NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD FROM 01.01.2020 TO 30.09.2020

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 № 1/1991 of Sofia City Court.

1.1. Ownership and management

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

As at 30 September 2020, the structure of Company's joint-stock capital was as follows:

	%
“Donev Investments Holding” AD	25.93
“Telecomplect Invest” AD	20.68
“Rompharm Company” OOD	6.21
CUPF “Alianz Bulgaria”	5.10
“Sopharma” AD (treasury shares)	6.64
Other legal persons	27.47
Individuals	7.97

“Sopharma” AD has a one-tier management system with a five-member Board of Directors. Company's management in the form of Board of Directors is composed as at 30 September 2020 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

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

The average number of Company's personnel for 2020 is 2,098 workers and employees (2019: 2,275).

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 № BG / MIA - 0081 dated 31 January 2019, issued by the Bulgarian Drug Agency (BDA).

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the separate financial statements

Individual 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 2020 and have been accepted by the Commission of the European Union. IFRS 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.

As of the date of approval for the issuance of these financial statements, the following amended standards and interpretations, which were adopted for earlier application by the company, were issued but not yet in force (and / or not adopted by the 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

The separate financial statements of the company have been prepared on the historical cost basis except for property, plant and equipment, investment property and financial assets in the form of equity investments through other comprehensive income, which have been estimated on the basis of revaluation or revaluation. fair value.

The Company maintains its accounting records in Bulgarian Lev (BGN), which it accepts as its reporting currency for presentation. The data in the separate financial statements and the notes thereto are presented in thousands of BGN, unless otherwise stated.

The presentation of a financial statement in accordance with International Financial Reporting Standards requires management to make the best estimates, accruals and reasonably reasonable assumptions that affect the reported values of assets and liabilities, income and expenses, and the disclosure of contingent liabilities. at the reporting date. These estimates, accruals and assumptions are based on information available at the date of the financial statements, so future factual results could be different (with uncertainty greater in a financial crisis). Entities that imply a higher degree of judgment or complexity, or where assumptions and accounting estimates are material to the financial statements, are disclosed *in Note 2.32, Note 13, Note 15, and Note 18.*

2.2. Consolidated financial statements of the Company

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

2.3. Comparatives

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

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

2.4. 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.

2.5. Revenue

Revenue from contracts with customers

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

2.5.1. 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, verbally or in accordance with other customary business practices) and are committed to perform it; c/ each party's rights can be identified and d/ the remuneration to which the company is entitled in the performance of its performance obligations will be received. In assessing collectability, all relevant facts and circumstances of the transaction are taken into account, incl. past experience, common business practices, published rules and statements made by the company, collateral and satisfaction options..

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.

2.5.2. ***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.

2.5.3. ***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 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 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.

2.5.4. 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.

2.5.5. 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*.

2.5.6. 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.

2.6. 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 is stated is presented in the statement of comprehensive income (within profit or loss for the year), within "other operating income/(losses)".

Losses from the revaluation of agricultural produce on initial recognition to fair value shall be presented in the statement of comprehensive income (within profit or loss for the year) in the line "other income/(losses) of the activity".

2.7. 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 expenses on the face of the statement of comprehensive income (within profit or loss for the year).

2.8. Finance expenses

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 financial and operating leases, bank charges and guarantees, net foreign exchange loss from loans in a foreign currency, and impairment of commercial loans granted.

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

2.9. Property, plant and equipment

Property, plant and equipment, including permanent crops (fixed tangible assets) 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 machines 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 13 years;
- for business inventory – from 3 to 13 years;

- for other tangible assets – from 3 to 12 years.
- for biological assets (carriers) - from 10 to 12 years

The term of use by asset use rights groups 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 business inventory – from 2 to 3 years.

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

Impairment of assets

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

Gains and losses on disposal (sale)

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

2.10. Biological assets and agricultural production

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".

2.11. 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:

- software – from 2 to 12 years;
- patents and licenses – from 2 to 10 years;
- trademarks – from 5 to 13 years;
- 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 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).

2.12. 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 2.31).* 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 thereon. They are presented under 'other operating income/(losses), net' in the statement of comprehensive income (within profit or loss for the year).

Transfers to, or from, the group of 'investment property' are 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.

2.13. 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).

2.14. 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 2.25*).

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

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

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

Dividend income

Dividend income related to long-term 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.

2.15. 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 production - the lower of the fair value at initial acquisition and the net realizable 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 2.32).*

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.

2.16. 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 2.25).*

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 2.25 and Note 2.32).*

The 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).

2.17. 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 2.25*).

2.18. 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 2.25*).

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 property, machinery and equipment", "purchase of intangible assets" and "purchase of investment property" in the cash flows from investment activities.
- overdraft proceeds and payments are stated net by the Company;
- permanently blocked funds for a period of more than 3 months are not treated as cash and cash equivalents;
- proceeds under factoring agreements are stated within cash flows from financing activities.

2.19. 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 2.25).*

2.20. 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 № 2.25*).

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

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

2.21. 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.

2.22. Leasing

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 lessee considers a change in the lease as a separate lease if:

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

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

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

Lessor

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

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

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

2.23. 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 employer 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.

2.24. 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 the "retained earnings" component..

2.25. Financial instruments

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

Financial assets

Initial recognition, classification and measurement

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 is trade receivables that do not contain a significant financing component – they are measured based on the transaction price determined under IFRS 15 *(Note 2.5.1).*

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

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

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

Subsequent measurement

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

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

<u>*Classification groups*</u>

Financial assets at amortised cost (debt instruments)

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

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

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

The Company's financial assets at amortised cost include: cash and cash equivalents at banks, trade receivables, including from related parties, loans to related and third parties (*Note 19, Note 20, Note 22, Note 23, Note 24 (a) and Note 25).*

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

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

Upon derecognition of these assets, gains and losses from measurement to fair value, recognised in other comprehensive income, are not stated (recycles) through profit or loss. Dividends are recognised as "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 investment 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 2.31*.

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 2.31*.

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 40).*

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, cancelled or expire. An exchange between an existing borrower and lender of debt instruments with different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the respective carrying amounts is recognised in the statement of comprehensive income (within profit or loss for the year).

Offsetting (netting) of financial instruments

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

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

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

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

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

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

2.26. 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 recognized as a financial liability at the time the guarantee is issued. 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 (when applicate) recognised under the principles of IFRS 15 *Revenue from Contracts with Customers*.

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

2.27. 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 2020 is 10% (2019: 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 were assessed at a rate valid for 2020, at the amount of 10% (31.12.2019: 10%).

2.28. 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.

2.29. 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.

2.30. 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.

2.31. 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*, *(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 comparable (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.

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

Fair value measurement of equity investments

When the fair value of equity investments carried in the statement of financial positions cannot be obtained based on quoted prices on active markets, their fair value is determined by using other valuation models and techniques, including the discounted cash flows model. The input used in these models is obtained from observable markets, where possible, but when this cannot be done, significant judgement is applied to determine fair values. Such judgement involves the review, analysis and assessment of input, for instance regarding liquidity risk, credit risk, and volatility. The changes in assumptions for these factors may impact the amount of the fair value of financial instruments stated. The main key assumptions and components of the model are disclosed in *Note 18*.

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

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

In order to apply these requirements, the Company’s management makes a number of material judgements, such as: a) determining criteria to identify and measure significant credit risk increases; b) selection of suitable models and assumptions to measure expected credit losses; c) establishing groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses; d) establishing and assessing the correlation between historical default rates and the behaviour of certain macro indicators to reflect the effects of forecasts for these macro indicators in the calculation of expected credit losses. (*Note 40).*

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 on expected credit losses from trade receivables, incl. of cumulative related parties are disclosed in *Note* 19 *Note 20, Note 22 and Note 23*.

In 2020, the accrued impairment provision for expected credit losses on trade receivables, incl. from related parties amounts to BGN 1,043 thousand, net of the reversed provision for impairment (2019: the accrued impairment of trade receivables, including from related parties in the amount of BGN 683 thousand, net of the recovered impairment) *(Note 8, Note 19, Note 20, Note 22 and Note 23).*

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 40.*

Information about expected credit losses from loans and guarantees is disclosed in *Note 19, Note 20, Note 22, Note 24(a), and Note 38.*

In 2020 the accrued impairment provision for expected credit losses on loans granted amounts to BGN 3,632 thousand, net of the recovered provision for impairment (2019: reimbursed provision for impairment for expected credit losses is accrued in the amount of BGN 124 thousand, net of the impairment loss for expected credit losses) *(Note 10, Note 11, Note 19, Note 20, Note 22, Note 24 (a)).*

In 2020, the accrued impairment provision for expected credit losses on dividend receivables amounts to BGN 1,293 thousand (2019: none) *Note 11 and Note 22.*

In 2020, the accrued expected credit losses for financial guarantees amount to BGN 927 thousand, net of the recovered (2019: the accrued expected credit losses for financial guarantees amount to BGN 231 thousand (*Note 38)).*

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.

In 2020, the recovered credit losses on cash amount to BGN 12 thousand (2019: none) (*Note 10* and *Note 25).*

Leasing contracts

The application of IFRS 16 requires management to make various judgments, estimates and assumptions that affect the reported intangible assets and lease obligations. The main key considerations concern the determination of an appropriate discount rate and the determination of the term of each lease, including whether it is sufficiently certain that the options for extending / terminating the contract will be exercised. As a result of the uncertainty regarding these assumptions and estimates, significant adjustments may be made in the carrying amount of the assets and liabilities concerned in the future and expenses and income, respectively (*Note 30 and Note 31*).

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 2.5.1*).

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.

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 examinations and analyses carried out in 2020 was reported an impairment of inventories amounting to BGN 346 thousand (2019: 1,477) *(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 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.

As of 30.09.2020 there is a change in the price levels and the behaviour of the markets for certain assets in the company and a need for recognition of impairment in the amount of BGN 1,072 thousand has been established. (2019: none) (*Note 9*).

Impairment losses on goodwill

At each reporting date, the management makes an assessment about whether indicators for impairment of goodwill. The calculations are made by the management with the assistance of independent licensed assessors.

As a result of the calculations made in 2020,there is no need for recognition of impairment of goodwill. (2019: none)

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 are made by the management with the assistance of independent licensed assessors.

As a result of the calculations made in 2020, there is no need for recognition of impairment of investments in subsidiaries. (2019: none)

Actuarial calculations

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

Long-term retirement benefit obligations to personnel at the amount of BGN 4,685 thousand (31.12.2019: BGN 4,345 thousand) have been stated as a result of these calculations *(Note 32)*.

Deferred tax assets

There are unrecognised deferred tax assets at the amount of BGN 4,545 thousand (31.12.2019: BGN 4,545 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 a recognised amount to BGN 45,454 thousand (31.12.2019: BGN 45,454 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 30 September 2020.

3. REVENUE

Company’s revenue includes:

	2020 BGN '000	2019 BGN '000
Revenue from contracts with customers	139,485	155,445
Other revenue	1,360	1,192
Total	**140,845**	**156,637**

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

	2020 BGN '000	2019 BGN '000
Export	91,458	97,315
Domestic market	48,027	58,130
Total	**139,485**	**155,445**

Revenue from export sales by product includes:

	2020 BGN '000	2019 BGN '000
Tablets	71,111	76,837
Ampoules	8,148	8,151
Unguents	6,184	4,832
Syrups	3,191	5,111
Medical cosmetics	829	431
Lyophilic products	764	421
Suppositories	538	545
Drops	331	386
Dressing products	192	260
Plasters	168	214
Sanitary and hygienic products	2	4
Substances	-	123
Total	**91,458**	**97,315**

Sales revenue in Bulgaria by products are as follows:

	2020 BGN '000	2019 BGN '000
Tablets	25,742	31,582
Ampoules	8,297	10,067
Dressing products	4,447	4,793

Lyophilic products	3,030	3,349
Plasters	2,092	2,320
Haemodialysis concentrates	1,017	1,205
Unguents	842	1,798
Syrups	618	924
Inhalers	563	764
Sanitary and hygienic products	474	558
Drops	418	283
Sachets	266	37
Suppositories	121	303
Medical cosmetics	99	146
Substances	1	1
Total	**48,027**	**58,130**

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

	2020 BGN '000	***Relative share***	***2019 BGN '000***	***Relative share***
Europe	77,332	56%	84,211	54%
Bulgaria	48,027	34%	58,130	37%
Other countries	14,126	10%	13,104	8%
Total	**139,485**	**100%**	**155,445**	**100%**

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

	2020 BGN '000	***% of revenue***	***2019 BGN '000***	***% of revenue***
Client 1	47,916	34%	58,791	38%
Client 2	42,470	30%	50,721	33%
Client 3	18,223	13%	18,990	12%

Contract balances are as follows:

	30.09.2020 BGN '000	***31.12.2019 BGN '000***
Receivables under contracts with customers – related parties, net of impairment *(Note 22)*	108,268	78,094
Receivables under contracts with customers – third parties, net of impairment *(Note 23)*	21,120	26,114
	129,388	**104,208**

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.

