386	1.72685	2.00639
PLN/BGN average for the year/period	0.44034	0.42841	0.41885
PLN/BGN at end of the year/period	0.42894	0.42547	0.40341
RSD/BGN average for the year/period	0.01663	0.01663	0.01664
RSD/BGN at end of the year/period	0.01663	0.01663	0.01667
UAH/BGN average for the year/period	0.06393	0.06065	0.05977
UAH/BGN at end of the year/period	0.05632	0.06329	0.05500
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	0.70788	0.65183	-
1 BYN/BGN at end of the year/period	0.61820	0.67921	-
KZT/BGN average for the year/period	0.0041	0.00388	0.00402
KZT/BGN at end of the year/period	0.00379	0.00401	0.00423
MDL/BGN average for the year/period	0.09912	0.09352	0.09801
MDL/BGN at the end of the year/period	0.09257	0.09736	0.10299

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for preparation of the consolidated financial statements

These 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) 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 2022 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 IFRS 3 "Business Combinations" (in force for annual periods beginning on or after 1 January 2022, endorsed by EC).* These amendments update IFRS 3 by replacing the reference to the old version of the Conceptual Framework for Financial Reporting with its latest updated 2018 version. They also add an exception from the principle for recognition of liabilities and contingent liabilities within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IFRIC 21 "Levies", explicitly specifying that contingent liabilities are not recognized at the date of acquisition. The amendments are applied prospectively. The management is in the process of research, analysis and assessment of the effects of the changes that might impact the accounting policy and the classification and presentation of the Group's assets and liabilities.
- *Amendments to IAS 16 "Property, Plant and Equipment" (in force for annual periods beginning on or after 1 January 2022, endorsed by EC).* These amendments prohibit deducting from the cost for "testing whether the asset is functioning properly", which is part of the direct costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the net proceeds received from selling items produced while the entity is preparing the asset for its intended location and condition. Instead, the entity shall recognize the revenue from sales of such items and the respective costs related thereto within profit or loss for the period, in accordance with the other applicable standards. The amendments specify that testing whether the asset is functioning properly is in fact an assessment of whether the technical and physical performance and capacity of the asset correspond to its intended use in production, supply of goods or services, lease, or for administrative purposes. Additionally, the amendment requires entities to separately disclose the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary

activities. The amendments are applied retrospectively, but only for property, plant and equipment brought to the location and condition necessary for their intended use on or after the start of the earliest period presented in the financial statements for which the entity first applies the amendments.

The management is in the process of research, analysis and assessment of the effects of the changes that might impact the accounting policy and the classification and presentation of the Group's assets and liabilities, transactions and results.

- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (in force for annual periods beginning on or after 1 January 2022, endorsed by EC).* The amendments specify that the 'cost of fulfilling' an onerous contract comprises the 'costs that relate directly to the contract', including: a) direct labour costs and direct cost of materials; and b) additional costs which related directly to fulfilling the contract – for instance, the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. Administrative and other general costs are excluded, unless specifically billable to the counterpart. The amendments also make a small adjustment to the clarifications for recognition of impairment losses before a separate onerous contract provision is created, by highlighting that these are assets used in fulfilling the contract rather than assets intended thereto, which was the requirement prior to the amendments' enforcement. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The management is in the process of research, analysis and assessment of the effects of the changes that might impact the accounting policy and the classification and presentation of the Group's assets and liabilities, transactions and results.
- Annual Improvements to IFRSs 2018-2020 Cycle, to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", Illustrative Example 13 to IFRS 16 "Leases" and IAS 41 "Agriculture" (in force for annual periods beginning on or after 1 January 2022, endorsed by EC).* These improvements introduce partial amendments to the following standards: a) the amendment to IFRS 1 grants a relief for a subsidiary in first-time adoption of IFRS at a date later than the parent. It measures in its separate financial statements the assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements based on which the parent acquired the subsidiary. The subsidiary may, in its financial statements, measure the cumulative translation differences using the carrying amount stated in the parent's consolidated financial statements based on the date of the parent's date of transition to IFRS, unless adjustments have been made for the purpose of consolidation procedures or to account for the business combination's effects. These amendments will also be applied for associates and joint ventures which have elected the same relief under IFRS 1. Entities shall apply these amendments for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted; b) the amendment to IFRS 9 clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether in case of a modification of a financial liability the conditions of the new or amended financial liability significantly differ from the conditions of the initially recognized one. According to the amendment, the entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or

received by either the entity or the lender on the other's behalf. The entity applies the amendments to financial liabilities modified at or after the beginning of the annual reporting period in which it first applies these amendments; c) the amendment to Illustrative Example 13 to IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives. Since the amendment refers to an illustrative example accompanying the standard and is not a part thereof, no enforcement date is specified; d) the amendment to IAS 41 removes the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The following changes to standards and interpretations have been issued but are not in force (and / or not accepted by the EC) to the data of this financial statement:

- *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (in force for annual periods beginning on or after 1 January 2023, not endorsed by EC).* These amendments a) require disclosing material accounting policies information instead of significant accounting policies; b) explain 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 other material information in the financial statements; and d) clarify that if the entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. Earlier application is permitted. The management is in the process of research, analysis and assessment of the effects of the changes that might impact the accounting policy and the classification and presentation of the Group's assets and liabilities, transactions and results.
- *Amendments to IAS 1 "Presentation of Financial Statements" (in force for annual periods beginning on or after 1 January 2023, not endorsed by EC).* These amendments address the criteria for classification of liabilities as current or non-current. According to them, an entity classifies its liabilities as current or non-current depending on the rights that are in existence at the end of the reporting period, and the classification is unaffected by expectations about whether it will exercise its right to defer settlement of the liabilities. The amendments made clear that "settlement" refers to the transfer to a counterparty of cash, equity instruments, other assets or services. The classification does not address derivatives of convertible liabilities, which constitute equity instruments. The amendments are applied retrospectively. The management is in the process of research, analysis and assessment of the effects of the changes that might impact the accounting policy and the classification and presentation of the Group's assets and liabilities.
- *Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (in force for annual periods beginning on or after 1 January 2023, not endorsed by EC).* These amendments focus entirely on accounting estimates and clarify the following: 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 develop accounting estimates if the accounting policies require items in the financial statements to be measured in a way that involves measurement uncertainty; c) a change in accounting estimate that results from new information or new developments is not the correction of an 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 is in the process of research, analysis and assessment of the effects of the changes that might impact the accounting policy and the classification and presentation of the Group’s assets and liabilities, transactions and results.

- IAS 12 Income Taxes (in force for annual periods beginning on or after 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 the earlier application is permitted. The management is in the process of research, analysis and assessment of the effects of the changes that might impact the accounting policy and the classification and presentation of the Group’s assets and liabilities, transactions and results.
- IFRS 10 (amended) “Consolidated Financial Statements” and IAS 28 (amended) “Investments in Associates and Joint Ventures” – regarding the sale or contribution of assets between an investor and its associates or joint ventures (postponed effective date, to be determined by the IASB).* These amendments address the accounting treatment of the sale or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the assets sold or contributed constitute in substance a business as defined in IFRS 3. If these assets as an aggregate do not meet the definition of a business, then the investor shall recognise gain or loss only to the extent of other unrelated investor's interests in the associate or joint venture. In cases of sale or contribution of assets, which as an aggregate constitute a business, the investor shall recognise the full gain or loss on the transaction. The amendments will be applied on a prospective basis. IASB postponed the initial date of application of these amendments for an indefinite period. The management is in the process of research,

analysis and assessment of the effects of the changes that might impact the accounting policy and the classification and presentation of the Group's assets and liabilities.

Additionally, with regard to the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on 1 January 2022, the management has judged that they are unlikely to have a potential impact resulting in changes in the accounting policies and the consolidated financial statements of the Group:

- *IFRS 17 "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2023, adopted 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.
- *Improvements to IFRS 17 Insurance Contracts (in force for annual periods beginning on or after 1 January 2023, adopted 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.

The consolidated annual financial statements of the Group have been prepared on a historical cost basis except for: a/ property, plant and equipment, measured at revalued amount; b/ investment property and other long-term equity investments, measured at fair value at the date of the consolidated statement of financial position.

The Bulgarian subsidiaries of the Group and the associates Doverie Obedinen Holding AD and Sopharma Properties 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; TOO Sopharma Kazakhstan – the legislation of Kazakhstan, and Rap Pharma International OOD – the Moldovan legislation. The companies keep their accounting ledgers in the respective local currency – Belarusian Ruble (BYN), Ukraine Hryvnia (UAH), Serbian Dinar (RSD), Euro (EUR), Polish Zloty (PLN), Kazakhstan Tenge (KZT), and Moldovan Leu (MDL).

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

2.3.3. Disposal of subsidiaries

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

- The carrying amounts of the assets and liabilities (including any attributable goodwill) of the subsidiary are derecognised at the date when control is lost;
- The non-controlling interest in the subsidiary is derecognised at carrying amount in the consolidated statement of financial position at the loss of control date, including all components of other comprehensive income related 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 2.14 and Note 2.15*).

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

2.3.4. Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with holders of the common equity of the Group. The effects from sales of parent company's shares, without loss of control, to holders of non-controlling interests are not treated as components of the current profit or loss of the Group but as movements directly in its equity components, usually to the 'retained earnings' reserve. And vice versa, when the parent company purchases additional shares from holders of non-controlling interest, without acquisition of control, the difference between the consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is also directly recognised in the consolidated statement of changes in equity, usually to the 'retained earnings' reserve. When the Group ceases to have control, joint control and significant influence, any retained minority investment as interest in the capital of the respective entity, is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. Respectively, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of all components related to the initial investment (in a subsidiary, joint venture or associate).

2.3.5. Consolidation of associates and joint ventures

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

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

The internal accounts and balances between the Group and associates and joint ventures are not eliminated. The unrealised gains or losses from transactions between them are eliminated to the percentage of Group's

interest in the associates and joint ventures by also making tests for impairment in case of loss. The effect of deferred taxes on these consolidation procedures has also been taken into account.

2.4. Comparatives

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

2.5. Functional currency and recognition of exchange differences

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

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

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

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

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

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

- (a) all assets and liabilities are restated to the currency of the Group by applying the closing exchange rate of the local currency thereto at 31 December or at the date of disposal of the company;
- (b) all income and expenses are restated to the currency of the Group at average rate of the local currency thereto for the reporting period (*Note 2.6 and Note 2.7*);
- (c) all exchange differences resulting from the restatements are recognised and presented as a separate component of equity in the consolidated statement of financial position – 'translation of foreign operations reserve', and

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

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

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

2.6. Revenue

2.6.1. Recognition of revenue under contracts with customers

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

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

Measurement of contracts with customers

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

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

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

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

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

The Group recognises revenue for each separate performance obligation on an individual contracts basis with customers, by analysing the type, term and conditions of each specific contract. For contracts with

similar features, revenue is recognised on a portfolio basis, only if their grouping into a portfolio would not have a materially different impact on the financial statements.

When another party is involved in providing goods or services to a customer, the Group shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent). The Group is a principal and recognises as revenue the gross amount of consideration if it controls the specified goods and/or services prior to their transfer to the customers.

If, however, the Group does not obtain control over the specified goods and/or services and its obligation is only to arrange for a third party to provide these specified goods and/or services, the Group is an agent and recognises as revenue the net amount it retains for the goods or services to be provided in its capacity as agent.

2.6.2. Measurement of revenue under contracts with customers

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

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

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

2.6.3. Performance obligations under contracts with customers

Sales of finished goods

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

Sales of finished goods based on the Group's specifications

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

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

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

Sales of products based on the customer's specifications

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

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

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

Sales of pharmaceuticals and medical goods

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

Wholesale

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

Retail sales

Upon retail sales, control of the goods sold is transferred to the customer upon their handover 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 obligations based on their stand-alone selling prices. The stand-alone selling price of the finished goods sold is determined based on the price list effective at the transaction's date, and the stand-alone selling price of the transportation service is determined as an approximation by using the cost plus margin approach.

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

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

Bill-and-hold arrangements

In certain cases, upon wholesale, the goods sold are physically possessed by the Group. The Group has analysed these arrangements and has determined that although the customer does not have physical possession over the goods, usually they have control thereon, since: a/ the hold is done at the customer's request; b/ the goods can be identified separately as belonging to the customer; c/ the goods are available

for immediate shipment at the customer's request; d/ the Group does not have the ability to direct the use of the goods or direct them to another customer and e/ a separate consideration is agreed for the storage service. In these cases, the delivery of goods and the storage service rendering are accounted for as separate performance obligations. Respectively: a/ control over the goods sold is transferred to the customer at a point in time, when the goods can be identified separately as belonging to the customer, and the customer has legal title thereon; b/ the obligation to perform the storage services is satisfied over time, while this service is being provided.

Sales of services

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

Extra-warranty (maintenance) service

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

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

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

Other services

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

2.6.4. Refund obligations under contracts with customers

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

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

2.6.5. Transaction price and payment terms

Finished goods, pharmaceutical and medical produces

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

Variable consideration

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

- **Volume discounts:** Retrospective trade discounts provided to the customer upon reaching monthly, quarterly and/or annual turnover determined in advance, set as a uniform threshold and/or progressive bonus scheme. Upon measuring the variable consideration, the Group determines the customer's estimated turnover by using the most probable outcome method. The discounts granted are offset against the amounts due by the customer.
- **Price discounts from the common price list:** under the pricing policy adopted, upon wholesale, the selling price from the common price list is reduced by the discount usually applicable for the respective product. The discount applicable for each customer is determined based on the turnover agreed for a certain period as compared to the total potential turnover with the customer. These price discounts are granted to the customer upon each sale and/or at the end of each month. If the customer fails to meet the turnover targets and does not compensate the difference over the next period, the Group is entitled to claiming default compensation set as a percentage of the turnover default.
- **Price protection:** With regards to domestic sales, the Group is obliged, upon price reduction imposed by a state regulatory body, to compensate the buyer and/or its customers for finished goods purchased at a higher price and not yet sold to end clients. The payment of this consideration depends on the state policy on medicinal products price regulation and is beyond the Group's control.
- **Compensation for hidden flaws:** the customer may claim returns due to hidden flaws (quality claims) throughout the validity period of the finished goods sold, which may vary from one to

five years. Quality claims are settled by the provision of new replacement goods or by refund of the amount paid by the customer. Upon determining the compensations for hidden flaws due at the end of the reporting period, the Group takes into consideration the quality assurance system implemented thereby and the accumulated experience.

