SOPHARMA GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. BACKGROUND INFORMATION ON THE GROUP

SOPHARMA GROUP (the Group) is comprised of the parent company and its twenty eight (31 December 2012: twenty two) subsidiaries. In addition, the Group has investments in two joint ventures (31 December 2012: in two joint ventures) and one associate (31 December 2012: two associates).

Parent company

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

The court registration of the Company dates from 15 November 1991 – Decision No. 1/1991 of Sofia City Court.

Subsidiaries

The subsidiaries of the Group as at 31 December 2013 were as follows:

- Sopharma Trading AD – a business entity registered in Bulgaria by Decision No. 3594/16.10.1998 of Varna District Court, with a seat and address of management: Sofia, Izgrev Region, 5, Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Bulgarian Rose Sevtopolis AD – a business entity registered in Bulgaria by Decision No. 3912/1991 of Stara Zagora District Court, with a seat and address of management: Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;
- Pharmalogistica AD – a business entity registered in Bulgaria by Decision of Sofia City Court dated 12 August 2002, with a seat and address of management: Sofia, 16, Rozhen Blvd.;
- Elektroncommerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 24456 of 1991, with a seat and address of management: Sofia, 1, Samokovsko Shousse Str.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and address of management: Sliven, 75, Trakiya Blvd.;
- Momina Krepost AD – a business entity registered in Bulgaria by Decision No. 3426/1991 of Veliko Tarnovo District Court, with a seat and address of management: Veliko Tarnovo, 23, Magistralna Str.;
- Sopharma Buildings REIT – a business entity registered in Bulgaria by Decision No. 1/14.08.07 of Sofia City Court, with a seat and address of management: Sofia, Izgrev Region, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 20;
- Unipharm AD – a business entity registered in Bulgaria by Decision of Sofia City Court under Company File No. 3685 of 1994, with a seat and address of management: Sofia, 3, Traiko Stanoev Str.;
- Phyto Palauzovo AD – a business entity registered in Bulgaria by Decision No. 20120924105551/24.09.2012 of the Registry Agency, with a seat and address of management:Kazanluk, 110, 23rd Pehoten Shipchenski Polk Blvd.;
- Sopharma Poland Z.O.O., in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554 of 4 November 2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and address of management: Poland, Warsaw, 58, Shashkova Str.;
- Sopharma Warsaw SP. Z.O.O. – a business entity registered in Poland by Decision No. DSR 0000372245 of 17 December 2010 by XII Economic Division of the State Court Register of

Warsaw, with a seat and address of management: Poland, Warsaw, 8, Halubinskiego Str.;

- OOO Sopharma Ukraine – a business entity registered in Ukraine by Decision No. 10691020000029051 of 7.08.2012 in the Unified State Register of Legal Entities and Physical Entities-Entrepreneurs, with a seat and address of management: Ukraine, Kiev, Oblonski Region, prospect Moskovskii No. 9, unit 4, floor 2, office 4-203;
- Sopharma USA – a business entity registered in USA by Decision No. 97227599 of 25 April 1997 in California State Secretary Office, with a seat and address of management: USA, California, Los Angelis, 4622, Hollywood Blvd.;
- Extab Corporation USA – a business entity registered in USA by Decision No. 090292393 of 06.11.2008 in the Delaware State Secretary Office, with a seat and address of management: USA, Delaware, Wilmington, New Castle Region, 1209 Oragne Str.;
- Extab Pharma Limited, United Kingdom – a business entity registered in England by Decision No. 06751116 of 17 November 2008, with a seat and address of management: Oxfordshire, RG9 1AY, Henlay on Thames, 10 Station Road;
- PAO Vitamini – a business entity registered in Ukraine by Decision No. 133/15.04.1994 of Uman City Court, with a seat and address of management: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri Str.;
- Ivanchich i Sinovi d.o.o. – a business entity registered in Serbia by Fi-11350/91 on 14 October 1991 by the Commercial Court of Belgrade with a seat and address of management: Republic of Serbia, Belgrade, 13, Palmoticheva Str.;
- Briz ltd., Latvia – a business entity registered in Latvia by Decision No. 000302737 / 18.09.1991 of the Commercial Registry of the Republic of Latvia, with a seat and address of management: Latvia, Riga, Rasas No. 5, LV – 1057;
- SOOO Brititrade , Belarus – a business entity registered in Belarus by Decision No. 1983 / 24.09.2004 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 118, M. Bogdanomicha Str., office 303 – B;
- OOO Tabina, Belarus – a business entity registered in Belarus by Decision No. 1432 / 29.12.1999 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 57, Kuybisheva Str., ap.1;
- ZAO Interpharm, Belarus - a business entity registered in Belarus in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 300000556, with a seat and address of management: Belarus, Vitebsk, Stroitelei Square, bl. 3 ap. 2;
- SOOO Brizpharm, Belarus – a business entity registered in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 800007989 / 07.07.2009, with a seat and address of management: Belarus, Minsk, Esenina Str., d. 16, ap. 1H;
- ODO Alean, Belarus – a business entity registered in Belarus by Decision No. 100160720 / 29.05.2001 in the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs, with a seat and address of management: Belarus, Minsk, Tashkentskaya Str., d. 16, unit 1;
- OOO Farmacevt Plus, Belarus – a business entity registered by the Minsk City Executive Committee on 24.11.2000 / No 1348 in the Unified State Register of Legal Entities and

Individual Entrepreneurs under No. 190174236, with a seat and address of management: Belarus, Minsk, 1 Tverdiy Pereulok, d. 7;

- UAB TBS Pharma, Lithuania – a business entity, registered by the Lithuanian Register of Legal Entities on 01.03.2013 / 303011389, with a seat and address of management: Lithuania, Vilnius, 8 Vytauto / 7 Liubarto Str., POB 08118;
- ODO Vestpharm, Belarus – a business entity registered in Belarus by Decision No. 590002202 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, Dombroskogo Str., d. 47, k. 3;
- OOO NPK Biotest, Belarus – a business entity registered in Belarus by Decision No. 48 / 24.07.1990 of Lenin District Council of People's Deputies, with a seat and address of management: Belarus, Grodno, 2, Grojskaya Styr.;
- ODO BelAgroMed, Belarus – a business entity registered in Belarus by Decision No. 009126 / 29.06.2001 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, 17 Sentyabrya Str.