Recovery obligations as at 30 September 2020 in the amount of BGN 20 thousand (31.12.2019: BGN 65 thousand) and include liabilities under retrospective trade volume discounts payable under contracts with customers which have been or will be reimbursed over the next reporting period. *(Note 38).*

3.2. Other revenue of the Company include:

	2020	***2019***
	BGN '000	***BGN '000***
Income from assets provided under leasing contracts	1,201	1,192
Revenues from sales of agricultural products	159	-
Total	**1,360**	**1,192**

4. OTHER OPERATING INCOME AND LOSSES

Other income and losses of the Company include:

	2020	***2019***
	BGN '000	***BGN '000***
Services rendered	1,637	2,257
Income from government grants under European projects	405	405
Revenues from fines and penalties	293	10
Gain on sale of long-term assets	*1,160*	*43*
Carrying amount of long-term assets sold	*(876)*	*(15.00)*
Profit on sale of long-term assets sold	284	28
Revenues from sales of goods	*1,261*	*1,297*
Carrying amount of goods sold	*(1,061)*	*(1,128)*
Profit on sales of goods	200	169
Amounts awarded	166	52
Revenue on sales of materials	*1,045*	*1,035*
Carrying amount of sold materials	*(926)*	*(988)*
Profit on sales of materials	119	47
Gains / (Losses) from revaluation of agricultural production to fair value	114	(43)
Written off liabilities	3	743
Written off liabilities under leasing contracts	*82*	*415*
Carrying amount of written off assets under leasing contracts	*(86)*	*(418)*
Operating lease losses	(4)	(3)
Net exchange losses on trade receivables and payables and current accounts	(298)	(204)
Other income	85	134
Total	**3,004**	**3,595**

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

Services rendered include:

	2020	***2019***
	BGN '000	***BGN '000***
Manufacturing services	1,050	1,015
Social activities	199	772
Gamma irradiation	148	187
Laboratory analyses	114	56
Regulatory services	46	43
Transport organisation	11	20
Other	69	164
Total	**1,637**	**2,257**

Sales of goods include:

	2020	***2019***
	BGN '000	***BGN '000***
Food products	1,128	1,087
Medical supplies	132	81
Goods for technical purposes	1	61
Cosmetics	-	68
Total	**1,261**	**1,297**

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

	2020	***2019***
	BGN '000	***BGN '000***
Food products	961	955
Medical supplies	99	61
Goods for technical purposes	1	51
Cosmetics	-	61
Total	**1,061**	**1,128**

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and supplies includes*:

	2020	*2019*
	BGN '000	*BGN '000*
Basic materials	40,335	40,071
Electric energy	4,189	4,443
Laboratory materials	2,332	2,766
Heat power	1,967	2,585
Spare parts	903	938
Auxiliary materials	898	1,013
Technical materials	731	1,150
Working clothes and personal protective equipment for labour	701	611
Water	513	576
Fuels and lubricating materials	305	333
Impairment of materials	62	568
Scrapped materials	-	76
Total	**52,936**	**55,130**

Expenses on basic materials include:

	2020	*2019*
	BGN '000	*BGN '000*
Substances	16,799	15,826
Packaging materials	8,497	8,725
Liquid and solid chemicals	6,600	6,454
Sanitary-hygienic and dressing materials	2,094	2,309
Herbs	1,659	2,195
Ampoules	1,396	1,419
Tubes	1,201	1,073
Vials	1,016	962
Aluminium and PVC foil	1,011	977
Agricultural production materials	62	131
Total	**40,335**	**40,071**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2020	*`2019*
	BGN '000	*BGN '000*
Production of medicines	4,515	2,993
Advertising and marketing services	4,331	5,727
Transportation and spedition services	2,520	2,486
Building and equipment maintenance	2,163	2,850
Logistic services – domestic market	1,538	1,404
Consulting services	1,408	1,178
Local taxes and charges	1,147	1,044
Security	1,084	1,001
Subscription fees	799	790
State and regulatory fees	738	858
Insurance	643	532
Medical services	554	618
Services under civil contracts	533	675
Medication registration services	423	315
Licence and patent fees and charges	399	371
Vehicles repair and maintenance	300	294
Translation of documentation	299	256
Announcements and communications	250	240
Taxes on expenses	248	256
Clinical trial services	179	41
Agricultural land processing services	135	272
Rentals	135	107
Fees and charges on current bank accounts	90	127
Courier services	87	104
Drug destruction services	80	46
Logistic services (export)	76	31
Commissions	12	20
Other	531	640
Total	**25,217**	**25,276**

Rental costs include:

	2020	*2019*
	BGN '000	*BGN '000*
Rents related to short - term leases	128	100
Rents related to lease contracts of low value assets	7	7
Total	**135**	**107**

7. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense includes:

	2020	*2019*
	BGN '000	*BGN '000*
Current wages and salaries	28,836	27,015
Social security/health insurance contributions	5,353	5,124
Social benefits and payments	1,378	1,696
Tantiems	1,212	1,005
Accruals for unused leaves	805	1,433
Accruals for insurance over leaves	156	275
Accruals for long-term retirement benefit obligations *(Note 32)*	340	420
Total	**38,080**	**36,968**

8. OTHER OPERATING EXPENSES

Other expenses include:

	2020	*2019*
	BGN'000	*BGN'000*
Scrapped of fixed assets	2,911	65
Impairment of credit losses on receivables, incl. from related parties	*4,779*	*3,810*
Recovered impairment for credit losses on receivables, incl. from related parties	*(3,736)*	*(3,172)*
Net change in the impairment provision for credit losses	1,043	638
Representative events	825	718
Unrecognised input tax under VATA	695	126
Accrued impairments of finished products and work in progress	284	909
Donations	256	244
Business trip costs	229	452
Training courses	54	158
Other taxes and payments to the state budget	12	137
Scrapped goods	11	
Scrapped finished products and work in progress	7	177
Other	42	152
Total	**6,369**	**3,776**

9. IMPAIRMENT OF NON-CURRENT ASSETS

The Impairment of non-current assets includes:

	2020	***2019***
	BGN'000	***BGN'000***
Impairment of property, plant and equipment (Note 13)	1,072	-
Impairment of reputation (Note 14)	-	677
Total	**1,072**	**677**

10. FINANCE INCOME

Finance income includes:

	2020	***2019***
	BGN'000	***BGN'000***
Shareholding income	9,217	10,653
Interest income on loans extended	2,476	2,441
Net profit from exchange rate differences under lease agreements	17	-
Recovered impairment for credit losses of cash	12	-
Net profit from exchange differences on the sale of a subsidiary	-	171
Impairment reimbursement for credit losses on granted trade loans	-	124
Net gain on transactions with investments in securities	-	435
Incl. profits from the sale of investments in subsidiaries	-	-
Total	**11,722**	**13,824**

11. FINANCE COSTS

Finance costs include:

	2020	***2019***
	BGN'000	***BGN'000***
Impairment for credit losses on receivables from trade loans	*3,893*	-
Recovered impairment for credit losses on trade loans	*(261)*	-
Net change in impairment on loans granted	3,632	-
Impairment for credit losses on dividend receivables	1,293	-
Interest expense on loans received	1,055	1,173
Bank fees and charges on loans and guarantees	229	235
Net foreign exchange loss on receivables from the sale of a subsidiary	136	-
Interest expense on leasing contracts	68	43
Deregistered capital of a company from the scope of long-term equity investments	25	-
Accrued provision for financial guarantees	*930*	*231*
Reimbursed provision for financial guarantees	*(3)*	-
Net provision for financial guarantees	927	231

Net loss from operations with investments in securities	1	-
Total	**7,366**	**1,682**

12. OTHER COMPREHENSIVE INCOME

Other comprehensive income include:

	2020 BGN '000	***2019 BGN '000***
Net change in the fair value of equity investments designated for measuring at fair value through other comprehensive income	(647)	299
Loss from revaluation of property, plant and equipment, net	(41)	-
Income tax related to the components of other comprehensive income that will not be reclassified	4	-
Total comprehensive income for the year	**(684)**	**299**

The tax effects associated with other components of comprehensive income are as follows:

	2020			**2019**		
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
	Value before tax	**Tax effects recognized in equity**	**Value net of tax**	**Value net of tax**	**Tax effects recognized in equity**	**Value net of tax**
Components that will not be reclassified to profit or loss						
Net change in the fair value of equity investments	(647)	-	(647)	(299)	-	(299)
Loss from revaluation of property, plant and equipment, net	(41)	4	(37)	-	-	-
Total other comprehensive income for the year	**(688)**	**4**	**(684)**	**(299)**	**-**	**(299)**

13. PROPERTY, PLANT AND EQUIPMENT

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

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2020 BGN '000	*2019 BGN '000*	*2020 BGN '000*	*2019 BGN '000*	*2020 BGN '000*	*2019 BGN '000*	*2020 BGN '000*	*2019 BGN '000*	*2020 BGN '000*	*2019 BGN '000*
Reporting value										
Balance at 1 January	**171,672**	**165,305**	**194,600**	**190,190**	**22,771**	**21,013**	**4,848**	**5,712**	**393,891**	**382,220**
Effect of applying IFRS 16 as of 1 January 2019	-	4,053	-	-	-	1,642	-	-	-	5,695
Additions	165	379	539	1,313	1,224	534	5,518	7,652	7,446	9,878
Transfer to property, plant and equipment	487	2,426	3,538	5,507	19	455	(4,044)	(8,388)	-	-
Effect from remeasurement to fair value	(30)	-	-	-	-	195	-	-	(30)	195
Impairment	(1,072)	-	-	-	-	(3)			(1,072)	(3)
Disposals	(1,906)	(491)	(1,383)	(2,410)	(1,696)	(1,065)	(2,878)	(128)	(7,863)	(4,094)
Balance 30 September / 31 December	**169,316**	**171,672**	**197,294**	**194,600**	**22,318**	**22,771**	**3,444**	**4,848**	**392,372**	**393,891**
Accumulated depreciation										
Balance at 1 January	**37,695**	**31,988**	**113,972**	**106,498**	**17,570**	**16,778**	**-**	**-**	**169,237**	**155,264**
Depreciation accrued	4,366	5,760	7,166	9,877	1,465	1,820	-	-	12,997	17,457
Effect from remeasurement to fair value	11	-		-		-	-	-	11	-
Depreciation written off	(1,018)	(53)	(1,373)	(2,403)	(1,620)	(1,028)	-	-	(4,011)	(3,484)
Balance at 30 September / 31 December	**41,054**	**37,695**	**119,765**	**113,972**	**17,415**	**17,570**	**-**	**-**	**178,234**	**169,237**
Balance at 30 September / 31 December	**128,262**	**133,977**	**77,529**	**80,628**	**4,903**	**5,201**	**3,444**	**4,848**	**214,138**	**224,654**
Carrying amount at 1 January	**133,977**	**133,317**	**80,628**	**83,692**	**5,201**	**4,235**	**4,848**	**5,712**	**224,654**	**226,956**

The Company's *land and buildings* include:

- Buildings amounting to BGN 84,677 thousand (31.12.2019: BGN 89,634 thousand);
- Land of carrying amount BGN 43,585 thousand (31.12.2019: BGN 44,343 thousand).

The Company's other tangible fixed assets includes:

- Transportation vehicles with carrying amount BGN 2,616 thousand (31.12.2019: BGN 2,508 thousand);
- Business inventory with carrying amount BGN 1,955 thousand (31.12.2019: BGN 2,338 thousand);
- Biological assets (carriers) with carrying amount of BGN 332 thousand (31.12.2019: BGN 355 thousand).

Cost of acquisition of tangible fixed assets include:

- Advances for the purchase of machines and equipment – BGN 2,145 thousand (31.12.2019: BGN 1,177 thousand);
- Expenses on new buildings - BGN 615 thousand (31.12.2019: BGN 1,110 thousand);
- Biological assets (infertile) - BGN 532 thousand (31.12.2019: BGN 2,497 thousand);
- Buildings reconstruction – BGN 92 thousand (31.12.2019: BGN 18 thousand);
- Other – BGN 60 thousand (31.12.2019: BGN 46 thousand).

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

- for a tablet production facility at the amount of BGN 6,742 thousand (31.12.2019: BGN 7,428 thousand);
- for ampoule production at the amount of BGN 3,941 thousand (31.12.2019: BGN 4,244 thousand).
- combined exchange ventilation and air conditioning installation for the production of medical products at the amount of BGN 610 thousand (31.12.2019: BGN 655 thousand).
- for the production of innovative eye drops, "artificial tears" type, at the amount of BGN 192 thousand (31.12.2019: BGN 212 thousand).