- Compensations due to the customer: in case of inaccurate performance of contractual obligations by the Group, usually in relation of failure to meet the negotiated delivery deadline. These are included within a decrease of the transaction price only if the payment is very likely. The Group's experience shows that historically, contract terms are complied with, and the Group has not recorded liabilities for payment of compensations.
- Right of return: Some sales contracts allow the customer to return the goods within a given period. The Group accounts for the right of return as a form of variable consideration and recognises revenue from sales only at the amount of consideration it is reasonably assured it is entitled to (considering the goods expected to be returned). Upon determining what proportion of the goods sold is expected to be returned, the Group uses historical data about goods returned by customers over the past year.
- Compensations owed by the customer: variable consideration in the form of compensations for delayed payment by the customer. Receiving such consideration depends on the customer's actions and is beyond the Group's control. They are included within the transaction price only when the uncertainty regarding their receipt has been resolved.

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

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

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

Consideration due to the customer

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

in a decrease of revenue from contracts with customers, upon transfer of control over the goods sold or when the Group promises to pay, whichever occurs later.

Significant financing component

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

As a result of the financial condition and credit risk of some of the customers which are hospitals, the customer pays for the goods delivered with a significant delay compared to the payment period agreed, and in some cases, the period between the date of transfer of control over the goods and the date of payment by the customer may reach and exceed 2 years. The Group has determined that contracts with such customers do not contain a financing component, since: a) the payment term agreed with the customer does not differ from the usual payment term for such transactions, and upon concluding the sales contract, no explicit deferred payment scheme has been agreed; b) the selling prices do not include a financing component (interest). They are legislatively regulated and do not significantly deviate from the selling price of the same goods and/or services upon sales to other customers and/or upon sale to the same customer by another distributor of medicinal products and medical consumables. The differences (if any) result from variable consideration granted in the form of discounts, rather than from the agreed and/or expected payment period; c) the delay in payments results from the financial condition and credit risk of some of the customers which are hospitals; d) upon delay by the customers, the Group charges an interest (penalty) at the amount of the statutory interest, as from the date of delay; e) the financing element arises on the date of delay starting from which the Group charges a delay interest; f) the customer (hospital) pays the interest charged (penalties) and they reflect the time value of money.

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

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

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

Right of return assets from contracts with customers

The right of return is the Group's right to receive sold goods which are expected to be returned by the customers (*Note 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 reassesses 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, where 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. Mandatory dividend for distribution

Until 7 June 2021, the subsidiary company Sopharma Buildings REIT has the status of a joint-stock special-purpose investment company within the meaning of the Bulgarian Special Purpose Investment Companies Act (SPICA). For this reason, the company has specific policy for distribution of dividends to shareholders in line with the requirements of the law, namely:

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

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

In 2021, the subsidiary did not distribute mandatory dividend as it reported a negative financial result (loss).

2.10. 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 – 5-25 years;
- machinery and equipment – 7-25 years;
- computers and mobile devices – 2-5 years;
- motor vehicles – 5-17 years;
- servers and systems – 4-12 years;
- furniture and fixtures – 6-12 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 (sale)

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.

2.11. 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.

2.12. 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 3 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).

2.13. Investment property

Investment property is property lastingly held by the Group to earn rentals and/or for capital appreciation. They are presented in the consolidated statement of financial position at fair value (*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.

2.14. 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).

2.15. 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 2.26*).

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 2.32*) determined with support by an independent licensed valuator.

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

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

Dividend income

Dividend income related to long-term 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.

2.16. 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.

2.17. 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 2.26 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*).

2.18. 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 2.26*).

2.19. 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 2.26*).

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.

2.20. 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 2.26*).

2.21. 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 2.26*).

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

Interest-bearing loans and other borrowings are classified as current 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.

2.22. 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.

2.23. 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 8 years
- motor vehicles – 1 to 4 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 incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the exercise price of the purchase options, if the lessee is reasonably certain to exercise this option;
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease;
- the amount expected to be payable by the Group to lessor under residual value guarantees.

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

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

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

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

The Group subsequently measures the lease liability by:

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

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

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

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

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

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

Lessor

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

Operating lease

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

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

Finance lease

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

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

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

2.24. 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*, the Social Security Law of the Republic of Kazakhstan – for the company in *Kazakhstan*, and the Labour Code – for the company in *Moldova*.

Short-term benefits

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

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

Tantieme

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

Bonus schemes

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

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

The major duty of the companies - employers in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security

(SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, and for health insurance.

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

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

For companies abroad

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

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

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

Defined benefit plans

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

In accordance with the Labour Law in *Serbia*, the employer of the Serbian company is obliged to pay to its personnel on coming of age for retirement an indemnity at the amount of at least three average salaries calculated at the time of payment. In accordance with the employment legislation in *Ukraine* and the Collective labour Agreement of the Ukrainian company, the employer is obliged to pay to its personnel on coming of age for retirement an indemnity, which depending on the length of service with the entity may vary between UAH 250 and UAH 500 (between BGN 15 and BGN 30). 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. According to the employment legislation, there are no obligations to the personnel on retirement in Moldova.

In their nature these are unfunded defined benefit schemes.

The calculation of the amount of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they are presented in the consolidated statement of financial position, and respectively, the change in their value – in the consolidated statement of comprehensive income as follows: (a) current and past service costs, interest costs and the gains/losses on a curtailment and settlements are recognised immediately when incurred and are presented in current profit or loss under 'employee benefits expense'; and

(b) effects from remeasurement of obligations that in substance represent actuarial gains and losses are recognised immediately when occurred and are presented to other comprehensive income in the item 'remeasurement of defined benefit pension plans'. Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments.

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

Share based payments

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

Termination benefits

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

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

2.25. Share capital and reserves

Sopharma AD (the parent company) is a joint-stock company and is obliged to register with the Commercial Register a specified ***share capital***, which should serve as a security for the creditors for execution of their receivables. Shareholders are liable for the obligations of the Group up to the amount of the capital share

held by each of them and may claim returning of this share only in liquidation or bankruptcy proceedings. The parent company reports its share capital at the nominal value of the shares registered in the court.

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

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

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

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

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

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

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

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

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

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

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

The other equity components constitute a reserve on warrants issued, which is formed by the difference between the issue value of the registered warrants and the transaction costs related to the issue. The warrants are issued and registered at a fixed price, denominated in BGN, and grant future rights to conversion into a

fixed number of ordinary, dematerialised, registered, freely transferrable parent company shares, and are therefore classified as an equity instrument.

2.26. Financial instruments

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

Financial assets

Initial recognition, classification and measurement

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 23, Note 24, Note 25 and Note 26*).

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

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

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

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

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

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

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

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

Expected credit losses are recognised at two stages:

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

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

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

The Group's management has developed a policy and a set of criteria to analyse, ascertain and assess the occurrence of a condition of "significant increase in credit risk". The main points of the policy and set of criteria are disclosed in *Note 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 there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition, classification and measurement

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

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

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

Subsequent measurement

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

Classification groups

Loans and borrowing

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

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

Derecognition

Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially

different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting (netting) of financial instruments

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

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

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

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

- lack of dependence on a future event, i.e. it should not only be applicable upon the occurrence of a future event;
- the offsetting should be enforceable and legally defensible during (cumulatively):
 - the usual business operations;
 - in case of default/delay, and
 - in case of insolvency

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

2.27. 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’.

2.28. 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 2022 is 10% (2021: 10%).

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

<i>Country</i>	<i>Tax rate</i>	
	<i>2022</i>	<i>2021</i>
Ukraine	18%	18%
Serbia	15%	15%
Latvia	n/a	0-25%
Belarus	n/a	18%
Lithuania	n/a	15%
Poland	19%	19%
Kazakhstan	20%	20%
Moldova	12%	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.

2.29. 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.

2.30. 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 not calculated because no dilutive potential ordinary shares have been issued within the Group.

2.31. 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.

2.32. Fair value measurement

Some of Group's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. These include:

(a) on a recurring (annual) basis – *other long-term equity investments, investment property, bank loans granted and received and loans to/from third parties, certain trade and other receivables and payables, receivables and payables under finance leases, etc.* (b) on a non-recurring (periodical) basis – *non-financial assets such as property, plant and equipment.*

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

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

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

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

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

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

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

Internal rules and procedures for measuring the fair value of various types of assets and liabilities have been developed centrally in the parent company. For the purpose, a specifically designated individual,

subordinated to the Finance Director of the Group, organised the performance of the overall valuation process and also coordinates and observes the work of the external appraisers.

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

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

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

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

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

Revenue from contracts with customers

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

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

Fair value measurement of equity investments

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

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

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

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

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

- (a) determining criteria to identify and measure significant credit risk increases;
- (b) selection of suitable models and assumptions to measure expected credit losses;
- (c) establishing groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses,
- (d) establishing and assessing the correlation between historical default rates and the behaviour of certain macro indicators to reflect the effects of forecasts for these macro indicators in the calculation of expected credit losses. (*Note 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: $ECL = EAD \times PD \times LGD$, where:

ECL is the expected credit losses indicator;

EAD is the exposure at default indicator;

PD is the probability of default indicator;

LGD is the loss given default indicator.

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

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

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

Stage 3 includes granted loans which are classified as "underperforming". These are loans for which evidence exists that the asset is credit-impaired, i.e. a credit event has occurred (according to the policy on default event eligibility). Therefore, an analysis is performed of a system of indicators used to identify the occurrence of credit losses. Impairment losses for such loans are calculated based on probability-weighted scenarios for the Group's expectations for the loss amount of the non-performing credit-impaired exposure throughout its lifetime. A granted loan is credit-impaired when one or more events have occurred which have an adverse effect on expected future cash flows from this loan, accordingly financial assets.

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

Cash

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

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 (*Note 15*) and deferred tax and has stated current impairment

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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.

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 consolidated annual statement of financial position as at 30 September 2022 (31 December 2021: none).

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Group revenue from contracts with customers includes:

	<i>1 January - 30 September 2022</i>	<i>01 January - 30 September 2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Revenue from sales of goods	1,014,905	987,464
Revenue from sales of finished products	203,895	191,865
Total	1,218,800	1,179,329

Contract balances are as follows:

	<i>30.09.2022</i>	<i>31.12.2021</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Receivables under contracts with customers – third parties, net of impairment (<i>Note 23</i>)	219,942	199,988
Receivables under contracts with customers – related parties, net of impairment (<i>Note 24</i>)	468	660
Contract liabilities under contracts with customers – third parties (<i>Note 40</i>)	1,159	978

Contract liabilities at 30 September 2022 include advance payments received for the delivery of medical equipment at the amount of BGN 1,148 thousand (31 December 2021: BGN 969 thousand) and for delivery of medicinal products – BGN 11 thousand (31 December 2021: BGN 9 thousand).

The change in contract liabilities for the period from 1 January to 30 September 2022 is as follows:

	<i>30.09.2022</i>	<i>31.12.2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>
<i>Balance at 1 January</i> (<i>Note 40</i>)	978	154
Revenue stated, which was recognised as contract liabilities, incl.:	(978)	(154)
- <i>Advance payments received</i>	(978)	(154)
Payments from clients (excluding those recognised as revenue in the period)	1,159	978
<i>Balance at 30 September/ 31 December</i>	1,159	978

The reimbursement obligations as at 30 September 2022 amount to BGN 3,530 thousand (31 December 2021: BGN 2,631 thousand) and include liabilities under retrospective trade volume discounts payable under contracts with customers which have been or will be reimbursed over the next reporting period. (*Note 40*).

4. OTHER OPERATING INCOME AND LOSSES

<i>Other operating income and losses, net include:</i>	<i>1 January - 30 September 2022</i>	<i>01 January - 30 September 2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Services rendered	5,162	4,788
Rentals	885	758
Gains/(losses) on exchange differences under trade receivables and payables and current accounts	717	605
Government grants	619	658
Profit from sale of fixed assets	385	413
Written-off liabilities and reversed provisions	248	412
Social activities and events	216	188
Interest on current accounts	89	142
Gain on sale of materials	65	66
(Loss)/gain on lease	(24)	3
Other	809	1,607
Total	9,171	9,640

The services rendered include:

	<i>1 January - 30 September 2022</i>	<i>01 January - 30 September 2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Fees to National Health Insurance Institute	1,419	792
Fabrication services	936	978
Advertising and marketing	863	1,537
Pre-distribution income	602	531
Lab analyses	262	208
Gamma irradiation	235	162
Secondary packaging	172	103
Transport services	102	48
Other	571	429
Total	5,162	4,788

5. MATERIAL COSTS

	<i>1 January - 30 September 2022</i>	<i>01 January - 30 September 2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Basic materials	46,450	37,577
Electric energy	8,235	6,261
Heat power	5,368	2,240
Spare parts, laboratory and technical materials	4,941	4,066
Fuels and lubricating materials	3,157	2,206
Advertising materials	1,372	1,246
Work clothes and personal protective equipment for work	932	971
Stationery	674	690

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Auxiliary materials	564	567
Water	339	475
Low value item	210	291
Samples	103	272
Other	143	582
Total	72,488	57,444

Expenses on basic materials include:

	<i>1 January - 30 September 2022</i>	<i>01 January - 30 September 2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Substances	21,014	17,080
Packaging materials	10,670	8,431
Liquid and solid chemicals	7,806	5,770
Sanitary-hygienic and dressing materials	2,368	1,702
Foil	2,007	1,055
Ampoules	1,872	1,354
Polypropylene, polyethylene, polystyrene	382	491
Herbs	211	1,314
Other	120	380
Total	46,450	37,577

6. HIRED SERVICES EXPENSE

	<i>1 January - 30 September 2022</i>	<i>01 January - 30 September 2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>
<i>Hired services expense</i> includes:		
Advertising	13,835	14,853
Consulting services	8,688	7,956
Subscription fees	3,336	2,839
Forwarding and transportation services	3,184	2,984
Manufacturing	3,108	3,707
Buildings and equipment maintenance	2,166	2,233
Rentals and utilities	2,149	1,832
Bank and regulatory charges	1,660	1,883
Communications	1,572	1,511
Local taxes and charges	1,557	1,564
Security	1,505	1,532
Insurance	945	1,113
Commissions	908	923
Vehicle repair	630	580
Medical care	545	579
Other	4,309	4,734
Total	50,097	50,823

