SOPHARMA AD

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. BACKGROUND CORPORATE INFORMATION

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

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

1.1. Ownership and management

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

As at 31 December 2019, the structure of Company's joint-stock capital was as follows:

	%
Donev Investments Holding AD	25.42
Telecomplect Invest AD	20.68
Rompharm Company OOD	6.21
Mandatory Universal Pension Fund (MUPF) Allianz Bulgaria	5.09
Sopharma AD (treasury shares)	6.76
Other legal persons	28.50
Natural persons	7.34

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 31 December 2019 as follows:

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

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

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

The composition of the Audit Committee is as follows:

Vasil Naidenov	Chairperson
Tsvetanka Zlateva	Member
Kristina Atanasova - Elliot	Member

The average number of Company's personnel for 2019 is 2,275 workers and employees (2018: 2,137).

1.2. Principal activities

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

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

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

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Company's activities throughout the period 2016 – 2019 are presented in the table below:

Indicator	**2016**	**2017**	**2018**	**2019**
Nominal GDP in million levs*	95,092	102,308	109,695	119,485
Actual growth of GDP*	3.8%	3.5%	3.1%	3.8%
Year-end inflation (HICP)	-0.5%	1.8%	2.3%	3.1%
Average exchange rate of USD for the year	1.77	1.73	1.66	1.75
Exchange rate of the USD at year-end	1.86	1.65	1.72	1.76
Basic interest rate at year-end	0.00	0.00	0.00	0.00
Unemployment rate at year-end**	8.0%	7.1%	6.1%	5.9%

** BNB forecast for 2019, prepared as at 20 December 2019. ** According to data of the Employment Agency*
Source: BNB

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the separate financial statements

The separate annual financial statements of SOPHARMA AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2019 and have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

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

The adoption of these standards and/or interpretations, applicable to entities in Bulgaria for annual reporting periods beginning on 1 January 2019 at the earliest, has caused changes in Company's accounting policies with regard to the principles, rules and criteria on the accounting for leases.

The changes are resultant from the application of the following standards and interpretations:

- IFRS 16 "Leases" (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC). This standard has an entirely new concept. It establishes new principles for the recognition, measurement, presentation and disclosure of a lease by introducing a new model with the objective to ensure a more faithful and adequate representation of such transactions primarily for the lessee. The standard supersedes the effective so far standard related to leases – IAS 17, and the interpretations thereto. (a) The main principle of the new standard for lessees is the introduction of a single lessee accounting model in the statement of financial position – an asset will be recognised for all contracts with duration of more than 12 months in the form of a 'right-of-use', which will be subsequently depreciated over the duration of the contract, and respectively, a financial liability will be stated for the lease liability under these contracts. This is the significant change in the accounting practice until 2018. The standard allows an exception and retaining the current practice for leases of low-value assets and short-term leases. The standard will impact the financial result for the period, since during the first years expenses related to leases are higher; moreover, operating costs will be replaced by depreciation and interest costs, which will result in a certain change in key metrics such as EBITDA; operating cash flows will increase, since principals and interest will be classified as cash from financing activities; (b) There would not be any significant changes for lessors and they will continue to account for leases as per the old standard IAS 17 – as operating and finance lease. As far as the new standard introduces a more comprehensive concept, a more detailed analysis of contractual terms should be carried out on their part as well and it is possible that grounds for reclassification of particular lease transactions may occur for them (lessors), too. The new standard requires more extensive disclosures. The management has done research and has concluded that the changes made through the new standard have an impact on the accounting policies, and on the value and classification of Company's assets, liabilities, transactions and performance. The management has chosen modified retrospective application of IFRS 16 on its initial application and will not restate comparative information.

Regarding the other standards and interpretations stated herein below, the management has analysed their possible impact and has determined they would not impact the Company's accounting policy, respectively its assets, liabilities, transactions and results, in as far as it does not possess/operate such items and/or does not perform such deals and transactions:

- *IFRIC 23 (amended) "Uncertainty over Income Tax Treatments" (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).* This Interpretation provides guidance on the accounting treatment and accounting for income tax in the scope of IAS 12 when tax treatments involve uncertainty. It does not apply to taxes or other state levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation addresses the following matters: (a) the entity's approach whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments depending on which approach better resolves the respective uncertainty; (b) the assumptions an entity makes to determine how the taxation authorities would examine and check a given uncertainty of tax treatment assuming that tax authorities have all available information; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates when there are given uncertainties; (d) the requirement to assess the impact of uncertainties on the income tax stated, given that the tax authorities are unlikely to accept the Company's tax treatment; (e) measuring the impact may be done in the more appropriate of the two methods – "most likely amount" and "expected value"; and (f) how an entity considers and treats changes in facts and circumstance;
- *IFRS 9 (amended) "Financial Instruments" – regarding prepayment features with negative compensation in case of early repayment and modifications of financial liabilities (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).* This amendment covers two aspects: (a) it amends the existing requirements in IFRS 9 by enabling entities to measure at amortised cost some financial assets (loans and other debt instruments) and their passing of the SPPI "solely payments of principal and interest" test, despite the availability of "prepayment features with negative compensation". Negative compensation exists when the terms of the contract allow the debtor to make an early repayment of the instrument prior to its maturity, and the amount repaid may differ from the outstanding principal and interest. An important condition is that this negative compensation should be reasonable and relevant to the early termination of the contract. Prepayment itself is not a sufficient assessment indicator, i.e. it needs to be determined based on the interest

rate prevailing at the time of termination and other market conditions and circumstances, and depending on these – the amount of payment in favour of the contracting party initiating the early repayment. The calculation approach of this compensation payment must be the same for both type of payments - the case of an early repayment penalty and the case of an early repayment gain. Moreover, the respective asset should belong to the category of assets "held to collect contractual cash flows" in the structure of the entity's business model; (b) it confirms (by means of an amendment to the Basis of Conclusion) that when a financial liability measured at amortised cost is modified but not derecognised, the effect of the modification should be recognised in the profit or loss. The effect is measured as the difference between the original negotiated cash flows and the ones, following the modification, discounted at the original effective interest rate;

- *IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding long term interests in associates and joint ventures (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).* The amendment clarifies that an entity should apply IFRS 9 including its impairment requirements regarding forms of long term interests in associate or joint venture that are part of the net investment in the associate or joint venture but to which the equity method is not applied. The accounting for the impact under IFRS 9 for these forms of interests shall be done before accounting for the distribution of losses and impairment under IAS 28. A change in the intents and plans of the management are not regarded as evidence for a change in use;
- *Annual Improvements to IFRS Standards 2015-2017 Cycle (December 2017) – improvements to IAS 23, IAS 12 and IFRS 3 in relation to IFRS 11 (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application of the rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items and transactions: (a) they clarify that when an entity acquires control over a business which constitutes a joint operation, it should remeasure its previous held interest in the business under IFRS 3 as a business combination achieved in stages; (b) when an entity acquires a joint control over a business which constitutes a joint operation, it should not remeasure its previous held interest in the joint operation under IFRS 11; (c) they clarify that all tax consequences on dividend income should be stated within profit or loss or other comprehensive income or directly within equity

– depending on where the respective transactions and/events generating the respective distributable profits have been stated, as far as these consequences are related thereto; and (c) they clarify if under special-purpose loans concluded to finance a qualifying asset remain outstanding after the asset is ready for its intended use or disposal, these loans shall be treated as part of general-purpose financing for the purpose of calculating the capitalisation rate and amounts under IAS 23;

- *IAS 19 (amended) "Employee Benefits" (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).* This amendment clarifies that in case of changes to defined benefit plan amendments, curtailments or settlements, upon determining the current service cost and net interest for the period following the change, the entity is obliged to use the assumptions made therein. Additionally, changes are envisaged to the presentation and disclosure of impact for changes to defined benefit plan amendments, calculation of past service, effects of changes in plans, curtailments or settlements in relation to the plan asset ceiling.

As at the date of approval for issue of these financial statements, the Company has adopted for earlier application the following standards and interpretations that have been issued, but are not yet effective (and/or have not been endorsed by EC):

- *IFRS 17 "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2021 (with an option for deferral to 2022), not endorsed by EC).* This is an entirely new accounting standard on all types of insurance contracts, including some guarantees and financial instruments, and includes rules on recognition and measurement, presentation and disclosure. The standard will supersede the effective so far standard related to insurance contracts – IFRS 4. It establishes an entirely new overall model for insurance contracts' accounting, covering all relevant accounting aspects. It is not applicable to the Company's operations;
- *IFRS 10 (amended) "Consolidated Financial Statements" and IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding the sale or contribution of assets between an investor and its associates or joint ventures (postponed effective date, to be determined by the IASB).* These amendments address the accounting treatment of the sale or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the assets sold or contributed constitute in substance a business as defined in IFRS 3. If these assets as an aggregate do not meet the definition of a business, then the investor shall recognise gain or loss only to the

extent of other unrelated investor's interests in the associate or joint venture. In cases of sale or contribution of assets, which as an aggregate constitute a business, the investor shall recognise the full gain or loss on the transaction. The amendments will be applied on a prospective basis. IABS postponed the initial date of application of these amendments for an indefinite period. The management is in the process of research and analysis of the impact on the accounting policies, and on the value and classification of Company's assets, liabilities, transactions and performance;

- *Amendments to the Conceptual Framework for Financial Reporting and the respective references thereto in various IFRS (in force for annual periods beginning on or after 1 January 2020, endorsed by EC). These amendments to the Framework include revised definitions of "asset" and "liability",* as well as new guidance and concepts for their measurement, derecognition, presentation, and disclosure. The amendments to the Conceptual Framework are accompanied by amendments to some references thereto in the International Financial Reporting Standards, including IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32. Some of the references state which version of the Conceptual Framework statements in the respective standards should refer to (the IASC framework adopted by IASB in 2001, the IASB framework of 2010, or the new revised framework dated 2018), while others specifically state that the standard's definitions have not been updated in accordance with the framework's latest amendments. The management is still in the process of research, analysis and assessment of the impact of the amendments which would influence the accounting policy and the classification and presentation of the Company's assets and liabilities;

- *IFRS 3 (amended) "Business Combinations" (in force for annual periods beginning on or after 1 January 2020, not endorsed by EC).* This change concerns the definition of "business" provided in the appendices to the standard and is related to the difficulties that acquiring entities experience when determining whether they have acquired a business or a group of assets. The amendment aims: (a) to clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; (b) to narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; (c) to add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; (d) to remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and (e) to add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The management is still in the process of research, analysis and assessment of the impact of the amendments which would influence the accounting policy and the classification and presentation of the Company's assets and liabilities;

- *Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (in force for annual periods beginning on or after 1 January 2020 – not endorsed by EC).* These changes relate to providing a more precise definition of 'material' as stated in the two standards. According to them, the new definition of 'material' is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". There are three new aspects of the definition which should be noted: (a) "Obscuring". The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. (b) "Could reasonably be expected to influence". The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote; and (c) Primary users (existing or potential investors, lenders and other creditors) - the existing definition referred to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose. Moreover, the amendments stress especially five ways material information can be obscured: (a) if the language regarding a material item, transaction or other event is vague or unclear; (b) if information regarding a material item, transaction or other event is scattered in different places in the financial statements; (c) if dissimilar items, transactions or other events are inappropriately aggregated; (d) if similar items, transactions or other events are inappropriately disaggregated; and (e) if material information is hidden by immaterial information to the extent that it becomes unclear what information is material. Moreover, the amendments clarify that referring to unclear information shall have the same effect as to omitted or missing information, and that materiality shall be assessed by the entity in the context of the financial statements taken as a whole. The management is still in the process of research, analysis and assessment of the impact of the amendments which would influence the accounting policy and the classification and presentation of the Company's assets and liabilities;

- *Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" (in force for annual periods beginning on or after 1 January 2020 – endorsed by EC).* These amendments are related to the uncertainty ensuing from the interest rates benchmark reform undertaken by the Financial Stability Board of G20. This reform is aimed at replacing the existing interbank interest rates used as benchmarks in transactions with financial instruments (for instance: Libor, Euribor, Tibor) with alternative benchmarks based on interbank offered rates, and at developing alternative interest rates benchmark that are almost risk-free. The aims is to overcome consequences on the financial reporting resulting from the reform in interest rates benchmark in the period before the replacement of an existing interest rate benchmark with an alternative interest rate benchmark. The amendments envisage temporary and limited relief to the hedge accounting requirements in IFRS 9 and IAS 39 allowing entities to continue observing the two standards while ignoring the reform's effect. The amendments envisage temporary and limited exceptions from the requirements for accounting for hedges under IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* so that entities continue meeting requirements, and it is assumed that existing benchmark interest rates do not change pursuant to the benchmark rate reform. As a result of this reform, the amendments affect the following areas: 1) Highly probable requirement for cash flow hedges (IFRS 9 and IAS 39) – if the hedged item is a forecast transaction, an entity shall determine whether the forecast transaction is highly probable assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate benchmark reform; 2) Reclassification of the amount in the cash flow hedge reserve to profit or loss (IFRS 9 and IAS 39) – to determine whether the hedged cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate benchmark reform; 3) Assessment of the economic relationship between the hedged item and the hedging instrument (IFRS 9) – an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of the interest rate benchmark reform; 4) *Prospective assessment and retrospective assessment (IAS 39)*- an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or hedged risk are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of the interest rate benchmark reform. An entity is not required to discontinue a hedging relationship during the period of uncertainty arising from the interest rate benchmark reform solely because the actual results of the hedge are not highly effective, i.e. are outside the range of 80–125% when applying the retrospective assessment. In such a situation, an entity shall apply the other conditions that are required for a hedging relationship to qualify for hedge accounting, including the prospective assessment, to assess whether the hedging relationship must be discontinued; 5) *Designation of a component of an item as a hedged item (IFRS 9 and IAS 39)*- for a hedge of a benchmark component of interest rate risk that is affected by the interest rate benchmark reform, an entity shall apply the specific requirement in IFRS 9 or IAS 39, to determine whether the risk component is separately identifiable, only at the inception of the hedging relationship. If the hedge is a dynamic hedge, where the entity frequently resets a hedging relationship, the risk component needs to be separately identifiable only on initial designation of the hedged item; 6) *End of application of the relief (IFRS 9 and IAS 39)* - the amendments state the circumstances in which an entity shall prospectively cease applying each of the requirements set out in 1 to 5 above. For 1 to 4 above, the relief is applicable until the earlier of when the uncertainty around the timing and the amount of the cash flows arising from the interest rate benchmark reform is no longer present in the hedged item and hedging instrument, and when the hedging relationship is discontinued. For 5 above, the relief will end on termination of the hedging relationship; 7) *Disclosures (IFRS 7)* – Entities will be required to disclose: the significant interest rate benchmarks to which the entity's hedging relationships are exposed; the extent of the risk exposure the entity manages that is affected by the interest rate benchmark reform; how the entity is managing the process to transition to alternative benchmark interest rates; a description of significant assumptions or judgements the entity made in applying the amendments to IFRS 9 and IAS 39; the nominal amount of the hedging instrument in the hedging relationship for which the entity is applying the exceptions in the scope of the amendments. The management is still in the process of research, analysis and assessment of the impact of the amendments which would influence the accounting policy and the classification and presentation of the Company's assets and liabilities.

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

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

The presentation of financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in *Note 2.33, Note 15, Note 17* and *Note 20*.

2.2. Consolidated financial statements of the Company

The Company has started the process of preparation of its consolidated annual financial statements for year 2019 in accordance with IFRS effective for year 2019 whereas these separate annual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated annual financial statements will be approved for issue by the Board of Directors of the Company not later than 30 April 2020 and after this date the financial statements will be publicly made available to third parties.

2.3. Merger of Unipharm AD into Sopharma AD

(a) legal form of the mergers

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

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

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

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

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

(b) method of accounting for the mergers

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

Until the merger, Unipharm AD was a subsidiary of Sopharma AD. The transactions executed were treated as restructuring of the two companies. The merger was accounted for by applying the 'uniting of interests' method. In line with the requirements and rules of this method, the operations and the assets of the companies are presented in these financial statements as if they have always been united, regardless of the legal events and procedures and their effect on the legal status and life of the receiving and the transforming company. The effects of all business operations between the receiving and the transforming companies, including the outstanding balances, are eliminated regardless of whether arisen prior to or after the restructuring. All differences arising on the mergers operation are stated in equity – within 'retained earnings' component *(Note 28).*

2.4. Comparatives

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

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

An exception to this rule is described in *Note 45 Impact of the initial adoption of IFRS 16*. The Company has elected modified retrospective first-time adoption of IFRS 16 *Leases*. Comparatives for the year preceding the initial application of IFRS 16 *Leases* (2018) will not be restated.

The effect of the initial adoption (1 January 2018) of IFRS 9 *Financial Instruments* are carried to equity – "retained earnings" component and is as follows:

	Notes	BGN'000
Closing balance of retained earnings as at 31 December 2017 (restated with combined indicators with Unipharm AD) (Note 2.3)		**45,831**
Accrual of a provision for impairment of expected credit losses on trade receivables from related parties	24	(305)
Accrual of a provision for impairment of expected credit losses on trade receivables from third parties	25	(575)
Accrual of a provision for impairment of expected credit losses on long-term loans to related parties	21	(119)
Accrual of a provision for impairment of expected credit losses on short-term loans to related parties	24	(87)
Accrual of a provision for impairment of expected credit losses on long-term loans to third parties	22	(6)
Accrual of a provision for impairment of expected credit losses on short-term loans to third parties	26 (a)	(66)
Accrual of a provision for financial guarantees	40	(297)
Increase in deferred tax assets related to provisions accrued for expected credit losses	30	146
Total effect on retained earnings		**(1,309)**
Opening balance of retained earnings on 1 January 2018 following restatement from the initial adoption of IFRS 9		**44,522**

2.5. Functional currency and recognition of exchange differences

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

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

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

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

2.6. Revenue

Revenue from contracts with customers

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

2.6.1. Recognition of revenue from contracts with customers

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

Measurement of contracts with customers

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

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

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

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

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

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

2.6.2. ***Measurement of revenue under contracts with customers***

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

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

The change in the scope or price (or both) of the contract is accounted for as a separate contract and/or as part of the existing contract, depending on whether the change is related to the addition of goods and/or services which are distinct, and on the price determined for them. Depending on that: a) the Company accounts for a contract modification as a separate contract if the scope of the contract increases because of the addition of promised goods or services that are distinct, and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services;

b) the Company accounts for the contract modification as if it were a termination of the existing contract and the creation of a new contract (future application), if the remaining goods and/or services are distinct from the goods and/or services transferred before the contract modification, but the change in the contract price does not reflect the standalone selling price of the goods and/or services added; c) the Company accounts for the contract modification as if it were a part of the existing contract (cumulative adjustment) if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied.