Leasing

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

	Lands		*Buildings*		*Vehicles*		*Business inventory*		*Total*	
	2020	*2019*	*2020*	*2019*	*2020*	*2019*	*2020*	*2019*	*2020*	*2019*
	BGN'000	*BGN '000*	*BGN'000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Reporting value										
Balance at 1 January	**29**	**-**	**3,910**	**-**	**1,763**	**-**	**174**	**-**	**5,876**	**-**
Effect of applying IFRS 16 as of 1 January 2019	-	-	-	4,053	-	1,642	-	-	-	**5,695**
Additions	9	29	155	341	1,056	121	2	174	**1,222**	**665**
Written off	-	-	(49)	(484)	(48)	-	(45)	-	**(142)**	**(484)**
Balance at 30 September / 31 December	**38**	**29**	**4,016**	**3,910**	**2,771**	**1,763**	**131**	**174**	**6,956**	**5,876**
Accumulated depreciation										

Balance at 1 September	**1**	**-**	**1,053**	**-**	**511**	**-**	**29**	**-**	**1,594**	**-**
Depreciation accrued	5	1	862	1,106	555	511	46	29	**1,468**	**1,647**
Depreciation written off	-	-	(12)	(53)	(4)	-	(40)	-	**(56)**	**(53)**
Balance at 30 September / 31 December	**6**	**1**	**1,903**	**1,053**	**1,062**	**511**	**35**	**29**	**3,006**	**1,594**
Carrying amount at 30 September / 31 December	**32**	**28**	**2,113**	**2,857**	**1,709**	**1,252**	**96**	**145**	**3,950**	**4,282**
Carrying amount ad 1 January	**28**	**-**	**2,857**	**-**	**1,252**	**-**	**145**	**-**	**4,282**	**-**

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

The Company has provided tangible fixed assets under leases as follows:

• related parties - buildings with a carrying amount of BGN 15 thousand. (31.12.2019: BGN 18 thousand);

• to third parties - buildings with a carrying amount of BGN 231 thousand. (31.12.2019: BGN 229 thousand) and machines and equipment with a carrying amount of BGN 7 thousand (31.12.2019: BGN 9 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 879 thousand (31.12.2019: BGN 743 thousand);
- Machines,plant and equipment – BGN 60,006 thousand (31.12.2019: BGN 58,140 thousand);
- Other – BGN 12,179 thousand. (31.12.2019: BGN 11,820 thousand).

As of 30 September 2020 there were established burdens on property, plant and equipment as follows:

- Land and buildings with a carrying amount of BGN 20,828 thousand and BGN 40,600 thousand, respectively (31.12.2019: respectively, BGN 20,828 thousand and BGN 42,513 thousand) *(Note 27, Note 33 and Note 39);*
- Pledges on equipment – BGN 34,376 thousand (31.12.2019: BGN 36,604 thousand) *(Note 27, Note 33 and Note 39).*

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 30 September 2020 the management concluded that no grounds existed for conducting new remeasurement of all assets before the usual five-year period has expired *(Note 2.9),* except for the indicated impairments of certain assets in the amount of BGN 1,072 thousand. (2019: none) *(Note 9).*

14. INTANGIBLE ASSETS

Intangible assets of the company are as follows:

	Goodwill		*Intellectual property rights*		*Software*		*Assets in progress*		*Total*	
	2020 BGN '000	*2019 BGN '000*	*2020 BGN '000*	*2019 BGN '000*	*2020 BGN '000*	*2019 BGN '000*	*2020 BGN '000*	*2019 BGN '000*	*2020 BGN '000*	*2019 BGN '000*
Book value										
Balance at 1 January	**6,698**	**6,698**	**11,538**	**11,697**	**4,429**	**4,501**	**163**	**7**	**22,828**	**22,903**
Additions	-	-	1	55	9	6	90	273	100	334
Transfer to intangible assets	-	-	5	117	2	-	(7)	(117)	-	-
Written-off	-	-	(368)	(331)	(4)	(78)	-	-	(372)	(409)
Balance at 30 September / 31 December	**6,698**	**6,698**	**11,176**	**11,538**	**4,436**	**4,429**	**246**	**163**	**22,556**	**22,828**
Accumulated amortisation and impairment										
Balance at 1 January	**2,541**	**-**	**8,429**	**7,940**	**3,334**	**3,082**	**-**	**-**	**14,304**	**11,022**
Accumulated amortisation	-	-	619	820	246	330	-	-	865	1,150
Impairment	-	2,541	-	-	-	-	-	-	-	2,541
Amortisation written-off	-	-	(346)	(331)	(4)	(78)	-	-	(350)	(409)
Balance at 30 September / 31 December	**2,541**	**2,541**	**8,702**	**8,429**	**3,576**	**3,334**	**-**	**-**	**14,819**	**14,304**
Carrying amount at 30 September / 31 December	**4,157**	**4,157**	**2,474**	**3,109**	**860**	**1,095**	**246**	**163**	**7,737**	**8,524**
Carrying amount at 1 January	**4,157**	**6,698**	**3,109**	**3,757**	**1,095**	**1,419**	**163**	**7**	**8,524**	**11,881**

Goodwill impairment

The goodwill, which is result from the merger of subsidiaries (Bulgarian Rose – "Sevtopolis" AD, "Medica" AD and "Unipharm" AD) into the parent company (*Note 2.11)*.

At each date of the statement of financial position, the management assesses whether there are indicators of impairment of existing goodwill.

Intellectual property rights mainly include development products and trademarks.

T*he cost of acquiring non-current intangible assets includes:*

- the cost of implementing a software product in the amount of BGN 144 thousand. (31.12.2019: BGN 117 thousand);
- costs for obtaining licenses and authorizations for the use of medicinal products in the amount of BGN 102 thousand. (31.12.2019: BGN 46 thousand).

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

• intellectual property rights - BGN 4,172 thousand. (31.12.2019: BGN 4,403 thousand);

• software products - BGN 1,816 thousand. (31.12.2019: BGN 1,806 thousand).

15. INVESTMENT PROPERTY

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Balance at 1 January	**39,329**	**37,451**
Additions	2,596	1,977
Net gains (losses) from adjustment to fair value measurement included in profit or loss	-	(99)
Balance at 30 September / 31 December	**41,925**	**39,329**

Investments property in asset group are as follows:

Group of assets	***30.09.2020***	***31.12.2019***
	BGN '000	***BGN '000***
Warehouse premises	34,821	29,259
Offices	3,049	3,049
Production buildings	1,066	1,066
Social objects	416	416
Investment property acquisition costs	2,573	5,539
Total	**41,925**	**39,329**

The established burdens on investment property are as follows:

- mortgage of warehouse premises – BGN 13,142 thousand (31.12.2019: BGN 13,142 thousand) *(Note 33 and Note 39);*

- pledges on attached equipment – BGN 4,764 thousand (31.12.2019: BGN 4,764 thousand) *(Note 33)*.

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 revaluation of investment property to fair value is repeated (annual) and is due to the application of the fair value model under IAS 40. It shall be carried out regularly at the date of each annual financial report. The measurement of fair value is realized with the assistance of independent licensed assessors.

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***	***Acquisition costs***	***Total***
	BGN '000	***BGN'000***	***BGN '000***	***BGN '000***	***BGN '000***	***BGN'000***
Balance at 1 January 2019	**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 - unrealized	(342)	202	41	-	-	(99)
Balance at 31 December 2019	**29,259**	**3,049**	**1,066**	**416**	**5,539**	**39,329**
Additions	-	-	-	-	2,596	2,596
Transfer	5,562	-	-	-	(5,562)	(5,562)
Balance at 30 September 2020	**34,821**	**3,049**	**1,066**	**416**	**2,573**	**41,925**

At each date of the statement of financial position, management analyses and assesses the fair values of the group of assets within the scope of investment property.

Valuation technique and significant unobservable input data.

The table below provides a description of the valuation techniques used to determine the fair value of all groups in the composition of investment property Geo 2, as well as the significant unobservable inputs used:

Groups Assets Level 2	Valuation technique	Significant unobservable input data
Warehouses	*a. Revenue method* Appraisal technique: Method of capitalizing on access from this scheme to the use of discounted cash flows (basic valuation of the technique)	a. Reduced rate of return b. Term of sale of rental transactions
	b. Consumption method Valuation technique: Cost-based method of creation or replacement - amortized cost (as ancillary valuation)	* Adjusted prices for construction of individual sites and delivery prices of analogues of machines and equipment
Offices, industrial buildings and social objects	*a. Revenue method* Appraisal technique: Method of capitalizing on access from this scheme to the use of discounted cash flows (basic valuation of the technique)	a. Reduced rate of return b. Term of sale of rental transactions

16. INVESTMENTS IN SUBSIDIARIES

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

		30.09.2020 BGN '000	***Interest %***	***31.12.2019 BGN '000***	***Interest %***
"Sopharma Trading" AD	Bulgaria	43,816	76.09	40,551	74.23
"Briz" OOD	Latvia	11,347	68.14	11,347	68.14
"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	7,111	97.15
"Momina Krepost" AD	Bulgaria	2,853	63.12	2,853	63.12
"Vitamina" AD	Ukraine	1,283	100.00	1,283	100.00
"Rap Pharma International" OOD	Moldova	1,183	80.00	1,183	80.00
"Pharmalogistica" AD	Bulgaria	961	89.39	961	89.39
"Aromania" AD	Bulgaria	750	76.00	750	76.00
"Sopharma Kazakhstan" EOOD	Kazakhstan	502	100.00	502	100.00
"Sopharma Buildings" REIT	Bulgaria	459	40.38	459	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		**90,411**		**87,146**	

As at 30 September 2020, the composition of investments in the subsidiaries includes the investment in Sopharma Poland OOD – in liquidation, Poland, which is fully impaired (31.12.2019: fully impaired investment in Sopharma Poland OOD – in liquidation, Poland).

In 2020, an investment was acquired in "Pharmachim" EOOD, Serbia (2019: none) was established. Sopharma AD owns 100% of the company's shares.

"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 – 31 December 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.

- "Pharmachim" EOOD - Scope of activities: consulting services. Date of establishment – 14 April 2020.

The movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
	30.09.2020	***31.12.2019***
Acquisition cost	***BGN '000***	***BGN '000***
Balance at 1 January	**135,049**	**125,257**
Additional interest acquired	3,265	1,832
Interest sold without loss of control	-	(1,376)
Increase in equity in subsidiaries	-	9,336
Balance at 30 September / 31 December	**138,314**	**135,049**
Impairment charged		
Balance at 1 January	**47,903**	**35,312**
Impairment charged	-	12,591
Balance at 30 September / 31 December	**47,903**	**47,903**
Carrying amount at 30 September / 31 December	**90,411**	**87,146**
Carrying amount at 1 January	**87,146**	**89,945**

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; 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 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 appraisers.

17. INVESTMENTS IN ASSOCIATES

The investments in associates is as follows:

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 (31.12.2019: BGN 6,062 thousand and interest at the rate of 24.98%).

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

The movement of investments in associates is presented below:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Balance at 1 January	**6,062**	**7,962**
Acquired shares	-	192
Sold Shares	-	(2,092)
Balance at 30 September / 31 December	**6,062**	**6,062**

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.

18. OTHER LONG-TERM EQUITY INVESTMENTS

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

	30.09.2020	***Interest***	***31.12.2019***	***Interest***
	BGN '000	***%***	***BGN '000***	***%***
"Lavena" AD	4,971	12.85	4,771	12.68
"Sopharma Properties" REIT	4,128	3.44	2,925	2.13
"Olainfarm" AD - Latvia	1,594	0.77	1,587	0.77
"Chimimport" AD	281	0.13	13	0.003
"Imventure 1" KDS	50	1.36	50	1.36
"Achieve Life Science Inc." – USA	26	0.12	44	0.12
"Ecobulpack" AD	7	0.74	7	0.74
BTF "Expat Bulgaria"	3	0.01	5	0.01
"UniCredit Bulbank" AD	3	0.001	3	0.001
"Aroma" AD	2	0.02	6	0.02

"Industrial Holding Bulgaria" AD	1	0.001	1	0.001
"Expo Group" AD	1	0.05	1	0.05
"Todorov" AD	-	0.01	208	12.45
"Elana Agrocredit" AD	-	-	-	-
"Gradus" AD	-	-	-	-
Total	**11,067**		**9,621**	

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 is as follows:

Equity investments	***Number of shares***	***30.09.2020*** ***Fair value per share***	***Fair value as per the statement of financial position***	***Number of shares***	***31.12.2019*** ***Fair value per share***	***Fair value as per the statement of financial position***
		BGN	***BGN '000***		***BGN***	***BGN '000***
"Lavena" AD	1,274,626	3.90	4,971	1,257,664	3.79	4,771
"Sopharma Properties" REIT	737,331	5.60	4,128	456,466	6.41	2,925
"Olainfarm" AD – Latvia	108,500	14.69	1,594	108,500	14.63	1,587
"Todorov" AD	313,539	0.90	281	7,000	1.79	13
"Achieve Life Science Inc." – USA	1,796	0.65	26	35,930	1.23	44
BTF "Expat Bulgaria" AD	4,565	0.77	3	4,565	0.99	5
"Aroma" AD	2,371	0.98	2	2,371	2.65	6
"Industrial Holding Bulgaria" AD	1,482	0.91	1	1,482	1.02	1
"Todorov" AD	-	-	-	423,431	0.49	208
Total			**11,006**			**9,560**

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***
	30.09.2020 ***BGN'000***	***BGN'000***	***BGN'000***
"Lavena" AD	4,971	-	4,971
"Sopharma Properties" REIT	4,128	4,128	-
"Olainfarm" AD – Latvia	1,594	1,594	-
"Chimimport" AD	281	281	-

"Achieve Life Science Inc." – USA	26	26	-
BTF "Expat Bulgaria"	3	3	-
"Aroma" AD	2	-	2
"Industrial Holding Bulgaria" AD	1	1	-
Total	**11,006**	**6,033**	**4,973**

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**

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 2019	**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 12)*	48	(108)	(60)
Balance at 31 December 2019	**4,575**	**4,985**	**9,560**
Purchases	2,086	88	2,174
Sales	(16)	(39)	(55)
Deregistration of equity	(26)	-	(26)
Unrealised gain/(loss), net, included in other comprehensive income *(Note 12)*	(586)	(61)	(647)
Balance at 30 September 2020	**6,033**	**4,973**	**11,006**

Valuation techniques and approaches

The market comparable approach was applied in the Level 2 fair value measurements. The valuation technique was based on the trading multiples method.