SOPHARMA GROUP**CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDING ON 30 SEPTEMBER 2022****7. EMPLOYEE BENEFITS EXPENSE**

	<i>1 January - 30 September 2022</i>	<i>01 January - 30 September 2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Current wages and salaries	86,369	89,468
Social security contributions	14,944	16,269
Social benefits and payments	3,601	3,035
Accruals for unused paid leaves	1,778	986
Accruals for long-term retirement benefits to personnel (Note 30)	770	255
Tantieme	732	1,001
Social security/health insurance contributions on leaves	346	195
Total	108,540	111,209

8. OTHER OPERATING EXPENSES

	<i>1 January – 30 September 2022</i>	<i>1 January – 30 September 2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Net change in allowance for credit losses on trade, litigation and other receivables (Note 9)	6,676	55
Scrapage and lack of goods	1,704	1,636
Business trips	821	474
Representative events	660	1,205
Impairment of goods, finished products and work in progress	(643)	(188)
Donations	294	288
Fines and penalties to suppliers	187	44
Trainings	149	176
Unrecognised tax credit	147	106
Scrapage of non-current assets	90	114
Payments to the budget for taxes and interest on taxes	71	85
Receivables written-off	61	211
Scrapage of finished products and work in process	31	224
Other	884	605
Total	11,132	5,035

9. IMPAIRMENT OF ASSETS

	<i>1 January – 30 September 2022</i>	<i>1 January – 30 September 2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>
<i>Impairment of credit losses from receivables, including from related parties</i>	8,809	2,784
<i>Reversed impairment of credit losses from receivables, including from related parties</i>	(2,133)	(2,729)

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Net change in allowance for impairment of credit losses on receivables, incl. from related parties (<i>Note 8</i>)	6,676	55
Recovered impairment of goods, finished products and works in process (<i>Note 8</i>)	(643)	(188)
Total	6,033	(133)

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

	30.9.2022	30.9.2021
	BGN'000	BGN'000
Impairment of property, plant and equipment (<i>Note 15</i>)	-	2,050
Total	-	2,050

11. FINANCE INCOME

<i>Finance income</i> includes:	1 January – 30 September 2022	1 January – 30 September 2021
	BGN'000	BGN'000
Interest income on loans granted	1,539	1,727
Net gain from exchange differences from receivable on transactions in securities	560	190
Interest income on past due trade receivables	513	1,540
Interest on receivables under special contracts	117	149
Income from provided sureties and guarantees	97	14
Equity income (dividends)	33	271
Income from interest on bank deposits	4	26
Net change in impairment of surety charges	1	-
Net gains from exchange differences from loans denominated in foreign currencies and leases	-	2,271
Net gain on transactions with investments in securities	-	152
Total	2,864	6,340

12. FINANCE COSTS

<i>Finance costs</i> include:	1 January – 30 September 2022	1 January – 30 September 2021
	BGN'000	BGN'000
Interest expense on loans received	3,080	6,362
Net change in the impairment adjustment for credit losses on trade receivables	1,354	62
Bank fees and charges on loans and guarantees	857	827
Interest expense on leases	850	1,409
Net loss on exchange differences from loans denominated in foreign currencies and leases	377	-
Expense for other interest	247	271

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDING ON 30 SEPTEMBER 2022

Interest expenses on factoring	79	549
Provision for financial guarantees	16	151
Total	6,860	9,631

13. GAINS/LOSSES FROM ASSOCIATES AND JOINT VENTURES

	<i>1 January – 30 September 2022 BGN'000</i>	<i>1 January – 30 September 2021 BGN'000</i>
Gains from associates, net	17,908	7,729
(Loss)/gains from joint ventures, net	(100)	108
	17,808	7,837

	<i>1 January – 30 September 2022 BGN'000</i>	<i>1 January – 30 September 2021 BGN'000</i>
<u>Profits from joint ventures, net include:</u>		
Group's share of current profit/(loss) of joint ventures	(92)	108
Effects of transactions with Group companies	(8)	-
Total	(100)	108

	<i>1 January – 30 September 2022 BGN'000</i>	<i>1 January – 30 September 2021 BGN'000</i>
<u>Profits from associates include:</u>		
Group's share of current profit of associates	17,908	7,729
Total	17,908	7,729

14. OTHER COMPREHENSIVE INCOME

Other components of comprehensive income include:

	Items of other comprehensive income attributable to the Group		Items of other comprehensive income attributable to non- controlling interests		Total items of other comprehensive income	
	<i>1 January – 30 September 2022 BGN '000</i>	<i>1 January – 30 September 2021 BGN '000</i>	<i>1 January – 30 September 2022 BGN '000</i>	<i>1 January – 30 September 2021 BGN '000</i>	<i>1 January – 30 September 2022 BGN '000</i>	<i>1 January – 30 September 2021 BGN '000</i>
<i>Items that will not be reclassified to profit or loss</i>						
Revaluation of property, machinery and equipment	-	(52)	-	(16)	-	(68)

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Net change in the fair
value of equity
investments measured at
fair value through other
comprehensive income

(1,167)	66	-	-	(1,167)	66
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***Items that may be
reclassified to profit or
loss***

Foreign exchange
differences from
restatement of foreign
operations

(3,260)	228	-	4	(3,260)	232
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Portion of other
comprehensive income
of associates

5,300	1,731	-	-	5,300	1,731
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**Other comprehensive
income for the year**

873	1,973	-	(12)	873	1,961
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CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDING ON 30 SEPTEMBER 2022
15. PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i>		<i>Plant and equipment</i>		<i>Other</i>		<i>Assets in progress</i>		<i>Total</i>	
	<i>2022 BGN'000</i>	<i>2021 BGN'000</i>	<i>2022 BGN'000</i>	<i>2021 BGN'000</i>	<i>2022 BGN'000</i>	<i>2021 BGN'000</i>	<i>2022 BGN'000</i>	<i>2021 BGN'000</i>	<i>2022 BGN'000</i>	<i>2021 BGN'000</i>
<i>Book value</i>										
Balance at 1 January	305,758	334,672	269,771	265,882	51,271	54,541	4,798	10,209	631,598	665,304
Additions	31,358	14,601	2,277	2,587	4,199	6,491	12,946	12,896	50,780	36,575
Remeasurement effect	-	5,568	-	3,325	-	763	-	-	-	9,656
Effects of foreign currency restatements	(748)	1,626	(1,009)	809	(210)	332	(13)	26	(1,980)	2,793
Disposals	(9,690)	(18,267)	(503)	(6,026)	(3,268)	(7,602)	(723)	(107)	(14,184)	(32,002)
Written-off carrying amount of assets upon disposal of subsidiaries	-	(24,913)	-	(9,157)	-	(2,612)	-	(1,076)	-	(37,758)
Impairment	-	(8,330)	-	(732)	-	-	-	(697)	-	(9,759)
Transfer to property, plant and equipment	127	2,662	3,526	13,083	817	708	(4,470)	(16,453)	-	-
Transfer to/(from) assets held for sale	-	(1,861)	-	-	-	(1,350)	-	-	-	(3,211)
Balance at 30 September/ 31 December	326,805	305,758	274,062	269,771	52,809	51,271	12,538	4,798	666,214	631,598
<i>Accumulated depreciation and impairment</i>										
Balance at 1 January	78,719	83,149	160,348	153,283	30,138	33,000	-	-	269,205	269,432
Depreciation charge for the year	15,316	22,907	11,172	14,571	4,991	6,566	-	-	31,479	44,044
Remeasurement effect	-	(126)	-	(783)	-	(38)	-	-	-	(947)
Impairment	-	(1,283)	-	2,000	-	-	-	-	-	717
Effects of foreign currency restatements	(210)	646	(539)	457	(137)	170	-	-	(886)	1,273
Written-off depreciation	(6,561)	(15,036)	(453)	(5,730)	(2,926)	(6,763)	-	-	(9,940)	(27,529)
Depreciation written-off upon disposal of subsidiaries	-	(11,017)	-	(3,450)	-	(1,517)	-	-	-	(15,984)
Transfer to/(from) assets held for sale	-	(521)	-	-	-	(1,280)	-	-	-	(1,801)
Balance at 30 September/ 31 December	87,264	78,719	170,528	160,348	32,066	30,138	-	-	289,858	269,205
Carrying amount at 30 September/ 31 December										
Carrying amount at 1 January	239,541	227,039	103,534	109,423	20,743	21,133	12,538	4,798	376,356	362,393

SOPHARMA GROUP**CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDING ON 30 SEPTEMBER 2022**

As at 30 September 2022, the tangible fixed assets of the Group within “land and buildings” include: land amounting to BGN 60,857 thousand (31 December 2021: BGN 60,904 thousand) and buildings of carrying amount BGN 178,684 thousand (31 December 2021: BGN 166,135 thousand).

Tangible fixed assets in progress as at 30 September include:

- expenses on new buildings construction – BGN 1,009 thousand (31 December 2021: BGN 909 thousand);
- buildings reconstruction – BGN 5,469 thousand (31 December 2021: BGN 1,278 thousand);
- supply of equipment – BGN – 547 thousand (31 December 2021: BGN 41 thousand);
- expenses for acquisition of biological assets – BGN 138 thousand (31 December 2021: BGN 138 thousand);
- advances granted – BGN 4,540 thousand (31 December 2021: BGN 2,258 thousand);
- other – BGN 835 thousand (31 December 2021: BGN 174 thousand).

The total cash outflow from leases in 2022 amounts to BGN 12,086 thousand (2021: BGN 15,957 thousand).

As at 30 September 2022, the Group has leased tangible fixed assets to third parties with a carrying amount of BGN 1,467 thousand (31 December 2021: BGN 1,294 thousand).

As at 30 September 2022 Property, plant and equipment include right-of-use assets with carrying amounts respectively: in the group of “land and buildings” – BGN 65,600 thousand (31 December 2021: BGN 48,126 thousand), within “others” – BGN 6,697 thousand (31 December 2021: BGN 6,297 thousand). Right-of-use assets are disclosed in detail in Note 31.

Other data

The following encumbrances have been constituted on tangible fixed assets of the Group as at 30 September 2022 in relation to received loans (*Notes 28 and 34*) as follows:

- Land and building with a carrying amount respectively of BGN 26,653 thousand and BGN 69,658 thousand (31 December 2021: BGN 26,644 thousand and BGN 72,468 thousand);
- Pledges on facilities with carrying amount of BGN 133 thousand (31 December 2021: BGN 141 thousand);
- Pledges on equipment, transportation vehicles and furniture and fixtures – BGN 31,069 thousand (31 December 2021: BGN 35,383 thousand).

Periodical revaluation to fair value

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

The effects of remeasurement have been stated, as follows:

<i>Land and buildings</i>	<i>Machinery, equipment and facilities</i>	<i>Other</i>	<i>Total</i>
<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>

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Measurement to fair value at 31 December, carried to the statement of comprehensive income (within profit or loss for the year)

(7,047) (2,732) - (9,779)

Measurement to fair value, carried to the statement of comprehensive income (within other comprehensive income)

5,694 4,108 801 10,603

Total

(1,353) 1,376 801 824

(a) Fair value hierarchy

The fair value measurements of regulated land, for which the term for executing the transaction is up to 12 months, have been taken into consideration as inputs used in the Level 2 measurement approach.

The fair value measurements of the remaining property, machinery, equipment and facilities have been hierarchically categorized as Level 3 fair values.

The revaluation of property, plant and equipment is on non-recurrent (periodic, five-year) basis and is due to the application of the revaluation model under IAS 16.

The table below provides information regarding the fair value of property, plant and equipment as at 31 December 2021 and the respective fair value hierarchies:

<i>Groups of assets</i>	<i>Carrying amount</i>	<i>Fair value</i>	<i>Level 2</i>	<i>Level 3</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Agricultural land</i>	15,736	15,803	-	15,803
<i>Land (regulated) and buildings</i>	159,423	163,110	45,095	118,015
<i>Total land and buildings</i>	175,159	178,913	45,095	133,818
<i>Machinery, equipment and facilities</i>	107,359	109,333		109,333
<i>Biological assets</i>	461	461	-	461
<i>Vehicles</i>	3,357	4,030	-	4,030
<i>Furniture and fixtures</i>	10,306	10,435	-	10,435
<i>Total other assets</i>	14,124	14,926	-	14,926
Total	296,642	303,172	45,095	258,077

(b) Measurement methods and approaches and significant unobservable inputs

The tables below provide a description of the measurement techniques used to determine the fair values of the separate groups of PPE assets for year 2021, as well as the inputs used separately for Level 2 and Level 3:

Group of assets (Level 2)	Valuation approaches and techniques	Significant unobservable inputs
Land (regulated/ZLP)	<p>► Market approach/ Valuation technique: Method of market prices of comparable land – vacant land within ZLP in the valuation areas.</p>	<ul style="list-style-type: none"> Discount rate for deferred transaction term for land within ZLP (built or unbuilt-on): 10.25%; Period for execution of the transaction: 9 – 18 months

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDING ON 30 SEPTEMBER 2022

Group of assets (Level 3)	Valuation approaches and techniques	Significant unobservable inputs
Agricultural land	<p>► Market approach/ Valuation technique: Method of market prices of comparable land – agricultural land in the valuation areas.</p> <p>► Income approach/ Valuation technique: Capitalized income from agricultural land lease.</p> <p>The weight ratio between the approaches applied is 40% for the method of market comparables and 60% for capitalized income from agricultural land lease, due to the higher reliability and low change dynamics in lease data.</p>	<ul style="list-style-type: none"> • Data regarding average actual prices and lease payments for agricultural land in specialized webpages, per areas and land groups (incl. zemi.bg, nivi.bg, etc.); • Average prices of agricultural land and lease payments per areas according to NSI data; • Price change index for agricultural land • Lease payments change index for agricultural land • Periods for execution of transactions in agricultural land (lease and/or sale)
Buildings	<p>► Cost approach / Valuation technique: Amortised recoverable amount method based on current expenses for creating or replacement with analogues.</p> <p>► Income approach / Valuation technique: Capitalised rental income (upon valuation of assets within independent sites within residential buildings for which sufficient data exists to apply this approach and valuation technique).</p>	<ul style="list-style-type: none"> • Price change index for the Construction sector • Market price change index for production and warehouse facilities
Machinery, facilities, equipment, vehicles, etc.	<p>► Cost approach / Valuation technique: Amortised recoverable amount method based on current expenses for creating or replacement with analogues.</p>	<ul style="list-style-type: none"> • Economic forecasts and trends for the “machinery, equipment and vehicles” group; • Harmonised consumer price change indices Consolidated industrial production indices
Biological assets	<p>► Income approach / Valuation technique: Capitalised income from utilization/produce from biological assets – yellow acacia permanent crops in fruit-bearing cycle (incl. seed collection and honey production).</p>	<ul style="list-style-type: none"> • Data regarding actual wholesale purchase price of products – yellow acacia seeds • Data regarding rate of return on agricultural produce and replacement investment forms.