2.6.3. *Performance obligations under contracts with customers*

Revenue from the sale of products

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

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

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

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

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

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

The assessments of revenue, costs and/or stage of progress towards complete satisfaction of the performance obligations are reviewed at the end of each reporting period, incl. in case of change in the circumstance/occurrence of new circumstances. Each subsequent increase or decrease of expected revenue and/or costs is stated within profit or loss for the period in which the circumstances resulted in the review became known to the management.

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

Transportation of the products sold

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

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

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

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

Transaction price and payment terms

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

Variable consideration

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

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

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

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

2.6.4. Contract costs

The Company treats as contract costs the following:

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

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

2.6.5. Contract balances

Trade receivables and contract assets

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

Contract liabilities

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

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

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

2.6.6. Refund obligations under contracts with customers

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

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

Other revenue

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

2.7. Expenses

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

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

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

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

2.8. Finance income

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

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

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

2.9. Finance costs

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

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

2.10. Property, plant and equipment

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

Initial acquisition

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

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

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

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

The useful life per group of assets is as follows:

- for buildings – from 20 to 70 years;
- for facilities and transmitter devices – from 5 to 25 years;
- for machinery and equipment – from 6 to 34 years;
- for computers and mobile devices – from 2 to 5 years;
- for servers and systems – from 4 to 18 years;
- for motor vehicles – from 5 to 12 years;
- for furniture and fixtures – from 3 to 12 years;
- for biological assets (bearer plants) – from 10 to 12 years.

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

- for land – from 4 to 5 years;
- for buildings – from 2 to 8 years;
- for motor vehicles – from 2 to 5 years;
- for furniture and fixtures – from 2 to 3 years.

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

Impairment of assets

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

Gains and losses on disposal (sale)

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

2.11. Biological assets (non-fruit-bearing) and agricultural produce

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

Agricultural produce is measured at fair value as at the date of acquisition, less the sales costs. The fair value of agricultural produce is determined, as follows:

- for milk thistle and yellow acacia crops – with support from a licensed appraiser;
- for wheat crops – based on information obtained from Sofia Commodity Exchange AD regarding the market value thereof in the crop period.

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

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

2.12. Intangible assets

Goodwill

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

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

Other intangible assets

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

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

The useful life per group of assets is as follows:

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

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

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

2.13. Investment property

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

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

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

2.14. Investments in subsidiaries and associates

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

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

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

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

2.15. Other long-term equity investments

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

Initial measurement

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

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

Subsequent measurement

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

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

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

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

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

2.16. Inventories

Inventories are valued in the financial statements as follows:

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

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

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

The Company applies 'standard production cost' for current valuation of finished products, semi-finished products and work in progress, and respectively, 'standard purchase cost' for basic raw materials and other production materials. At the end of each reporting period the management performs analysis of factors leading to variances on: (a) the supply of raw materials and other production materials – by comparing the actual and standard acquisition costs, and (b) the production of finished products, semi-finished products and work in progress – by comparing the actual and standard production costs. Where necessary, the value of inventories, included in the financial statements, is adjusted. On the basis of research on the good reporting practices in the pharmaceutical industry, the Company has adopted materiality thresholds regarding: (a) variance on supply of raw materials and other production materials – up to 2%, and (b) variance on production – up to 1%, within which the current value of the existing closing stocks of raw and other materials, finished products and work in progress are not adjusted for the purposes of the financial statements (*Note 2.33).*

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

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

2.17. Trade receivables

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

Initial measurement

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

Subsequent measurement

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

Impairment

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

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

2.18. Interest-bearing loans and other financial resources granted

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

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

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

2.19. Cash and cash equivalents

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

Subsequent measurement

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

For the purposes of the statement of cash flows:

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

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

2.20. Trade and other payables

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

2.21. Interest-bearing loans and other borrowings

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

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

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

2.22. Capitalisation of borrowing costs

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

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

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

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

2.23. Leases

Accounting policy applied as from 1 January 2019

Lessee

A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

Initial recognition

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

The acquisition cost of the right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- provisions for expenses related to dismantling and removing the underlying asset.

The Company depreciates the right-of-use asset to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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

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

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

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

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

Subsequent measurement

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

The Company subsequently measures the lease liability by:

- increasing the carrying amount to reflect the interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications of the lease.

Accounting for remeasurement and modifications to leases

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

The Company remeasures the lease liabilities whenever:

- the modification increases the scope of the lease by adding another right-of-use of one or more additional underlying assets;
- the lease payment increases by an amount corresponding to the standalone price of the increase in the scope and potential adjustments reflecting circumstances of the respective lease.

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

Lessor

IFRS 16 does not significantly change accounting for leases by lessors. They continue to classify each lease as either finance or operating, by applying in practice rules analogous to those in IAS 17, which have essentially been transferred to the new IFRS 16.

Accounting policy applied until 31 December 2018
Finance lease

Lessee

Finance leases, which transfer to the Company a substantial part of all risks and rewards incidental to ownership of the leased asset, are recognised in the statement of financial position of the lessee and are presented as a leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments.

The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the statement of comprehensive income (within profit or loss for the year) as finance costs based on the effective interest rate. (*Note 2.26*)

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

Lessor

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

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

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

Operating lease

Lessee

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

Operating lease payments are recognised as expenses in the statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

Lessor

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

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

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

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

Short-term benefits

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

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

Tantieme and bonus schemes

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

Long-term retirement benefits

Defined contribution plans

The major duty of the Company as an employer in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, the Guaranteed Receivables of Workers and Employees (GRWE) Fund and for health insurance.

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

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

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

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

Defined benefit plans

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

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

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

Share-based payments

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

Termination benefits

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

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

2.25. Share capital and reserves

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

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

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

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

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

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

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

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

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

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

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

2.26. Financial instruments

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

Financial assets

Initial recognition, classification and measurement

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

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

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

The classification of financial assets upon their initial recognition depends on the characteristics of the contractual cash flows of the respective financial asset and on the Company’s business model for management thereof.

In order for a financial asset to be classified and measured at amortised value or at fair value through other comprehensive income, its conditions should give rise to cash flows that are “solely payments of principal and interest (SPPI)” on the principal amount outstanding. For this purpose, analysis is performed by means of SPPI test at instrument level.

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

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

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

Classification groups

Financial assets at amortised cost (debt instruments)

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

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

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

The Company’s financial assets at amortised cost include: cash and cash equivalents at banks, trade receivables, including from related parties, loans to related and third parties (*Note 21, Note 22, Note 24, Note 24, Note 26 (a) and Note 27).*

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

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

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

Derecognition

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

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

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

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

Impairment of financial assets

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

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

Expected credit losses are recognised at two stages:

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

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

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

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

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

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

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

Derecognition

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

Financial liabilities

Initial recognition, classification and measurement

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

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

Subsequent measurement

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

Classification groups

Loans and borrowing

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

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

Derecognition

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

Offsetting (netting) of financial instruments

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

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

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

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

- lack of dependence on a future event, i.e. it should not only be applicable upon the occurrence of a future event;
- the offsetting should be enforceable and legally defendable during (cumulatively):

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

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

Financial guarantee contracts

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

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

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

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between contract payments required under the debt instrument, and payments that would be required without a guarantee payable to a third party upon commitment.

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

2.28. Income taxes

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

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

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

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

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

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

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

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

The deferred income tax liabilities of the Company as at 31 December 2019 were assessed at a rate valid for 2020, at the amount of 10% (31 December 2018: 10%).

2.29. Government grants

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

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

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

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

2.30. Net earnings or loss per share

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

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

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

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

2.31. Segment reporting

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

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

Information by operating segments

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

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

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

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

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

2.32. Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair value measurement of equity investments

When the fair value of equity investments carried in the statement of financial positions cannot be obtained based on quoted prices on active markets, their fair value is determined by using other valuation models and techniques, including the discounted cash flows model. The input used in these models is obtained from observable markets, where possible, but when this cannot be done, significant judgement is applied to determine fair values. Such judgement involves the review, analysis and assessment of input, for instance regarding liquidity risk, credit risk, and volatility. The changes in assumptions for these factors may impact the amount of the fair value of financial instruments stated. The main key assumptions and components of the model are disclosed in *Note 20*.

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

The measurement of expected credit losses for financial assets stated at amortised cost (loans granted, contract receivables and assets, cash and cash equivalents), as well as for financial guarantees granted is an area that requires the use of complex models and material assumptions for future economic conditions and the credit behaviour of customers and debtors (for instance, the probability of counterparties not meeting their obligations and the pursuant losses).
In order to apply these requirements, the Company's management makes a number of material judgements, such as: a) determining criteria to identify and measure significant credit risk increases; b) selection of suitable models and assumptions to measure expected credit losses; c) establishing groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses; d) establishing and assessing the correlation between historical default rates and the behaviour of certain macro indicators to reflect the effects of forecasts for these macro indicators in the calculation of expected credit losses. (*Note 42).*

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

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

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

Information about expected credit losses from trade receivables and contract losses is disclosed in *Note 22, Note 24 and Note 25.*

In 2019, an impairment was reversed for trade receivables, including from related parties, at the amount of BGN 214 thousand (2018: impairment stated, net of reversed credit losses, at the amount of BGN 1,147 thousand) (*Note 8, Note 9, Note 22, Note 24 and Note 25*).

Regarding loans and guarantees granted:

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

ECL is the expected credit losses indicator;

EAD is the exposure at default indicator;

PD is the probability of default indicator;

LGD is the loss given default indicator.

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

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

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

Stage 3 includes granted loans which are classified as "underperforming". These are loans for which evidence exists that the asset is credit-impaired, i.e. a credit event has occurred (according to the policy on default event eligibility). Therefore, an analysis is performed of a system of indicators used to identify the occurrence of credit losses.

Impairment losses for such loans are calculated based on probability-weighted scenarios for the Company's expectations for the loss amount of the non-performing credit-impaired exposure throughout its lifetime.

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

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

The main matters related to the policy and set of criteria to assess the Company's exposure to credit risk related to loans granted are disclosed in *Note 42.*

Information about expected credit losses from loans and guarantees is disclosed in *Note 21, Note 22, Note 24, Note 26(a), and Note 40.*

In 2019, a provision for impairment of expected credit losses was accrued at the amount of BGN 526 thousand, net of impairment of expected credit losses reserved (2018: provision for impairment of expected credit losses of BGN 154 thousand, net of impairment of expected credit losses reversed) (*Note 11, Note 12, Note 21, Note 22, Note 24, Note 26(a*)).

In 2019, expected credit losses were accrued on guarantees, at the amount of BGN 54 thousand (2018: BGN 30 thousand) (*Note 40*).

Cash

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

Leases

The application of IFRS 16 requires the management to perform various assessments, estimates and assumptions that impact the accounting for right-of-use assets and lease liabilities. The main key assessments concern determining an appropriate discount rate and determining the term of each lease, including whether it is reasonably certain that the extension/termination options will be exercised. As a result of the uncertainty regarding these assumptions and estimates, significant adjustments may be made to the respective assets and liabilities in the future, respectively the revenue and expenses stated (*Note 32 and Note 33).*

Revenue from contracts with customers

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

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

Inventories

Normal capacity

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

Allowance for impairment

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

As a result of the reviews and analyses made in 2019, impairment of inventories was stated at the amount of BGN 1,932 thousand (2018: BGN 2,762 thousand) *(Note 5 and Note 8).*

Remeasurement of property, plant and equipment

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

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

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

In 2018 and 2019 the Company did not perform revaluation of its property, plant and equipment, because the management's observations show there has been no significant change in the price levels and behaviour of the markets of assets in these groups, which based on their characteristics belong to the Company's non-current tangible assets. (*Note 15*).

Goodwill impairment

At each reporting date, the management determines whether indicators exist for goodwill impairment. The calculations are made by the management with support from independent licensed appraisers.
As a result of the calculations made, in 2019 it was determined that goodwill impairment had to be stated at the amount of BGN 2,541 thousand (2018: none) (*Note 10*).

Impairment of investments in subsidiaries

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in subsidiaries. The calculations were made by the management with the assistance of independent certified appraisers.

As a result of the calculations made in 2019, the Company found it necessary to recognise impairment of particular investments in subsidiaries at the amount of BGN 12,591 thousand was necessary (2018: BGN 76 thousand) *(Note 10)*.

Actuarial calculations

Calculations of certified actuaries have been used when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor. They are disclosed in *Note 34*.

Long-term retirement benefit obligations to personnel at the amount of BGN 4,345 thousand (31 December 2018: BGN 4,100 thousand) have been stated as a result of these calculations *(Note 34)*.

Deferred tax assets

There are unrecognised deferred tax assets at the amount of BGN 4,545 thousand (31 December 2018: BGN 3,527 thousand), related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has concluded that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference on which no tax asset is recognised amounts to BGN 45,454 thousand (31 December 2018: BGN 35,273 thousand).

Litigation provisions

With regard to the pending litigations against the Company, the management, jointly with Company's lawyers, has decided that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, it has not included provisions for litigation payables in the statement of financial position as at 31 December 2019.

3. REVENUE

Company's revenue includes:

	2019	*2018*
	BGN '000	*BGN '000*
Revenue from contracts with customers	228,914	210,784
Other revenue	1,777	1,634
Total	**230,691**	**212,418**

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

	2019	*2018*
	BGN '000	*BGN '000*
Export	137,272	118,905
Domestic market	91,642	91,879
Total	**228,914**	**210,784**

Revenue from export sales by product includes:

	2019	*2018*
	BGN '000	*BGN '000*
Tablet dosage forms	108,750	91,539
Ampoule dosage forms	10,011	12,182
Ointments	7,531	5,826
Syrup dosage forms	7,511	5,566
Lyophilic products	811	1,135
Medical cosmetics	732	1,024
Suppositories	677	562
Wound dressings	468	271
Plasters	347	454
Drops	307	338
Sanitary and hygienic products	4	8
Substances	123	-
Total	**137,272**	**118,905**

Revenue from domestic sales by product:

	2019 *BGN '000*	*2018* *BGN '000*
Tablet dosage forms	50,735	47,648
Ampoule dosage forms	18,659	20,813
Wound dressings	6,261	5,885
Lyophilic products	3,862	5,146
Plasters	2,873	2,736
Ointments	2,239	2,070
Syrup dosage forms	2,106	2,029
Haemodialysis concentrates	1,571	1,945
Inhalers	1,226	1,128
Sanitary and hygienic products	692	738
Drops	659	801
Suppositories	532	393
Medical cosmetics	188	220
Sachets	38	327
Substances	1	-
Total	**91,642**	**91,879**

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

	2019 *BGN '000*	*Relative share*	*2018* *BGN '000*	*Relative share*
Europe	118,380	52%	97,580	46%
Bulgaria	91,642	40%	91,879	44%
Other countries	18,892	8%	21,325	10%
Total	**228,914**	**100%**	**210,784**	**100%**

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

	2019 *BGN '000*	*% of revenue*	*2018* *BGN '000*	*% of revenue*
Client 1	90,642	40%	90,298	43%
Client 2	76,786	34%	57,050	27%
Client 3	22,742	10%	20,442	10%

Contract balances are as follows:

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Receivables under contracts with customers – third parties, net of impairment *(Note 25)*	26,114	18,868
Receivables under contracts with customers – related parties, net of impairment *(Note 24)*	78,094	71,806

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

The reimbursement obligations as at 31 December 2019 amount at BGN 65 thousand (31 December 2018: BGN 324 thousand) and include liabilities under retrospective trade volume discounts payable under contracts with customers which will be reimbursed over the next reporting period. *(Note 40).*

3.2. The Company's other revenue is as follows:

	2019	***2018***
	BGN '000	***BGN '000***
Revenue from right-of-use assets	1,760	1,634
Revenue from sales of agricultural produce	17	-
Total	**1,777**	**1,634**

4. OTHER OPERATING INCOME AND LOSSES

	2019 *BGN '000*	*2018* *BGN '000*
Services rendered	2,792	2,612
Payables written-off	746	1,398
Income from government grants under European projects	540	588
Sales of goods	*1,674*	*1,480*
Carrying amount of goods sold	*(1,489)*	*(1,366)*
Gain on sale of goods	185	114
Sales of non-current assets	*159*	*540*
Carrying amount of non-current assets sold	*(44)*	*(392)*
Gain/(loss) on sale of non-current assets	115	148
Sales of materials	*1,277*	*1,009*
Cost of materials sold	*(1,216)*	*(937)*
Gain on sale of materials	61	72
Written-off lease liabilities	*428*	-
Book value of right-of-use assets written-off	*(431)*	-
Losses on leases	(3)	-
Gains/ (losses) on revaluation of investment property to fair value *(Note 17)*	(99)	58
Losses on remeasurement of agricultural produce to fair value (*Note 23*)	(139)	-
Net loss on exchange differences under trade receivables and payables and current accounts	(311)	(226)
Other income	247	146
Total	**4,134**	**4,910**

The liabilities written-off comprise mostly tantieme written-off in 2019, at the amount of BGN 673 thousand (2018: BGN 1,137 thousand).