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

19. LONG-TERM RECEIVABLES FROM RELATED PARTIES

The long-term receivables from related parties include:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Long-term loans granted	59,399	91,723
Provision for impairment of credit losses	*(158)*	*(118)*
	59,241	91,605
Long-term rental deposit granted	-	189
Total	**59,241**	**91,794**

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Companies controlled by an associate	59,241	84,715
Associate companies	-	6,890
Total	**59,241**	**91,605**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***30.09.2020***		***31.12.2019***	
	'000			***BGN'000***	***BGN'000 incl. interest***	***BGN'000***	***BGN'000 incl. interest***
To companies controlled by an associate							
BGN	81,900	31.12.2025	3.00%	*57,848*	*379*	*81,999*	*99*
EUR	708	31.12.2022	3.33%	*1,393*	*8*	-	-
BGN	3,400	31.12.2021	3.00%	-	-	*2,716*	-
To associates							
EUR	31,194	31.12.2021	3.50%	-	-	*6,890*	*13*
				59,241	***387***	***91,605***	***112***

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

	2020	*2019*
	BGN '000	***BGN '000***
Balance on 1 January	**118**	**116**
Increase in the credit loss allowance recognised in profit or loss for the year	48	111
Decrease in the credit loss allowance recognised in profit or loss for the year	(8)	(109)
Balance at 30 September / 31 December	**158**	**118**

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 of receivables and promissory notes.

The long-term deposit receivable as at 31.12.2019 is from a company related through a main shareholder under a concluded rental contract for administrative offices to the amount of BGN 189 thousand with a deadline of 01.08.2022.

20. OTHER LONG-TERM RECEIVABLES

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Granted long-term loans	*7,565*	*6,447*
Provision for impairment of credit losses	*(131)*	*(149)*
Granted long-term loans, net	7,434	6,298
Receivables under transactions in securities	*3,341*	*3,482*
Provision for impairment of credit losses	*(139)*	*(268)*
Receivables under transactions in securities, net	3,202	3,214
Receivables on long-term deposits	189	-
Receivables on sales of non-current assets	-	*394*
Provision for impairment of credit losses	-	*(9)*
Receivables on sales of non-current assets, net	-	385
Total	**10,825**	**9,897**

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

Currency	*Contracted amount*	*Maturity*	*Interest rate*	*30.09.2020*		*31.12.2019*	
	'000			*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
					incl. interest		*incl. interest*
EUR	3,000	29.06.2023	3.05%	*5,968*	*100*	*4,890*	-
EUR	695	12.10.2022	3.05%	*1,466*	*107*	*1,393*	*34*
BGN	24	14.03.2023	5.00%	-	-	*15*	-
				7,434	***207***	**6,298**	***34***

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

	2020	***2019***
	BGN '000	***BGN '000***
Balance on 1 January	**149**	**71**
Increase in the credit loss allowance recognised within profit or loss for the year	131	78
Reduction of credit loss adjustment recognized in profit or loss for the year	(149)	
Balance at 30 September / 31 December	**131**	**149**

Long-term loans granted to third parties are intended to support the financing of activities of these enterprises under common strategic objectives. They are secured by bets on securities (shares), bets on receivables and promissory notes.

Securities settlement receivables represent receivables from a sold investment in a subsidiary with deferred payment until the completion of the statutory actions for registration of licenses for medicinal products amounting to BGN 3,302 thousand and expected maturity 30.06.2023 (31.12.2019: BGN 3,214 thousand).

The receivables on long-term deposits are under concluded contracts for rent of administrative offices in the amount of BGN 189 thousand. with a deadline of 01.08.2022 (31.12.2019: none).

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

	2020	***2019***
	BGN '000	***BGN '000***
Balance at 1 January	**268**	**322**
Increase in the credit loss allowance recognized in profit or loss during the year	110	29
Decrease in the credit loss adjustment recognized in profit or loss during the year	(239)	(83)
Balance at 30 September / 31 December	**139**	**268**

Sales receivables with deferred payment of fixed assets in the amount of BGN 385 thousand are due on 10.04.2021 are reclassified as trade receivables (*Note № 23*) (31.12.2019: 385 thousand BGN).

The movement of the allowance for impairment of receivables from the sale of fixed assets is as follows:

	2020	***2019***
	BGN '000	***BGN '000***
Balance at 1 January	**9**	**69**
Transfer to trade receivables	(9)	-
Increase in the credit loss allowance recognized in profit or loss during the year	-	9
Decrease in the credit loss allowance recognized in profit or loss during the year	-	(69)
Balance at 30 September / 31 December	**-**	**9**

21. INVENTORIES

Company's *inventories* include:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Materials	36,942	29,850
Finished products	28,793	15,921
Semi-finished products	8,490	7,266
Work in progress	5,834	8,219
Goods	132	109
Total	**80,191**	**61,365**

Materials by type are as follows:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Basic materials	35,837	28,245
Technical materials	517	475
Auxiliary materials	384	208
Spare parts	189	189
Materials in the process of delivery	-	678
Other	15	55
Total	**36,942**	**29,850**

Basic materials by type are as follows:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Substances	19,650	14,562
Chemicals	4,955	5,149
Ampoules	4,109	2,466
Packaging materials	1,867	1,174
Sanitary-hygiene and dressing materials	1,688	1,326
Herbs	1,495	1,163
incl. own production	*14*	*33*
PVC and aluminium foil	1,439	1,732
Tubes	346	247
Vials	288	426
Total	**35,837**	**28,245**

The movement of the herbs of their own production (agricultural production, including harvested seeds of white thorns and yellow acacia) is as follows:

	2020	***2019***
	BGN '000	***BGN '000***
Agricultural production on 1 January	**33**	**-**
Invested in production	19	(173)
Cost of production during the year	-	319
Loss from fair value measurement	-	(36)
Loss from subsequent measurement in accordance with IAS 2	-	(77)
Agricultural production on 30 September / 31 December	**14**	**33**

Finished products by type include:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Tablets	15,363	8,186
Ampoules	4,862	3,307
Syrups	2,001	619
Dressing products	1,390	1,209
Unguents	1,297	1,028
Lyophilic products	1,069	417
Drops	633	104
Plasters	481	363

Medical cosmetics	459	228
Inhalers	396	-
Sanitary-hygienic products	298	325
Hemodialysis concentrates	266	50
Suppositories	229	85
Sachets	49	-
Total	**28,793**	**15,921**

Goods by types are as follows:

	30.09.2020 ***BGN '000***	***31.12.2019*** ***BGN '000***
Food products	75	68
Medicinal products	57	41
Total	**132**	**109**

On the available material stocks of the company with carrying amount of BGN 34,793 thousand as collateral to bank loans (31 December 2019: BGN 21,921 thousand) *(Note 33 and Note 39).*

22. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	30.09.2020 ***BGN '000***	***31.12.2019*** ***BGN '000***
Receivables from subsidiaries	*124,702*	*94,914*
Provision for impairment of credit losses	*(9,166)*	*(3,962)*
	115,536	90,952
Receivables from other related parties	5,258	6,112
Provision for impairment of credit losses	*(54)*	*(50)*
	5,204	6,062
Total	**120,740**	**97,014**

The receivables from related parties by type are as follows:

	30.09.2020 ***BGN '000***	***31.12.2019*** ***BGN '000***
Receivables under contracts with customers	*110,567*	*80,095*
Provision for impairment of credit losses	*(2,299)*	*(2,001)*
Receivables under contracts with customers, net	108,268	78,094
Trade loans granted	*18,100*	*19,638*
Provision for impairment of credit losses	*(5,628)*	*(2,011)*
Trade loans granted, net	12,472	17,627

Dividend receivables	*1,293*	*1,293*
Provision for impairment of credit losses	*(1,293)*	-
	-	1,293
Total	**120,740**	**97,014**

The receivables under contracts with customers - related parties are interest-free and of which BGN 95,567 thousand are in BGN (31.12.2019: BGN 63,356 thousand) and in EUR -12,701 thousand (31.12.2019: EUR 12,738 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals were the most significant and amounted to BGN 95,295 thousand or 88.02% of all receivables under contracts with customers - related parties (31.12.2019: BGN 65,172 thousand – 83.45%).

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:

	2020	***2019***
	BGN '000	***BGN '000***
Balance on 1 January	**2,001**	**1,797**
Increase in the credit loss allowance recognised within profit or loss for the year	2,299	2,001
Decrease in the credit loss allowance recognised within profit or loss for the year	(2,001)	(1,797)
Balance at 30 September / 31 December	**2,299**	**2,001**

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
up to 30 days	13,671	15,358
from 31 to 90 days	11,531	31,367
from 91 to 180 days	16,394	26,364
from 181 to 365 days	-	1,154
Gross amount of non-matured (regular) receivables from related parties	*41,596*	*74,243*
Provision for impairment of credit losses	*(212)*	*(874)*
Non-matured (regular) receivables from related parties, net	**41,384**	**73,369**

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

	30.09.2020	***31.12.2019***

	BGN '000	***BGN '000***
up to 30 days	51	181
from 31 to 90 days	76	379
from 91 to 180 days	85	301
from 181 to 365 days	-	13
Total	**212**	**874**

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
from 31 to 90 days	28,906	33
from 91 to 180 days	35,161	363
from 180 to 365 days	3,621	4,480
over 365 days	1,283	976
Gross amount of past due receivables from related parties	*68,971*	*5,852*
Provision for impairment of credit losses	*(2,087)*	*(1,127)*
Past due receivables from related parties, net	**66,884**	**4,725**

The provision for impairment of credit losses of past due trade receivables from related parties is as follows:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
up to 90 days	223	44
from 91 to 180 days	1,147	404
from 181 to 365 days	499	348
over 365 days	218	331
Total	**2,087**	**1,127**

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 2.16)*.

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

	Regular	***Up to 90 days past due***	***Over 90 days past due***	***Over 180 days past due***	***Over 365 days past due***	**Total**
30 September 2020						
Expected average percentage of credit losses	1%	1%	3%	14%	17%	

Trade receivables from related parties (gross carrying amount)	***BGN '000***	41,596	28,906	35,161	3,621	1,283	110,576
Expected credit loss (Impairment allowance)	***BGN '000***	(212)	(223)	(1,147)	(499)	(218)	(2,299)

31 December 2019		***Regular***	***Up to 90 days past due***	***Over 90 days past due***	***Over 180 days past due***	***Over 365 days past due***	**Total**
Expected average percentage of credit losses		1%	3%	13%	38%	88%	
Trade receivables (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)

Special pledges have been established on receivables from related parties at the amount of BGN 101,795 thousand as collateral under bank loans received (31.12.2019: BGN 71,672 thousand) *(Note 33)*.

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Subsidiaries	*12,900*	*13,584*
Provision for impairment of credit losses	*(5,628)*	*(2,005)*
	7,272	11,579
Companies controlled by an associate	5,200	6,054
Provision for impairment of credit losses	-	(6)
	5,200	6,048
Total	**12,472**	**17,627**

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*30.09.2020*		*31.12.2019*	
	'000			*BGN '000*	*BGN '000 incl. interest*	*BGN '000*	*BGN '000 incl. interest*
to subsidiaries							
BGN	14,109	31.12.2020	4.10%	*5,299*	-	*5,664*	*228*
BGN	3,050	31.12.2020	3.50%	*885*	*5*	*1,661*	*8*
EUR	390	10.05.2021	3.95%	*832*	*69*	*811*	*48*
EUR	132	31.05.2021	5.00%	*256*	-	-	-
EUR	2,770	31.12.2019	4.70%	-	-	*3,443*	-
to companies controlled by an associate							
BGN	5,990	31.12.2020	3.10%	*5,151*	*13*	*5,999*	-
BGN	190	31.12.2020	3.50%	*49*	-	*49*	-
				12,472	**87**	**17,627**	**284**

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 of receivables and promissory notes.