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDING ON 30 SEPTEMBER 2022
16. INTANGIBLE ASSETS

	<i>Goodwill</i>		<i>Software</i>		<i>Assets in progress</i>		<i>Total</i>			
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	31,308	31,157	33,265	27,696	61,638	88,183	2,847	2,458	129,058	149,494
Additions	-	-	1,433	4,928	30	35	1,355	1,998	2,818	6,961
Effects of foreign currency restatements	(153)	151	(1)	249	26	40	-	3	(128)	443
Transfer	-	-	870	857	29	374	(899)	(1,231)	-	-
Written-off book value of assets upon disposal of subsidiaries	-	-	-	(345)	-	(22,858)	-	(41)	-	(23,244)
Disposals	-	-	(3)	(120)	(20)	(4,136)	(345)	(340)	(368)	(4,596)
Balance at 30 September/ 31 December	31,155	31,308	35,564	33,265	61,703	61,638	2,958	2,847	131,380	129,058
Balance at 1 January	17,888	17,888	15,707	13,225	27,622	46,840	-	-	61,217	77,953
Amortisation charge for the year	-	-	2,376	2,673	4,883	6,575	-	-	7,259	9,248
Effects of foreign currency restatements	-	-	2	241	25	19	-	-	27	260
Asset amortisation written-off upon disposal of subsidiaries	-	-	-	(318)	-	(22,609)	-	-	-	(22,927)
Amortisation written-off	-	-	(3)	(114)	(3)	(3,203)	-	-	(6)	(3,317)
Balance at 30 September/ 31 December	17,888	17,888	18,082	15,707	32,527	27,622	-	-	68,497	61,217
Carrying amount at 30 September/ 31 December	13,267	13,420	17,482	17,558	29,176	34,016	2,958	2,847	62,883	67,841
Carrying amount at 1 January	13,420	13,269	17,558	14,471	34,016	41,343	2,847	2,458	67,841	71,541

Intangible assets in progress as at 30 September include:

- expenses on acquiring licenses and permits for use of medicinal products – BGN 1,245 thousand (31 December 2021: BGN 1,438 thousand);
- expenses on acquisition of software – BGN 1,168 thousand (31 December 2021: BGN 734 thousand)
- advances granted – BGN 248 thousand (31 December 2021: BGN 409 thousand);
- other – BGN 297 thousand (31 December 2021: BGN 266 thousand).

As at 30 September 2022 there are incumbrances in relations to loans obtained by the Group on software with carrying amount BGN 2,965 (31 December 2021: BGN 2,578 thousand) (*Notes 28 and 34*).

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

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

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

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

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

Goodwill impairment

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

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

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

The tests and judgments of Group's management for impairment of recognised goodwill were made through the prism of its projections and intents as to the future economic benefits, expected by the Group from its subsidiaries including through the use of their internally created trademarks, commercial and industrial experience and the generated thereby and expected for the future volumes of revenue, ensuring position in the Bulgarian and international markets (development and retaining), the expectations for future sales and restructuring of the activities, etc.

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As a result of the analyses performed the Group management, no impairment of goodwill was recognised as at 30 September 2022 (31 December 2021: none).

17. INVESTMENT PROPERTY

	<i>30.09.2022</i>	<i>31.12.2021</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	9,446	11,691
Net gain from adjustment to fair value through profit or loss (<i>Note 4</i>)	-	134
Disposals	-	(2,379)
Balance at 30 September/ 31 December	9,446	9,446

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

<i>Group of assets</i>	<i>30.09.2022</i>	<i>31.12.2021</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Warehouse premises	4,534	4,534
Production buildings	2,639	2,639
Offices	1,825	1,825
Social objects	448	448
Total	9,446	9,446

*Fair value measurement**Fair value hierarchy*

The fair values of the groups of investment properties are categorised as Level 2 fair values based on the inputs to the valuation technique used. The investment property remeasurement to fair value is recurring and is due to the application of the fair value model under IAS 40. It is performed regularly at the end of each reporting period. Fair value is determined with the assistance of independent certified appraisers.

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

	<i>Warehouse premises</i>	<i>Offices</i>	<i>Production buildings</i>	<i>Social objects</i>	<i>Total</i>
Balance at 1 January 2021	4,631	4,048	2,578	434	11,691
Disposals	(143)	(2,236)	-	-	(2,379)

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Remeasurement to fair value through profit or loss – unrealised	46	13	61	14	134
Balance at 31 December 2021	4,534	1,825	2,639	448	9,446
Balance at 30 September 2022	4,534	1,825	2,639	448	9,446

Valuation techniques and significant unobservable inputs

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

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

18. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	30.09.2022	31.12.2021
	BGN '000	BGN '000
Investments in associates	152,595	125,337
Investments in joint ventures	1,891	1,983
Total	154,486	127,320

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The movement of the investments in associates is presented below:

	30.09.2022	31.12.2021
	BGN '000	BGN '000
Balance at 1 January	125,337	62,811
Share in the current profit for the period	17,908	12,088
Acquisition of shares	5,265	17,920
Share in other comprehensive income	5,300	3,709
Dividends distributed	(1,215)	-
Transfer from other equity investments	-	25,989
Share issue	-	2,880
Sale of shares	-	(60)
Balance at 30 September/ 31 December	152,595	125,337

The movement of investments in joint ventures is presented below:

	30.09.2022	31.12.2021
	BGN '000	BGN '000
Balance at 1 January	1,983	-
Share in current profit/(loss) for the period	(92)	4
Transfer of investments in subsidiaries	-	1,694
Share in other comprehensive income	-	13
Effect of remeasurement of previously held shares at fair value	-	272
Balance at 30 September/ 31 December	1,891	1,983

19. OTHER LONG-TERM EQUITY INVESTMENTS

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

	Country	30.09.2022	Interest	31.12.2021	Interest
		BGN '000	%	BGN '000	%
Traded securities					
Lavena AD	Bulgaria	3,672	13.22	4,919	13.23
Chimimport AD	Bulgaria	394	0.20	548	0.27
Bulgarian Stock Exchange AD	Bulgaria	199	0.32	-	-
Sopharma Buildings REIT	Bulgaria	85	10.25	85	10.25
Achieve Life Sciences Inc. – USA	USA	15	0.02	23	0.02
Central Cooperative Bank AD	Bulgaria	-	-	70	0.06

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				<u>4,365</u>	<u>5,645</u>
Non-traded securities					
Balkanpharma Razgrad AD	Bulgaria	70	0.33	70	0.33
Imventure 1 KDA	Bulgaria	50	1.36	50	1.36
Other		13	-	133	-
		<u>133</u>		<u>133</u>	
Total		<u>4,498</u>		<u>5,778</u>	

As at 30 September 2022, within “others” are stated long-term equity investments at the amount of 13 thousand (31 December 2021: BGN 13 thousand) in Group’s non-controlling interest in a total of four companies (31 December 2021: four companies).

The fair value per share at 30 September 2022 and 31 December 2021 by companies is as follows:

	<i>Number of shares</i>	<i>Fair value per share</i>	<i>30.09.2022</i>	<i>Number of shares held</i>	<i>Fair value per share</i>	<i>31.12.2021</i>
			<i>BGN '000</i>			<i>BGN '000</i>
Equity investments						
Lavena AD	1,311,183	2.80	3,672	1,312,102	3.75	4,919
Chimimport AD	487,810	0.81	394	651,045	0.84	548
Bulgarian Stock Exchange AD	21,257	9.38	199	-	-	-
Sopharma Buildings REIT	66,627	1.28	85	66,627	1.28	85
Achieve Life Sciences Inc. - USA	1,796	8.43	15	1,796	12.64	23
Central Cooperative bank AD	1	1.66	-	69,934	1.01	70
Total			<u>4,365</u>			<u>5,645</u>

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

<i>Equity investments</i>	<i>Fair value</i>	<i>(Level 1)</i>	<i>(Level 2)</i>
	<i>30.09.2022</i>		
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Lavena AD	3,672	-	3,672
Chimimport AD	394	394	-
Bulgarian Stock Exchange AD	199	199	-
Sopharma Buildings REIT	85	-	85
Achieve Life Sciences Inc. - USA	15	15	-
Total	<u>4,365</u>	<u>608</u>	<u>3,757</u>

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<i>Equity investments</i>	<i>Fair value</i>	<i>(Level 1)</i>	<i>(Level 2)</i>
	<i>31.12.2021</i>		
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Lavena AD	4,919	-	4,919
Chimimport AD	548	548	-
Sopharma Buildings REIT	85	-	85.0
Central Cooperative bank AD	70	70	-
Achieve Life Sciences Inc.	23	23	-
Total	5,645	641	5,004

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

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January 2021	6,518	5,028	11,546
Purchases	22,189	149	22,338
Sales	(2,004)	(35)	(2,039)
Transfer to investments in associates	(25,989)	-	(25,989)
Transfer from investment in subsidiaries	-	144	144
Unrealised gain/(loss), net, included in other comprehensive income (<i>Note 14</i>)	(73)	(282)	(355)
Balance at 31 December 2021	641	5,004	5,645
Purchases	485	1	486
Sales	(596)	(3)	(599)
Unrealised gain/(loss) included in other comprehensive income (<i>Note 14</i>)	78	(1,245)	(1,167)
Balance at 30 September 2022	608	3,757	4,365

20. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The *long-term receivables from related parties* as at 30 September include:

	<i>30.09.2022</i>	<i>31.12.2021</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Long-term loans granted to related parties	50,922	49,792
<i>Impairment of credit losses</i>	(120)	(97)

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Long-term loans granted to related parties, net	50,802	49,695
Deposits provided under lease contracts	579	1
<i>Impairment for credit losses</i>	(63)	-
Deposits granted under lease contracts, net	516	1
Total	51,318	49,696

The long-term loans are granted to companies controlled by an associate.

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

	30.09.2022	31.12.2021
	BGN '000	BGN '000
Balance at 1 January	97	118
Increase in the allowance for credit losses recognised in profit or loss for the year	23	-
Decrease in the allowance for credit losses recognised in profit or loss for the year	-	(21)
Balance at 30 September/ 31 December	120	97

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

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>Interest %</i>	30.09.2022		31.12.2021	
	'000			BGN'000	BGN'000 including interest	BGN'000	BGN'000 including interest
BGN							
	83,400	31.12.2025	3.00%	50,802	505	49,695	95
				50,802	505	49,695	95

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

21. OTHER LONG-TERM RECEIVABLES

The <i>other non-current receivables</i> of the Group include:	30.09.2022	31.12.2021
	BGN'000	BGN'000
Loans granted	6,448	6,314
<i>Impairment of credit losses</i>	(9)	(6)
Loans granted, net	6,439	6,308
Receivables on transactions in securities	4,013	3,454
<i>Impairment of credit losses</i>	(156)	(216)
Receivables from transactions in securities, net	3,857	3,238
Deposits on long-term rental agreements	626	623

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Other	36	53
Total	10,958	10,222

The receivables on transactions in securities constitute receivables on investments in securities and are as follows:

<i>Currency</i>	<i>Receivables</i>	<i>Maturity</i>	<i>30.09.2022</i>	<i>31.12.2021</i>
	<i>'000</i>		<i>BGN'000</i>	<i>BGN'000</i>
<i>USD</i>	2,000	31.3.2024	3,857	3,238
			3,857	3,238

The receivable with maturity 31 March 2024 is related to the completion of statutory actions on registration of medical product permits.

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

	<i>30.09.2022</i>	<i>31.12.2021</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	6	12
Increase in the allowance for credit losses recognised in profit or loss for the year	3	6
Transfer of the allowance to other short-term receivables	-	(12)
Balance at 30 September/31 December	9	6

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

	<i>30.09.2022</i>	<i>31.12.2021</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January	216	297
Decrease in the allowance for credit losses recognised in profit or loss for the year	(60)	(81)
Balance at 30 September/ 31 December	156	216

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

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>Interest %</i>	<i>30.09.2022</i>		<i>31.12.2021</i>	
	<i>'000</i>			<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
					<i>incl. interest</i>		<i>incl. interest</i>
<i>EUR</i>	3,000	29.6.2023	3.05%	6,439	571	6,308	440
				6,439	571	6,308	440

22. INVENTORIES

<i>Inventories</i> include:	30.09.2022 BGN'000	31.12.2021 BGN'000
Goods	186,483	188,186
Materials	42,505	35,710
Finished products	31,531	17,608
Work in progress	8,776	8,421
Semi-finished products	3,622	6,024
Total	272,917	255,949

<i>Materials</i> by type are as follows:	30.09.2022 BGN'000	31.12.2021 BGN'000
Basic materials	40,013	30,118
Spare parts and consumables	1,341	1,313
Technical materials	384	527
Auxiliary materials	285	484
Materials in the process of delivery	-	3,041
Other	482	227
Total	42,505	35,710

<i>Basic materials</i> by type are as follows:	30.09.2022 BGN'000	31.12.2021 BGN'000
Substances	20,799	18,431
Chemicals	6,791	4,204
Vials, tubes and ampoules	3,293	2,817
Packaging materials	2,477	1,803
Herbs	2,439	401
PVC and aluminium foil	2,306	1,154
Sanitary-hygienic and dressing materials	1,796	1,202
Other	112	106
Total	40,013	30,118

As at 30 September 2022, there were established special pledges on inventories at the amount of BGN 165,767 thousand (31 December 2021: BGN 119,303 thousand) as collateral under received by the Group bank loans and issued bank guarantees (*Notes 28, 34 and 41*).