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

Services rendered include:

	2019 ***BGN '000***	***2018*** ***BGN '000***
Manufacturing services	1,285	1,070
Social activities	918	910
Gamma irradiation	219	195
Laboratory analyses	97	99
Regulatory services	56	63
Transport services	23	28
Other	194	247
Total	**2,792**	**2,612**

Sales of goods include:

	2019 ***BGN '000***	***2018*** ***BGN '000***
Foodstuffs	1,412	1,211
Medical products	133	9
Cosmetics	68	205
Goods with technical designation	61	55
Total	**1,674**	**1,480**

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

	2019 ***BGN '000***	***2018*** ***BGN '000***
Foodstuffs	1,275	1,129
Medical products	96	8
Goods with technical designation	57	44
Cosmetics	61	185
Total	**1,489**	**1,366**

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables used* include:

	2019	*2018*
	BGN '000	*BGN '000*
Basic materials	55,079	56,238
Electric energy	5,822	5,673
Laboratory materials	3,627	3,100
Heat power	3,587	3,647
Auxiliary materials	1,679	1,691
Technical materials	1,462	1,552
Spare parts	1,300	1,276
Impairment of materials (*Note 9*)	848	269
Working clothes and personal protective equipment for labour	771	838
Water	727	655
Fuels and lubricating materials	418	621
Scrapped materials	166	192
Total	**75,486**	**75,752**

Expenses on basic materials include:

	2019	*2018*
	BGN '000	*BGN '000*
Substances	22,156	23,648
Packaging materials	11,966	11,469
Liquid and solid chemicals	8,534	8,530
Sanitary-hygienic and dressing material	3,020	2,778
Herbs	2,989	3,476
Ampoules	1,980	2,010
Tubes	1,543	1,924
Vials	1,386	1,105
Aluminium and PVC foil	1,354	1,298
Materials for agricultural production	151	-
Total	**55,079**	**56,238**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2019 BGN '000	*2018* BGN '000
Advertising and marketing services	8,535	9,072
Manufacturing of medical products	4,151	3,798
Transportation and spedition services	3,435	3,141
Building and equipment maintenance	2,993	4,470
Logistic services – domestic market	2,137	1,619
Consulting services	2,018	2,316
Local taxes and charges	1,385	1,402
State and regulatory charges	1,375	1,390
Security	1,369	1,149
Subscription fees	1,069	1,196
Services under civil contracts	886	944
Medical services	817	842
Insurance	536	578
Licence fees and patent fees	506	399
Taxes on expenses	412	565
Vehicles repair and maintenance	398	441
Agricultural land processing services	345	87
Translation of documentation	333	364
Communications	311	373
Medicinal products registration services	307	296
Logistic services (export)	201	337
Fees and charges on current bank accounts	177	171
Rentals	144	2,346
Courier services	139	141
Destruction of pharmaceuticals	75	228
Clinical trial services	43	-
Commissions	34	67
Other	843	922
Total	**34,974**	**38,654**

Rental costs comprise:

	2019 BGN '000	*2018* BGN '000
Rentals related to short-term leases	137	-
Rentals related to low-value leases	7	-
Total	**144**	**-**

The expenses accounted for the year on statutory audit of the separate annual financial statements amount to BGN 92 thousand (2018: BGN 93 thousand).

7. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2019 ***BGN '000***	***2018*** ***BGN '000***
Current wages and salaries	36,082	36,256
Social security/health insurance contributions	6,914	6,839
Social benefits and payments	3,266	2,678
Accruals for unpaid leaves	1,201	1,153
Tantieme	1,005	1,276
Accruals for long-term retirement benefit obligations *(Note 34)*	527	516
Social security/health insurance contributions on leaves	208	205
Share-based payments *(Note 28)*	-	1,224
Total	**49,203**	**50,147**

8. OTHER OPERATING EXPENSES

Other expenses include:

	2019 ***BGN '000***	***2018*** ***BGN '000***
Entertainment allowances	1,564	2,916
Impairment of finished products and work in progress *(Note 9)*	1,084	2,491
Business trip costs	682	837
Scrapped finished products and work in progress	305	488
Donations	299	289
Unrecognised input tax under VATA	282	223
Trainings	183	269
Other taxes and payments to the state budget	148	287
Strapped of non-current assets	129	321
Scrapped goods	9	40
Charged/(reversed) impairment for credit losses of receivables, including from related parties, net *(Note 9)*	(214)	1,147
Written-off receivables	-	7
Charged impairment of goods, net (*Note 9*)	-	2
Other	123	262
Total	**4,594**	**9,579**

9. IMPAIRMENT OF CURRENT ASSETS

Impairments of current assets comprise:

	2019 *BGN '000*	*2018* *BGN '000*
Impairment of finished products and work in progress *(Note 8)*	1,084	2,491
Impairment of materials (*Note 5*)	848	269
Impairment of credit losses for receivables, including from related parties	*3,532*	*3,617*
Reversed impairment of credit losses for receivables, incl. from related parties	*(3,746)*	*(2,470)*
Net change in the provision for impairments of credit losses *(Note 8)*	(214)	1,147
Impairment of goods (*Note 8*)	-	2
Total	**1,718**	**3,909**

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

Impairment losses on non-current assets include:

	2019 *BGN '000*	*2018* *BGN '000*
Impairment of investments in subsidiaries *(Note 18)*	76	3,913
Impairment of goodwill (*Note 16*)	-	43
Impairment of biological assets (*Note 15*)		
	76	**3,956**

11. FINANCE INCOME

Finance income includes:

	2019 *BGN'000*	*2018* *BGN'000*
Income from shareholding	10,653	8,789
Interest income on loans granted	3,342	1,579
Net gain on transactions with investments in securities	2,924	-
including gain on sale of investments in subsidiaries	*242*	-
Net foreign exchange gain on receivables from sale of subsidiary	47	152
Total	**16,966**	**10,520**

12. FINANCE COSTS

Finance costs include:

	2019	*2018*
	BGN'000	*BGN'000*
Interest expense on loans received	1,698	1,255
Bank fees and charges on loans and guarantees	267	222
Provisions on financial guarantees	54	30
Interest costs on leases	58	1
Impairment of credit losses under loans granted	*1,736*	*166*
Reversed impairment of credit losses on receivables under loans granted	*(1,210)*	*(12)*
Net change in the impairment of loans granted	526	154
Effects of derivatives	-	47
Net loss from exchange differences from leases	8	-
Total	**2,611**	**1,709**

13. INCOME TAX EXPENSE

Statement of comprehensive income (profit or loss for the year)	*2019*	*2018*
	BGN '000	*BGN '000*
Taxable profit for the year under tax return	49,205	40,410
Revaluation reserve included as an increase in the annual tax return	(505)	(928)
Taxable profit for the year	48,700	39,482
Current income tax expense for the year - 10% (2018: 10%)	4,870	3,948
Deferred income taxes related to:		
Origination and reversal of temporary differences	5	(713)
Tax expense for past year in the annual tax return	1	-
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**4,876**	**3,235**
Reconciliation of income tax expense applicable to the accounting profit or loss		
Accounting profit for the year	*45,258*	*36,533*
Income tax – 10% (2018: 10%)	4,526	3,653
From unrecognised amounts as per tax returns related to:		
increases – BGN 16,523 thousand (2018: BGN 6,439 thousand)	1,652	644
decreases – BGN 13,313 thousand (2018: BGN 10,351 thousand)	(1,331)	(1,035)
Recognised deferred taxes originated in prior years	28	(27)
Tax expense for past year in the annual tax return	1	-
Total income tax expense carried to the statement of comprehensive income (within profit or loss for the year)	**4,876**	**3,235**

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

	2019 BGN '000			2018 BGN '000		
	Pre-tax amount	**Tax effects recognised in equity**	**Amount net of tax**	**Pre-tax amount**	**Tax effects recognised in equity**	**Amount net of tax**
Items that will not be reclassified to profit or loss						
Gains/(losses) on revaluation of property, plant and equipment	196	(20)	176	341	(34)	307
Remeasurements of liabilities under defined benefit pension plans	16	-	16	(30)	-	(30)
Net change in the fair value of equity investments at FVOCI	(60)	-	(60)	(792)	-	(792)
Total other comprehensive income for the year	**152**	**(20)**	**132**	**(481)**	**(34)**	**(515)**

14. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes:

	2019 BGN '000	***2018 BGN '000***
Subsequent revaluation of property, plant and equipment	196	341
Remeasurement of liabilities under defined benefit pension plans	16	(30)
Net change in the fair value of equity investments measured at FVOCI	(60)	(792)
	152	**(481)**
Income tax relating to items of other comprehensive income	(20)	(34)
Total comprehensive income for the year	**132**	**(515)**

15. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment is as follows:

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Book value										
Balance at 1 January	**165,305**	**172,843**	**190,190**	**186,029**	**21,013**	**24,134**	**5,712**	**4,421**	**382,220**	**387,427**
Impact of adoption of IFRS 16 as at 1 January 2019	4,053	-	-	-	1,642	-	-	-	5,695	-
Additions	379	382	1,313	930	533	403	7,652	11,899	9,877	13,614
Transfer to property, plant and equipment	2,426	3,376	5,507	7,078	455	154	(8,388)	(10,608)	-	-
Transfer to investment property	-	(11,248)	-	(2,511)	-	(1,328)	-	-	-	(15,087)
Effect from remeasurement to fair value	-	34	-	232	196	75	-	-	196	341
Impairment	-	-	-	-	(3)	-	-	-	(3)	-
Disposals	(491)	(82)	(2,410)	(1,568)	(1,065)	(2,425)	(128)	-	(4,094)	(4,075)
Balance at 31 December	**171,672**	**165,305**	**194,600**	**190,190**	**22,771**	**21,013**	**4,848**	**5,712**	**393,891**	**382,220**
Accumulated depreciation										
Balance at 1 January	**31,988**	**30,538**	**106,498**	**98,857**	**16,778**	**18,311**	**-**	**-**	**155,264**	**147,706**
Depreciation charge for the year	5,760	4,682	9,877	10,351	1,820	1,456	-	-	17,457	16,489
Transfer to investment property	-	(3,230)	-	(1,325)	-	(1,091)	-	-	-	(5,646)
Depreciation written-off	(53)	(2)	(2,403)	(1,385)	(1,028)	(1,898)	-	-	(3,484)	(3,285)
Balance at 31 December	**37,695**	**31,988**	**113,972**	**106,498**	**17,570**	**16,778**	**-**	**-**	**169,237**	**155,264**
Carrying amount at 31 December	**133,977**	**133,317**	**80,628**	**83,692**	**5,201**	**4,235**	**4,848**	**5,712**	**224,654**	**226,956**
Carrying amount at 1 January	**133,317**	**142,305**	**83,692**	**87,172**	**4,235**	**5,823**	**5,712**	**4,421**	**226,956**	**239,721**

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

- buildings of carrying amount BGN 89,634 thousand (31 December 2018: BGN 89,690 thousand);
- land amounting to BGN 44,343 thousand (31 December 2018: BGN 43,627 thousand).

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

- Fixtures and fittings with carrying amount BGN 2,338 thousand (31 December 2018: BGN 2,522 thousand);
- Motor vehicles with carrying amount BGN 2,508 thousand (31 December 2018: BGN 1,713 thousand);
- Biological assets (carriers) with carrying amount BGN 355 thousand (31 December 2018: none).

Tangible fixed assets in progress as at 31 December include:

- biological assets (non-fruit-bearing) - BGN 2,497 thousand (31 December 2018: BGN 1,610 thousand);

- advances for the purchase of machines and equipment – BGN 1,177 thousand (31 December 2018: BGN 1,023 thousand);
- expenses on new buildings - BGN 1,110 thousand (31 December 2018: BGN 191 thousand);
- buildings reconstruction – BGN 18 thousand (31 December 2018: BGN 262 thousand);
- other – BGN 46 thousand (31 December 2018: BGN 519 thousand).

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

- for a tablet production facility at the amount of BGN 7,428 thousand (31 December 2018: BGN 8,341 thousand);
- for ampoule production at the amount of BGN 4,244 thousand (31 December 2018: BGN 4,648 thousand).
- combined exchange ventilation and air conditioning installation for the production of medical products at the amount of BGN 655 thousand (31 December 2018: BGN 715 thousand).

  for the production of innovative eye drops, "artificial tears" type, at the amount of BGN 212 thousand (31 December 2018: BGN 238 thousand).

Leases

The Company's right-of-use assets are as follows:

	Land	*Buildings*	*Motor vehicles*	*Furniture and fixtures*	*Total*
	2019	*2019*	*2019*	*2019*	*2019*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Book value					
Balance at 1 January	-	-	-	-	-
Effect of adoption of IFRS 16 as at 1 January 2019		4,053	1,642	-	**5,695**
Additions	29	341	121	174	**665**
Disposals	-	(484)	-	-	**(484)**
Balance at 31 December	**29**	**3,910**	**1,763**	**174**	**5,876**
Accumulated depreciation					
Balance at 1 January	-	-	-	-	-
Depreciation charge for the year	1	1,106	511	29	**1,647**
Depreciation written-off	-	(53)	-	-	**(53)**
Balance at 31 December	**1**	**1,053**	**511**	**29**	**1,594**
Carrying amount at 31 December	**28**	**2,857**	**1,252**	**145**	**4,282**

The Company has included its right-of-use assets within the same item in which the assets would have been stated if they were the Company’s own.

The Company has leased tangible fixed assets with carrying amount of BGN 16 thousand as at 31 December 2019 to related parties (31 December 2018: BGN 1,065 thousand). In addition, tangible fixed assets at carrying amount of BGN 238 thousand are leased to third parties as at 31 December 2019 (31 December 2018: BGN 224 thousand).

Other data

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

- Buildings – BGN 743 thousand (31 December 2018: BGN 722 thousand);
- Plant and equipment – BGN 58,140 thousand (31 December 2018: BGN 52,119 thousand);
- Other – BGN 11,820 thousand. (31 December 2018: BGN 11,331 thousand).

The following encumbrances were constituted on Company's tangible fixed assets as at 31 December 2019 in relation to received loans:

- Land and buildings with a carrying amount of BGN 20,828 thousand and BGN 42,513 thousand, respectively (31 December 2018: respectively, BGN 21,594 thousand and BGN 46,328 thousand) *(Note 29, Note 35 and Note 41);*
- Pledges on equipment – BGN 36,604 thousand (31 December 2018: BGN 33,328 thousand) *(Note 29, Note 35 and Note 41).*

Periodical fair value remeasurement

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

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

As at 31 December 2019 the management concluded that no grounds existed for conducting new remeasurement of assets before the usual five-year period has expired *(Note 2.10).*

16. INTANGIBLE ASSETS

The Company's intangible assets are as follows:

	Goodwill		*Intellectual property rights*		*Software*		*Assets in progress*		*Total*	
	2019 *BGN '000*	*2018* *BGN '000*	*2019* *BGN '000*	*2018* *BGN '000*	*2019* *BGN '000*	*2018* *BGN '000*	*2019* *BGN '000*	*2018* *BGN '000*	*2019* *BGN '000*	*2018* *BGN '000*
Book value										
Balance at 1 January	**6,698**	**6,698**	**11,697**	**11,145**	**4,501**	**4,420**	**7**	**109**	**22,903**	**22,372**
Additions	-	-	55	564	6	58	273	187	334	809
Transfer to intangible assets	-	-	117	31	-	52	(117)	(83)	-	-
Written-off	-	-	(331)	(43)	(78)	(29)	-	(206)	(409)	(278)
Balance at 31 December	**6,698**	**6,698**	**11,538**	**11,697**	**4,429**	**4,501**	**163**	**7**	**22,828**	**22,903**
Accumulated amortisation and impairment										
Balance at 1 January	**-**	**-**	**7,940**	**7,123**	**3,082**	**2,792**	**-**	**-**	**11,022**	**9,915**
Amortisation charge for the year	-	-	820	858	330	322	-	-	1,150	1,180
Impairment	2,541	-	-	-	-	-	-	-	2,541	-
Amortisation written-off	-	-	(331)	(41)	(78)	(32)	-	-	(409)	(73)
Balance at 31 December	**2,541**	**-**	**8,429**	**7,940**	**3,334**	**3,082**	**-**	**-**	**14,304**	**11,022**
Carrying amount at 31 December	**4,157**	**6,698**	**3,109**	**3,757**	**1,095**	**1,419**	**163**	**7**	**8,524**	**11,881**
Carrying amount at 1 January	**6,698**	**6,698**	**3,757**	**4,022**	**1,419**	**1,628**	**7**	**109**	**11,881**	**12,457**

Goodwill impairment

The goodwill which results from the merger of subsidiaries (Bulgarian Rose – Sevtopolis AD, Medica AD and Unipharm AD) into the parent and is recognised in the Company's separate statement of comprehensive income (*Note 2.12)*.

At each date of the statement of financial position, the management assesses if indicators exist for impairment of the existing goodwill, with the support of independent licensed appraisers.

The key assumptions used in the calculation in the recoverable amount at 31 December 2019 are:

- growth rate – from 1,31 to 1.43%%;
- growth in the post-forecast period at terminal value calculation – from 1.77% to 2%;
- interest rate /debt price/ - 2.95%, based on Company funding;
- discount rate (WACC-based) – from 5,9% to 7,03%.

For 2019, a need was identified to recognise impairment of goodwill stated, at the amount of BGN 2,541 thousand (2018: none) (*Note 10*).

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

- expenses on software implementation, at the amount of BGN 117 thousand (31 December 2018: none);
- expenses on licenses and permits for use of medicinal products – BGN 46 thousand (31 December 2018: BGN 7 thousand).

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

- rights on intellectual property – BGN 4,403 thousand (31 December 2018: BGN 4,596 thousand);
- software – BGN 1,806 thousand (31 December 2018: BGN 1,755 thousand).

17. INVESTMENT PROPERTY

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

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Balance at 1 January	**37,451**	**24,799**
Additions	1,977	3,306
Net profit/(loss) on adjustment to fair value measurement included in profit or loss	(99)	58
Transfer from property, plant and equipment	-	9,441
Written-off	-	(153)
Balance at 31 December	**39,329**	**37,451**

The investment property per groups of assets is as follows:

Group of assets	***31.12.2019***	***31.12.2018***
	BGN '000	***BGN '000***
Warehouse premises	29,259	29,271
Offices	3,049	2,847
Production buildings	1,066	1,010
Social objects	416	416
Investment property in progress	5,539	3,907
Total	**39,329**	**37,451**

There are established encumbrances as at 31 December 2019 on investment property as follows:

- mortgage of warehouse premises – BGN 13,142 thousand (31 December 2018: BGN 13,007 thousand) *(Note 35 and Note 41);*
- pledges on attached equipment – BGN 4,764 thousand (31 December 2018: BGN 5,132 thousand) *(Note 35).*

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 (annual) 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:

	Warehouse premises	***Offices***	***Production buildings***	***Social objects***	***Assets in progress***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Balance at 1 January 2018	**19,450**	**2,403**	**1,065**	**410**	**1,471**	**24,799**
Additions	9,441	-	-	-	3,306	12,747
Transfer	792	-	78	-	(870)	-
Disposals	(13)		(140)			(153)
Remeasurement to fair value through profit or loss – unrealised	(399)	444	7	6	-	58
Balance at 31 December 2018	**29,271**	**2,847**	**1,010**	**416**	**3,907**	**37,451**
Additions	-	-	15	-	1,962	1,977
Transfer	330	-	-	-	(330)	-
Remeasurement to fair value through profit or loss – unrealised	(342)	202	41	-	-	(99)
Balance at 31 December 2019	**29,259**	**3,049**	**1,066**	**416**	**5,539**	**39,329**

At the date of each statement of financial position, the management analyses and assesses the fair value of the group of assets in the scope of investment property. The calculations are made by the management with the support of independent licensed appraisers.