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

	2020	***2019***
	BGN '000	***BGN '000***
Balance at 1 January	**2,011**	**938**
Increase in the credit loss allowance recognised within profit or loss for the year	3,714	1,629
Decrease in the credit loss allowance recognised within profit or loss for the year	(97)	(556)
Balance at 30 September / 31 December	**5,628**	**2,011**

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

	2020	***2019***
	BGN '000	***BGN '000***
Balance at 1 January	**-**	**-**
Increase in the credit loss allowance recognised within profit or loss for the year	1,293	-

Decrease in the credit loss allowance recognised within profit or loss for the year	-	-
Balance at 30 September / 31 December	**1,293**	**-**

23. TRADE RECEIVABLES

Trade receivables include:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Receivables under contracts with customers	*23,302*	*27,601*
Provision for impairment of credit losses	*(2,182)*	*(1,487)*
Receivables under contracts with customers, net	21,120	26,114
Advances granted	1,563	1,098
Total	**22,683**	**27,212**

The *receivables from clients* are interest-free and BGN 967 thousand are denominated in BGN (31.12.2019: BGN 943 thousand), in EUR – BGN 17,989 thousand (31.12.2019: BGN 22,822 thousand), and in USD – BGN 2,162 thousand (31 December 2019: BGN 2,349 thousand) and in other currencies - BGN 2 thousand (31.12.2019: none).

One main counterpart of the Company is accountable for about 75.91% of the receivables from clients (31.12.2019: one main counterpart accountable for 84.42%)

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

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

	2020	***2019***
	BGN '000	***BGN '000***
Balance at 1 January	**1,487**	**1,817**
Transfer from other long - term receivables	9	-
Increase in the credit loss allowance recognised within profit or loss for the year	2,182	1,487
Decrease in the credit loss allowance recognised within profit or loss for the year	(1,496)	(1,817)
Balance at 30 September / 31 December	**2,182**	**1,487**

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
up to 30 days	7,744	4,226
from 31 to 90 days	2,482	11,143
from 91 to 180 days	1,776	435
From 181 to 365 days	87	-
Gross amount of non-matured (regular) trade receivables	*12,089*	*15,804*
Provision for impairment of credit losses	*(621)*	*(181)*
Non-matured (regular) trade receivables, net	**11,468**	**15,623**

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
up to 30 days	66	47
from 31 to 90 days	74	129
from 91 to 180 days	-	5
Over 180 days	481	-
Total	**621**	**181**

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
from 31 to 90 days	9,628	10,240
from 91 to 180 days	121	153
from 181 to 365 days	274	412
over 365 days	1,190	992
Gross amount of past due trade receivables	*11,213*	*11,797*
Provision for impairment of credit losses	*(1,561)*	*(1,306)*
Past due trade receivables, net	**9,652**	**10,491**

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
up to 90 days	218	224
from 91 to 180 days	75	37
from 181 to 365 days	284	173

over 365 days	984	872
Total	**1,561**	**1,306**

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 2.16).* Based on that, the loss allowance is determined as follows:

30 September 2020		*Regular*	*Up to 90 days past due*	*Over 90 days past due*	*Over 180 days past due*	*Over 365 days past due*	*Total*
Expected average percentage of credit losses		5%	2%	62%	104%	83%	
Trade receivables (gross carrying amount)	*BGN '000*	12,089	9,628	121	274	1,190	23,302
Expected credit loss (Impairment allowance)	*BGN '000*	(621)	(218)	(75)	(284)	(984)	(2,182)

31 December 2019		*Regular*	*Up to 90 days past due*	*Over 90 days past due*	*Over 180 days past due*	*Over 365 days past due*	*Total*
Expected average percentage of credit losses		1%	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)

Special pledges have been established as collateral of bank loans received on trade receivables at the amount of BGN 11,735 thousand (31.12.2019: BGN 11,735 thousand) (*Note 33 and Note 39*).

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Inventories	809	787
Services	754	311
Total	**1,563**	**1,098**

The *advances granted* are regular. They include: in BGN – BGN 272 thousand (31.12.2019: BGN 609 thousand), in EUR – 591 thousand (31.12.2019: 171 thousand), in USD: BGN 640 thousand (31.12.2019: 317 thousand) and in other currency – 60 thousand (31.12.2019: 1 thousand).

24(A). LOANS GRANTED TO THIRD PARTIES

The loans granted to third parties are as follow:

	30.09.2020	*31.12.2019*
	BGN '000	***BGN '000***
Commercial loans granted	*4,649*	*6,052*
Provision for impairment of credit losses	-	*(8)*
Total	**4,649**	**6,044**

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 receivables.

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***30.09.2020***		***31.12.2019***	
	'000			***BGN'000***	***BGN'000 incl. interest***	***BGN'000***	***BGN'000 incl. interest***
BGN	4,511	31.12.2020	2.55%	*3,635*	*21*	*4,549*	-
BGN	4,184	31.12.2020	4.30%	*453*	-	*889*	-
BGN	832	31.12.2020	4.50%	*452*	*1*	*496*	-
BGN	949	31.12.2020	4.70%	*109*	*6*	*110*	-
				4,649	**28**	**6,044**	**-**

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

	2020	***2019***
	BGN '000	***BGN '000***
Balance at 1 January	**8**	**545**
Increase in the credit loss allowance recognised within profit or loss for the year	**-**	8
Decrease in the credit loss allowance recognised within profit or loss for the year	(8)	(545)
Balance at 30 September / 31 December	**-**	**8**

24(B). OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Tax recovery	6,019	5,027
Funds provided to an investment intermediary	779	1
Prepayments	690	957
Receivables under deposits granted as guarantees	137	119
Court and awarded receivables	*194*	*5*
Provision for impairment of credit losses from court and awarded receivables	*(194)*	*(5)*
	-	**-**
Other	152	40
Total	**7,777**	**6,144**

Taxes refundable include:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Excise duties	5,476	5,027
Corporate tax	543	-
Total	**6,019**	**5,027**

Prepayments include:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Subscriptions	404	424
Insurance	150	259
Advertising	70	88
Licence and patent fees	48	82
Rentals	10	31
Vouchers	3	1
Consulting	-	35
Other	5	37
Total	**690**	**957**

Deposits placed as guarantees include:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Guarantees under contracts for fuel supply	86	86
Guarantees under contracts for supply of medicinal products	13	13
Guarantees under rental contracts	13	9
Guarantees under construction contracts	4	4
Guarantees under contracts for electricity supply	3	3
Other	18	4
Total	**137**	**119**

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

	2020	***2019***
	BGN '000	***BGN '000***
Balance at 1 January	**5**	**137**
Increase in the credit loss allowance recognised within profit or loss for the year	189	5
Decrease in the credit loss allowance, as a result of write-off	-	(137)
Balance at 30 September / 31 December	**194**	**5**

25. CASH AND CASH EQUIVALENTS

Cash includes:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Cash at current bank accounts	*3,179*	*4,062*
Impairment of cash at current bank accounts	*-*	*(166)*
Cash at current bank accounts, net of impairment	3,179	3,896
Cash in hand	65	43
Blocked cash under issued bank guarantees	29	20
Total	**3,273**	**3,959**

The movement in the allowance (provision) for impairment of cash is as follows:

	2020	***2019***
	BGN '000	***BGN '000***
Balance at 1 January	**166**	**166**

Decrease in the credit loss allowance recognised within profit or loss for the year	(12)	-
Written off as uncollectible credit losses recognized in profit or loss for the year	(154)	-
Balance at 30 September / 31 December	**-**	**166**

Cash structure at current bank accounts is as follows: in BGN: BGN 1,448 thousand (31.12.2019: BGN 2,472 thousand), in EUR –1,617 thousand (31.12.2019: 615 thousand), in USD –35 thousand (31.12.2019: BGN 784 thousand) and in other currency – BGN 79 thousand (31.12.2019: 25 thousand).

Cash in hand is - BGN 64 thousand (31.12.2019: BGN 42 thousand) and in other currencies - 1 thousand (31.12.2019: 1 thousand).

The cash blocked under bank securities issued is: in BGN – BGN 23 thousand (31.12.2019: BGN 18 thousand), and in EUR – 6 thousand (31.12.2019: 2 thousand).

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.

26. EQUITY

Share capital

As at 30 September 2020, 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 2019	**125,916,563**	**101,461**
Treasury shares	(232,131)	(801)
Expense on treasury shares	-	(4)
Balance at 31 December 2019	**125,684,432**	**100,656**
Sold back treasury shares	253,748	949
Treasury shares	(86,748)	(260)
Expense on treasury shares	-	(2)
Balance at 30 September 2020	**125,851,432**	**101,343**

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Share capital (registered), nominal	134,798	134,798
Premium reserve	8,785	8,785

Total paid capital	**143,583**	**143,583**

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

The ***treasury shares*** were 8,946,467 at the amount of BGN 33,455 thousand (31.12.2019: 9,113,467 shares at the amount of BGN 34,142 thousand). During the current year, 86,748 shares were purchased and 253,748 shares were sold (2019: 232,131 shares purchased).

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Statutory reserves	63,335	59,297
Property, plant and equipment revaluation reserve	21,793	22,040
Reserve for financial assets at fair value through other comprehensive income	2,272	2,873
Additional reserves	321,596	298,339
Total	**408,996**	**382,549**

Statutory reserves at the amount of BGN 63,335 thousand (31.12.2019: BGN 59,297 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 54,550 thousand (31.12.2019: BGN 50,512 thousand), and (b) share premium representing the excess of the issue value over the nominal value of the issued shares on the merger of a subsidiary into "Sopharma" AD – BGN 8,785 thousand (31.12.2019: BGN 8,785 thousand).

The movements of statutory reserves were as follows:

	2020	***2019***
	BGN '000	***BGN '000***
Balance at 1 January	**59,297**	**55,967**
Distribution of profit	4,038	3,330
Balance at 30 September / 31 December	**63,335**	**59,297**

The ***property, plant and equipment revaluation reserve***, amounting to BGN 21,793 thousand (31 .12.2019: BGN 22,040 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:

	2020	*2019*
	BGN '000	*BGN '000*
Balance at 1 January	**22,040**	**22,433**
Transfer to retained earnings	(210)	(569)
(Loss) / Gain from revaluation of property, plant and equipment, net	(41)	196
Deferred tax relating to revaluations	4	(20)
Balance at 30 September / 31 December	**21,793**	**22,040**

The reserve for financial assets at fair value through other comprehensive income, amounting to BGN 2,272 thousand (31.12.2019: BGN 2,873 thousand) is formed of the effects of fair-value measurement of other long-term equity investments. Upon derecognition of these investments, the reserve formed is transferred to the "retained earnings" component.

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

	2020	*2019*
	BGN '000	*BGN '000*
Balance at 1 January	**2,873**	**2,933**
Net income from revaluation of available-for-sale financial assets	(647)	(60)
Transfer to retained earnings	46	-
Balance at 30 September / 31 December	**2,272**	**2,873**

Additional reserves at the amount of BGN 321,596 thousand (31.12.2019: BGN 298,339 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:

	2020	*2019*
	BGN '000	*BGN '000*
Balance at 1 January	**298,339**	**275,977**
Distributed profit in the year	23,257	22,362
Balance at 30 September / 31 December	**321,596**	**298,339**

Base net earnings per share

	30.09.2020	***30.09.2019***
Weighted average number of shares	125,743,476	125,916,229
Net profit for the year (BGN '000)	22,134	33,509
Base net earnings per share (BGN)	**0.18**	**0.27**

As at 30 September 2020, ***retained earnings*** amount at BGN 20,466 thousand (31.12.2019: BGN 39,439 thousand).

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

	2020	***2019***
	BGN '000	***BGN '000***
Balance at 1 January	**39,439**	**30,448**
Net profit for the year	22,134	40,382
Transfer from revaluation reserve of property, plant and equipment	210	569
Transfer from reserve of financial assets at fair value through other comprehensive income	(46)	-
Effects of sold repurchased own shares	(144)	-
Profit distribution for reserves	(27,295)	(25,692)
Distribution of dividend from profit for 2019	(8,798)	(6,284)
Distribution of advance dividend from profit for 2020	(5,034)	-
Actuarial losses from remeasurement	-	16
Balance at 30 September / 31 December	**20,466**	**39,439**

27. LONG-TERM BANK LOANS

Long-term bank loans include:

			30.09.2020			***31.12.2019***		
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	-	4,183	**4,183**	2,386	7,160	**9,546**
AZN	27	18.05.2023	16	8	**24**	-	-	**-**
AZN	23	15.04.2022	3	5	**8**	8	7	**15**
AZN	35	16.03.2021	-	7	**7**	4	14	**18**
			19	**4,203**	**4,222**	**2,398**	**7,181**	**9,579**

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 rates at the amount of 22% and 24.10% (2019: three-month EURIBOR plus a mark-up of up to 1.7 points but not less than 1.7 points and fixed interest rate of 23% and 24.10%).