23. TRADE RECEIVABLES

<i>Trade receivables</i> include:	30.09.2022	31.12.2021
	BGN'000	BGN'000
<i>Receivables from customers</i>	227,592	204,669
<i>Impairment of credit losses</i>	(7,650)	(4,681)
Receivables from customers, net	219,942	199,988
Advances granted and other receivables from suppliers, net	23,424	22,954
Receivables under cession agreements	4,890	4,890
Total	248,256	227,832

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

Usually the Group companies negotiate with their clients payment terms within the range of 30 to 180 days for receivables under sales unless there are determined specific conditions for maturity for particular clients or in the cases where new markets and products are developed and new trade counterparts are attracted. The Group has set a common credit period of 60 days for which no interest is charged to clients, with the exception of cases of restructured receivables under a special agreement, setting a longer period and interest rates. In case of sale of medical equipment to hospitals, the credit period could exceed 2 years, due to the specific financial characteristics of counterparts.

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

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Balance at 1 January	4,681	5,546
Increase/(decrease) in the allowance for credit losses recognised in profit or loss for the period, net	2,998	1,099
Transfer of the allowance to court and awarded receivables	(17)	(484)
Effect of foreign currency restatements	(11)	318
Amounts written-off as uncollectable	(1)	(155)
Impairment written-off upon sale of subsidiary	-	(1,643)
Balance at 30 September/ 31 December	7,650	4,681

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

30.09.2022	31.12.2021
BGN'000	BGN'000

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up to 30 days	80,585	73,649
from 31 to 90 days	87,475	86,325
from 91 to 180 days	2,023	4,481
from 181 to 365 days	2,902	2,765
from 1 to 2 years	2,649	4,640
over 2 years	2,493	23
<i>Gross amount of non-matured (regular) trade receivables</i>	178,127	171,883
<i>Expected credit losses</i>	(1,071)	(1,179)
Non-matured (regular) trade receivables, net	177,056	170,704

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

	30.09.2022	31.12.2021
	BGN'000	BGN'000
up to 30 days	596	446
from 31 to 90 days	224	194
from 91 to 180 days	82	49
from 181 to 365 days	167	489
from 1 to 2 years	1	1
Over 2 years	1	-
Total	1,071	1,179

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

	30.09.2022	31.12.2021
	BGN'000	BGN'000
from 31 to 90 days	16,403	10,761
from 91 to 180 days	11,926	9,304
from 181 to 365 days	10,987	5,612
from 1 to 2 years	9,898	6,835
over 2 years	251	274
Gross amount of past due trade receivables	49,465	32,786
Impairment of credit losses	(6,579)	(3,502)
Past due trade receivables, net	42,886	29,284

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

	30.09.2022	31.12.2021
	BGN'000	BGN'000
up to 30 days	-	2

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from 31 to 90 days	1,053	900
from 91 to 180 days	371	359
from 181 to 365 days	2,861	521
over 365 days	2,294	1,720
Total	6,579	3,502

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

The Group applies the simplified approach under IFRS 9 to measure expected credit losses from trade receivables, by recognising expected credit losses for the life term of all trade receivables (*Note 2.17*). Based on this, the loss allowance at 30 September 2022 and 31 December 2021 has been determined as follows:

		<i>Current</i>	<i>Up to 90 days past due</i>	<i>90-365 days past due</i>	<i>Over 365 days past due</i>	<i>Total</i>
30 September 2022						
Expected % of credit losses		0.60%	6.56%	15.13%	22.38%	3.36%
Trade receivables (gross carrying amount)	BGN'000	178,127	19,114	20,238	10,113	227,592
Expected credit loss (impairment allowance)	BGN'000	(1,071)	(1,253)	(3,063)	(2,263)	(7,650)
31 December 2021						
Expected % of credit losses		0.69%	8.12%	5.84%	26.01%	2.29%
Trade receivables (gross carrying amount)	BGN'000	171,883	11,114	15,060	6,612	204,669
Expected credit loss (impairment allowance)	BGN'000	(1,179)	(902)	(880)	(1,720)	(4,681)

As at 30 September 2022, there are established special pledges on trade receivables at the amount of BGN 83,930 thousand (31 December 2021: BGN 157,029 thousand). They are established as collateral under received by the Group bank loans and issued bank guarantees (*Notes 28, 34 and 41*).

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

	30.09.2022 BGN'000	31.12.2021 BGN'000
Goods	13,202	20,584
Raw materials and consumables	8,966	1,655
Services	901	715
Other	355	-
Total	23,424	22,954

24. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties by type are as follows:

	30.09.2022 BGN'000	31.12.2021 BGN'000
Trade loans granted	13,888	13,621
<i>Impairment of credit losses</i>	(1,328)	-
Trade loans granted, net	12,560	13,621
Receivables under contracts with customers	525	706
<i>Impairment of credit losses</i>	(57)	(46)
Receivables under contracts with customers, net	468	660
Receivables under guarantorships and guarantees granted	3	9
<i>Impairment of credit losses</i>	-	(1)
Receivables under guarantorships and guarantees granted, net	3	8
Receivables under special assignment contracts	3,686	-
<i>Impairment of credit losses</i>	(3,686)	-
Receivables under special assignment contracts, net	-	-
Receivables on deposits granted	-	189
Advances granted	-	1
Total	13,031	14,479

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

Currency	Contracted amount	Maturity	Interest	30.09.2022		31.12.2021	
	'000		%	BGN '000	BGN '000 including interest	BGN '000	BGN '000 including interest
<i>to companies controlled by associates</i>							
BGN	10,997	31.12.2022	3.10%	8,449	400	8,263	215
BGN	190	31.12.2021	3.50%	4,111	111	4,011	11

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to joint ventures

BGN	3,050	31.12.2022	3.50%	-	-	1,347	27
Total				12,560	511	13,621	253

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

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

The Group applies the simplified approach under IFRS 9 to measure expected credit losses from trade receivables, by recognising expected losses for the life term of all trade receivables (Note 2.17).

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

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Balance at 1 January	47	76
Increase in the allowance for credit losses recognised in profit or loss for the year, net	5,071	-
Decrease in the allowance for credit losses recognised in profit or loss for the year, net	(47)	(29)
Balance at 30 September/ 31 December	5,071	47

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

	30.09.2022	31.12.2021
	BGN'000	BGN'000
up to 30 days	47	108
from 31 to 90 days	42	59
Total	89	167

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

	30.09.2022	31.12.2021
	BGN'000	BGN'000
from 31 to 90 days	338	236
from 91 to 180 days	41	247
over 365 days	57	56
<i>Gross amount of past due trade receivables from related parties</i>	<u>436</u>	<u>539</u>

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Impairment of credit losses	(57)	(46)
Total	379	493

25. OTHER SHORT-TERM RECEIVABLES AND ASSETS*Other receivables and prepayments* of the Group include:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
<i>Court and awarded receivables</i>	15,256	15,609
<i>Impairment of court and awarded receivables</i>	(1,636)	(1,639)
Court and awarded receivables, net	13,620	13,970
Tax recovery	12,061	15,845
Loans granted to third parties	1,821	1,804
Prepayments	1,328	2,003
Amounts granted to investment intermediaries	869	200
Receivables on deposits placed as guarantees	179	318
Guarantees granted in court cases	25	-
Receivables from transactions with investments	-	417
Other	412	693
Total	30,315	35,250

Taxes refundable include:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
VAT	6,951	8,202
Excise tax	4,694	5,841
Income tax	385	1,797
Local taxes and charges and other taxes	31	5
Total	12,061	15,845

Prepayments include:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Subscriptions	591	920
Insurance	330	627
Rentals	111	53
Licence and patent fees	86	125
Vouchers	25	88
Other	185	190

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Total	1,328	2,003
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The loans granted to third parties, amounting to BGN 1,821 thousand (31 December 2021: BGN 1,804 thousand), are granted to two entities – counterparts, with the purpose of supporting the financing of these entities for common strategic objectives. The annual interest agreed for these loans for 2022 is between 3.05% and 4.7% (2021: between 3.05% and 4.7%).

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

	<i>30.09.2022</i> <i>BGN'000</i>	<i>31.12.2021</i> <i>BGN'000</i>
Balance at 1 January	1,639	454
(Decrease)/increase in the allowance for credit losses recognised in profit or loss for the year	(22)	884
Transfer from impairment of trade receivables	17	484
Effect of currency and exchange rate recalculations	2	-
Impairment written-off	-	(172)
Written-off impairment of receivables of subsidiaries upon disposal thereof	-	(11)
Balance at 30 September/ 31 December	1,636	1,639

26. CASH AND CASH EQUIVALENTS

	<i>30.09.2022</i> <i>BGN'000</i>	<i>31.12.2021</i> <i>BGN'000</i>
Cash at current bank accounts	14,393	30,385
Cash in hand	2,866	2,149
Short-term deposits	539	5,143
Short-term blocked funds	73	40
Cash and cash equivalents presented in the consolidated statement of cash flows	17,871	37,717
Blocked cash under court cases and issued bank guarantees	4	5
Cash and cash equivalents presented in the consolidated statement of financial position	17,875	37,722

The available cash and cash equivalents of the Group are mainly denominated in BGN, UAH and EUR (31 December 2021: BGN, RSD and UAH).

As at 30 September 2022, short-term blocked cash at the amount of BGN 73 thousand (31 December 2021: BGN 40 thousand) represent mainly blocked funds under performance guarantees.

27. EQUITY

Share capital

As at 30 September 2022, the registered share capital of Sopharma AD amounts to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

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

The ***treasury shares*** are 13,479,188 at the amount of BGN 52,203 thousand (31 December 2021: 13,055,000 at the amount of BGN 50,284 thousand).

Statutory reserves at the amount of BGN 68,628 thousand (31 December 2021: BGN 66,201 thousand) have been set aside from allocation of profit of the parent company and included all amounts for the Reserve Fund.

The ***revaluation reserve – for property, plant and equipment***, amounting to BGN 36,574 thousand (31 December 2021: BGN 36,788 thousand), has been set aside from excess of the carrying amount of property, plant and equipment of the Group companies over their fair values at the dates of the respective regular revaluation. The effect of deferred taxes on the revaluation reserve is stated directly through other components of comprehensive income for the year.

The reserve of financial assets at fair value through other comprehensive income at the amount of BGN 435 thousand (31 December 2021: BGN 1,644 thousand) has been formed by the impact of measurement at fair value of other long-term equity investments (including the consolidated share of the change in this reserve in associates on their valuation under the equity method). Upon derecognition of these investments, the reserve formed is not recycled through the statement of comprehensive income (through profit or loss for the period).

The ***translation of foreign operations reserve***, amounting to BGN 2,722 thousand – positive value (31 December 2021: BGN 682 thousand – positive value) has been set aside from exchange differences arising as a result of translation of the currency in the financial statements of foreign companies to the presentation currency of the Group.

Other equity components (warrant issue)

Pursuant to Art. 25 of the Statute of Sopharma AD dated 21 May 2021, the Board of Directors approved parameters and made a decision for issuing initial public offering of warrants. By means of Decision No 804 – E dated 4 November 2011, the Financial Supervision Commission registered an issue of 44 932 633 dematerialised, freely transferrable and registered warrants, with issue value BGN 0.28, issued by Sopharma AD pursuant to Art. 112b, Para 1 of POSA. The underlying asset of the issued warrants are future ordinary, registered, freely transferrable voting right shares, each holding one vote in the General Meeting of Shareholders, which will be issued by the Company conditionally, only in favour of warrant holders. Each registered warrant entitles the holder thereof to register one share from the future issue. The warrants' holders may exercise their right to register the respective number of shares in future increase of the Company's capital within a 3-month period, at a fixed price of BGN 4.13 per share. The exercise right arises from the date on which the warrant issue was registered with Central Depository AD – 16 November 2021.

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The warrants were admitted to trade on the main BSE market of Bulgarian Stock Exchange – Sofia AD, as from 17 November 2021.

The funds raised from the warrant issue, at the amount of BGN 12,488 thousand (31 December 2021: BGN 12,512 thousand) are presented as other components of equity in the statement of financial position, net of issue costs.

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

Retained earnings, amounting to BGN 506,885 thousand at 30 September (31 December 2021: BGN 444,634 thousand), include also the recognised accumulated actuarial loss at the amount of BGN 2,604 thousand (31 December 2021: BGN 2,604 thousand), stated upon remeasurement of defined benefit pension plans in relation with the amendment to IAS 19 *Employee Benefits*.

28. LONG-TERM BANK LOANS

	'000 Contracted loan amount	Maturity	30.9.2022			31.12.2021		
			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
Credit lines and working capital loans								
EUR	8,100	31.08.2024	15,798	-	15,798	14,627	-	14,627
BGN	20,000	15.09.2024	12,835	-	12,835	-	-	-
EUR	10,000	31.08.2024	4,626	-	4,626	6,750	-	6,750
EUR	1,100	31.10.2024	2,151	-	2,151	2,151	-	2,151
Investment-purpose loans								
EUR	5,210	31.03.2026	4,232	1,693	5,925	5,924	1,270	7,194
EUR	12,000	25.06.2024	2,719	3,753	6,472	5,540	3,743	9,283
BGN	4,330	10.07.2028	2,272	102	2,374	2,275	414	2,689
BGN	16,000	30.06.2024	1,417	2,462	3,879	3,263	2,655	5,918
EUR	2,070	30.04.2025	1,277	793	2,070	1,881	796	2,677
EUR	583	27.02.2024	158	377	535	444	380	824
BGN	4,250	16.04.2023	52	52	104	52	209	261
Total			47,537	9,232	56,769	42,907	9,467	52,374

The Group has gradually established a policy for annual re-negotiation of the terms and conditions of initially agreed long-term credit lines, including maturity terms. Starting from the date of re-negotiation, the extended credit lines are presented as short-term bank loans (*Note 34*).

The bank loans obtained in Euro are contracted mainly at interest rate determined on the basis of EURIBOR plus a mark-up of up to 2.1%, for BGN-denominated loans – up to 2.8% fixed (2021: for EUR – EURIBOR

plus a mark-up of up to 2.1% for BGN-denominated loans – up to 2.8% fixed). The loans are intended for providing working capital.

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

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

- Real estate mortgages (*Note 15*);
- Special pledges on:
 - machinery and equipment (*Note 15*);
 - inventories (*Note 22*);
 - trade receivables (*Note 23*).

29. NON-CURRENT PAYABLES TO RELATED PARTIES

Non-current payables to related parties at 30 September include:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Lease liabilities	18,148	2,591
Payables related to share purchase	7,619	7,619
Total	25,767	10,210

The lease payments due within 12 months are presented in the annual consolidated statement of financial position within current payables, within “payables to related parties” (*Note 36*).

30. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

The long-term employee benefits as at 30 September include:

	30.09.2022	31.12.2021
	BGN '000	BGN '000
Long-term retirement benefit obligations	7,801	7,300
Long-term benefit obligations for tantieme	244	322
Total	8,045	7,622

Long-term retirement benefit obligations

The long-term payables to personnel include the present value of the obligation of the Group companies, operating mainly in *Bulgaria and Ukraine*, to pay indemnities to the hired personnel at the date of the

statement of financial position on coming of age for retirement. In accordance with the Labour Code in *Bulgaria* each employee is entitled to indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for at least the last 10 years of the service period for the same employer – six gross monthly salaries at the time of retirement (*Note 2.24*).

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

- *Ukraine* – the employer is obliged to pay between UAH 250 and 500 (BGN 15 and BGN 30) depending on the length of service as well as a social pension, which the company accrues after employees' retirement due to specific work conditions;
- *Moldova* – the employer does not have a legal obligation to personnel upon retirement;
- *Kazakhstan* – according to the Kazakhstani legislation, the employer does not have a legal obligation to personnel upon retirement;
- *Serbia* – the employer is obliged to pay 3 average salaries.

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Long-term benefit obligations for tantieme

As at 30 September 2022, the long-term benefit obligations to personnel include also the amount of BGN 244 thousand (31 December 2021: BGN 322 thousand), representing a payable to personnel related to tantieme payment for a period of more than 12 months – until 2025 (2021: until 2024).

31. LEASE LIABILITIES

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

	30.09.2022			31.12.2021		
	<i>Lease liabilities</i>	<i>Lease liabilities to related parties (Note 29 and Note 36)</i>	<i>Total</i>	<i>Lease liabilities</i>	<i>Lease liabilities to related parties (Note 29 and Note 36)</i>	<i>Total</i>
Term	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Up to one year	12,208	2,603	14,811	11,583	1,723	13,306
Over one year	39,896	18,148	58,044	38,589	2,591	41,180
	52,104	20,751	72,855	50,172	4,314	54,486

Lease liabilities to related parties are stated within Non-current payables to related parties (*Note 29*) and Payables to related parties (*Note 36*).

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

	30.09.2022			31.12.2021		
	<i>Third parties</i>	<i>Related parties</i>	<i>Total</i>	<i>Third parties</i>	<i>Related parties</i>	<i>Total</i>
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Term						
Up to one year	13,160	2,669	15,829	12,492	1,813	14,305
Over one year	41,675	18,422	60,097	40,480	2,699	43,179
	54,835	21,091	75,926	52,972	4,512	57,484
Future finance cost on leases	(2,731)	(340)	(3,071)	(2,800)	(198)	(2,998)
Present value of the lease liabilities to third and related parties	52,104	20,751	72,855	50,172	4,314	54,486

Right-of-use assets are included in the statement of financial position within property, plant and equipment, as follows:

<i>Land</i>	<i>Buildings</i>	<i>Vehicles</i>	<i>Furniture and fixtures</i>	<i>Total</i>
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	2022 BGN'000	2021 BGN'000	2022 BGN'000	2021 BGN'000	2022 BGN'000	2021 BGN'000	2022 BGN'000	2021 BGN'000	2022 BGN'000	2021 BGN'000
Book value										
Balance at 1 January	9	38	69,370	77,836	11,293	13,672	282	260	80,954	91,806
Increases/additions	-	-	30,493	12,448	2,356	2,554	105	42	32,954	15,044
Decreases/disposals	-	(29)	(10,189)	(20,914)	(1,531)	(4,933)	(116)	(20)	(11,836)	(25,896)
Balance at 30 September/ 31 December	9	9	89,674	69,370	12,118	11,293	271	282	102,072	80,954
Accumulated depreciation										
Balance at 1 January	3	8	21,250	18,734	5,105	6,288	173	82	26,531	25,112
Depreciation charge for the period	1	5	9,586	15,203	1,970	2,938	75	102	11,632	18,248
Depreciation written-off	-	(10)	(6,757)	(12,687)	(1,514)	(4,121)	(117)	(11)	(8,388)	(16,829)
Balance at 30 September /31 December	4	3	24,079	21,250	5,561	5,105	131	173	29,775	26,531
Carrying amount at 30 September/ 31 December	5	6	65,595	48,120	6,557	6,188	140	109	72,297	54,423
Carrying amount at 1 January	6	30	48,120	59,102	6,188	7,384	109	178	54,423	66,694

32. GOVERNMENT GRANTS

The government grants to Group companies as at 30 September include:

	30.09.2022 BGN'000	31.12.2021 BGN'000
Government grants, non-current portion	6,505	6,783
Government grants, current portion (<i>Note 40</i>)	584	813
Total	7,089	7,596

The government grants received as at 30 September are to the following Group companies:

	30.09.2022 BGN'000	31.12.2021 BGN'000
Sopharma AD	4,112	4,427
Biopharm Engineering AD	2,793	2,969
Veta Pharma AD	184	200
Total	7,089	7,596

The government grants are received by the Group companies under European Operational Programmes mainly in relation to the acquisition of machinery and equipment (*Note 15*). The current portion of the grants, amounting to BGN 584 thousand (31 December 2021: BGN 813 thousand), will be recognised as current income over the following 12 months from the date of the interim consolidated statement of financial position and is presented as 'other current liabilities' (*Note 40*).

33. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 30 September include:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Payables related to share purchase	7,626	7,626
Other	-	9
	7,626	7,635

34. SHORT-TERM BANK LOANS

The *short-term bank loans* of the Group as at 30 September are as follows:

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	30.09.2022	31.12.2021
<i>Bank loans (overdrafts)</i>	<i>'000</i>		BGN'000	BGN'000
EUR	34,200	30.11.2022	51,413	42,712
BGN	41,500	31.07.2023	39,519	38,601
EUR	5,000	25.07.2023	9,750	9,757
EUR	4,500	31.10.2022	8,760	8,760
BGN	10,000	31.07.2023	8,356	5,476
EUR	3,000	25.07.2023	5,854	5,858
		24.12.2022 -		
RSD/EUR	8,000	29.09.2023	4,336	6,754
EUR	3,000	31.10.2022	3,648	7,559
EUR	1,500	02.09.2023	2,934	2,934
UAH	128,000	01.07.2022	1,376	6,106
BGN	9,779	05.09.2023	201	9,759
BGN	20,000	05.09.2023	-	19,967
EUR	1,000	04.01.2023	-	1,956
			136,147	166,199
<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	30.09.2022	31.12.2021
	BGN'000		BGN'000	BGN'000
<i>Credit lines</i>				
BGN	24,625	31.07.2023	15,816	17,707
EUR	7,500	25.07.2023	12,014	12,025
BGN	10,000	31.07.2023	9,979	10,000
BGN	20,000	31.01.2022	-	11,461
			37,809	51,193
Total			173,956	217,392

The received bank loans in euro are agreed mainly at an interest rate determined on the basis of EURIBOR plus a margin of up to 3.5%; for BGN loans - reference interest rate of the respective bank plus margin up to 1.5% and fixed up to 1.45%; for UAH 22.75% fixed; for a dinar interest rate determined on the basis of

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BELIBOR plus margin up to 1.2% (2021: EURIBOR plus margin up to 2.75% or fixed up to 2%; for BGN loans - reference interest rate of the respective bank plus margin up to 1.5% and fixed up to 1.45 for dinar - interest rate determined on the basis of BELIBOR 1.2%, for UAH 10.8% fixed). The loans are for working capital.

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

- machinery and equipment (*Note 15*);
- raw materials, consumables and finished products (*Note 22*);
- trade receivables (*Note 23*).

As at 30 September 2022, there are special pledges on receivables from related parties, subject to consolidation and eliminated for the purpose of the consolidated financial statements, at the amount of BGN 50,961 thousand (31 December 2021: BGN 60,871 thousand), established as collateral under received by the Group bank loans and issued bank guarantees (*Notes 28, 34 and 41*).

35. TRADE PAYABLES

<i>Trade payables</i> include:	30.09.2022 BGN'000	31.12.2021 BGN'000
Payables to suppliers	151,606	142,681
Advances from clients	557	799
Total	152,163	143,480

The <i>payables to suppliers</i> refer to:	30.09.2022 BGN'000	31.12.2021 BGN'000
Suppliers outside Bulgaria	99,315	98,554
Suppliers from Bulgaria	52,291	44,127
Total	151,606	142,681

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

36. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	30.09.2022 BGN'000	31.12.2021 BGN'000
Payables to joint ventures and associates	2,590	1,721
Payables to shareholding companies with significant influence	1,258	1,124

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Payables to companies related through key management personnel	840	831
Payables to companies controlled by an associate	183	24
Total	4,871	3,700

The payables to related parties by type are as follows:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Short-term lease liabilities	2,603	1,723
Payables on supply of goods and materials	1,001	848
Payables related to share purchase	1,129	1,019
Supply of services	131	106
Deposits granted	6	-
Supply of fixed assets	1	-
Advance payables	-	4
Total	4,871	3,700

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

37. PAYABLES UNDER FACTORING AGREEMENT

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

The Factor is entitled to recourse for all amounts paid in advance regardless of whether they are included not in the approved credit limit. The approved credit limit as at 30 September 2022 is BGN 15,000 thousand (2021: BGN 15,000 thousand). The transferred invoices are paid in advance up to 90% (ninety per cent) of their amount with VAT included.

The payable under the factoring agreement amounts to BGN 2,867 thousand as at 30 September 2022 (31 December 2021: BGN 6,370 thousand).

The financing granted for 2022 amounts to BGN 25,800 thousand (2021: 169,542 thousand) (*Note 2.18*).

38. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

<i>Payables to personnel and for social security include:</i>	30.09.2022	31.12.2021
	BGN'000	BGN'000
Payables to personnel, including:	15,741	14,682
<i>current wages and salaries</i>	7,922	7,692
<i>accruals on unused compensated leaves</i>	4,015	3,518
<i>Tantieme</i>	3,804	3,472
Payables for social security/health insurance, including:	3,517	3,206
<i>current payables for social security contributions</i>	2,877	2,634
<i>accruals on unused compensated leaves</i>	640	572
Total	19,258	17,888

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<i>Tax payables</i> include:	30.09.2022	31.12.2021
	BGN'000	BGN'000
VAT	3,017	6,039
Profit taxes	2,588	36
Individual income taxes	1,301	540
Taxes on expenses	302	409
Withholding taxes	4	-
Other	16	15
Total	7,228	7,039

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

Company	Full-scope tax audit	VAT inspection	Inspection under the social security legislation
Sopharma AD	31.12.2011	31.12.2011	30.09.2013
Sopharma Trading AD	31.12.2011	31.12.2017	30.04.2018
Biopharm Engineering AD	31.12.2014	31.07.2022	30.04.2009
Pharmalogistica AD	31.12.2005	31.12.2007	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none
Veta Pharma AD	none	31.08.2022	30.06.2016
Sopharmacy EOOD	none	31.07.2020	none
Sopharmacy 2 EOOD	none	30.06.2019	none
Sopharmacy 3 EOOD	none	30.11.2017	none
Sopharmacy 4 EOOD	none	30.04.2019	none
Sopharmacy 5 EOOD	none	31.08.2020	none
Sopharmacy 6 EOOD	none	31.07.2019	none
Sopharmacy 7 EOOD	none	31.05.2019	none
Sopharmacy 8 EOOD	none	31.08.2020	none
Sopharmacy 9 EOOD	none	31.12.2020	none
Sopharmacy 10 EOOD	none	31.03.2020	none
Sopharmacy 11 EOOD	none	31.08.2018	none
Sopharmacy 12 EOOD	none	30.11.2018	none
Sopharmacy 13 EOOD	none	31.12.2020	none
Sopharmacy 14 EOOD	none	31.12.2018	none
Sopharmacy 15 EOOD	none	28.02.2018	none
Sopharmacy 16 EOOD	none	31.12.2019	none
Sopharmacy 17 EOOD	none	31.12.2020	none
Sopharmacy 18 EOOD	none	30.10.2021	none
Sopharmacy 19 EOOD	none	31.12.2017	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

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Sopharmacy 23 EOOD	none	31.05.2014	30.04.2020
Sopharmacy 24 EOOD	none	none	30.04.2020
Sopharmacy 25 EOOD	none	31.05.2019	30.04.2020
Sopharmacy 26 EOOD	none	31.08.2017	none
Sopharmacy 27 EOOD	none	31.12.2013	none
Sopharmacy 29 EOOD	none	31.05.2019	none
Sopharmacy 30 EOOD	none	31.12.2013	30.04.2020
Sopharmacy 31 EOOD	none	31.12.2019	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	31.03.2018	30.04.2020
Sopharmacy 38 EOOD	none	31.07.2017	30.04.2020
Sopharmacy 40 EOOD	none	none	30.04.2020
Sopharmacy 41 EOOD	none	30.11.2018	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	31.05.2017	none
Sopharmacy 47 EOOD	none	31.11.2016	31.03.2020
Sopharmacy 48 EOOD	none	30.06.2021	31.08.2017
Sopharmacy 49 EOOD	31.12.2015	31.12.2014	31.05.2020
Sopharmacy 50 EOOD	none	31.12.2018	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 EOOD	none	31.07.2018	none
Sopharmacy 63 EAD	31.12.2012	none	31.12.2019
Sopharmacy 64 AD	31.12.2016	none	none
PAO Vitamini	31.12.2013	31.12.2013	01.04.2014
OOO Sopharma Ukraine	31.12.2014	31.12.2014	30.06.2016
Sopharma Warsaw SP. Z.O.O.	none	none	06.07.2017
Sopharma Trading d.o.o., Serbia	31.03.2017	30.06.2017	15.04.2017

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

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

40. OTHER CURRENT LIABILITIES

Other current liabilities include:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Payables for recovery under contracts with customers	3,530	2,631
Payables related to share purchase	1,130	1,014
Contract liabilities	1,159	978
Government grants (<i>Note 32</i>)	584	813
Dividend payables	514	608
Provisions under financial guarantees	155	139
Payables under deposits placed as guarantees	144	299
Deductions from work salaries	58	93
Awarded amounts under litigations	48	34
Other	1,365	364
Total	8,687	6,973

41. CONTINGENT LIABILITIES AND COMMITMENTS**Issued and granted guarantees*****Sopharma AD***

The company provided the following collaterals in favour of banks under loans to associates:

In favour of Doverie Obedinen Holding AD	30.09.2022	31.12.2021
	BGN '000	BGN '000
Buildings	7,963	8,252
Land	6,624	6,624
Total	14,587	14,876

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

	Maturity	Currency	Contracted amount		Guaranteed amount
			<i>Original</i>		<i>30.09.2022</i>
			<i>currency</i>		<i>BGN'000</i>
				<i>BGN'000</i>	<i>BGN'000</i>
Doverie Obedinen Holding AD	2027	BGN	30,000	30,000	22,500
Doverie Obedinen Holding AD	2022	EUR	5,000	9,779	9,779
Energoinvestment AD	2023	BGN	2000	2000	1,600

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Pharmaplant AD	2023	BGN	235	460	46
Total					33,925

Sopharma Trading AD

As at 31 December 2021 the company concluded a contract for guarantorship under a loan of MBAL Doverie AD. As of 30 September 2022, the obligation under the bank loan agreement has been repaid. (31.12.2021: BGN 260,000).