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	*a. Income approach* 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
	b. Cost approach Valuation technique: Method based on the costs of construction or replacement – depreciated replacement cost (supportive valuation technique)	* Adjusted prices for construction of identical properties and purchase prices of analogues of the respective type of machinery and equipment
Offices, production buildings and social objects	*Income approach* 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

Key assumptions used in the calculation of the fair value of investment properties as at 31 December 2019:

- rate of return – from 4.45% to 8.40%;
- term to entrance into rental deals – from 3 to 12 months;

As a result of the calculations made in 2019, it was necessary to recognise losses on remeasurement to fair value, at the amount of BGN 99 thousand (2018: net profit of BGN 58 thousand) *(Note 4).*

18. INVESTMENTS IN SUBSIDIARIES

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

		31.12.2019 BGN '000	*Interest %*	*31.12.2018 BGN '000*	*Interest %*
Sopharma Trading AD	Bulgaria	40,551	74.23	30,792	72.96
Briz SIA	Latvia	11,347	68.14	22,270	66.13
Sopharma Ukraine EOOD	Ukraine	9,669	100.00	9,669	100.00
Veta Pharma AD	Bulgaria	9,666	99.98	9,666	99.98
Biopharm Engineering AD	Bulgaria	7,111	97.15	8,384	97.15
Momina Krepost AD	Bulgaria	2,853	63.12	4,229	93.56
Vitamina AD	Ukraine	1,283	100.00	1,127	99.56
Rap Pharma International OOD	Moldova	1,183	80.00	293	51.00
Pharmalogistica AD	Bulgaria	961	89.39	961	89.39
Aromania AD	Bulgaria	750	76.00	750	76.00
TOO Sopharma Kazakhstan	Bulgaria	502	100.00	502	100.00
Sopharma Buildings REIT	Kazakhstan	459	40.38	491	40.38
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Sopharma Warsaw EOOD	Poland	323	100.00	323	100.00
Phyto Palauzovo AD	Bulgaria	104	95.00	104	95.00
Total		**87,146**		**89,945**	

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

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

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

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

- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 18 January 2008.
- Sopharma Buildings REIT – Scope of activities: investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale. Date of acquisition – 4 August 2008.
- SIA Briz – Scope of activities: trade in pharmaceuticals; Date of acquisition – 10 November 2009.
- Sopharma Warsaw EOOD – Scope of activities: market and public opinion research. Date of acquisition – 23 November 2010.
- Sopharma Ukraine EOOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 7 August 2012.
- Phyto Palauzovo AD – Scope of activities: production, collection of crops and trade in herbs and medicinal plants. Date of acquisition (as from the merger of a subsidiary) – 1 January 2014.
- TOO Sopharma Kazakhstan – Scope of activities: trade in pharmaceuticals. Date of acquisition – 30 September 2014.
- Veta Pharma AD – Scope of activities: production of medicinal, non-medicinal and other products. Date of acquisition – 11 November 2016.
- Rap Pharma International OOD – Scope of activities: trade in pharmaceutical products. Date of acquisition – 14 April 2017.
- Aromania OOD – Scope of activities: trade in finished goods, sale and management of real estate. Date of acquisition – 31 July 2017.

The shares of Sopharma Trading AD are traded on the stock exchange, the average monthly price of realised transactions for December 2019 being BGN 5,76 per share (December 2018: BGN 6.92).
The book value per share based on accounting net assets for 2019 is BGN 2.90 (2018: BGN 2.42).

The shares of Momina Krepost AD are traded on the stock exchange, the average monthly price of realised transactions for December 2019 being BGN 3.16 per share (December 20187: no transactions).
The book value per share based on accounting net assets for 2019 is BGN 2.76 (2018: BGN 2.86).

The shares of Sopharma Buildings REIT were not traded on the stock exchange in 2018.
The book value per share based on accounting net assets for 2019 is BGN 1.75 (2018: BGN 1.87).

The movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
Acquisition cost	***31.12.2019 BGN '000***	***31.12.2018 BGN '000***
Balance at 1 January	**125,257**	**124,965**
Additional interest acquired	1,832	244
Interest sold without loss of control	(1,376)	-
Increase in the capital of subsidiaries	9,336	48
Balance at 31 December	**135,049**	**125,257**
Impairment charged		
Balance at 1 January	**35,312**	**35,236**
Impairment charged	12,591	76
Balance at 31 December	**47,903**	**35,312**
Carrying amount at 31 December	**87,146**	**89,945**
Carrying amount at 1 January	**89,945**	**89,729**

Impairment of investments in subsidiaries

At each reporting date, the management makes an analysis and assessment about whether indicators for impairment exist in respect of its investments in subsidiaries. The following are accepted as main indicators for impairment: significant volume reduction (over 25%) and/or termination of activities of the investee; loss of markets, clients or technological problems, reporting of losses for a longer period of time (over three years), reporting of negative net assets or assets below the registered share capital, trends of deterioration of main financial ratios as well as a decrease in market capitalisation. The calculations were made by the management with the assistance of independent certified appraisers. As a base for projected pre-tax cash flows, the Company uses financial budgets developed by the respective companies that cover a 3- to 5-year period, as well as other average-term and long-term plans and intents for their development, including projections for basic economic ratios at national level and at the level of EU/the Balkans. The key assumptions used in the calculations of recoverable amount as at 31 December 2019 are as follows:

- growth rate – from 0.55% to 12.77%;
- growth after the projected period upon calculation of terminal value – 2% to 5%;
- interest rate (cost of debt) – from 1.8% to 15.2%;
- discount rate (based on WACC) – from 5.8% to 26.3%.

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

As a result of the calculations made in 2019, the Company found necessity to recognise impairment of particular investments in subsidiaries at the amount of BGN 12,591 thousand was necessary (2018: BGN 76 thousand) *(Note 10).*

19. INVESTMENTS IN ASSOCIATES

The investments in associates are as follows:

	31.12.2019 BGN '000	***Interest %***	***31.12.2018 BGN '000***	***Interest %***
Doverie Obedinen Holding AD	6,062	24.98	7,962	33.24

As at 31 December 2019, the carrying amount of the investments in associates is BGN 6,062 thousand and includes interest at the rate of 24.98% of the capital of Doverie Obedinen Holding AD (31.12.2018: BGN 7,962 thousand and interest at the rate of 33.24%).

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

The shares of Doverie Obedinen Holding are traded on the stock exchange, the average monthly price of realised transactions for December 2019 being BGN 3.09 per share (December 2018: BGN 1.56).
The book value per share based on accounting net assets for 2019 is BGN 1.95 (2018: BGN 1.75).

The movement of investments in associates is presented below:

	31.12.2019 BGN '000	***31.12.2018 BGN '000***
Balance at 1 January	**7,962**	**7,740**
Shares acquired	192	227
Shares sold	(2,092)	(5)
Carrying amount at 31 December	**6,062**	**7,962**

Impairment of investments in associates

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

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

The calculations have been made by the management with the support of independent licensed appraisers. The key assumptions used in the calculation in the recoverable amount at 31 December 2019 are:

- growth rate – 1.2%;
- growth in the post-forecast period at terminal value calculation – 2.02% ;
- interest rate /debt price/ – 2.59% ;
- discount rate (WACC-based) – 7%.

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

20. OTHER LONG-TERM EQUITY INVESTMENTS

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

	31.12.2019	***Interest***	***31.12.2018***	***Interest***
	BGN '000	***%***	***BGN '000***	***%***
Lavena AD	4,771	12.68	3,616	10.89
Sopharma Properties REIT	2,925	2.13	2,078	1.55
Olainfarm AD - Latvia	1,587	0.77	1,484	0.77
Todorov AD	208	12.45	182	10.94
Imventure 1 KDS	50	1.36	50	1.36
Achieve Life Science Inc. – USA	44	0.12	83	0.53
Chimimport AD	13	0.003	-	-
Ecobulpack AD	7	0.74	7	0.74
Aroma AD	6	0.02	4	0.02
BTF Expat Bulgaria	5	0.01	59	0.17
UniCredit Bulbank AD	3	0.001	3	0.001
Industrial Holding Bulgaria AD	1	0.001	-	-
Expo Group AD	1	0.05	1	0.05
Elana Agrocredit AD	-	-	31	0.07
Gradus AD	-	-	1	0.0004
Total	**9,621**		**7,599**	

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

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

Equity investments	*31.12.2019* Number of shares	Fair value per share	Fair value as per the statement of financial position	*31.12.2018* Number of shares	Fair value per share	Fair value as per the statement of financial position
		BGN	*BGN '000*		*BGN*	*BGN '000*
Lavena AD	1,257,664	3.79	4,771	905,639	3.99	3,616
Sopharma Properties REIT	456,466	6.41	2,925	324,772	6.40	2,078
Olainfarm AD – Latvia	108,500	14.63	1,587	108,500	13.68	1,484
Todorov AD	423,431	0.49	208	372,081	0.49	182
Achieve Life Science Inc. – USA	35,930	1.23	44	35,930	2.31	83
Chimimport AD	7,000	1.79	13	-	-	-
Aroma AD	2,371	2.65	6	2,371	1.69	4
BTF Expat Bulgaria	4,565	0.99	5	56,604	1.04	59
Industrial Holding Bulgaria AD	1,482	1.02	1	-	-	-
Elana Agrocredit AD	-	-	-	26,800	1.16	31
Gradus AD	-	-	-	900	1.11	1
Total			**9,560**			**7,538**

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

Equity investments	***Fair value***	***Level 1***	***Level 2***
	31.12.2019 ***BGN'000***	***BGN'000***	***BGN'000***
Lavena AD	4,771	-	4,771
Sopharma Properties REIT	2,925	2,925	-
Olainfarm AD – Latvia	1,587	1,587	-
Todorov AD	208	-	208
Achieve Life Science Inc. – USA	44	44	-
Chimimport AD	13	13	-
Aroma AD	6	-	6
BTF Expat Bulgaria	5	5	-
Industrial Holding Bulgaria AD	1	1	-
Total	**9,560**	**4,575**	**4,985**

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

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

Equity investments	***Level 1***	***Level 2***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Balance at 1 January 2018	**3,867**	**3,674**	**7,541**
Purchases	621	30	651
Issue of shares	1,043	-	1,043
Sales	(632)	(273)	(905)
Unrealised gain/(loss), net, included in other comprehensive income (Note 14)	(1,159)	367	(792)
Balance at 31 December 2018	**3,740**	**3,798**	**7,538**
Purchases	554	494	1,048
Issue of shares	322	800	1,122
Sales	(85)	(3)	(88)
Transfer from level 1 to level 2	(4)	4	-
Unrealised gain/(loss), net, included in other comprehensive income *(Note 14)*	48	(108)	(60)
Balance at 31 December 2019	**4,575**	**4,985**	**9,560**

Valuation techniques and approaches

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

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

21. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	31.12.2019 BGN '000	***31.12.2018 BGN '000***
Long-term loans granted	91,723	22,977
Provision for impairment of credit losses	*(118)*	*(116)*
	91,605	22,861
Long-term rental deposit granted	189	194
Total	**91,794**	**23,055**

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

	31.12.2019 BGN '000	***31.12.2018 BGN '000***
Companies controlled by an associate	84,715	5,287
Associate companies	6,890	17,574
Total	**91,605**	**22,861**

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2019*		*31.12.2018*	
	'000			*BGN '000*	*BGN '000 including interest*	*BGN '000*	*BGN '000 including interest*
To companies controlled by an associate							
BGN	81,900	31.12.2025	3.00%	*81,999*	*99*	-	-
BGN	3,400	31.12.2021	3.00%	*2,716*	-	-	-
BGN	29,900	31.12.2021	3.00%	-	-	*3,904*	*89*
EUR	700	31.12.2021	3.00%	-	-	*1,383*	*14*
To associates							
EUR	31,091	31.12.2021	3.50%	*6,890*	*13*	*17,574*	*36*
				91,605	***112***	***22,861***	***103***

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

	2019	*2018*
	BGN '000	*BGN '000*
Balance on 1 January	**116**	**119**
Increase in the credit loss allowance recognised in profit or loss for the year	111	9
Decrease in the credit loss allowance recognised in profit or loss for the year	(109)	(12)
Balance at 31 December	**118**	**116**

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

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

22. OTHER LONG-TERM RECEIVABLES

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

	31.12.2019	*31.12.2018*
	BGN '000	*BGN '000*
Granted long-term loans	*6,447*	*2,412*
Provision for impairment of credit losses	*(149)*	*(71)*
Long-term loans granted, net	6,298	2,341
Receivables under transactions in securities	*3,482*	*3,416*
Provision for impairment of credit losses	*(268)*	*(322)*
Receivables under transactions in securities, net	3,214	3,094
Receivables under sales of non-current assets	*394*	*394*
Provision for impairment of credit losses	*(9)*	*(69)*
Receivables on sales of non-current assets, net	385	325
Total	**9,897**	**5,760**

The conditions of the long-term loans granted to third persons are as follows:

Currency	*Contracted amount '000*	*Maturity*	*Interest rate*	*31.12.2019*		*31.12.2018*	
				BGN'000	*BGN'000 Incl. interest*	*BGN'000*	*BGN'000 Incl. interest*
EUR	2,500	29.06.2023	3.05%	*4,890*	*-*	*961*	*-*
EUR	695	12.10.2022	3.05%	*1,393*	*34*	*1,360*	*-*
BGN	24	14.03.2023	5.00%	*15*	*-*	*20*	*-*
				6,298	***34***	**2,341**	**-**

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

	2019	*2018*
	BGN '000	*BGN '000*
Balance at 1 January	**71**	**6**
Increase in the credit loss allowance recognised within profit or loss for the year	78	65
Balance at 31 December	**149**	**71**

The long-term loans granted to third parties aim to support the financing of these companies for general strategic objectives. They are secured with pledges on securities (shares), pledged on receivables and promissory notes.

Receivables under transactions in securities comprise receivables under an investment in subsidiary sold, with deferred payment until completion of legal actions of registration of medical product permits at the amount of 3,214 thousand and expected maturity 30 June 2023 (31 December 2018: BGN 3,094 thousand).

The movement in the allowance (provision) for impairment of receivables under transactions in securities is as follows:

	2019	*2018*
	BGN '000	***BGN '000***
Balance at 1 January	**322**	**322**
Increase in the allowance for credit losses recognized in profit or loss for the year	29	-
Decrease in the allowance for credit losses recognized in profit or loss for the year	(83)	-
Balance at 31 December	**268**	**322**

Receivables under sales with deferred payment of non-current assets at the amount of BGN 290 thousand have maturity on 20 April 2021 (31 December 2018: BGN 325 thousand).

The movement in the allowance (provision) for impairment of receivables under sales of non-current assets is as follows:

	2019	*2018*
	BGN '000	***BGN '000***
Balance at 1 January	**69**	**69**
Increase in the allowance for credit losses recognized in profit or loss for the year	9	-
Decrease in the allowance for credit losses recognized in profit or loss for the year	(69)	
Balance at 31 December	**9**	**69**

23. INVENTORIES

Company's *inventories* include:

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Materials	29,850	30,458
Finished products	15,921	21,055
Work in progress	8,219	7,830
Semi-finished products	7,266	9,090
Goods	109	66
Total	**61,365**	**68,499**

Materials by type are as follows:

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Basic materials	28,245	28,158
Materials in transit	678	1,362
Technical materials	475	437
Auxiliary materials	208	198
Spare parts	189	238
Other	55	65
Total	**29,850**	**30,458**

Basic materials by type are as follows:

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Substances	14,562	15,256
Chemicals	5,149	4,092
Ampoules	2,466	2,245
Packaging materials	1,174	1,511
PVC and aluminium foil	1,732	1,919
Sanitary hygienic and dressing materials	1,326	1,353
Herbs	1,163	1,469
Incl. own production	*33*	-
Vials	426	262
Tubes	247	51
Total	**28,245**	**28,158**

The movement in herbs – own production (agricultural produce including milk whistle and yellow acacia seeds) is as follows:

	2019	***2018***
	BGN '000	***BGN '000***
Agricultural production at 1 January	-	-
Cost of produce yield in the year	319	-
Loss on fair value measurement	(36)	-
Loss on revaluation under IAS 2	(77)	-
Used in production	(173)	-
Agricultural production at 31 December	**33**	**-**

Finished products existing at 31 December include:

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Tablet dosage forms	8,186	13,255
Ampoule dosage forms	3,307	3,050
Dressing products	1,209	1,137
Ointments	1,028	1,573
Syrups	619	638
Lyophilic products	417	283
Plasters	363	348
Sanitary-hygienic products	325	203
Medical cosmetics	228	95
Drops	104	62
Suppositories	85	150
Haemodialisis concentrates	50	60
Inhalers	-	193
Sachets	-	8
Total	**15,921**	**21,055**

In 2019, the Company produced 100,368 kg of agricultural produce (wheat).