To secure these loans, the following are established:

- Mortgages of real estate with a carrying amount of BGN 36,234 thousand as at 30 September 2020 (31.12.2019: BGN 37,505 thousand) (*Note 13*);
- Special pledges on machinery and equipment with a carrying amount of BGN 14,084 thousand as at 30 September 2020 (31.12.2019: BGN 14,889 thousand) *(Note 13).*

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

Reconciliation of the movement of liabilities from financing activities

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

	01.01.2020	***Changes in cash flows from financing activities***	***Newly arising liabilities over the year***	***Other non-cash changes***	***30.09.2020***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Bank loans	109,938	(6,149)	28	(133)	103,684
Leasing liabilities to related parties	2,609	-	-	(2,609)	-
Leasing liabilities to third parties	1,677	(1,449)	1,222	2,483	3,933
Dividends	6,441	(14,952)	13,871	-	5,360
Total	**120,665**	**(22,550)**	**15,121**	**(259)**	**112,977**
Treasury shares	(34,142)	543	-	144	(33,455)
Net cash flows from financing activities	**86,523**	**(22,007)**	**15,121**	**(115)**	**79,522**

	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
Leasing liabilities to third parties	3,896	(1,038)	121	(370)	2,609
Leasing 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**

28. DEFERRED TAX LIABILITIES

Deferred income taxes are related to the following items of the statement of financial position:

Deferred tax liabilities/(assets)	*temporary difference*	*tax*	*temporary difference*	*tax*
	30.09.2020	***30.09.2020***	***31.12.2019***	***31.12.2019***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	67,823	6,782	69,390	6,939
including revaluation reserve	*20,049*	*2,005*	*20,323*	*2,032*
Intangible assets	1,371	137	2,086	209
Investment property	9,765	977	8,808	881
including revaluation reserve	*516*	*52*	*516*	*52*
Total deferred tax liabilities	**78,959**	**7,896**	**80,284**	**8,029**
Payables to personnel	(8,065)	(806)	(7,859)	(786)
Receivables	(12,137)	(1,214)	(6,180)	(618)
Inventories	(1,860)	(186)	(3,261)	(326)
Accrued liabilities	(1,321)	(132)	(729)	(73)
Cash	-	-	(166)	(17)
Total deferred tax assets	**(23,383)**	**(2,338)**	**(18,195)**	**(1,820)**
Deferred income tax liabilities, net	**55,576**	**5,558**	**62,089**	**6,209**

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 2020 is as follows:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2020*	*Recognised in the statement of comprehensive income*	*Recognised in equity in*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 30 September 2020*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(6,939)	117	4	36	(6,782)
Intangible assets	(209)	72	-	-	(137)
Investment property	(881)	(96)	-	-	(977)
Payables to personnel	786	20	-	-	806
Receivables	618	596	-	-	1,214
Inventories	326	(140)	-	-	186
Accrued liabilities	73	59	-	-	132
Cash	17	(17)	-	-	-
Total	**(6,209)**	**611**	**4**	**36**	**(5,558)**

The change in the balance of deferred taxes for 2019 was 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)**

29. GOVERNMENT GRANTS

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

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

	30.09.2020			*31.12.2019*		
	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	2,324	179	**2,503**	2,459	179	**2,638**
Implementation of innovative products in the production of ampoule dosage forms	1,750	200	**1,950**	1,900	200	**2,100**
Acquisition on non-current assets and building reconstruction	306	8	**314**	312	8	**320**
Implementation of innovative “artificial tears” eye drops production	67	24	**91**	84	24	**108**
Acquisition of combined exchange ventilation and air conditioning installation	86	9	**95**	93	9	**102**
Acquisition of machinery and equipment for technological renovation and modernisation of tablet production	-	40	**40**	10	120	**130**
Total	**4,533**	**460**	**4,993**	**4,858**	**540**	**5,398**

The current portion of the financing will be recognised as current income over the following 12 months from the date of the individual statement of financial position and presented as 'other current liabilities' (*Note 38).*

30. LEASING CONTRACT LIABILITIES TO RELATED PARTIES

Leasing contract liabilities to related parties included in the statement of financial position are presented net of interest due in the future and are as follows:

Term	***30.09.2020***	***31.12.2019***
	BGN '000	***BGN '000***
Up to 1 year	-	999
Over 1 year	-	1,610
Total	**-**	**2,609**

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

Term	***30.09.2020***	***31.12.2019***
	BGN '000	***BGN '000***
Up to 1 year	-	1,030
Over 1 year	-	1,635
	-	**2,665**
Future financial expense under leases contracts	-	(56)
Current value of operating lease obligations to related parties	**-**	**2,609**

Leasing liabilities to related parties are denominated in euro.

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

31. LEASING CONTRACT LIABILITIES TO THIRD PARTIES

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

Term	***30.09.2020***	***31.12.2019***
	BGN '000	***BGN '000***
Up to 1 year	1,906	723
Over 1 year	2,027	954
Total	**3,933**	**1,677**

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

Term	***30.09.2020***	***31.12.2019***
	BGN '000	***BGN '000***
Up to 1 year	1,971	744
Over 1 year	2,137	990

	4,108	**1,734**
Future financial expense under finance leases	(175)	(57)
Current value of lease contracts obligations to third parties	**3,933**	**1,677**

The table below shows the liabilities by type of operating leases to third parties:

	30.09.2020			*31.12.2019*		
	Long-term part	*Short-term part*	*Total*	*Long-term part*	*Short-term part*	*Total*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Under lease contracts for buildings	1,003	1,133	**2,136**	147	125	**272**
Under lease contracts for cars	986	704	**1,690**	695	544	**1,239**
Under lease contracts for apparatus	19	62	**81**	95	48	**143**
Under lease contracts for lands	19	7	**26**	17	6	**23**
Total	**2,027**	**1,906**	**3,933**	**954**	**723**	**1,677**

The lease liabilities to third parties in amount to BGN 107 thousand (31.12.2019: BGN 166 thousand), to EUR 3,563 thousand (31.12.2019: 1,343 thousand), in US dollars - 180 thousand (31.12.2019: 107 thousand) and in other currencies - 83 thousand (31.12.2019: 61 thousand).

The lease payments due within the next 12 months are presented in the statement of financial position as "other current liabilities" (Note *№ 38*).

32. RETIREMENT BENEFIT OBLIGATIONS

Long-term payables to personnel include:

	30.09.2020	*31.12.2019*
	BGN '000	*BGN '000*
Long-term retirement benefit obligations	4,685	4,345
Long-term benefit obligations for tantieme	280	293
Total	**4,965**	**4,638**

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 2.23*).

To determine these obligations, the Company made an actuarial valuation as of 31.12.2019, using the services of a certified actuary.

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

	2020	***2019***
	BGN '000	***BGN '000***
Present value of the obligation at 1 January	**4,345**	**4,100**
Expense for current work experience	340	476
Interest cost	-	44
Net actuarial loss recognised for the period	-	7
Payments made in the year	-	(266)
Effects of ex-post assessments of retirement liabilities incl. by:	-	(16)
Actuarial losses arising from changes in demographic assumptions	-	12
Actuarial losses arising from changes in financial assumptions	-	116
Actuarial (gains)/losses arising from past experience adjustments	-	(144)
Present value of the obligation at 30 September / 31 December	**4,685**	**4,345**

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

	2020	***2019***
	BGN '000	***BGN '000***
Current service cost	340	420
Components of defined benefit plan costs recognised in profit or loss *(Note 7)*	**340**	**420**

Long-term liabilities for tantieme are as follows:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Long-term benefit obligations for tantieme with maturity in 2022	126	126
Long-term benefit obligations for tantieme with maturity in 2023	154	167
Total	**280**	**293**

33. SHORT-TERM BANK LOANS

Short-term bank loans include:

Currency	***Contracted amount '000***	***Maturity***	***30.09.2020 BGN '000***	***31.12.2019 BGN '000***
Bank loans (overdrafts)				
BGN	20,000	31.07.2021	19,955	20,009
BGN	20,000	31.05.2021	19,929	987
BGN	20,000	31.07.2021	19,925	19,948
BGN	9,779	01.06.2021	6,354	9,704
EUR	10,000	31.12.2020	5,064	18,363
BGN	5,000	31.07.2021	4,983	4,992
			76,210	**74,003**
Extended credit lines				
BGN	20,000	30.11.2020	18,934	19,782
EUR	5,000	31.08.2021	4,318	6,574
			23,252	**26,356**
Total			**99,462**	**100,359**

The bank loans received in Euro 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, and 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: one-month EURIBOR plus a mark-up to 1.3 points, but not less than 1.3 points, a one-month EURIBOR plus a margin of 1.7 points, but not less than 1.7 points, and a one-month EURIBOR plus up to 1.5 points and for those in BGN - 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 the amount of BGN 36 thousand (31.12.2019: BGN 130 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:

- Mortgages of real estate with a carrying amount of BGN 28,704 thousand as at 30 September 2020 (31.12.2019: BGN 29,183 thousand) *(Note 13 and Note 15);*
- Special pledges on:
  - machines and equipment with a carrying amount of BGN 16,432 thousand as at 30 September 2020 (31.12.2019: BGN 17,379 thousand) *(Note 13 and Note 15);*
  - inventories with a carrying amount of BGN 34,793 thousand as at 30 September 2020 (31.12.2019: BGN 21,921 thousand) *(Note 21)*;

- receivables from related parties with a carrying amount of BGN 101,795 thousand as at 30 September 2020 BGN (31.12.2019: BGN 71,672 thousand) *(Note 22*);
- trade receivables with a carrying amount of BGN 11,735 thousand as at 30 September 2020 (31.12.2019: BGN 11,735 thousand) *(Note 23*);
- trade receivables from third parties of a subsidiary with a carrying amount of BGN 7,823 thousand as at 30 September 2020 (31.12.2019: 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.

34. TRADE PAYABLES

Trade payables include:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Payables to suppliers	7,611	5,472
Advances received	416	602
Total	**8,027**	**6,074**

Payables to suppliers by type are as follows:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Payables to suppliers for inventories	5,566	3,820
Payables to suppliers for services	1,366	1,513
Payables to suppliers for long – term assets	679	139
Total	**7,611**	**5,472**

Payables to suppliers are as follows:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Payables to foreign suppliers	4,951	4,002
Payables to local suppliers	2,660	1,470
Total	**7,611**	**5,472**

The payables to suppliers are regular and interest-free. The payables in BGN amount to BGN 2,660 thousand (31.12.2019: BGN 1,470 thousand), in EUR – 3,199 thousand (31.12.2019: 2,695 thousand), in USD – 1,751 thousand (31.12.2019: BGN 1,299 thousand), in PLN – none (31.12.2019: BGN 1 thousand), and in other currency – 1 thousand (31.12.2019: BGN 7 thousand).

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

The advances received from customers are current and are for the purchase of finished goods. Of these, in EUR are 415 thousand (31.12.2019: 572 thousand) and in US dollars –1 thousand (31.12.2019: BGN 30 thousand).

The Company has placed deposits as security for payables to suppliers under commercial transactions at the amount of BGN 362 thousand (31.12.2019: BGN 249 thousand) *(Note 20, Note 24b and Note 33*).

35. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Payables to companies related through key managing personnel	2,677	1,329
Payables to shareholders with significant participation	1,575	3,138
Payables to key management personnel	101	-
Payables to subsidiaries	94	133
Payables to companies controlled by an associate	9	-
Payables to companies related through shareholders with significant participation	-	2,064
Total	**4,456**	**6,664**

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Payables for delivery of inventories	2,659	1,064
Payables for dividends	1,499	3,107
Supply of services	229	1,123
Advances received	69	60
Payables for supply of fixed assets	-	299
Payables for leases contracts	-	999
Payables for increasing the capital of a subsidiary	-	12
Total	**4,456**	**6,664**

The trade payables to related parties are regular and interest-free. The payables in Bulgarian Levs amount to BGN 4,431 thousand (31.12.2019: BGN 5,604 thousand), in EUR – 3 thousand (31.12.2019: 1,006 thousand), and in PLN – 22 thousand (31.12.2019: 54 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 not provided deposits as collateral for liabilities to related companies. (31.12.2019: BGN 189 thousand) *(Note 19)*.

36. TAX PAYABLES

Tax payables include:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Personal income taxes	530	568
Taxes on expenses	373	469
Value added tax	332	579
Corporate tax	-	713
Total	**1,235**	**2,329**

"Sopharma" AD (receiving company):

- under VAT Act – until 31.12.2011;
- full-scope tax audit – until 31.12.2011;
- National Social Security Institute – until 31.09.2013.

"Bulgarian Rose –"Sevtopolis"AD (transforming company)

- under VAT Act – until 31.12.2014;
- full-scope tax audit – until 31.12.2013;
- National Social Security Institute – until 31.12.2013.

"Medica" AD (transforming company)

- under VAT Act – until 31.01.2013;
- full-scope tax audit – until 31.12.2002;
- National Social Security Institute – until 31.12.2016.

"Unipharm" AD (transforming company)

- under VAT Act – until 31.08.2018;
- full-scope tax audit – until 31.12.2017;
- National Social Security Institute – until 31.12.2017.