Bank guarantees***Sopharma Trading AD***

The bank guarantees issued in favour of the company as at 30 September 2022 amount to BGN 15,412 thousand (31 December 2021: BGN 17,978 thousand) are to secure payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medicinal products to hospitals under concluded contracts, customs office guarantees and tender participation and collateral under rental of retail sites (pharmacies).

The bank guarantees have been issued by:

	30.09.2022	31.12.2021
	BGN '000	BGN '000
DSK AD	8,156	6,658
Raiffeisen EAD	4,544	5,229
ING Bank N.V.	2,712	6,091
	15,412	17,978

The collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 2,934 thousand (31 December 2021: BGN 2,934 thousand) (*Note 22*).
- Special pledge on receivables from clients with a carrying amount of BGN 2,347 thousand (31 December 2021: BGN 2,347 thousand) (*Note 23*).

As at 30 September 2022 Sopharma Trading AD granted bank guarantees at the amount of BGN 1,277 thousand (31 December 2021: BGN 1,308 thousand) as collateral under rental agreements for retail sites (pharmacies) parties to which are its subsidiaries.

Sopharma Trading d.o.o., Serbia

As at 30 September 2022 the bank guarantees issued in favour of the company amount to BGN 10,844 thousand (31 December 2021: BGN 26,256 thousand) are to secure payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medicinal products to hospitals under concluded contracts, customs office guarantees and tender participation.

The bank guarantees have been issued by:

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	30.09.2022	31.12.2021
	BGN '000	BGN '000
Raiffeisen AD Belgrade	6,571	21,991
OTP Bank Serbia AD Belgrade (SG Expressbank AD Belgrade)	2,225	2,221
Eurobank AD Belgrade	1,652	1,649
Intesa Bank AD Belgrade	396	395
	10,844	26,256

Insurance of performance guarantees***Sopharma Trading AD***

As at 30 September 2022, the Group has concluded contracts for instance of performance securities for participation in tenders for supply of medicinal products and consumables for hospitals and the Ministry of Health, at the amount of BGN 4,636 thousand (31 December 2021: BGN 9,743 thousand).

Assets held under safe custody***Sopharma Trading AD***

According to concluded pre-distribution contracts, the Company has received goods for safe custody amounting to BGN 3,914 thousand as at 30 September 2022 (31 December 2021: BGN 2,024 thousand).

Significant irrevocable agreements and commitments***Sopharma AD***

The Company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 and Operational Programme "Energy Efficiency" (Note 32 and Note 40), related to the acquisition of non-current assets, reconstruction of buildings and technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section and implementation of "artificial tears" innovative eye drops (Note 15).

The Company undertook a commitment that for a period of 5 years after the completion of the respective projects they shall not be subject to significant modifications affecting the essence and the terms and conditions for their execution or giving rise to unjustified benefits to the company, neither modifications resulting from a change in the nature of ownership over the assets acquired in relation to the grants. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the financial statements, all contractual requirements were being fulfilled.

Biopharm Engineering AD

The company has assumed a commitment under a grant contract with a term of five years after completion of the project for acquisition of:

- (a) line for production of amino acid solution for parenteral nutrition, which includes components for inflation, filling and hermitization in aseptic environment, and
- (b) clean rooms construction (omega profile ceilings, separation walls, doors, blocking devices, lighting, air conditioning, etc.). The term commenced on 27 April 2015 (the date on which the project was ultimately approved by the financing institution) and according to the contract the project should not suffer significant changes referring to its nature, the conditions of its performance or leading to unjustifiable benefits for the

company as well as changes resultant from modification in the nature of ownership of infrastructural component or discontinuance of production activities.

On non-compliance with these requirements, the financing shall be returned. At the date of approval for issue of the financial statements, all contractual requirements were fulfilled.

Veta Pharma AD

The company received three government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 (*Notes 32 and 40*) related to enhancing the efficiency of companies and developing a favourable business environment (*Note 15*). The company has undertaken a commitment within 3 years after completion of the respective projects to not undergo significant changes concerning the essence and conditions of performance or resulting in undue benefits for the company, as well as changes resulting from a change in the ownership of the assets acquired in relation to the funding. Upon failure to meet these requirements, the funding is subject to recovery. As at the date of preparation of the statements, all contractual conditions have been met.

42. FINANCIAL RISK MANAGEMENT

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

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

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

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

The structure of financial assets and liabilities at 30 September 2022 is as follows:

Categories of financial instruments:	30.09.2022	31.12.2021
	BGN '000	BGN '000
<i>Financial assets</i>		
Financial assets at amortised cost, including:	333,091	333,111
<i>Receivables and loans granted (Notes 20, 21, 23, 24 and 25)</i>	315,220	295,394
<i>Cash and cash equivalents (Note 26)</i>	17,871	37,717
Financial assets at fair value through other comprehensive income, including:	4,498	5,778
<i>Equity investments (Note 19)</i>	4,498	5,778

<i>Total financial assets</i>	337,589	338,889
<i>Financial liabilities</i>		
Financial assets at amortised cost, including:	481,953	494,716
<i>Short-term and long-term bank loans (Notes 28 and 34)</i>	230,725	269,766
<i>Other loans and payables (Notes 33, 35, 36 and 40)</i>	178,373	170,464
<i>Finance lease liabilities (Note 31)</i>	72,855	54,486
Total financial liabilities	481,953	494,716

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

	30.09.2022	31.09.2021
	BGN '000	BGN '000
Trade and other receivables, including from related parties	6,697	55
Loans at amortised cost	1,354	62
Court and awarded receivables	(22)	-
Total	8,029	117

Credit risk

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

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

Trade receivables

In its business practice, the Group has applied various schemes of distribution until arriving at its current effective approach, which considers the market environment, various forms of payments, as well as the inclusion of trade rebates. The Group works with counterparts with whom it has a history on its main markets, and partners with over 70 Bulgarian and foreign licensed distributors of medicinal products.

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

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

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

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

Each matrix percentage is initially determined based on historical data observed by the Group companies for a period of three years. The method is based on analysis of the history and assessing behaviour for each invoice within a group issued over at least the last three years, including pays past due, going period by period among the different past due ranges, payments and outstanding receivables, etc. Based on that, the loss percentage is determined as bad debt for the given group of factors versus past due invoices by days. The period of occurrence on an economic loss from uncollectability is determined by customer portfolios: wholesalers, pharmacy market, hospital market, and by geographic regions. This period is examined and historically assessed. The Group does not have a practice to request collateral of trade receivables, and does not insure them. Second, the Group makes the impairment provisioning matrixes for each portfolio precise by adjusting certain percentages based on historical data for the behaviour of payments under the invoices issued and historical losses from bad debt, by including scenarios and forecast information about certain macro factors. Historical percentages are adjusted to reflect the effect of the future behaviour of macroeconomic factors for which a statistical dependence has been identified and which are considered to impact the customers' ability to service and settle their payables.

Court and awarded receivables

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

Loans and financial guarantees granted

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

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

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

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

Quantitative criteria:

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

Qualitative criteria:

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

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

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

Quantitative criteria

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

Qualitative criteria

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

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

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

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

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

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

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

	<i>Note</i>	<i>Internal credit risk categorisation</i>	<i>Expected credit losses (IFRS 9)</i>	<i>Gross carrying amount</i>	<i>Impairment loss (allowance)</i>	<i>Carrying amount</i>
30.09.2022				BGN '000	BGN '000	BGN '000
Long-term loans to related parties	20	Initially negotiated loans – Stage 1	<i>Lifetime (credit-impaired)</i>	50,922	(120)	50,802
Short-term loans to related parties	24	Renegotiated Stage 2	<i>Lifetime (credit-impaired)</i>	13,888	(1,328)	12,560
Long-term loans to third parties	21	Renegotiated Stage 2	<i>Lifetime (credit-impaired)</i>	6,448	(9)	6,439
Short-term loans to third parties	23	Renegotiated Stage 2	<i>Lifetime (credit-impaired)</i>	1,821	-	1,821
Trade and other receivables from related parties	20, 24	N/A	<i>For a 12-month period</i>	4,793	(3,806)	987
Trade and other receivables from third parties	21, 23, 25	N/A	<i>For a 12-month period</i>	252,053	(9,442)	242,611
<i>(incl. court receivables)</i>	25			<u>15,256</u>	<u>(1,636)</u>	<u>13,620</u>
Financial assets				<u>329,925</u>	<u>(14,705)</u>	<u>315,220</u>

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<i>31.12.2021</i>	<i>Note</i>	<i>Internal credit risk categorisation</i>	<i>Expected credit losses (IFRS 9)</i>	<i>Gross carrying amount</i>	<i>Impairment loss (allowance)</i>	<i>Carrying amount</i>
				<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Long-term loans to related parties	20	Initially negotiated loans – Stage 1	<i>Lifetime (credit-impaired)</i>	49,792	(97)	49,695
Short-term loans to related parties	24	Renegotiated Stage 2	<i>Lifetime (credit-impaired)</i>	13,621	-	13,621
Long-term loans to third parties	21	Renegotiated Stage 2	<i>Lifetime (credit-impaired)</i>	6,314	(6)	6,308
Short-term loans to third parties	23	Renegotiated Stage 2	<i>Lifetime (credit-impaired)</i>	1,714	-	1,714
Short-term loans to third parties	23	Underperforming Stage 3	<i>Lifetime (credit-impaired)</i>	90	0	90
Trade and other receivables from related parties	20, 24	N/A	<i>For a 12-month period</i>	905	(47)	858
Trade and other receivables from third parties	21, 23, 25	N/A	<i>For a 12-month period</i>	229,644	(6,536)	223,108
<i>(incl. court receivables)</i>	25			<u>15,609</u>	<u>(1,639)</u>	<u>13,970</u>
Financial assets				<u>302,080</u>	<u>(6,686)</u>	<u>295,394</u>

The table below provides information about the Group's exposure to credit risk and the impairment of credit losses for loans granted, trade receivables and other receivables as at 30 September 2022:

<i>Category</i>	<i>Correlation to an external credit rating</i>	<i>Average percentage of expected impairment loss</i>	<i>Gross carrying amount</i>	<i>Impairment loss (allowance)</i>
			<i>BGN '000</i>	<i>BGN '000</i>
Initially negotiated loans (Stage 1)	B3	0.24%	50,922	(120)
Renegotiated loans (Stage 2)	Caa1	0.00%	8,712	-
Renegotiated loans (Stage 2)	B3	0.11%	8,006	(9)
Initially negotiated loans (Stage 1)	Ba1	0.00%	4,111	-
Renegotiated loans (Stage 2)	B1	100.00%	1,328	(1,328)
Trade and other receivables (Stage 1)	N/A	4.81%	241,590	(11,612)
Underperforming trade receivables (court and awarded receivables)	N/A	10.72%	<u>15,256</u>	<u>(1,636)</u>
Total			<u>329,925</u>	<u>(14,705)</u>

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

	<i>30.09.2022</i>	<i>31.12.2021</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Client 1	78.95%	77.44%
Client 2	13.13%	12.89%
Client 3	6.39%	6.25%

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

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

	30.09.2022	% credit exposure versus the total amount of trade receivables	31.12.2021	% credit exposure versus the total amount of trade receivables
	BGN'000	%	BGN'000	%
Client 1	18,189	8%	12,809	6%
Client 2	14,482	7%	11,624	6%
Client 3	7,678	3%	6,659	3%
Client 4	5,782	3%	5,881	3%
Client 5	4,555	2%	4,063	2%

Cash

The Group's cash and payment operations are concentrated in different first-class banks. To calculate expected credit losses for cash and cash equivalents, it applies a model based on the bank's public ratings as determined by internationally recognised rating firms like Moody's, Fitch, S&P, BCRA and Bloomberg and the reference public data about PD referring to the rating of the respective bank.

The management monitors changes in a bank's rating on an ongoing basis in order to assess the presence of increased credit risk, ensure the current management of incoming and outgoing cash flows and the allocation of cash in the bank accounts and banks.