The movement in agricultural produce (wheat) is as follows:

	2019	***2018***
	BGN '000	***BGN '000***
Agricultural produce at 1 January	-	-
Cost of produce in the year	136	-
Loss on fair value measurement	(103)	-
Produce sold	(17)	-
Produce used for sowing crop 2020	(9)	
Lease paid on agricultural land used	(6)	
Loss on sale	(1)	
Agricultural produce at 31 December	**-**	**-**

Goods by type are as follows:

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Foodstuffs	68	65
Medicinal products	41	1
Total	**109**	**66**

Pledges were established on Company's inventories with carrying amount of BGN 21,921 thousand as at 31 December 2019 as collateral to bank loans received (31 December 2018: BGN 29,555 thousand) *(Note 35 and Note 41).*

24. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Receivables from subsidiaries	*94,914*	*85,604*
Provision for impairment of credit losses	*(3,962)*	*(2,697)*
	90,952	82,907
Receivables from companies controlled by an associate	6,112	3,264
Provision for impairment of credit losses	*(50)*	*(33)*
	6,062	3,231
Receivables from companies related through key management personnel	-	5,376
Provision for impairment of credit losses	-	(5)
	-	5,371
Total	**97,014**	**91,509**

The receivables from related parties by type are as follows:

	31.12.2019 ***BGN '000***	***31.12.2018*** ***BGN '000***
Receivables under contracts with customers	*80,095*	*73,603*
Provision for impairment of credit losses	*(2,001)*	*(1,797)*
Receivables under contracts with customers, net	78,094	71,806
Trade loans granted	*19,638*	*20,641*
Provision for impairment of credit losses	*(2,011)*	*(938)*
Trade loans granted, net	17,627	19,703
Dividend receivables	1,293	-
Total	**97,014**	**91,509**

The receivables under contracts with customers – related parties are interest-free and BGN 65,356 thousand of them are denominated in BGN (31 December 2018: BGN 59,416 thousand) and in EUR – BGN 12,738 thousand (31 December 2018: BGN 12,390 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 65,172 thousand as at 31 December 2019 or 83,45% of all receivables under contracts with customers - related parties (31 December 2018: BGN 59,253 thousand – 82,52%).

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

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

	2019 ***BGN '000***	***2018*** ***BGN '000***
Balance at 1 January	**1,797**	**1,153**
Increase in the credit loss allowance recognised within profit or loss for the year	2,001	1,797
Decrease in the credit loss allowance recognised within profit or loss for the year	(1,797)	(1,153)
Balance at 31 December	**2,001**	**1,797**

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

	31.12.2019	*31.12.2018*
	BGN '000	*BGN '000*
up to 30 days	15,358	17,739
from 31 to 90 days	31,367	19,843
from 91 to 180 days	26,364	23,493
from 181 to 365 days	1,154	1,324
Gross amount of non-matured (regular) receivables from related parties	*74,243*	*62,399*
Provision for impairment of credit losses	*(874)*	*(586)*
Non-matured (regular) receivables from related parties, net	**73,369**	**61,813**

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

	31.12.2019	*31.12.2018*
	BGN '000	*BGN '000*
up to 30 days	181	166
from 31 to 90 days	379	192
from 91 to 180 days	301	216
from 181 to 365 days	13	12
Total	**874**	**586**

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

	31.12.2019	*31.12.2018*
	BGN '000	*BGN '000*
from 31 to 90 days	33	854
from 91 to 180 days	363	430
from 181 to 365 days	4,480	8,799
over 365 days	976	1,121
Gross amount of past due receivables from related parties	*5,852*	*11,204*
Provision for impairment of credit losses	*(1,127)*	*(1,211)*
Past due receivables from related parties, net	**4,725**	**9,993**

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

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

31 December 2019		***Regular***	***30 to 90 days past due***	***Over 90 days past due***	***Over 180 days past due***	***Over 365 days past due***	**Total**
Expected average percentage of credit losses		1%	3%	13%	38%	88%	
Trade receivables from related parties (gross carrying amount)	***BGN '000***	74,243	1,502	3,065	910	375	80,095
Expected credit loss (Impairment allowance)	***BGN '000***	(874)	(44)	(404)	(348)	(331)	(2,001)

31 December 2018		***Regular***	***Over 30 days past due***	***Over 90 days past due***	***Over 180 days past due***	***Over 365 days past due***	**Total**
Expected average percentage of credit losses		1%	3%	16%	44%	97%	
Trade receivables from related parties (gross carrying amount)	***BGN '000***	62,399	9,394	376	895	539	73,603
Expected credit loss (Impairment allowance)	***BGN '000***	(586)	(236)	(60)	(393)	(522)	(1,797)

Special pledges have been established as at 31 December 2019 on receivables from related parties at the amount of BGN 71,672 thousand as collateral under bank loans received (31 December 2018: BGN 64,947 thousand) *(Note 35)*.

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

	31.12.2019 BGN '000	***31.12.2018 BGN '000***
Subsidiaries	*13,584*	*12,045*
Provision for impairment of credit losses	*(2,005)*	*(908)*
	11,579	11,137
Companies controlled by an associate	6,054	3,220
Provision for impairment of credit losses	(6)	(25)
	6,048	3,195
Companies related through key management personnel	-	5,376
Provision for impairment of credit losses	-	(5)
	-	5,371
Total	**17,627**	**19,703**

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2019*		*31.12.2018*	
				BGN	*BGN*	*BGN*	*BGN*
	'000			*'000*	*'000 including interest*	*'000*	*'000 including interest*
to subsidiaries							
BGN	14,109	31.12.2020	4.10%	*5,664*	*228*	*3,599*	-
EUR	2,770	31.12.2019	4.70%	*3,443*	-	*4,812*	-
BGN	3,050	31.12.2020	3.50%	*1,661*	*8*	*935*	-
EUR	390	10.05.2020	3.95%	*811*	*48*	*806*	*43*
EUR	500	31.12.2019	6.60%	-	-	*985*	*7*
to companies controlled by an associate							
EUR	5,990	31.12.2020	3.10%	*5,999*	-	*3,140*	*34*
BGN	190	31.12.2020	3.50%	*49*	-	*55*	-
to companies related through key management personnel							
EUR	4,014	31.12.2019	2.81%	-	-	*5,371*	*27*
				17,627	**284**	**19,703**	**111**

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

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

	2019	***2018***
	BGN '000	***BGN '000***
Balance at 1 January	**938**	**887**
Increase in the credit loss allowance recognised within profit or loss for the year	1,629	51
Decrease in the credit loss allowance recognised within profit or loss for the year	(556)	-
Balance at 31 December	**2,011**	**938**

25. TRADE RECEIVABLES

Trade receivables include:

	31.12.2019	*31.12.2018*
	BGN '000	***BGN '000***
Receivables under contracts with customers	*27,601*	*20,685*
Provision for impairment of credit losses	*(1,487)*	*(1,817)*
Receivables under contracts with customers, net	26,114	18,868
Advances granted	1,098	563
Total	**27,212**	**19,431**

The *receivables under contracts with customers* are interest-free and BGN 943 thousand of them are denominated in BGN (31 December 2018: BGN 950 thousand), in EUR – BGN 22,822 thousand (31 December 2018: BGN 16,162 thousand), and in USD – BGN 2,349 thousand (31 December 2018: BGN 1,756 thousand).

One main counterpart of the Company is accountable for about 84,42% of the receivables from clients (2018: one main counterpart accountable for 72.56%).

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

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

	2019	***2018***
	BGN '000	***BGN '000***
Balance at 1 January	**1,817**	**1,331**
Increase in the credit loss allowance recognised within profit or loss for the year	1,487	1,817
Decrease in the credit loss allowance recognised within profit or loss for the year	(1,817)	(1,318)
Transfer to the allowance for court and awarded receivables	-	(13)
Balance at 31 December	**1,487**	**1,817**

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

	31.12.2019	*31.12.2018*
	BGN '000	***BGN '000***
up to 30 days	4,226	6,456
from 31 to 90 days	11,143	5,797
from 91 to 180 days	435	686
Gross amount of non-matured (regular) trade receivables	*15,804*	*12,939*
Provision for impairment of credit losses	*(181)*	*(196)*
Non-matured (regular) trade receivables, net	**15,623**	**12,743**

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

	31.12.2019	*31.12.2018*
	BGN '000	***BGN '000***
up to 30 days	47	98
from 31 to 90 days	129	90
from 91 to 180 days	5	8
Total	**181**	**196**

The *age structure* of the invoice date of past due but not impaired trade receivables is as follows:

	31.12.2019	*31.12.2018*
	BGN '000	***BGN '000***
from 31 to 90 days	10,240	4,995
from 91 to 180 days	153	519
from 181 to 365 days	412	1,062
over 365 days	992	1,170
Gross amount of past due trade receivables	*11,797*	*7,746*
Provision for impairment of credit losses	*(1,306)*	*(1,621)*
Past due trade receivables, net	**10,491**	**6,125**

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

31 December 2019		*Regular*	*Over 30 days past due*	*Over 90 days past due*	*Over 180 days past due*	*Over 365 days past due*	*Total*
Expected average percentage of credit losses		1%	2%	28%	47%	97%	
Trade receivables (gross carrying amount)	*BGN '000*	15,804	10,398	130	367	902	27,601
Expected credit loss (Impairment allowance)	*BGN '000*	(181)	(224)	(37)	(173)	(872)	(1,487)

31 December 2018		*Regular*	*Over 30 days past due*	*Over 90 days past due*	*Over 180 days past due*	*Over 365 days past due*	*Total*
Expected average percentage of credit losses		1%	3%	31%	50%	98%	
Trade receivables (gross carrying amount)	*BGN '000*	12,939	5,548	902	229	1,067	20,685
Expected credit loss (Impairment allowance)	*BGN '000*	(196)	(183)	(280)	(114)	(1,044)	(1,817)

As at 31 December 2019, special pledges have been established as collateral of bank loans received on trade receivables at the amount of BGN 11,735 thousand (31 December 2018: BGN 19,088 thousand) (*Note 35 and Note 41*).

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

	31.12.2019	*31.12.2018*
	BGN '000	*BGN '000*
Inventories	787	375
Services	311	188
Total	**1,098**	**563**

The *advances granted* are regular. They include: in BGN – BGN 609 thousand (31 December 2018: BGN 476 thousand), in EUR – BGN 171 thousand (31 December 2018: BGN 33 thousand), in USD: BGN 317 thousand (31 December 2018: BGN 48 thousand), and in other currency – BGN 1 thousand (31 December 2018: BGN 6 thousand).

26(A). LOANS GRANTED TO THIRD PARTIES

	31.12.2019	*31.12.2018*
	BGN '000	*BGN '000*
Trade loans granted	*6,052*	*3,815*
Provision for impairment of credit losses	*(8)*	*(545)*
Total	**6,044**	**3,270**

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

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2019*		*31.12.2018*	
	'000			*BGN '000*	*BGN '000 including interest*	*BGN'000*	*BGN'000 including interest*
BGN	4,511	31.12.2020	2.55%	*4,549*	-	-	-
BGN	4,184	31.12.2020	4.30%	*889*	-	*2,764*	-
BGN	832	31.12.2020	4.50%	*496*	-	*408*	*7*
BGN	949	31.12.2020	4.70%	*110*	-	*98*	-
				3,270	**-**	**3,270**	**7**

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

	2019	*2018*
	BGN '000	*BGN '000*
Balance at 1 January	**545**	**504**
Increase in the credit loss allowance recognised within profit or loss for the year	8	41
Decrease in the credit loss allowance recognised within profit or loss for the year	(545)	-
Balance at 31 December	**8**	**545**

26(B). OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2019 ***BGN '000***	***31.12.2018*** ***BGN '000***
Taxes refundable	5,027	4,423
Prepayments	957	831
Receivables under deposits granted as guarantees	119	138
Funds provided to an investment intermediary	1	11
Court and awarded receivables	*5*	*137*
Provision for impairment of credit losses from court and awarded receivables	*(5)*	*(137)*
Receivables under return claims	-	333
Other	40	201
Total	**6,144**	**5,937**

Taxes refundable include:

	31.12.2019 ***BGN '000***	***31.12.2018*** ***BGN '000***
Excise duties	5,027	4,423
Total	**5,027**	**4,423**

Prepayments include:	***31.12.2019*** ***BGN '000***	***31.12.2018*** ***BGN '000***
Subscriptions	424	407
Insurance	259	292
Advertisement	88	-
Licence and patent fees	82	91
Consulting services	35	-
Rentals	31	9
Vouchers	1	4
Other	37	28
Total	**957**	**831**

Deposits placed as guarantees include:	***31.12.2019*** ***BGN '000***	***31.12.2018*** ***BGN '000***
Guarantees under contracts for fuel supply	86	86
Guarantees under supply of medicinal products	13	13
Guarantees under contracts for rental	9	4
Guarantees under construction contracts	4	22
Guarantees under contracts for electricity supply	3	3
Other	4	10
Total	**119**	**138**

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

	2019 ***BGN '000***	***2018*** ***BGN '000***
Balance at 1 January	**137**	**2,222**
Increase in the credit loss allowance recognised within profit or loss for the year	5	3
Decrease in the credit loss allowance recognised within profit or loss for the year	(137)	(2,101)
Transfer of the allowance from trade receivables	-	13
Balance at 31 December	**5**	**137**

27. CASH AND CASH EQUIVALENTS

Cash includes:

	31.12.2019 ***BGN '000***	***31.12.2018*** ***BGN '000***
Cash at current bank accounts	*4,062*	*9,096*
Impairment of cash at current bank accounts	*(166)*	*(166)*
Cash at current bank accounts, net of impairment	3,896	8,930
Cash in hand	43	29
Blocked cash under issued bank guarantees	20	12
Total	**3,959**	**8,971**

Cash structure at current bank accounts is as follows: in BGN: BGN 2,472 thousand (31 December 2018: BGN 5,964 thousand), in EUR – BGN 615 thousand (31 December 2018: BGN 2,365 thousand), in USD – BGN 784 thousand (31 December 2018: BGN 512 thousand) and in other currency – BGN 25 thousand (31 December 2018: BGN 89 thousand).

Cash in hand is denominated in: BGN: BGN 42 thousand (31 December 2018: BGN 29 thousand), and other currencies: BGN 1 thousand (31 December 2018: none).

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

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

28. EQUITY

Share capital

As at 31 December 2019, the registered share capital of Sopharma AD amounted to BGN 134,798 thousand distributed in 134,797,899 shares of nominal value BGN 1 each.

Ordinary shares issued and fully paid	*Shares*	*Share capital net of treasury shares*
	number	*BGN '000*
Balance at 1 January 2018	**125,764,919**	**100,964**
Effects of a subsidiary merger	288,500	1,082
Treasury shares sold	70,606	265
Treasury shares bought	3,000	11
Expense for treasury shares	(210,462)	(857)
Balance at 31 December 2018	**125,916,563**	**101,461**
Balance at 1 January 2019	**125,916,563**	**101,461**
Treasury shares bought	(232,131)	(801)
Expense on treasury shares	-	(4)
Balance at 31 December 2019	**125,684,432**	**100,656**

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

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

	31.12.2019 ***BGN '000***	***31.12.2018*** ***BGN '000***
Share capital (registered), nominal	134,798	134,798
Share premium	8,785	8,785
Total paid capital	**143,583**	**143,583**

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

The ***treasury shares*** were 9,113,467 at the amount of BGN 34,142 thousand as at 31 December 2019 (31 December 2018: 8,881,336 shares at the amount of BGN 33,337 thousand). The number of shares purchased in the current year was 232,131 (2018: 210,462 shares) and the number of shares sold: none (2018: 3,000). The effect of the merger of a subsidiary into Sopharma AD in 2018 was 70,606 shares at the amount of BGN 265 thousand.

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

Company's ***reserves*** are summarised in the table below:

	31.12.2019 ***BGN '000***	***31.12.2018*** ***BGN '000***
Statutory reserves	59,297	55,967
Property, plant and equipment revaluation reserve	22,040	22,433
Reserve for financial assets at fair value through other comprehensive income	2,873	2,933
Additional reserves	298,339	275,977
Total	**382,549**	**357,310**

Statutory reserves at the amount of BGN 59,297 thousand (31 December 2018: BGN 55,967 thousand) represent the Reserve Fund, which is set aside under a requirement of the Commercial Act and Company's Articles of Association, and includes two components: (a) amounts from distribution of profit for the Reserve Fund – BGN 50,512 thousand (31 December 2018: BGN 47,182 thousand), and (b) share premium representing the excess of the issue value over the nominal value of the issued shares on the merger of a subsidiary into Sopharma AD – BGN 8,785 thousand (31 December 2018: BGN 8,785 thousand).

The movements of statutory reserves were as follows:

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

The ***property, plant and equipment revaluation reserve***, amounting to BGN 22,040 thousand (31 December 2018: BGN 22,433 thousand), is set aside from the surplus between the carrying amount of property, plant and equipment and their fair value at the date of the respective revaluation. The deferred tax effect on the revaluation reserve was directly carried to this reserve.

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

	2019	*2018*
	BGN '000	*BGN '000*
Balance at 1 January	**22,433**	**23,839**
Revaluation of property, plant and equipment	196	341
Deferred tax relating to revaluations	(20)	(34)
Transfer to retained earnings	(569)	(3,457)
Effects from subsidiary merger	-	1,744
Balance at 31 December	**22,040**	**22,433**

The reserve of financial assets at fair value through other comprehensive income, amounting to BGN 2,873 thousand (31 December 2018: BGN 2,933 thousand) is formed of the effects of fair-value measurement of other long-term equity investments. Upon derecognition of these investments, the reserve formed is transferred to “retained earnings”.

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

	2019 ***BGN '000***	***2018*** ***BGN '000***
Balance at 1 January	**2,933**	**4,089**
Net revenue from remeasurement of available-for-sale financial assets	(60)	(792)
Transfer to retained earnings	-	(384)
Effects of subsidiary merger	-	20
Balance at 31 December	**2,873**	**2,933**

Additional reserves at the amount of BGN 298,339 thousand (31 December 2018: BGN 275,977 thousand) are set aside from distribution of profits under a decision of shareholders and can be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additional reserves are as follows:

	2019 ***BGN '000***	***2018*** ***BGN '000***
Balance at 1 January	**275,977**	**251,089**
Distributed profit in the year	22,362	24,888
Balance at 31 December	**298,339**	**275,977**

Base net earnings per share

	31.12.2019	***31.12.2018***
Weighted average number of shares	125,896,515	125,798,842
Net profit for the year (BGN '000)	40,382	33,298
Base net earnings per share (BGN)	**0.32**	**0.26**

As at 31 December 2019, ***retained earnings*** amount at BGN 39,439 thousand (31.12.2018: BGN 30,448 thousand).