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.

37. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Payables to personnel, including:	6,166	5,797

tantieme	*3,468*	*3,077*
accruals on unused compensated leaves	*1,219*	*1,511*
current liabilities	*1,479*	*1,209*
Payables for social security/health insurance, including:	1,176	1,469
current liabilities	*950*	*1,217*
accruals on unused compensated leaves	*226*	*252*
Total	**7,342**	**7,266**

38. OTHER CURRENT LIABILITIES

Other current liabilities include:

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Dividend liabilities	3,861	3,334
Operating lease liabilities to third parties *(Note 31)*	1,906	723
Provision for financial guarantees granted (Note 2.26)	1308	381
Government grants (Note 29)	460	540
Awarded amounts under litigations	316	329
Deductions from work salaries	215	185
Liabilities under deposits received as guarantees	1	24
Refund obligations under contracts with customers (*Note 2.5*)	20	65
Total	**8,087**	**5,581**

The provision for financial guarantees granted, at the amount of BGN 1,308 thousand (31.12.2019: BGN 381 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 2.26*).

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

	2020	***2019***
	BGN '000	***BGN '000***
Balance at 1 January	**381**	**327**
Increase in provision for financial guarantees recognized in profit or loss during the year	930	54
Decrease in provision for financial guarantees recognized in profit or loss during the year	(3)	-
Balance 30 September / at 31 December	**1,308**	**381**

39. CONTINGENT LIABILITIES AND COMMITMENTS

Significant irrevocable agreements and commitments

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

Issued and granted guarantees

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

(a) under loans of subsidiaries:

- Mortgages of real estate with a carrying amount of BGN 9,632 thousand as at 30 September 2020 (31.12.2019: BGN 9,795 thousand) (*Note 13*);
- Special pledges on:

- Machines and equipment with a carrying amount of BGN 8,624 thousand as at 30 September 2020 (31.12.2019: BGN 9,100 thousand) (*Note 13*);

- Inventories with a carrying amount of BGN 17,000 thousand as at 30 September 2020 (31.12.2019: BGN 17,000 thousand) (*Note 21*);

- Trade receivables with a carrying amount of BGN 11,735 thousand as at 30 September 2020 (31.12.2019: BGN 11,735 thousand) (*Note 23).*

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

Company	**Maturity**	**Currency**	**Contracted amount**		**Guarantee amount as at**
			Original currency	**BGN '000**	**30.09.2019 BGN '000**
“Sopharma Trading” AD	2021-2025	EUR	66,369	129,806	93,114
“Sopharma Trading” AD	2021-2024	BGN	50,625	50,625	42,712

"Doverie obedinen holding" AD	2027	BGN	30,000	30,000	30,000
"Doverie obedinen holding" AD	2021	EUR	5,000	9,779	9,779
"Sopharma Trading Pharmaceuticals" D.o.o. and "Sopharma Trading" D.o.o.	2026	EUR	5,210	10,190	9,310
PAO "Vitamini" and "Sopharma Ukraine" EOOD	2020	EUR	7,000	13,691	5,609
"Momina Krepost" AD	2021-2026	BGN	5,000	5,000	4,678
"Biopharm Engineering" AD	2023-2028	BGN	7,750	7,750	3,746
"Doverie Capital" AD	2021	EUR	3,000	5,867	2,151
"Energoinvestment" AD	2021	BGN	2,000	2,000	798
"Pharmaplant" AD	2023	EUR	235	460	186
Mineralcommerce AD	2020-2021	BGN	451	451	83
Total					**202,166**

40. 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	***30.09.2020***	***31.12.2019***
	BGN '000	***BGN '000***

Financial assets at fair value through other comprehensive income, incl.:	***11,067***	***9,621***
Equity investments	*11,067*	*9,621*
Financial assets at amortised cost, incl.:	***219,985***	***234,941***
Loans and receivable incl.:	*216,712*	*230,982*
Long - term receivables from related parties	59,241	91,794
Other long - term receivables	10,825	9,897
Receivables from related parties	120,740	97,014
Trade receivables	21,120	26,114
Loans granted to third parties	4,649	6,044
Other current receivables	137	119
Cash and cash equivalents	*3,273*	*3,959*
Total financial assets	**231,052**	**244,562**

Financial liabilities	***30.09.2020***	***31.12.2019***
	BGN '000	***BGN '000***
Financial liabilities at amortised cost, incl.:		
Long-term and short-term bank loans	***103,684***	***109,938***
Liabilities under leasing contracts to related parties (Note 30 and Note 35)	***-***	***2,609***
Liabilities under easing contracts to third parties(Note 31 and Note 38)	***3,933***	***1,677***
Other loans and payables, incl.	***16,176***	***15,763***
Trade obligations	7,635	5,472
Liabilities to related parties	4,363	6,604
Other current liabilities	4,178	3,687
Total financial liabilities	**123,793**	**129,987**

At 30 September 2020, recognised liabilities under financial guarantees amount at BGN 1,308 thousand (31.12.2019: BGN 381 thousand) (*Note 38)*.

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

	30.09.2020	***30.09.2019***
	BGN '000	***BGN '000***
Receivables from customers	1,043	638
Loans granted at amortised cost	3,632	(124)
Dividend receivables	1,293	-

Financial guarantees provided	927	231
Cash at amortized cost	(12)	-
Total	**6,883**	**745**

Credit risk

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

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

Trade receivables

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

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

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

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

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

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

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

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

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

Quantitative criteria:

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

Quality criteria:

Significant adverse changes in the business, financial and / or economic conditions under which the borrower operates;

- Actual or expected significant adverse changes in the borrower's operating results;
- A significant change in the value of the collateral expected to increase the loss and the risk of default.
- Early signs of cash flow / liquidity problems, such as delays in servicing lenders / loans.

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

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

Quantitative criteria:

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

Quality criteria:

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

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

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

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

- PD represents the possibility that the borrower will default on its financial obligation either over the next 12 months or throughout the life of the financial asset (PD for life) determined on the basis of public PD data of generally accepted sources and statistical models for the effects of forecast macroeconomic factors . The company's management has also performed a historical analysis and identified the main economic variables affecting credit risk and expected credit losses for each type of loan (portfolio);
- EAD is the amount due to the company by the borrower at the time of default, over the next 12 months, or over the remaining loan period, determined according to the specific characteristics of the instrument (amount due, repayment plans, interest rates, term, etc.);
- LGD represents the Company's expectation of the amount of default loss. LGD varies by counterparty type, claim type and seniority, and availability of collateral or other credit support. LGD is measured as the percentage of loss for open exposure at default;

• The discount rate used in the calculation of the expected credit loss (ECL) is the original effective interest rate on the loan or, in the case of financial guarantees and other instruments, with no applicable interest rate - risk-free rate for the relevant period, currency, etc.

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

The tables below presents the quality of financial assets, contractual assets and financial guarantee contracts of the company, as well as the maximum exposure to credit risk according to the credit rating accepted as of 30 September 2020 and 31 December 2019:

30.09.2020	*Applications*	*Internal credit risk categorization*	*Expected credit losses (IFRS 9)*	*Gross book value*	*Impairment loss (adjustment)*	*Book value As at 30.09.2020*
				BGN '000	*BGN '000*	*BGN '000*
Long-term loans granted to related parties	19	Regular loans (Stage 1)	*Lifetime (secured)*	59,399	(158)	59,241
Short-term loans granted to related parties	22	Renegotiated loans (Stage 2)	*Lifetime (secured)*	12,229	(13)	12,216
Long-term loans granted to third parties	20	Renegotiated loans (Stage 2)	*Lifetime (secured)*	7,565	(131)	7,434
Short-term loans granted to third parties	24 (a)	Regular loans (Stage 1)	*Lifetime (secured)*	3,635	-	3,635
Short-term loans granted to third parties	24 (a)	Renegotiated loans (Stage 2)	*Lifetime (secured)*	905	-	905
Short-term loans granted to related parties	22	Regular loans (Stage 1)	*Lifetime (secured)*	263	(7)	256
Short-term loans granted to third parties	24(a)	Hard to collect loans (Stage 3)	*Lifetime (secured)*	109	-	109
Trade receivables from related partier	19,22	not applicable	*For 12 – months period*	110,878	(2,412)	108,466
Trade receivables from third parties	20,23	not applicable	*For 12 – months period*	26,643	(2,321)	24,322

Short - term loans granted to related companies	22	Hard to collect loans (Stage 3)	*Lifetime (secured)*	5,608	(5,608)	-
Receivables from related companies on dividends	22	not applicable	*For 12 – months period*	1,293	(1,293)	-
Financial Assets				**228,527**	**(11,943)**	**216,584**

31.12.2019	***Applications***	***Internal credit risk categorization***	***Expected credit losses (IFRS 9)***	***Gross book value***	***Impairment loss (adjustment)***	***Book value as at 31.12.2019***
				BGN '000	***BGN '000***	***BGN '000***
Long-term loans granted to related parties	19	Regular Stage 1	*Lifetime (secured)*	82,109	(110)	81,999
Short-term loans granted to related parties	22	Renegotiated loans (Stage 2)	*Lifetime (secured)*	14,198	(14)	14,184
Long-term loans granted to related parties	19	Renegotiated loans (Stage 2)	*Lifetime (secured)*	9,614	(8)	9,606
Long-term loans granted to third parties	20	Renegotiated loans (Stage 2)	*Lifetime (secured)*	6,431	(148)	6,283
Short-term loans granted to related parties	22	Hard to collect loans (Stage 3)	*Lifetime (secured)*	5,440	(1,997)	3,443
Short-term loans granted to third parties	24 (a)	Regular Stage 1	*Lifetime (secured)*	4,554	(5)	4,549
Short-term loans granted to third parties	24 (a)	Renegotiated loans (Stage 2)	*Lifetime (secured)*	1,388	(3)	1,385
Short-term loans granted to third parties	24 (a)	Hard to collect loans (Stage 3)	*Lifetime (secured)*	110	-	110
Long-term loans granted to third parties	20	Regular Stage 1	*Lifetime (secured)*	16	(1)	15
Trade receivables from related parties	19,22	not applicable	*For 12 – months period*	80,397	(2,114)	78,283
Trade receivables from third parties	20,23	not applicable	*For 12 – months period*	31,477	(1,764)	29,713
Financial assets				**235,734**	**(6,164)**	**229,570**

The tables below provides information about the Company's exposure to credit risk and the impairment of credit losses for loans granted and trade receivables as at 30 September 2020 and 31 December 2019:

Category	**Correlation to an external credit rating**	**Average percentage of expected impairment loss**	**Gross carrying amount**	**Impairment loss *(allowance)***
			BGN '000	***BGN '000***
Regular trade receivables (Stage 1)	*not applicable*	*4.34%*	138,814	(6,026)
Regular loans (Stage 1)	B3	*0.28%*	58,269	(165)
Renegotiated loans (Stage 2)	B3	*0.91%*	14,434	(132)
Hard to collect loans (Stage 3)	Caa1	*98.09%*	5,717	(5,608)
Renegotiated loans (Stage 2)	B2	*0.23%*	5,311	(12)
Regular loans (Stage 1)	B2	*0.00%*	3,635	-
Regular loans (Stage 1)	Ba2	*0.00%*	1,393	-
Renegotiated loans (Stage 2)	Ba3	*0.00%*	502	-
Renegotiated loans (Stage 2)	Ba2	*0.00%*	452	-
Non-performing trade receivables (court and awarded receivables)	*not applicable*	*100.00%*	194	(194)
			228,721	**(12,137)**

Category	***Correlation to an external credit rating***	***Average percentage of expected impairmen t loss***	***Gross carrying amount***	***Impairment loss (allowance)***
			BGN '000	***BGN '000***
Regular Trade Receivables (Stage 1)	*not applicable*	*3.47%*	111,875	(3,878)
Regular 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)
Hard to collect loans (Stage 3)	B1	*36.71%*	5,440	(1,997)
Regular 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	-
Hard to collect loans (Stage 3)	Caa1	*0.00%*	110	-
Renegotiated loans (Stage 2)	Ba3	*0.00%*	49	-
Non-performing trade receivables (court and awarded receivables)	*not applicable*	*100.00%*	5	(5)
			235,739	**(6,169)**

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

	30.09.2020	***31.12.2019***
	BGN '000	***BGN '000***
Client 1	53%	35%
Client 2	36%	52%
Client 3	-	3%

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 75.91% of all trade receivables (31.12.2019: 84.42%) (*Note 23)*

Cash

The Company’s cash and payment operations are concentrated in different first-class banks. A rating model is applied to calculate expected credit losses on cash and cash equivalents, using bank ratings determined by internationally recognized rating companies such as Moody's, Fitch, S&P, BCRA and Bloomberg and PD benchmarks (default probabilities) corresponding to the rating of the respective bank. The management monitors changes in a bank’s rating on an ongoing basis in order to assess the presence of increased credit risk, ensure the current management of incoming and outgoing cash flows and the allocation of cash in the bank accounts and banks.