Foreign currency risk

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

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

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

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

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

30 September 2022	in BGN	in EUR	in RSD	in USD	in UAH	in other currency	Total
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	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Equity investments	4,483	-	-	15	-	-	4,498
Financial assets at amortised cost, including	232,724	23,413	56,330	7,768	7,210	5,646	333,091
<i>Loans and receivables, Cash and cash equivalents</i>	<i>223,859</i>	<i>21,092</i>	<i>55,654</i>	<i>7,488</i>	<i>3,338</i>	<i>3,789</i>	<i>315,220</i>
	<u>8,865</u>	<u>2,321</u>	<u>676</u>	<u>280</u>	<u>3,872</u>	<u>1,857</u>	<u>17,871</u>
Total financial assets	<u>237,207</u>	<u>23,413</u>	<u>56,330</u>	<u>7,783</u>	<u>7,210</u>	<u>5,646</u>	<u>337,589</u>
30 September 2022	<i>in BGN</i>	<i>in EUR</i>	<i>in RSD</i>	<i>in USD</i>	<i>in UAH</i>	<i>in other currency</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Short-term and long-term bank loans	95,239	130,693	3,417	-	1,376	-	230,725
Other loans and liabilities	76,408	60,291	38,560	1,624	371	1,119	178,373
Lease liabilities	<u>51,297</u>	<u>20,020</u>	<u>-</u>	<u>1,197</u>	<u>-</u>	<u>341</u>	<u>72,855</u>
Total financial liabilities	<u>222,944</u>	<u>211,004</u>	<u>41,977</u>	<u>2,821</u>	<u>1,747</u>	<u>1,460</u>	<u>481,953</u>
31 December 2021	<i>in BGN</i>	<i>in EUR</i>	<i>in RSD</i>	<i>in USD</i>	<i>in UAH</i>	<i>in other currency</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Equity investments	5,755	-	-	23	-	-	5,778
Financial assets at amortised cost, including	221,866	31,236	57,173	7,445	10,372	5,019	333,111
<i>Loans and receivables, Cash and cash equivalents</i>	<i>202,525</i>	<i>29,651</i>	<i>48,550</i>	<i>7,103</i>	<i>3,372</i>	<i>4,193</i>	<i>295,394</i>
	<u>19,341</u>	<u>1,585</u>	<u>8,623</u>	<u>342</u>	<u>7,000</u>	<u>826</u>	<u>37,717</u>
Total financial assets	<u>227,621</u>	<u>31,236</u>	<u>57,173</u>	<u>7,468</u>	<u>10,372</u>	<u>5,019</u>	<u>338,889</u>
31 December 2021	<i>in BGN</i>	<i>in EUR</i>	<i>in RSD</i>	<i>in USD</i>	<i>in UAH</i>	<i>in other currency</i>	<i>Total</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Short-term and long-term bank loans	125,949	132,073	5,638	-	6,106	-	269,766
Other loans and liabilities	70,321	57,365	37,012	3,600	1,476	690	170,464
Lease liabilities	<u>49,532</u>	<u>3,641</u>	<u>-</u>	<u>1,091</u>	<u>-</u>	<u>222</u>	<u>54,486</u>
Total financial liabilities	<u>245,802</u>	<u>193,079</u>	<u>42,650</u>	<u>4,691</u>	<u>7,582</u>	<u>912</u>	<u>494,716</u>

Foreign currency sensitivity analysis

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

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The effect of foreign currency sensitivity to 10% increase/decrease in current exchange rates of BGN to the Serbian Dinar (RSD), Belarusian Ruble (BYN), Ukrainian Hryvnia (UAH), US Dollar (USD) and in general to the other foreign currency exposures, based on the structure of foreign currency assets and liabilities at 30 September and on the assumption that the influence of all other variables is ignored, has been measured and presented as impact on the post-tax consolidated financial result and on the equity of the Group.

The impact in 2022 of a 10% increase/decrease in the exchange rates of RSD, BYN, UAH, USD against BGN on the Group's profit (following taxation) is:

	30.09.2022				30.09.2021			
	<i>RSD BGN '000</i>	<i>BYN BGN '000</i>	<i>USD BGN '000</i>	<i>UAH BGN '000</i>	<i>RSD BGN '000</i>	<i>BYN BGN '000</i>	<i>USD BGN '000</i>	<i>UAH BGN '000</i>
Financial result	1,220	-	447	448	534	(849)	(1,099)	201
Retained earnings	1,220	-	447	448	534	(849)	(1,099)	201

Other currencies include mainly: BGN 2,418 thousand in PLN net financial assets and BGN 53 thousand in MDL net financial assets (as at 30 September 2022: BGN 2,151 thousand in PLN and BGN 2,344 thousand in MDL net financial assets and BGN 2,117 thousand in RUB – net financial liabilities).

In case of 10% increase/decrease in the exchange rates of PLN, MDL and RUB against BGN the final effect on the Group's profit (following taxation) is:

	30.09.2022			30.09.2021		
	<i>PLN BGN '000</i>	<i>MDL BGN '000</i>	<i>RUB</i>	<i>PLN BGN '000</i>	<i>MDL BGN '000</i>	<i>RUB</i>
Financial result	196	(5)	-	174	206	(174)
Retained earnings	196	(5)	-	174	206	(174)

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

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

Price risk

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

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

For the purpose of mitigating this influence, the management of the Group applies a strategy aimed at optimisation of production costs, validation of alternative suppliers that offer beneficial commercial conditions, expanding product range by means of new generic products development and last but not least,

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adoption of a flexible marketing and price policy. Price policy is a function of three main factors – structure of expenses, prices of competitors and purchasing capacity of customers.

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

Liquidity risk

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

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is its main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding.

To isolate any possible general liquidity risk, the group implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities.

This is supplemented by current monitoring of the maturities of assets and liabilities, control over cash outflows and ensuring their current balancing with inflows, including renegotiation of maturities and optimisation of debt structure, increase and internal restructuring of self-generated funds and their investment.

Maturity analysis

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

***Maturity analysis as at
30 September 2022***

	<i>up to 1 month</i> BGN '000	<i>1 to 3 months</i> BGN '000	<i>3 to 6 months</i> BGN '000	<i>6 to 12 months</i> BGN '000	<i>1 to 2 years</i> BGN '000	<i>2 to 5 years</i> BGN '000	<i>over 5 years</i> BGN '000	<i>Total</i> BGN '000
Short-term and long-term bank loans	13,481	54,353	12,441	108,482	44,204	1,731	616	235,308
Other loans and liabilities	88,418	58,265	11,729	4,503	2,337	7,151	7,014	179,417
Lease liabilities	<u>1,515</u>	<u>2,913</u>	<u>4,301</u>	<u>8,232</u>	<u>15,080</u>	<u>29,565</u>	<u>14,320</u>	<u>75,926</u>
Total liabilities	<u>103,414</u>	<u>115,531</u>	<u>28,471</u>	<u>121,217</u>	<u>61,621</u>	<u>38,447</u>	<u>21,950</u>	<u>490,651</u>

***Maturity analysis as at
31 December 2021***

<i>up to 1 month</i> BGN '000	<i>1 to 3 months</i> BGN '000	<i>3 to 6 months</i> BGN '000	<i>6 to 12 months</i> BGN '000	<i>1 to 2 years</i> BGN '000	<i>2 to 5 years</i> BGN '000	<i>over 5 years</i> BGN '000	<i>Total</i> BGN '000
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Short-term and long-term bank loans	63,024	2,261	34,630	132,920	33,160	6,781	994	273,770
Other loans and liabilities	93,031	59,721	1,287	1,447	2,545	6,137	9,350	173,518
Lease liabilities	<u>1,219</u>	<u>2,489</u>	<u>3,614</u>	<u>6,670</u>	<u>12,119</u>	<u>21,915</u>	<u>9,458</u>	<u>57,484</u>
Total liabilities	<u>157,274</u>	<u>64,471</u>	<u>39,531</u>	<u>141,037</u>	<u>47,824</u>	<u>34,833</u>	<u>19,802</u>	<u>504,772</u>

Risk of interest-bearing cash flows

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

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

The managing bodies of the Group companies together with the management of the parent currently monitor and analyse the exposure of the respective company to the changes in interest levels. Simulations are carried out for various scenarios of refinancing, renewal of existing positions, and alternative financing. The impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated based on these scenarios. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

<i>Interest analysis</i> <i>30 September 2022</i>	<i>interest-free</i> <i>BGN '000</i>	<i>with floating</i> <i>interest %</i> <i>BGN '000</i>	<i>with fixed</i> <i>interest %</i> <i>BGN '000</i>	<i>Total</i> <i>BGN '000</i>
Equity investments	4,498	-	-	4,498
Financial assets at amortised cost, including:	241,052	8,433	83,606	333,091
<i>Receivables and loans</i>	<i>231,977</i>	<i>15</i>	<i>83,228</i>	<i>315,220</i>
<i>Cash and cash equivalents</i>	<u><i>9,075</i></u>	<u><i>8,418</i></u>	<u><i>378</i></u>	<u><i>17,871</i></u>
Total financial assets	<u>245,550</u>	<u>8,433</u>	<u>83,606</u>	<u>337,589</u>

<i>Interest analysis</i> <i>30 September 2022</i>	<i>interest-free</i> <i>BGN '000</i>	<i>with floating</i> <i>interest %</i> <i>BGN '000</i>	<i>with fixed</i> <i>interest %</i> <i>BGN '000</i>	<i>Total</i> <i>BGN '000</i>
Short-term and long-term bank loans	-	228,432	2,293	230,725
Other loans and liabilities	175,484	2,887	2	178,373
Lease liabilities	-	4,070	68,785	72,855

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Total financial liabilities	175,484	235,389	71,080	481,953
<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating interest %</i>	<i>with fixed interest %</i>	<i>Total</i>
31 December 2021	BGN '000	BGN '000	BGN '000	BGN '000
Equity investments	5,778	-	-	5,778
Financial assets at amortised cost, including:	228,668	22,040	82,403	333,111
Receivables and loans	213,710	15	81,669	295,394
Cash and cash equivalents	14,958	22,025	734	37,717
Total financial assets	234,446	22,040	82,403	338,889
<i>Interest analysis</i>	<i>interest-free</i>	<i>with floating interest %</i>	<i>with fixed interest %</i>	<i>Total</i>
31 December 2021	BGN '000	BGN '000	BGN '000	BGN '000
Short-term and long-term bank loans	31	255,755	13,980	269,766
Other loans and liabilities	164,311	6,151	2	170,464
Lease liabilities	-	3,711	50,775	54,486
Total financial liabilities	164,342	265,617	64,757	494,716

The table below demonstrates Group's sensitivity to possible changes in interest rates by 0.50% based on the structure of assets and liabilities as at 30 September and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and on equity.

<i>Increase / decrease in interest rate</i>	<i>Impact on post-tax financial result and equity profit/(loss)</i>	
	30.09.2022	30.09.2021
	BGN'000	BGN'000
Increase	(1,059)	(1,100)
Decrease	1,059	1,100

Capital risk management

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

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

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

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	30.09.2022 BGN'000	31.12.2021 BGN'000
Total borrowings, including:	306,447	330,622
<i>Bank loans</i>	230,725	269,766
<i>Lease liabilities and factoring</i>	75,722	60,856
Less: Cash and cash equivalents	(17,871)	(37,717)
Net debt	288,576	292,905
Total equity of the Group	721,747	658,868
Total capital of the Group	1,010,323	951,773
Gearing ratio	0.29	0.31

The liabilities shown in the table are disclosed in *Notes 28, 29, 31, 34, 36 and 37*.

Fair value measurement

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

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

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

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

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

43. RELATED PARTY TRANSACTIONS

<i>Related parties</i>	<i>Relation type</i>	<i>Relation period</i>	
Telecomplect Invest AD	Shareholding company with significant influence	2022	2021
Donev Investments Holding AD	Shareholding company with significant influence	2022	2021
Momina Krepost AD	Joint venture	2022	Since 10.03.2021
Sopharma Imoti REIT	Associate	2022	since 08.12.2021
Doverie Ovedinen Holding AD	Associate	2022	2021
DOH Group companies	Companies controlled by an associate	2022	2021

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Sofprint Group AD	Company related through a main shareholder	2022	2021
Sofconsult Group AD	Company related through key management personnel	2022	2021
VES Electroinvest Systems EOOD	Company related through key management personnel	2022	2021
Eco Solar Invest OOD	Company related through key management personnel	2022	2021
Sirius OOD	Company related through key management personnel	2022	until 14.06.2021
Melnitsa Stefanovo village EOOD	Company related through key management personnel	2022	until 14.06.2021
OKP Investments OOD	Company related through key management personnel	2022	until 14.06.2021
Alpha In EOOD	Company related through key management personnel	2022	2021
Consumpharm OOD	Company related through key management personnel	2022	since 14.06.2021

	<i>1 January- 30 September 2022 BGN '000</i>	<i>1 January- 30 September 2021 BGN '000</i>
<i>Supplies from related parties:</i>		
<i>Supply of inventories from:</i>		
Companies related through key management personnel	7,779	6,544
Joint ventures	283	38
Associates	81	-
Companies controlled by an associate	32	36
	8,175	6,618
<i>Supply of services from:</i>		
Companies controlled by an associate	833	846
Associates	375	-
Shareholding companies with significant influence	294	291
Companies related through key management personnel	198	184
Joint ventures	2	3
	1,702	1,324
<i>Supplies of tangible fixed assets from:</i>		
Companies controlled by an associate	1,015	380
	1,015	380
<i>Other supplies from:</i>		
Companies controlled by an associate	155	-
	155	-
<i>Interest expenses:</i>		
Shareholding companies with significant influence	-	130
	-	130
Total	11,047	8,452

Sales to related parties

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Sales of inventories for:

Companies controlled by an associate	1,116	625
Companies related through key management personnel	862	549
	1,978	1,174

Sales of services for:

Companies controlled by an associate	202	217
Companies related through key management personnel	168	181
Associates	6	6
	376	404

Guarantees and guarantee fees of:

Joint ventures	7	10
Companies controlled by an associate	-	5
	7	15

Interest on loans granted:

Companies controlled by an associate	1,417	1,463
Joint ventures	34	17
Associates	-	2
	1,451	1,482

Other revenue:

Companies controlled by an associate	12	-
	12	-
	3,824	3,075

Leases

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

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

	30.09.2022	31.12.2021
	BGN '000	BGN '000
Recognised lease liabilities at 1 January	4,314	174
Increases	18,784	4,373
Lease payments in the period	(1,762)	(233)
Lease obligations written off	(585)	-
Lease liabilities at 30 September/ 31 December	20,751	4,314

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

	30.09.2022	31.12.2021
	BGN '000	BGN '000
Right-of-use assets at 1 January	4,315	172
Increases	18,711	4,427

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Depreciation accrued	(1,761)	(284)
Written off carrying amount of right-of-use assets	(571)	-
Right-of-use assets at 30 September/ 31 December	20,694	4,315

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

The accounts and balances with related parties are presented in *Notes 20, 24, 29 and 36*.

The composition of key management personnel of the Group includes the disclosed in Note 1.1 Executive Director and the members of the Board of Directors of the parent company.

Salaries and other short-term benefits of key management personnel and Executive Directors, members of the Board of Directors and General Managers of the Group's subsidiaries amount to BGN 2,825 thousand (2021: BGN 4,147 thousand).

- current remuneration – BGN 2,501 thousand. (2021 : BGN 3,628 thousand);
- tantieme – BGN 324 thousand (2021: BGN 519 thousand);

44. EVENTS AFTER END OF THE REPORTING PERIOD

On 11.11.2022, the Group disposed of its interest in the subsidiary Rap Pharma International OOD, Moldova.

No other significant events occurred after 30 September 2022 that require additional adjustments and/or disclosures in the consolidated financial statements as at 30 September 2022.