The movement in ***retained earnings*** is as follows:

	2019	*2018*
	BGN '000	*BGN '000*
Balance at 1 January	**30,448**	**44,522**
Net profit for the year	40,382	33,298
Transfer from revaluation reserve of property, plant and equipment	569	3,457
Actuarial gains on remeasurement	16	(30)
Transfer from reserve of financial assets at fair value through other comprehensive income	-	384
Profit distribution to reserves	(25,692)	(29,189)
Current year profit distribution for dividends	(6,284)	(6,284)
Distribution for 2017 profit for dividends	-	(13,822)
Effect from treasury shares	-	(1)
Effect from the merger of subsidiaries	-	(2,029)
Share-based payments	-	142
Balance at 31 December	**39,439**	**30,448**

29. LONG-TERM BANK LOANS

Long-term bank loans include:

				31.12.2019			*31.12.2018*	
Currency	*Contracted loan amount*	*Maturity*	*Non-current portion*	*Current portion*	*Total*	*Non-current portion*	*Current portion*	*Total*
	'000		*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Investment-purpose loans								
EUR	32,000	15.04.2021	2,386	7,160	**9,546**	9,539	7,157	**16,696**
AZN	23	15.04.2022	8	7	**15**	-	-	**-**
AZN	35	16.03.2021	4	14	**18**	17	11	**28**
			2,398	**7,181**	**9,579**	**9,556**	**7,168**	**16,724**

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

The following were established under the loans listed:

- Mortgages of real estate with a carrying amount of BGN 37,505 thousand as at 31 December 2019 (31 December 2018: BGN 39,200 thousand) (*Note 15*);
- Special pledges on machinery and equipment with a carrying amount of BGN 14,889 thousand as at 31 December 2019 (31 December 2018: BGN 16,076 thousand) *(Note 15).*

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

Reconciliation of the movement of liabilities from financing activities

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

	01.01.2019	*Changes in cash flows from financing activities*	*Newly arising liabilities over the year*	*Other non-cash changes*	*31.12.2019*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Bank loans	82,376	27,478	24	60	109,938
Lease liabilities to related parties	3,896	(1,038)	121	(370)	2,609
Lease liabilities to third parties	1,799	(672)	544	6	1,677
Dividends	271	(28)	6,244	(46)	6,441
Total	**88,342**	**25,740**	**6,933**	**(350)**	**120,665**
Treasury shares	(33,337)	(805)	-	-	(34,142)
Net cash flows from financing activities	**55,005**	**24,935**	**6,933**	**(350)**	**86,523**

	01.01.2018	*Changes in cash flows from financing activities*	*Acquisition of a subsidiary (Note 2.3)*	*Newly arising liabilities over the year*	*Other non-cash changes*	*31.12.2018*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Bank loans	77,171	4,843	-	372	(10)	82,376
Lease liabilities to third parties	71	(71)	-	-	-	-
Dividends	196	(20,000)	-	20,106	(31)	271
Total	**77,438**	**(15,228)**	**-**	**20,478**	**(41)**	**82,647**
Treasury shares	(33,834)	(850)	265	-	1,082	(33,337)
Net cash flows from financing activities	**43,604**	**(16,078)**	**265**	**20,478**	**1,041**	**49,310**

30. DEFERRED TAX LIABILITIES

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

Deferred tax (liabilities)/ assets	*temporary difference*	*tax*	*temporary difference*	*tax*
	31.12.2019 BGN '000	***31.12.2019 BGN '000***	***31.12.2018 BGN '000***	***31.12.2018 BGN '000***
Property, plant and equipment	69,390	6,939	70,802	7,080
including revaluation reserve	*20,323*	*2,032*	*20,760*	*2,076*
Intangible assets	2,086	209	2,296	230
Investment property	8,808	881	7,684	768
including revaluation reserve	*516*	*52*	*516*	*52*
Total deferred tax liabilities	**80,284**	**8,029**	**80,782**	**8,078**
Payables to personnel	(7,859)	(786)	(7,424)	(742)
Receivables	(6,180)	(618)	(5,990)	(599)
Inventories	(3,261)	(326)	(4,241)	(424)
Accrued liabilities	(729)	(73)	(611)	(61)
Cash	(166)	(17)	(166)	(17)
Total deferred tax assets	**(18,195)**	**(1,820)**	**(18,432)**	**(1,843)**
Deferred income tax liabilities, net	**62,089**	**6,209**	**62,350**	**6,235**

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

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

Deferred tax (liabilities)/ assets	***Balance at 1 January 2019***	***Recognised in the statement of comprehensive income***	***Recognised in equity***	***Recognised in the statement of changes in equity and the current tax return***	***Balance at 31 December 2019***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	(7,080)	110	(20)	51	(6,939)
Intangible assets	(230)	21	-	-	(209)
Investment property	(768)	(113)	-	-	(881)
Payables to personnel	742	44	-	-	786
Receivables	599	19	-	-	618
Inventories	424	(98)	-	-	326
Accrued liabilities	61	12	-	-	73
Cash	17	-	-	-	17
Total	**(6,235)**	**(5)**	**(20)**	**51**	**(6,209)**

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

Deferred tax (liabilities)/ assets	***Balance at 1 January 2018***	***Recognised in the statement of comprehensive income***	***Recognised in equity***	***Recognised in the statement of changes in equity and the current tax return***	***Balance at 31 December 2018***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	(8,076)	937	(34)	93	(7,080)
Intangible assets	(231)	1	-	-	(230)
Investment property	(603)	(166)	-	-	(768)
Biological assets	(3)	3	-	-	-
Payables to personnel	771	(29)	-	-	742
Receivables	533	(50)	116	-	599
Inventories	397	27	-	-	424
Accrued liabilities	41	(10)	30	-	61
Cash	17	-	-	-	17
Total	**(7,153)**	**713**	**112**	**93**	**(6,235)**

31. GOVERNMENT GRANTS

The government grants are under concluded contracts with the Bulgarian Small and Medium Enterprises Promotion Agency for gratuitous financial aid under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013 and Operational Programme "Energy Efficiency". The table below presents the non-current and the current portion of the grants received by type:

	31.12.2019			*31.12.2018*		
	Non-current portion	***Current portion***	***Total***	***Non-current portion***	***Current portion***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Acquisition of machinery and equipment for a new tablets production line	2,459	179	**2,638**	2,638	179	**2,817**
Implementation of innovative products in the production of ampoule dosage forms	1,900	200	**2,100**	2,100	200	**2,300**
Acquisition on non-current assets and building reconstruction	312	8	**320**	320	8	**328**
Acquisition of machinery and equipment for technological renovation and modernisation of tablet production	10	120	**130**	130	120	**250**
Implementation of innovative “artificial tears” eye drops production	84	24	**108**	108	24	**132**
Acquisition of combined exchange ventilation and air conditioning installation	93	9	**102**	101	9	**110**
	4,858	**540**	**5,398**	**5,397**	**540**	**5,937**

The current portion of the financing will be recognised as current income over the following 12 months from the date of the separate statement of financial position and presented as 'other current liabilities' (*Note 40).*

32. LEASE LIABILITIES TO RELATED PARTIES

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

As at 1 January 2019 the Company had non-canecllable commitments under two leases of buildings to related parties at the amount of BGN 3,896 thousand. These is only capitalised rental.

As at 1 January 2019 the Company has a contract for building rental which is outside the scope of the new IFRS 16, since it has low value and the annual rental amount is BGN 1 thousand (*Note 45*).

The lease liabilities to related parties included in the statement of financial position have arisen in relation to building rentals and are stated net of the future interest due, as follows:

Term	***31.12.2019***	***01.01.2019***
	BGN '000	***BGN '000***
Up to one year	999	999
Over one year	1,610	2,897
Total	**2,609**	**3,896**

On 1 January 2019 the Company recognized right-of-use assets, respectively lease liabilities to related parties, at the amount of BGN 3,896 thousand (*Note 15*).

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

Term	***31.12.2019***	***01.01.2019***
	BGN '000	***BGN '000***
Up to one year	1,030	1,047
Over one year	1,635	2,972
	2,665	**4,019**
Future finance costs on finance leases	(56)	(123)
Present value of lease liabilities to related parties	**2,609**	**3,896**

Lease liabilities to related parties are denominated in EUR.

Instalments due over the next 12 months are presented in the statement of financial position as “payables to related parties” (*Note 37*).

33. LEASE LIABILITIES TO THIRD PARTIES

On 1 January, the Company reviewed and analysed all leases with third parties in the light of the requirements of the new IFRS 16.

As at 1 January 2019 the Company had non-canecllable commitments under two leases of buildings to related parties at the amount of BGN 1,799 thousand. These is only capitalised rental.

As at 1 January 2019 the Company has contracts with third parties for land, buildings and equipment, which are outside the scope of the new IFRS 16 and are as follows:

- Short-term leases to third parties at the amount of BGN 119 thousand (*Note 45*);
- Low-value leases at the amount of BGN 6 thousand (*Note 45*).

In 2019 the Company concluded long-term leases of agricultural land (for 10 years and for 15 years), which have variable payment over the years and are therefore not included within the scope of IFRS 16.

The payments due under these leases will be currently presented over the years in the statement of comprehensive income as "rental expenses".

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

Term	***31.12.2019***	***01.01.2019***
	BGN '000	***BGN '000***
Up to one year	723	593
Over one year	954	1,206
Total	**1,677**	**1,799**

On 1 January 2019 the Company recognized right-of-use assets, respectively lease liabilities to third parties, at the amount of BGN 1,799 thousand (*Note 15).*

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

Term	***31.12.2019***	***01.01.2019***
	BGN '000	***BGN '000***
Up to one year	744	605
Over one year	990	1,229
	1,734	**1,834**
Future finance costs on finance leases	(57)	(35)
Present value of lease liabilities to third parties	**1,677**	**1,799**

The table below presents liabilities per types of leases to third parties:

	31.12.2019			*01.01.2019*		
	Long-term portion	*Short-term portion*	*Total*	*Long-term portion*	*Short-term portion*	*Total*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Leases of motor vehicles	695	544	**1,239**	1,126	516	**1,642**
Leases of buildings	147	125	**272**	80	77	**157**
Leases of apparatuses	95	48	**143**	-	-	**-**
Leases of land	17	6	**23**	-	-	**-**
Total	**954**	**723**	**1,677**	**1,206**	**593**	**1,799**

Lease liabilities to third parties in BGN amount to BGN 166 thousand (1 January 2019: none), in BGN – BGN 1,343 thousand (1 January 2019: BGN 1,642 thousand), in USD – BGN 107 thousand (1 January 2019: BGN 121 thousand), and in other currencies – BGN 61 thousand (1 January 2019: BGN 36 thousand).

The lease payments due over the next 12 months are presented in the statement of financial position as "other current payables" (*Note 40*).

34. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	31.12.2019	*31.12.2018*
	BGN '000	*BGN '000*
Long-term retirement benefit obligations	4,345	4,100
Long-term benefit obligations for tantieme	293	318
Total	**4,638**	**4,418**

Long-term retirement benefit obligations

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

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

For the purpose of establishing the amount of these obligations to personnel, the Company has assigned an actuarial valuation as at 31 December 2019 by using the services of a certified actuary.

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

	2019	*2018*
	BGN '000	*BGN '000*
Present value of the obligation at 1 January	**4,100**	**3,890**
Current service cost	476	438
Interest cost	44	63
Net actuarial loss recognised for the period	7	15
Payments made in the year	(266)	(336)
Remeasurement gains or losses on the retirement benefit obligations, including:	(16)	30
Actuarial losses arising from changes in demographic assumptions	12	11
Actuarial losses arising from changes in financial assumptions	116	108
Actuarial (gains)/losses arising from past experience adjustments	(144)	(89)
Present value of the obligation at 31 December	**4,345**	**4,100**

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

	2019	*2018*
	BGN '000	*BGN '000*
Current service cost	476	438
Interest cost	44	63
Net actuarial loss recognised for the period	7	15
Components of defined benefit plan costs recognised in profit or loss *(Note 7)*	**527**	**516**
Remeasurement gains or losses on the retirement benefit obligations, including:		
Actuarial (gains)/losses arising from changes in demographic assumptions	12	11
Actuarial losses arising from changes in financial assumptions	116	108
Actuarial losses/(gains) arising from past experience adjustments	(144)	(89)
Components of defined benefit plans cost recognised in other comprehensive income *(Note 14)*	**(16)**	**30**
Total	**511**	**546**

The following actuarial assumptions were used in calculating the present value of the liabilities as at 31 December 2019:

- The discount factor is calculated by using as basis of 0.6% (2018: 1%). The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of the salaries is based on the information provided by the Company's management and amounts to 5% annual growth compared to the prior reporting period (2018: 5%);
- Mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2016-2018 (2018: 2015 - 2017);
- Staff turnover rate – from 0% to 16% for the five age groups formed (2018: between 0% and 16%);
- Early retirement due to illness – between 0.03% and 0.32% for the five age groups formed (2018; between 0.03% and 0.32%).

This defined benefit plan exposes the Company to the following risks: investment risk, interest risk, longevity risk and salary growth related risk: The Company's management defines them as follows:

- investment risk – as far as this is unfunded plan, the Company should monitor and balance currently the forthcoming payments under it with the ensuring of sufficient cash resources. The historical experience and the liability structure show that the annual resource required is not material compared to the commonly maintained liquid funds;
- interest risk – any increase in the yield of government securities with similar term will increase the plan liability;
- longevity risk – the present value of the retirement benefit liability is calculated by reference to the best estimate and updated information about the mortality of plan participants. An increase in life expectancy would result in a possible increase in the liability. A relative stability of this indicator has been observed in the recent years; and
- salary growth related risk – the present value of the retirement benefit liability is calculated by reference to the best estimate of the future increase in plan participants' salaries. Such an increase would increase the plan liability.

The sensitivity analysis of the main actuarial assumptions is based on the reasonably possible changes of these assumptions at the end of the reporting period, assuming that all other assumptions are held constant.

The effects of the change (increase or decrease) by 1% of:

a. salary growth
b. discount rate
c. staff turnover rate

on the present value of the obligation for payment of defined retirement benefits, are assessed as follows:

	2019		*2018*	
	Increase	***Decrease***	***Increase***	***Decrease***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in salary growth	370	(321)	343	(299)
Change in discount rate	(330)	390	(306)	361
Change in staff turnover rate	(349)	408	(324)	378

The weighted average duration of the defined benefit obligation to personnel is 8.1 years (31 December 2018: 8 years).

The expected indemnity payments upon retirement under the defined benefit plan for the following five years are as follows:

Forecast payments	***Old age and length of service retirement***	***Poor health retirement***	***Total***
	BGN '000	***BGN '000***	***BGN '000***
Payments in 2020	859	13	872
Payments in 2021	371	13	384
Payments in 2022	273	13	286
Payments in 2023	415	13	428
Payments in 2024	422	13	435
	2,340	**65**	**2,405**

Long-term benefit obligations for tantieme

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Long-term benefit obligations for tantieme with maturity in 2021	167	167
Long-term benefit obligations for tantieme with maturity in 2022	126	-
Long-term benefit obligations for tantieme with maturity in 2020	-	151
	293	**318**

35. SHORT-TERM BANK LOANS

Short-term bank loans include:

Currency	*Contracted amount '000*	*Maturity*	*31.12.2019 BGN '000*	*31.12.2018 BGN '000*
Bank loans (overdrafts)				
BGN	20,000	29.02.2020	20,009	10,002
BGN	20,000	21.05.2020	19,948	12,947
EUR	10,000	28.02.2020	18,363	9,817
BGN	9,779	01.06.2020	9,704	3,636
BGN	5,000	28.02.2020	4,992	-
BGN	20,000	31.05.2020	987	9,996
			74,003	**46,398**
Extended credit lines				
BGN	20,000	30.11.2020	19,782	19,254
EUR	5,000	31.08.2020	6,574	-
			26,356	**19,254**
Total			**100,359**	**65,652**

The bank loans received in EUR have been agreed at interest rate based on one-month EURIBOR plus a mark-up of up to 1.3 points, but not less than 1.3 points, one-month EURIBOR plus a mark-up of up to 1.5 points, and for those in BGN – from 1.3% to 1.45%, and average deposit index plus 1 point (2018: 1-month EURIBOR plus a mark-up of up to 1.3 points, but not less than 1.3 points and 1-month EURIBOR plus a mark-up of up to 1.7 points, and those in Bulgarian Levs – from 1.3% to 1.45%, and average deposit index plus 1 point). The loans are for working capital.

A portion of the loans drawn at 31 December at the amount of BGN 130 thousand (31 December 2018: BGN 269 thousand) are in the form of bank guarantees in favour of the National Health Insurance Fund (NHIF) and suppliers for covering obligations as follows.

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

- Mortgages of real estate with a carrying amount of BGN 29,183 thousand as at 31 December 2019 (31 December 2018: BGN 31,716 thousand) (Note 15 and Note 17);
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 17,379 thousand as at 31 December 2019 (31 December 2018: BGN 12,649 thousand) (Note 15 and Note 17);
  - inventories with a carrying amount of BGN 21,921 thousand as at 31 December 2019 (31 December 2018: BGN 29,555 thousand) (Note 23);
  - receivables from related parties with a carrying amount of BGN 71,672 thousand as at 31 December 2019 BGN (31 December 2018: BGN 64,947 thousand) (Note 24);

- trade receivables with a carrying amount of BGN 11,735 thousand as at 31 December 2019 (31 December 2018: BGN 19,088 thousand) (Note 25);
- trade receivables from third parties of a subsidiary with a carrying amount of BGN 7,823 thousand as at 31 December 2019 (31 December 2018: BGN 7,823 thousand).

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

36. TRADE PAYABLES

Trade payables include:

	31.12.2019 BGN '000	***31.12.2018 BGN '000***
Payables to suppliers	5,472	8,775
Advances received	602	147
Total	**6,074**	**8,922**

Payables to suppliers by type are as follows:

	31.12.2019 BGN '000	***31.12.2018 BGN '000***
Payables for supply of inventories	3,820	7,378
Payables for supply of services	1,513	1,344
Payables for supply for non-current assets	139	53
Total	**5,472**	**8,775**

Payables to suppliers are as follows:

	31.12.2019 BGN '000	***31.12.2018 BGN '000***
Payables to foreign suppliers	4,002	6,988
Payables to local suppliers	1,470	1,787
Total	**5,472**	**8,775**

The payables to suppliers are regular and interest-free. The payables in BGN amount to BGN 1,470 thousand (31 December 2018: BGN 1,787 thousand), in EUR – BGN 2,695 thousand (31 December 2018: BGN 3,727 thousand), in USD – BGN 1,299 thousand (31 December 2018: BGN 3,181 thousand), in PLN – BGN 1 thousand (31 December 2018: BGN 1 thousand), and in other currency – BGN 7 thousand (31 December 2018 BGN 79).