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

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

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

30 September 2020	in USD	in EUR	in BGN	in other currency	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Equity investments	26	1,594	9,447	-	11,067
Receivables and loans granted	5,372	40,809	170,528	3	216,712
Cash and cash equivalents	35	1,623	1,535	80	3,273
Total financial assets	**5,433**	**44,026**	**181,510**	**83**	**231,052**
Long-term and short-term bank loans	-	13,565	90,080	39	103,684
Leasing contract liabilities to third parties	180	3,563	107	83	3,933
Other loans and liabilities	2,048	3,202	10,903	23	16,176
Total financial liabilities	**2,228**	**20,330**	**101,090**	**145**	**123,793**

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
Leasing liabilities to related parties	-	2,609	-	-	2,609
Leasing liabilities to third parties	107	1,343	166	61	1,677
Other loans and liabilities	1,609	2,725	10,368	62	14,764
Total financial liabilities	**1,716**	**41,160**	**85,956**	**156**	**128,988**

Foreign currency sensitivity analysis

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

		USD	
		30.09.2020	**30.09.2019**
		BGN '000	**BGN '000**
Financial result	+	315	311
Accumulated profits	+	315	311

Financial result	-	(315)	(311)
Accumulated profits	-	(315)	(311)

In case of 10% increase in the exchange rate of USD to BGN, the final effect on post-tax profit of the Company for 2020 would be an increase by BGN 315 thousand (1.42 %) (2019: increase at the amount of BGN 311 thousand) (0.93%). 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 2020 is a decrease by BGN 25 thousand (-0.11 %) (2019: a decrease by BGN 101 thousand (-0.30%). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

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

Price risk

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

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

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

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

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

Liquidity risk

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

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

Maturity analysis

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

30 September 2020	up to 1 month *BGN'000*	1 to 3 months *BGN'000*	3 to 6 months *BGN'000*	6 to 12 months *BGN'000*	1 to 2 years *BGN'000*	2 to 5 years *BGN '000*	Total *BGN '000*
Long-term and short-term bank loans	714	25,430	2,083	76,494	15	8	**104,744**
Leasing contract liabilities to third parties	171	341	559	900	1,683	454	**4,108**
Other loans and payables	7,071	8,788	-	317	-	-	**16,176**
Total liabilities	**7,956**	**34,559**	**2,642**	**77,711**	**1,698**	**462**	**125,028**

31 December 2019	up to 1 month *BGN'000*	1 to 3 months *BGN'000*	3 to 6 months *BGN'000*	6 to 12 months *BGN'000*	1 to 2 years *BGN'000*	2 to 5 years *BGN '000*	Total *BGN '000*
Long-term and short-term bank loans	783	44,746	32,614	30,154	2,418	2	**110,717**
Leasing liabilities to related parties	86	172	257	515	1,030	605	**2,665**
Leasing 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**

Risk of interest-bearing cash flows

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

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

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

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

30 September 2020	**Interest-free**	**With floating interest rate**	**With fixed interest rate**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Equity investments	11,067	-	-	11,067
Receivables and loans granted	133,625	-	83,087	216,712
Cash and cash equivalents	94	3,179	-	3,273
Total financial assets	**144,786**	**3,179**	**83,087**	**231,052**
Long-term and short-term bank loans	-	103,645	39	103,684
Leasing contract liabilities to third parties	-	1,571	2,362	3,933
Other loans and liabilities	16,176	-	-	16,176
Total financial assets	**16,176**	**105,216**	**2,401**	**123,793**

31 December 2019	**Interest-free**	**With floating interest rate**	**With fixed interest rate**	**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 bank loans	-	109,905	33	109,938
Leasing contract liabilities to related parties	-	-	2,609	2,609
Leasing contract liabilities to third parties	-	65	1,612	1,677
Other loans and liabilities	14,764	-	-	14,764
Total financial assets	**14,764**	**109,970**	**4,254**	**128,988**

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.

2020

	Increase/ decrease in interest rate	***Impact on post-tax financial result profit/(loss)***	***Impact on equity increase/(decrease)***
EUR	Increase	(77)	(77)
BGN	Increase	(407)	(407)
USD	Increase	1	1
EUR	Decrease	77	77
BGN	Decrease	407	407
USD	Decrease	(1)	(1)

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

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 2020, the strategy of the Company management was to maintain the ratio within 15% – 20% (2019: 15% – 20%).

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

Capital risk management

	2020	*2019*
	BGN '000	*BGN '000*
Total borrowings, including:	**107,617**	**114,224**
bank loans	*103,684*	*109,938*
leasing contract liabilities	*3,933*	*4,286*
Less: Cash and cash equivalents	**(3,273)**	**(3,959)**
Net debt	**104,344**	**110,265**
Total equity	**530,805**	**522,644**
Total capital	**635,149**	**632,909**
Gearing ratio	**0.16**	**0.17**

The liabilities shown in the table are disclosed in *Notes 25, 27, 30, 31, 33, 35 and 38.*

Fair value measurement

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

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

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

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

41. RELATED PARTY TRANSACTIONS

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

Related parties	*Relation type*	*Relation period*
“Donev Investments Holding” AD	Company shareholder with significant participation	2019 and 2020
“Sopharma Trading” AD	Subsidiary	2019 and 2020
“Pharmalogistica” AD	Subsidiary	2019 and 2020
“Sopharma Poland” OOD – in liquidation	Subsidiary	2019 and 2020
“Electroncommerce” EOOD	Subsidiary	2019 and 2020
“Biopharm Engineering” AD	Subsidiary	2019 and 2020
“Vitamina” AD	Subsidiary	2019 and 2020
“Sopharma Buildings” REIT	Subsidiary	2019 and 2020
“Momina Krepost” AD	Subsidiary	2019 and 2020
“Briz”OOD	Subsidiary	2019 and 2020
“Sopharma Warsaw” EOOD	Subsidiary	2019 and 2020
“Sopharma Ukraine” EOOD	Subsidiary	2019 and 2020
“Sopharma Kazakhstan” EOOD	Subsidiary	2019 and 2020
“Phyto Palauzovo” AD	Subsidiary	2019 and 2020
“Veta Pharma” AD	Subsidiary	2019 and 2020
“Rap Pharma International” OOD	Subsidiary	2019 and 2020
“Aromania” AD	Subsidiary	2019 and 2020
“Pharmahim” EOOD	Subsidiary	since 14.04.2020
“Sopharmacy” EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 2 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 3 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 4 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 5 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 6 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 7 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 8 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 9 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 10 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 11 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy ” 12 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 13 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 14 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 15 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 16 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 17 EOOD	Subsidiary through “Sopharma Trading” AD	2019 and 2020
“Sopharmacy” 18 EOOD	Subsidiary through “Sopharma Trading” AD	Since 28.02.2019 and 2020
“Sopharma Trading Pharmaceuticals” (Sopharma Trading D.o.o, Belgrade)	Subsidiary through “Sopharma Trading” AD	2019 and 2020
Sopharma Trading D.o.o. “Lekovit” D.o.o.)	Subsidiary through “Sopharma Trading” AD	2019 and 2020

"Brititrade" COOO	Subsidiary through "Briz" OOD	2019 and 2020
OOO "Tabina"	Subsidiary through "Briz" OOD	2019 and 2020
ZAO "Interpharm"	Subsidiary through "Briz" OOD	2019 and 2020
SOOO "Brizpharm"	Subsidiary through "Briz" OOD	2019 until 31.01.2020
OOO "Farmacevt Plus"	Subsidiary through "Briz" OOD	2019 and 2020
ZAO UAB "TBS Pharma"	Subsidiary through "Briz" OOD	until 27.12.2019
BOOO "SpetzApharmacia"	Joint venture through "Briz" OOD	2019 and 2020
OOO "Med-dent"	Subsidiary through "Briz" OOD	until 02.01.2019
OOO "Bellerophon"	Joint venture through "Briz" OOD	until 06.03.2019
OOO "Bellerophon"	Subsidiary through "Briz" OOD	Since 07.03.2019 and 2020
ODO "Alenpharm Plus"	Subsidiary through "Briz" OOD	2019 and 2020
ODO "Salyus Line"	Subsidiary through "Briz" OOD	2019 and 2020
ODO "Medjel"	Subsidiary through "Briz" OOD	2019 and 2020
OOO "GalenaPharm"	Subsidiary through "Briz" OOD	2019 and 2020
OOO NPFK Ariens	Subsidiary through "Briz" OOD	until 19.09.2019
OOO "Ivem & K"	Subsidiary through "Briz" OOD	until 19.09.2019
OOO "Zdorovei"	Subsidiary through "Briz" OOD	2018 and 2019
OOO "Farmatea"	Subsidiary through "Briz" OOD	until 19.09.2019
"Zabotlivaia apteka" OOO	Subsidiary through "Briz" OOD	until 19.09.2019
UAB "Recesus"	Subsidiary through "Briz" OOD	From 26.09.2019 and 2020
OOO "Zdorovei Pharm"	Subsidiary through "Briz" OOD	Since 02.03.2020
"Doverie Obedinen Holding" AD	Associate	2019 and 2020
Companies to DOH group	Companies controlled by an associate	2019 and 2020
"Elpharma" AD – in liquidation	Company related through key management personnel	2019 and to 28.08.2020
"Telecomplect invest" AD	Company shareholder with significant participation	2019 and 2020
"Telecomplect" AD	Company related through key management personnel	2019
"Sopharma Properties" REIT	Company related through a shareholder company with significant participation	2019
"Sofprint Group" AD	Company related through a shareholder company with significant participation	2019
"Sofprint Group" AD	Company related through key management personnel	2020
"Sofconsult Group" AD	Company related through key management personnel	2020
"VES electroinvest systems" EOOD	Company related through key management personnel	2019 and 2020
"Eco Solar Invest" OOD	Company related through key management personnel	2019 and 2020
"Sirius"OOD	Company related through key management personnel	2019 and 2020
„Mill village Stefanovo" EOOD	Company related through key management personnel	2019 and 2020
"OKP Investments" OOD	Company related through key management personnel	2019 and 2020
"Alpha in" IOOD	Company related through key management personnel	2019 and 2020

The sales made by Sopharma AD to companies related to it as of 30 September are as follows:

Sales to related parties	***2020***	***2019***
	BGN '000	***BGN '000***
Sales of finished products to:		
Subsidiaries	76,122	91,187

	76,122	**91,187**
Sales of services to:		
Subsidiaries	1,762	1,898
Companies related through key management personnel	47	8
Associates	5	6
Companies related through a shareholder company with significant participation	-	43
	1,814	**1,955**
Sales of goods and materials to:		
Companies related through key management personnel	713	-
Subsidiaries	529	502
Companies related through a shareholder company with significant participation	-	671
Companies controlled by an associate	-	1
	1,242	**1,174**
Interest on loans granted to:		
Company controlled by an associate	1,705	1,454
Subsidiaries	416	444
Associates	76	292
Companies related through key managing personnel	-	26
	2,197	**2,216**
Dividends income:		
Subsidiaries	9,179	10,492
Companies related through a shareholder company with significant participation	-	101
	9,179	**10,593**
Sales of long-term assets for:		
Companies controlled by an associate	-	6
Subsidiaries	-	-
	-	**6**
Total sales of related companies	**90,554**	**107,131**

The deliveries made to Sopharma AD by companies related to it as of 30 September are as follows:

Supplies from related parties	***2020***	***2019***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies related through key managing personnel	8,154	7
Subsidiaries	53	75

Company controlled by an associate	45	41
Companies related through a shareholder company with significant participation	-	7,919
	8,252	**8,042**
Supply of services from:		
Subsidiaries	3,812	6,296
Company controlled by an associate	833	671
Companies with significant participation	280	253
Companies related through key managing personnel	166	2,273
Companies related through a shareholder company with significant participation	-	241
	5,091	**9,734**
Acquired investments in:		
Subsidiaries	3,264	300
Companies related through a shareholder company with significant participation	-	800
	3,264	**1,100**
Dividends accrued on:		
Companies major shareholders	3,815	-
Key management staff	157	-
Companies related through key management personnel	-	-
	3,972	**-**
Deliveries related to assets under leasing contracts from:		
Companies related through a shareholder company with significant participation	-	781
	-	**781**
Supplies of long - term assets:		
Companies related through key managing personnel	-	20
	-	**20**
Supplies for acquisition of investment properties from:		
Companies related through key management personnel	-	149
	-	**149**
Deliveries of fixed assets from:		
Companies related through key management personnel	-	2
	-	**2**
Total deliveries from related companies	**20,579**	**19,828**

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 19,22,30 and 35*.

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

Salaries and other short-term benefits of key managing personnel amount to BGN 1,039 thousand (30.09.2019: BGN 976 thousand) are as follows:

- current - BGN 635 thousand (30.09.2019: BGN 643 thousand);
- tantieme - BGN 404 thousand (30.09.2019: BGN 333 thousand).

42. EVENTS AFTER THE REPORTING PERIOD

On 13.10.2020 the company acquired an additional 5.01% of the capital of "Aromania" AD.

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