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

The advances from clients as at 31 December are current and are for purchase of finished products. Of them, BGN 572 thousand are denominated in EUR (31 December 2018: BGN 118 thousand), and BGN 30 thousand are denominated in USD (31 December 2018: BGN 29 thousand).

The Company has placed deposits as security for payables to suppliers under commercial transactions at the amount of BGN 249 thousand (31 December 2018: BGN 246 thousand) *(Note 26b and Note 35*).

37. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.12.2019 BGN '000	***31.12.2018 BGN '000***
Payables to companies – main shareholders	3,138	58
Payables to companies related through main shareholder	2,064	30
Payables to subsidiaries	1,329	262
Payables to companies related through a main shareholder	133	283
Total	**6,664**	**633**

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

	31.12.2019 BGN '000	***31.12.2018 BGN '000***
Dividends payable	3,107	-
Supply of services	1,123	402
Payables for supply of inventories	1,064	27
Payables under leases	999	-
Payables for supply of non-current assets	299	45
Advances received	60	123
Payables for increase in capital in subsidiary	12	36
Total	**6,664**	**633**

The trade payables to related parties are regular and interest-free. The payables in Bulgarian Levs amount to BGN 5,604 thousand (31 December 2018: BGN 509 thousand), in EUR – BGN 1,006 thousand (31 December 2018: BGN 97 thousand), and in PLN – BGN 54 thousand (31 December 2018: BGN 27 thousand).

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

The Company has placed deposits as security for payables to related parties under commercial transactions at the amount of BGN 189 thousand (31 December 2018: BGN 194 thousand) *(Note 21)*.

38. TAX PAYABLES

Tax payables include:

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Corporate tax	713	415
Value Added Tax	579	423
Individual income tax	568	500
Taxes on expenses	469	546
Total	**2,329**	**1,884**

Sopharma AD (receiving company):

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

Bulgarian Rose Sevtopolis (transforming company)

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

Medica AD (transforming company)

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

Unipharm AD (transforming company)

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

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

39. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Payables to personnel, including:	5,797	5,905
Tantieme	*3,077*	*3,030*
accruals on unused compensated leaves	*1,511*	*1,423*
current liabilities	*1,209*	*1,452*
Payables for social security/health insurance, including:	1,469	1,214
current liabilities	*1,217*	*968*
accruals on unused compensated leaves	*252*	*246*
Total	**7,266**	**7,119**

40. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Dividend liabilities	3,334	271
Lease liabilities to third parties (*Note 33*)	723	-
Government grants *(Note 31)*	540	540
Provision for financial guarantees granted (*Note 2.27*)	381	327
Awarded amounts under litigations	329	323
Deductions from work salaries	185	214
Refund obligations under contracts with customers (*Note 2.6*)	65	324
Liabilities under deposits received as guarantees	24	24
Total	**5,581**	**2,023**

The provision for financial guarantees granted, at the amount of BGN 381 thousand (31 December 2018: BGN 327 thousand), arises as a result of commitment undertaken by the Company to perform payments for a debtor which failed to make payment in accordance with a debt instrument (*Note 2.27*).

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

	2019	*2018*
	BGN '000	*BGN '000*
Balance at 1 January	**327**	**297**
Provision for financial guarantees recognised within profit or loss for the year	54	30
Balance at 31 December	**381**	**327**

41. CONTINGENT LIABILITIES AND COMMITMENTS

Significant irrevocable agreements and commitments

The Company received government grants under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 and Operational Programme "Energy Efficiency" *(Note 31 and Note 40*), related to acquisition of non-current assets, buildings reconstruction and technological renovation and modernisation of tablet production facilities and implementation of innovative products in the ampoule production section and the acquisition of combined exchanger installations for ventilation and air conditioning in the production of medical products and implementation of innovative "artificial tears" 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.

Issued and granted guarantees

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

(a) under loans of subsidiaries:

- Mortgages of real estate with a carrying amount of BGN 9,795 thousand as at 31 December 2019 (31 December 2018: BGN 10, 10,013 thousand) (Note 15);
- Special pledges on:
  - machinery and equipment with a carrying amount of BGN 9,100 thousand as at 31 December 2019 (31 December 2018: BGN 9,735 thousand) (Note 15);
  - inventories with a carrying amount of BGN 17,000 thousand as at 31 December 2019 (31 December 2018: BGN 17,000 thousand) (Note 23);
  - trade receivables with a carrying amount of BGN 11,735 thousand as at 31 December 2019 (31 December 2018: BGN 11,735 thousand) (Note 25).

The Company is a co-debtor and guarantor of loans received, bank guarantees issued and leases of the following companies:

Company	Maturity period	Currency	Contracted amount		Amount guaranteed as at 31.12.2019
			Original currency	BGN'000	BGN'000
Sopharma Trading AD	2020-2024	EUR	64,369	125,895	105,871
Sopharma Trading AD	2020-2024	BGN	50,625	50,625	42,042
PAT Vitamini and Sopharma Unkraine EOOD	2020	EUR	7,000	13,691	8,143
Momina Krepost AD	2020-2026	BGN	5,000	5,000	4,942
Doverie Capital AD	2021	EUR	3,000	5,867	4,303
Biopharm Engineering AD	2020 -2023	BGN	8,550	8,550	4,008
Energoinvestment AD	2021	BGN	2,000	2,000	1,039
Veta Pharma AD	2020	BGN	1,000	1,000	629
Mineralcommerce AD	2020 - 2021	BGN	726	726	261
Pharmaplant AD	2023	EUR	235	460	233
Total					**171,471**

42. FINANCIAL RISK MANAGEMENT

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

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

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

The structure of financial assets and liabilities is as follows:

Financial assets	*31.12.2019*	*31.12.2018*
	BGN '000	*BGN '000*
Financial assets at fair value through other comprehensive income, incl.:	***9,621***	***7,599***
Equity investments	*9,621*	*7,599*
Financial assets at amortised cost, incl.:	***234,941***	***151,571***
Receivables and loans granted	*230,982*	*142,600*
Long-term receivables from related parties	91,794	23,055
Other long-term receivables	9,897	5,760
Receivables from related parties	97,014	91,509
Trade receivables	26,114	18,868
Loans to third parties	6,044	3,270
Other current receivables	119	138
Cash and cash equivalents	*3,959*	*8,971*
Total financial assets	**244,562**	**159,170**

Financial liabilities	*31.12.2019*	*31.12.2018*
	BGN '000	*BGN '000*
Financial liabilities at amortised cost, incl.:		
Long-term and short-term bank loans	***109,938***	***82,376***
Lease liabilities to related parties (Note 32 and Note 37)	***2,609***	***-***
Lease liabilities to third parties (Note 33 and Note 40)	***1,677***	***-***
Other loans and liabilities, incl.	***14,764***	***9,903***
Trade payables	5,472	8,775
Payables to related parties	5,605	510
Other current payables	3,687	618
Total financial liabilities	**128,988**	**92,279**

At 31 December 2019, recognised liabilities under financial guarantees amount at BGN 381 thousand (31 December 2018: BGN 327 thousand) (*Note 40*).

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

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Loans granted at amortised cost	526	154
Financial guarantees granted	54	30
Receivables from clients	(214)	1,143
Total	**366**	**1,327**

Credit risk

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

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

Trade receivables

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

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

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

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

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

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

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

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

In view of the short-term horizon of receivables and the forecasts of international institutions (EC, IMF, World Bank) for the next 2020 for the development of the Bulgarian and global economy, the management's analysis of scenarios shows that the impact of changes in the macroeconomic environment on the provisioning matrix are insignificant in their amount as at 31 December 2019.

Court and awarded receivables

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

Loans and financial guarantees granted

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

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

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

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

The table below presents the quality of the Company's financial assets, contract assets and financial guarantee contracts, as well as the maximum exposure to credit risk according to the credit rating adopted as at 31 December 2019 and 31 December 2018:

31.12.2019	*Note*	*Internal credit risk categorisation*	*Expected credit losses (IFRS 9)*	*Gross carrying amount*	*Impairment loss (allowance) IAS 39*	*Carrying amount*
				BGN '000	*BGN '000*	*BGN '000*
Long-term loans to related parties	21	Regular Stage 1	*Lifetime (credit-impaired))*	82,109	(110)	81,999
Short-term loans to related parties	24	Renegotiated Stage 2	*Lifetime (credit-impaired)*	14,198	(14)	14,184
Long-term loans to related parties	21	Renegotiated Stage 2	*Lifetime (credit-impaired)*	9,614	(8)	9,606
Long-term loans to third parties	22	Renegotiated Stage 2	*Lifetime (credit-impaired)*	6,431	(148)	6,283
Short-term loans to related parties	24	Underperforming Stage 3	*Lifetime (credit-impaired)*	5,440	(1,997)	3,443
Short-term loans to third parties	26 (a)	Regular Stage 11	*Lifetime (credit-impaired)*	4,554	(5)	4,549
Short-term loans to third parties	26 (a)	Renegotiated Stage 2	*Lifetime (credit-impaired)*	1,388	(3)	1,385
Short-term loans to third parties	26 (a)	Underperforming Stage 3	*Lifetime (credit-impaired)*	110	-	110
Long-term loans to third parties	22	Regular Stage 1	*Lifetime (credit-impaired)*	16	(1)	15
Trade receivables from related parties	21,24	N/A	*For a 12-month period*	80,397	(2,114)	78,283
Trade receivables from third parties	22,25	N/A	*For a 12-month period*	31,477	(1,764)	29,713
Financial assets				**235,734**	**(6,164)**	**229,570**

	Note	*Internal credit risk categorisation*	*Expected credit losses (IFRS 9)*	*Gross carrying amount*	*Impairment loss (allowance) IAS 39*	*Carrying amount*
31.12.2018				***BGN '000***	***BGN '000***	***BGN '000***
Loans to related parties	21	Renegotiated Stage 2	Lifetime (credit-impaired)	22,977	(116)	22,861
Short-term loans to related parties	24	Renegotiated Stage 2	*Lifetime (credit-impaired)*	13,936	(36)	13,900
Short-term loans to related parties	24	Underperforming Stage 3	*Lifetime (credit-impaired)*	6,705	(902)	5,803
Long-term loans to third parties	22	Renegotiated Stage 2	*Lifetime (credit-impaired)*	2,412	(71)	2,341
Short-term loans to third parties	26 (a)	Renegotiated Stage 2	*Lifetime (credit-impaired)*	408	(1)	407
Short-term loans to third parties	26 (a)	Underperforming Stage 3	*Lifetime (credit-impaired)*	3,407	(544)	2,863
Trade receivables from related parties	21,24	N/A	*For a 12-month period*	73,797	(1,797)	72,000
Trade receivables from third parties	22,25	N/A	*For a 12-month period*	24,104	(1,817)	22,287
Financial assets				**147,746**	**(5,284)**	**142,462**

The table below provides information about the Company's exposure to credit risk and the impairment of credit losses for loans granted and trade receivables as at 31 December 2019:

Category	**Correlation to an external credit rating**	**Average percentage of expected impairment loss**	**Gross carrying amount** *BGN '000*	**Impairment loss** ***(allowance)*** *BGN '000*
Performing trade receivables (Stage 1)	*N/A*	*3.47%*	111,875	(3,878)
Performing loans (Stage 1)	B3	*0.14%*	82,125	(111)
Renegotiated loans (Stage 2)	B2	*0.12%*	15,122	(18)
Renegotiated loans (Stage 2)	B3	*0.71%*	13,246	(154)
Under-performing loans (Stage 3)	B1	*36.70%*	5,440	(1,997)
Performing loans (Stage 1)	B2	*0.11%*	4,554	(5)
Renegotiated loans (Stage 2)	Ba2	*0.04%*	2,717	(1)
Renegotiated loans (Stage 2)	Ba2	*0.00%*	496	-
Under-performing loans (Stage 3)	Caa1	*0.00%*	110	-
Renegotiated loans (Stage 2)	Ba3	*0.00%*	49	-
Non-performing trade receivables (court and awarded receivables)	*N/A*	*100.00%*	5	(5)
			235,739	**(6,169)**

The table below provides information about the Company's exposure to credit risk and the impairment of credit losses for loans granted and trade receivables as at 31 December 2018:

Category	Correlation to an external credit rating	Average percentage of expected impairment loss	Gross carrying amount	Impairment loss *(allowance)*
			BGN '000	*BGN '000*
Performing trade receivables (Stage 1)		*3.69%*	97,901	(3,614)
Renegotiated loans (Stage 2)	B2	*0.88%*	20,071	(177)
Renegotiated loans (Stage 2)	Ba2	*0.19%*	5,297	(10)
Renegotiated loans (Stage 2)	B1	*0.11%*	4,614	(5)
Renegotiated loans (Stage 2)	Ba3	*0.10%*	6,183	(6)
Renegotiated loans (Stage 2)	B3	*0.73%*	3,574	(26)
Under-performing loans (Stage 3)	Caa1	*14.31%*	10,106	(1,446)
Non-performing trade receivables (court and awarded receivables)		*100.00%*	137	(137)
			147,883	**(5,421)**

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

	31.12.2019	***31.12.2018***
	BGN '000	***BGN '000***
Client 1	52%	23%
Client 2	35%	52%
Client 3	3%	9%

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

The Company has concentration of trade receivables from a client who is not a related party, amounting to 84.42% of all trade receivables (31 December 2018: 72.56%) (*Note 25*).

Cash

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

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

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

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

31 December 2019	**in USD**	**in EUR**	**in BGN**	**in other currency**	**Total**
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Equity investments	44	1,587	7,990	-	9,621
Receivables and loans granted	5,568	54,484	170,929	1	230,982
Cash and cash equivalents	784	617	2,532	26	3,959
Total financial assets	**6,396**	**56,688**	**181,451**	**27**	**244,562**
Long-term and short-term bank loans	-	34,483	75,422	33	109,938
Lease liabilities to related parties	-	2,609	-	-	2,609
Lease liabilities to third parties	107	1,343	166	61	1,677
Other loans and payables	1,609	2,725	10,368	62	14,764
Total financial liabilities	**1,716**	**41,160**	**85,956**	**156**	**128,988**

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

Foreign currency sensitivity analysis

The effect of Company's sensitivity to 10% increase/decrease in current exchange rates of BGN to USD and to other currency exposures, based on the structure of foreign currency assets and liabilities at 31 December and on the assumption that the influence of all other variables is ignored, has been measured and presented as impact on the post-tax financial result and on the equity.

		USD	
		31.12.2019 BGN '000	**31.12.2018 BGN '000**
Financial result	+	421	176
Accumulated profits	+	421	176
Financial result	-	(421)	(176)
Accumulated profits	-	(421)	(176)

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2019 would be an increase by BGN 421 thousand (1.04%) (2018: increase at the amount of BGN 176 thousand) (0.53%). The same effect in terms of value would be seen on equity – 'retained earnings' component.

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

The impact of the remaining currencies (other than USD) on 10 % increase in their exchange rates to BGN on Company's (post-tax) profit is insignificant. The ultimate effect thereon for 2019 is a decrease by BGN 52 thousand (-0.13%) (2018: a decrease by BGN 117 thousand (0.35%)). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

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

Price risk

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

(a) contingent increase of supplier prices of raw and starting materials, since more than 80% of the raw and starting materials are imported and they represent 50% on the average of all production costs; and

(b) growing competition on the Bulgarian pharmaceutical market is also reflected in drug prices.

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

On the other hand, the Company is exposed to a price risk related to the held thereby shares, classified as other long-term equity investments. For this purpose, the management monitors and analyses all changes in security markets and also uses consulting services of one of the most authoritative in the country investments intermediaries. At this stage, because of the economic and financial crisis, the management has taken a decision for a significant reduction in its operations on stock markets, retaining of the purchased shares for longer periods with current monitoring of the reported by the respective issuer financial and business indicators.

Liquidity risk

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

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

Maturity analysis

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

31 December 2019	**up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**Total**
	BGN'000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Long-term and short-term bank loans	783	44,746	32,614	30,154	2,418	2	**110,717**
Lease liabilities to related parties	86	172	257	515	1,030	605	**2,665**
Lease liabilities to third parties	66	125	188	382	617	356	**1,734**
Other loans and payables	3,911	10,458	12	383	-	-	**14,764**
Total liabilities	**4,846**	**55,501**	**33,071**	**31,434**	**4,065**	**963**	**129,880**

31 December 2018	**up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**Total**
	BGN'000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Long-term and short-term bank loans	10,554	1,374	28,595	33,159	7,309	2,408	**83,399**
Other loans and payables	6,677	2,536	48	642	-	-	**9,903**
Total liabilities	**17,231**	**3,910**	**28,643**	**33,801**	**7,309**	**2,408**	**93,302**

Risk of interest-bearing cash flows

Interest-bearing assets are presented in the structure of Company's assets by cash, bank deposits and loans granted, which are with fixed interest rate. Company's borrowings in the form of long-term and short-term loans are usually with a floating interest rate. Operating lease liabilities have both variable and fixed interest rates. This circumstance makes the cash flows of the Company partially dependent on interest risk. This risk is covered in two ways:

(a) optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and

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

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

31 December 2019	interest-free	with floating interest %	with fixed interest %	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Equity investments	9,621	-	-	9,621
Receivables and loans granted	109,838	-	121,144	230,982
Cash and cash equivalents	63	3,896	-	3,959
Total financial assets	**119,522**	**3,896**	**121,144**	**244,562**
Long-term and short-term loans	-	109,905	33	109,938
Lease liabilities to related parties	-	-	2,609	2,609
Lease liabilities to third parties	-	65	1,612	1,677
Other loans and liabilities	14,764	-	-	14,764
Total financial liabilities	**14,764**	**109,970**	**4,254**	**128,988**

31 December 2018	interest-free	with floating interest %	with fixed interest %	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Equity investments	7,599	-	-	7,599
Receivables and loans granted	94,662	-	47,938	142,600
Cash and cash equivalents	29	8,942	-	8,971
Total financial assets	**102,290**	**8,942**	**47,938**	**159,170**
Long-term and short-term loans	-	82,348	28	82,376
Other loans and liabilities	9,903	-	-	9,903
Total financial liabilities	**9,903**	**82,348**	**28**	**92,279**

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

2019

	Increase/ decrease in interest rate	***Impact on post-tax financial result profit/(loss)***	***Impact on equity increase/(decrease)***
EUR	Increase	(173)	(173)
BGN	Increase	(348)	(348)
EUR	Decrease	173	173
BGN	Decrease	348	348

2018

	Increase/ decrease in interest rate	***Impact on post-tax financial result profit/(loss)***	***Impact on equity increase/(decrease)***
EUR	Increase	(119)	(119)
BGN	Increase	(251)	(251)
EUR	Decrease	119	119
BGN	Decrease	251	251

Capital risk management

The capital management objectives of the Company are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital.

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

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

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

	2019	*2018*
	BGN '000	*BGN '000*
Total borrowings, including:	**114,224**	**82,376**
bank loans	*109,938*	*82,376*
lease liabilities	*4,286*	-
Less: Cash and cash equivalents	**(3,959)**	**(8,971)**
Net debt	**110,265**	**73,405**
Total equity	**522,644**	**489,219**
Total capital	**632,909**	**562,624**
Gearing ratio	**0.17**	**0,13**

The cash and liabilities shown in the table are disclosed in *Notes 27, 29, 32, 33, 37 and 40.*

Fair value measurement

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

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the statement of financial position at market value determined by applying a particular valuation method (investments in securities, loans with floating interest rate) and therefore, their fair value is almost equal to their carrying amount. Therefore, they are presented at acquisition cost (cost). With regard to loans, extended with fixed interest rate, the method used for setting this rate uses as a starting point for the calculations the current observations of the Company with regard to the market interest levels.

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

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

43. SEGMENT REPORTING

Company's segment reporting is organised on the basis of the production of main groups of finished products:

- Tablet dosage forms
- Ampoule dosage forms
- Medical products
- Other dosage forms
- Other revenue

Medical products include: plasters, sanitary and hygienic products, dressings, medical cosmetics and sachets.

The other dosage forms include: lyophilic products, ointments, syrups, drops, suppositories, inhalers, haemodialysis concentrates and substances.

Other revenue includes revenue from investment property and leases of property, plant and equipment.

Segment revenue, expenses and results include:

	Tablet dosage forms		*Ampoule dosage forms*		*Other forms*		*Medical products*		*Other revenue*		*Total*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Segment revenue	159,485	139,187	28,670	32,995	29,317	26,872	11,442	11,730	1,777	1,634	230,691	212,418
Segment cost	(75,661)	(70,955)	(18,189)	(18,518)	(21,171)	(21,949)	(7,783)	(8,237)	(31)	(82)	(122,835)	(119,741)
Segment result	**83,824**	**68,232**	**10,481**	**14,477**	**8,146**	**4,923**	**3,659**	**3,493**	**1,746**	**1,552**	**107,856**	**92,677**
Non-allocated operating income											4,134	4,910
Non-allocated operating expenses											(65,952)	(69,789)
Profit from operations											**46,038**	**27,798**
Impairment of non-current assets outside the scope of IFRS 9											(15,135)	(76)
Finance income/(costs), net											14,355	8,811
Profit before income tax											**45,258**	**36,533**
Income tax expense											(4,876)	(3,235)
Net profit for the year											**40,382**	**33,298**

Segment assets include:

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Medical products*		*Other revenue*		*Total*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Property, plant and equipment	74,934	79,124	20,671	21,800	20,805	20,796	3,079	3,362	-	-	119,489	125,082
Inventories	34,262	39,341	13,493	11,221	8,295	12,341	3,513	3,143	88	-	59,651	66,046
Segment assets	**109,196**	**118,465**	**34,164**	**33,021**	**29,100**	**33,137**	**6,592**	**6,505**	**88**	**-**	**179,140**	**191,128**
Non-allocated assets											**499,625**	**417,098**
Total assets											**678,765**	**608,226**

Segment liabilities include:

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Medical products*		*Other revenue*		*Total*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Payables to personnel	336	346	161	172	306	304	52	30	-	-	855	852
Social security payables	223	186	126	110	213	143	38	15	-	-	600	454
Segment liabilities	**559**	**532**	**287**	**282**	**519**	**447**	**90**	**45**	**-**	**-**	**1,455**	**1,306**
Non-allocated liabilities											**154,666**	**117,701**
Total liabilities											**156,121**	**119,007**

The capital expenditures, depreciation/amortisation and non-monetary expenses other than depreciation/amortisation by business segment include:

	Tablet dosage forms		*Ampoule dosage forms*		*Other dosage forms*		*Medical products*		*Other revenue*		*Total*	
	2019	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*	*2019*	*2018*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Capital expenditures	2,510	1,182	161	768	1,628	2,061	-	4	1,962	870	6,261	4,885
Depreciation and amortisation	5,803	5,918	2,189	2,376	1,846	1,811	290	295	13	82	10,141	10,482
Non-monetary expenses, other than depreciation and amortisation	1,044	996	362	281	258	1,391	268	87	99	-	2,031	2,755

44. RELATED PARTY TRANSACTIONS

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

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2018 and 2019
Donev Investments Holding AD	Main shareholding company	2018 and 2019
Sopharma Trading AD	Subsidiary company	2018 and 2019
Pharmalogistica AD	Subsidiary company	2018 and 2019
Sopharma Poland OOD – in liquidation	Subsidiary company	2018 and 2019
Electroncommerce EOOD	Subsidiary company	2018 and 2019
Biopharm Engineering AD	Subsidiary company	2018 and 2019
Vitamina AD	Subsidiary company	2018 and 2019
Sopharma Buildings REIT	Subsidiary company	2018 and 2019
Momina Krepost AD	Subsidiary company	2018 and 2019
Briz SIA	Subsidiary company	2018 and 2019
Sopharma Warsaw EOOD	Subsidiary company	2018 and 2019
Sopharma Ukraine EOOD	Subsidiary company	2018 and 2019
TOO Sopharma Kazakhstan, Kazakhstan	Subsidiary company	2018 and 2019
Phyto Palauzovo AD	Subsidiary company	2018 and 2019
Veta Pharma AD	Subsidiary company	2018 and 2019
Rap Pharma International OOD	Subsidiary company	2018 and 2019
Aromania OOD	Subsidiary company	2018 and 2019
Sopharmacy EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 2 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 3 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 4 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 5 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 6 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 7 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 8 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 9 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 10 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 11 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 12 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 13 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 14 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 15 EOOD	Subsidiary company through Sopharma Trading AD	2018 and 2019
Sopharmacy 16 EOOD	Subsidiary company through Sopharma Trading AD	From 15 May 2018 and 2019
Sopharmacy 17 EOOD	Subsidiary company through Sopharma Trading AD	From 15 May 2018 and 2019
Sopharma Trading Pharmaceuticals (Sopharma Trading OOD – Belgrade)	Subsidiary company through Sopharma Trading AD	2018 and 2019

Sopharma Trading OOD (Lekovit OOD)	Subsidiary company through Sopharma Trading AD	2018 and 2019
Brititrade COOO	Subsidiary company through Briz OOD	2018 and 2019
OOO Tabina	Subsidiary company through Briz OOD	2018 and 2019
ZAO Interpharm	Subsidiary company through Briz OOD	2018 and 2019
SOOO Brizpharm	Subsidiary company through Briz OOD	2018 and 2019
OOO Farmacevt Plus	Subsidiary company through Briz OOD	2018 and 2019
ZAO UAB TBS Pharma	Subsidiary company through Briz OOD	2018 and 2019
BOOO SpetzApharmacia	Joint company through Briz OOD	Until 15 August 2018
BOOO SpetzApharmacia	Subsidiary through Briz OOD	from 16.08.2018 until 2 January 2019
OOO Med-dent	Joint venture through Briz OOD	Until 15 August 2018
OOO Med-dent	Subsidiary through Briz OOD	from 16.08.2018 until 2 January 2019
OOO Bellerophon	Joint venture through Briz OOD	2018 and until 6 March 2019
OOO Bellerophon	Subsidiary company through Briz OOD	From 7 March 2019
Alenpharm Plus ODO	Subsidiary company through Briz OOD	2018 and 2019
ODO Salyus Line	Subsidiary company through Briz OOD	2018 and 2019
ODO Medjel	Subsidiary company through Briz OOD	2018 and 2019
OOO GalenaPharm	Subsidiary company through Briz OOD	2018 and 2019
OOO NPFK Ariens	Subsidiary company through Briz OOD	2018 and until 19 September 2019
OOO Ivem & K	Subsidiary through Briz OOD	2018 and until 19 September 2019
Zdorovey OOO	Subsidiary company through Briz OOD	2018 and 2019
OOO Farmatea	Subsidiary through Briz OOD	2018 and until 19 September 2019
Zabotlivaya Apteka OOO	Subsidiary through Briz OOD	2018 and until 19 September 2019
UAB Recesus	Subsidiary through Briz OOD	From 26 September 2019
Sopharma Properties REIT	Company related through main shareholder	2018 and 2019
Sofprint Group AD	Company related through main shareholder	2018 and 2019
Elpharma AD – in liquidation	Company related through key management personnel	2018 and 2019
Telecomplect AD	Company related through key management personnel	2018 and 2019
Doverie Obedinen Holding	Associate	2018 and 2019
Bulgarsko Vino OOD	Company controlled by an associate	2018 and 2019
ZOF Mediko 21 EAD	Company controlled by an associate	2018 and 2019
CTM Doverie OOD	Company controlled by an associate	2018 and 2019
OZOF Doverie ZAD	Company controlled by an associate	2018 and 2019
Doverie Brico AD	Company controlled by an associate	2018 and 2019
Hydroizomat AD	Company controlled by an associate	2018 and 2019
Vratitsa AD	Company controlled by an associate	2018 and 2019
Doverie Grizha EAD	Company controlled by an associate	2018 and 2019
Doverie Capital AD	Company controlled by an associate	From 6 December 2018 and 2019

The transactions performed between Sopharma AD and the related thereto companies at 31 December are as follows:

Sales to related parties	***2019***	***2018***
	BGN '000	***BGN '000***
Sales of finished products to:		
Subsidiaries	132,394	128,828
	132,394	**128,828**
Sales of services to:		
Subsidiaries	2,467	2,104
Companies related through main shareholder	59	51
Companies related through key management personnel	8	16
Associates	8	7
Companies controlled by an associate	-	20
	2,542	**2,198**
Sales of goods and materials to:		
Companies related through a main shareholder	826	740
Subsidiaries	645	509
Companies controlled by an associate	1	2
Companies related through key managing personnel	-	1
	1,472	**1,252**
Sales of property, plant and equipment to:		
Companies controlled by an associate	10	24
Subsidiaries	-	1
	10	**25**
Interest on loans granted to:		
Companies controlled by an associate	2,136	199
Subsidiaries	602	513
Associates	353	602
Companies related through key managing personnel	26	107
	3,117	**1,421**
Dividend income from:		
Subsidiaries	10,493	8,693
Companies related through a main shareholder	100	49
	10,593	**8,742**
Total	**150,128**	**142,466**

Supplies from related parties	*2019* *BGN '000*	*2018* *BGN '000*
Supply of inventories from:		
Companies related through a main shareholder	10,227	9,235
Subsidiaries	82	222
Companies controlled by an associate	59	112
Companies related through key managing personnel	37	13
	10,405	**9,582**
Supply of services from:		
Subsidiaries	9,183	9,758
Companies related through key managing personnel	3,027	2,828
Companies controlled by an associate	896	910
Companies related through a main shareholder	362	1,504
Main shareholding companies	326	341
	13,794	**15,341**
Supplies related to right-of-use assets		
Companies related through a main shareholder	1,038	-
	1,038	**-**
Supplies for acquisition of non-current assets:		
Companies related through key managing personnel	20	2,280
Companies controlled by an associate	-	120
Subsidiaries	-	7
	20	**2,407**
Supplies for acquisition of investment property from:		
Companies controlled through key managing personnel	251	34
Subsidiaries	53	4
Companies controlled by an associate	-	78
	304	**116**
Supplies of non-current assets from:		
Companies related through key managing personnel	96	72
Companies controlled by an associate	-	1
	96	**73**
Other supplies from:		
Main shareholding companies	6	3
	6	**3**
Shares/interest acquired in:	9,337	-
Subsidiaries	322	-

Companies related through a main shareholder	**9,659**	**-**
Dividends accrued to:		
Companies – main shareholders	3,107	6,777
Key managing personnel	98	221
	3,205	**6,998**
Total	**38,527**	**34,523**

The terms and conditions of these transactions do not deviate from the market ones for similar transactions. The accounts and balances with related parties are presented in *Notes 21, 24, 32 and 37.*

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

Salaries and other short-term benefits of key managing personnel at the amount of BGN 1,242 thousand (2018: BGN 1,401 thousand) are as follows:

- current wages and salaries – BGN – 909 thousand (2018: BGN 970 thousand);
- tantieme – BGN 333 thousand (2018: BGN 429 thousand);
- share-based payments – none (2018: BGN 2 thousand).

45. IMPACT OF THE INITIAL ADOPTION OF IFRS 16

IFRS 16, adopted by the EU on 31 October 2017 and effective for annual periods commencing on or after 1 January 2019, presents a detailed model to identify leases and for treatment thereof in financial statements, for both lessors and lessees. IFRS 16 replaces IAS 17 Leases and the interpretations related thereto: *IFRIC 4 – Determining Whether an Arrangement Contains a Lease, SIC – Operating leases – incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 *Leases* eliminates the distinction between operating and finance lease for lessees and requires recognition of right-of-use assets and lease liabilities for all leases. The requirements to lessors remain essentially unchanged. The aim of the standard is to facilitate comparability of financial statement and inform users about the risks related to leases.

The Company has applied modified retrospective approach in the initial application of IFRS 16 *Leases*, in which comparatives for year 2018 are not restated. At the date of initial application, the Company recognized lease liabilities in accordance with IFRS 16, equal to the present value of all outstanding lease payments discounted with the interest rate implicit in the lease or with the lessee's incremental borrowing rate.

The Company's average-weighted incremental borrowing rate applied to lease liabilities as at 1 January 2019 is 1.2%.

As at 1 January 2019 the Company has no existing leases under IAS 17 *Leases*.

Upon the initial application of IFRS 16, the Company has made use of the following practical expedients permitted by the standard:

- leases of low-value assets and leases whose term is up to 12 months are excluded from the scope;
- the value of right-of-use assets is assumed to be equal to lease liabilities, following adjustments for prepaid/accrued lease payments recognized in the statement of financial position immediately before the date of initial application;
- application of IFRS 16 for lease portfolios with similar characteristics when the effect on the financial statements does not materially deviate from its application for separate leases in the portfolio;
- determining whether leases apply under *IAS 37 Provisions, Conditional Liabilities and Conditional Assets*, immediately before the date of initial application, as an alternative to impairment review of right-of-use assets according to *IAS 36 Impairment of assets*;
- Excluding initial direct costs from the measurement of the right-of-use asset;
- Using hindsight in determining the lease term.

The table below presents the reconciliation of general commitments under operating leases as at 31 December 2018 (as disclosed in the financial statements for the year ended 31 December 2018) and lease liabilities recognized in the financial statements as at 1 January 2019:

	BGN '000
Operating lease commitments as at 31 December 2018	**5,979**
Expedients for the initial recognition of operating lease liabilities, including:	(126)
* *Low-value leases to related parties*	*(1)*
* *Low-value leases to third parties*	*(6)*
* *Short-term leases to third parties*	*(119)*
Operating lease liabilities before discount	5,853
Effect of discount with the incremental borrowing rate	(158)
Lease liabilities recognized at 1 January 2019	**5,695**
Including non-current portion	**4,103**
Including current portion	**1,592**

The cumulative impact of the initial application of IFRS 16 on each item in the statement of financial position as at 1 January 2019 is presented herein below:

Statement of financial position	**31.12.2018 originally stated**	**Impact of adoption of IFRS 16**	**01.01.2019 restated**
	BGN'000	**BGN'000**	**BGN'000**
ASSETS			
Non-current assets			
Property, plant and equipment	226,956	5,695	232,651
Intangible assets	11,881	-	11,881
Investment property	37,451	-	37,451
Investments in subsidiaries	89,945	-	89,945
Investments in associates	7,962	-	7,962
Other long-term equity investments	7,599	-	7,599
Long-term receivables from related parties	23,055	-	23,055
Other long-term receivables	5,760	-	5,760
	410,609	**5,695**	**416,304**
Current assets			
Inventories	68,499	-	68,499
Receivables from related parties	91,509	-	91,509
Trade receivables	19,431	-	19,431
Loans granted to third parties	3,270	-	3,270
Other receivables and prepayments	5,937	-	5,937
Cash and cash equivalents	8,971	-	8,971
	197,617	**-**	**197,617**
TOTAL ASSETS	**608,226**	**5,695**	**613,921**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	134,798	-	134,798
Treasury shares	(33,337)	-	(33,337)
Reserves	357,310	-	357,310
Retained earnings	30,448	-	30,448
TOTAL EQUITY	**489,219**	**-**	**489,219**
LIABILITIES			
Non-current liabilities			
Long-term bank loans	9,556	-	9,556
Deferred tax liabilities	6,235	-	6,235
Government grants	5,397	-	5,397
Lease liabilities to related parties	-	2,897	2,897
Lease liabilities to third parties	-	1,206	1,206
Retirement benefit obligations	4,418	-	4,418
	25,606	**4,103**	**29,709**

Statement of financial position	31.12.2018 originally stated	Impact of adoption of IFRS 16	01.01.2019 restated
	BGN'000	BGN'000	BGN'000
Current liabilities			
Short-term bank loans	65,652	-	65,652
Current portion of long-term bank loans	7,168	-	7,168
Trade payables	8,922	-	8,922
Payables to related parties	633	999	1,632
Tax payables	1,884	-	1,884
Payables to personnel and for social security	7,119	-	7,119
Other current liabilities	2,023	593	2,616
	93,401	**1,592**	**94,993**
TOTAL LIABILITIES	**119,007**	**5,695**	**124,702**
TOTAL EQUITY AND LIABILITIES	**608,226**	**5,695**	**613,921**

46. EVENTS AFTER THE REPORTING PERIOD

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