In 2012 the Group entirely disposed of its interest in the following subsidiaries:

- ZAO Rostbalkanpharm – a business entity registered in the Russian Federation by Decision No. 1026101791594 / 9.10.2002, with a seat and address of management: the Russian Federation, Azov, 10 Osipenko Str. The Group sold its investment on 10 April 2012.
- Superlats ltd., Latvia – a business entity registered in Latvia by Decision No. 40003960404 / 05.10.2007 of the Commercial Registry of the Republic of Latvia, with a seat and address of management: Latvia, Riga, 117 Dzelzavas Str., LV – 1021 – sold on 15 February 2012.

Joint ventures

The joint ventures of the Group as at 31 December 2013 were as follows:

- OOO Vivaton Plus, Belarus – a business entity registered in Belarus by Decision No. 590004353 of Grodno City Executive Committee, with a seat and address of management: Belarus, Grodno, Kletskova Pr., d. 13 B, office 2.
- OOO Med-dent, Belarus – a business entity registered in Belarus by Decision No. 0018240 / 11.03.2013 of the Department of Economy at the Bobruysk City Executive Committee, with a seat and address of management: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx Str., office 4.

The joint venture Sopharma Zdrovit SA, Poland, was deleted from the National Court Register of Poland on 25 February 2013.

Associates

Group's associated company as at 31 December 2013 is BOOO SpetzApharmacia, Belarus – a business entity registered in Belarus by Decision No. 22-8 / 30.10.2000 by Mogilevsk District Executive

Committee, with a seat and address of management: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx Str., office 2. The company was acquired by the Group through Briz, Latvia.

The companies, acquired by the Group in 2012, ODO Vestpharm, Belarus, and ODO Alean, Belarus, initially had the status of 'associates' (ODO Vestpharm from 29.10.2012 to 04.07.2013 and ODO Alean from 26.09.2012 to 07.02.2013) but subsequently the Group obtained control over them and their status was changed to 'subsidiaries' (Note 44.1).

OOO Vivaton Plus, Belarus, acquired by the Group in 2012, initially had the status of an associate (from 1 June 2012 to 20 December 2012) but subsequently a joint control over it was obtained and its status was changed to 'joint venture' (Note 44.3).

1.1. Ownership and management of the parent company

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

The joint-stock capital structure of the parent company as at 31 December 2013 was as follows:

	%
Donev Investment Holding AD	25.45
Telecomplect Invest AD	20.42
Rompharm Company OOD	14.11
Universal Pension Fond Doverie AD	6.75
Sopharma AD (treasury shares)	4.14
Other legal persons	25.60
Physical persons	3.53

SOPHARMA AD has a one-tier management system with a five-member Board of Directors as follows:

Ognian Donev, PhD	Chairman
Vessela Stoeva	Member
Ognian Palaveev	Member
Alexander Chaushev	Member
Andrey Breshkov	Member

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

1.2. Structure of the Group and principal activities

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

Subsidiaries	**31.12.2013** ***Interest*** **%**	**31.12.2012** ***Interest*** **%**	***Date of acquisition of control***	***Date of disposal of control***
Companies in Bulgaria				
Sopharma Trading AD	75.92	81.01	08.06.2006	-
Bulgarian Rose Sevtopolis AD *	49.99	52.77	22.04.2004	-
Pharmalogistica AD	76.54	76.54	15.08.2002	-
Electroncommerce EOOD	100	100	09.08.2005	-
Biopharm Engineering AD	97.15	97.15	10.03.2006	-
Sopharma Buildings REIT	42.89	42.64	04.08.2008	-
Momina Krepost AD *	53.29	51.3	01.01.2008	-
Unipharm AD *	51.87	52.21	27.10.2010	-
Phyto Palauzovo AD **	47.49	50.13	21.09.2012	-
Companies abroad				
Sopharma Poland Z.O.O. – in liquidation	60	60	16.10.2003	-
Sopharma USA	100	100	25.04.1997	-
Extab Corporation	80	80	05.08.2009	-
Extab Pharma Limited **	80	80	05.08.2009	-
Briz ltd.	53.14	51	10.11.2009	-
SOOO Brititrade **	52.34	50.24	10.11.2009	-
PAO Vitamini	99.56	99.56	18.01.2008	-
Ivanchich i Sinovi d.o.o.	51.00	51	10.04.2008	-
Sopharma Warsaw SP. Z.O.O.	100	100	23.11.2010	-
OOO Tabina **	47.29	47.94	08.04.2011	-
ZAO Interpharm **	29.71	36.31	17.12.2011	-
SOOO Brizpharm **	31.35	26.01	20.12.2012	-
ODO Alean **	37.73	-	07.02.2013	
OOO Sopharma Ukraine	100	100	07.08.2012	-
OOO Farmacevt Plus **	27.10	-	31.05.2013	-
UAB TBS Pharma **	27.10	-	01.03.2013	-
ODO Vestpharm **	43.04	-	04.07.2013	-
OOO NPK Biotest **	30.29	-	02.09.2013	-
ODO BelAgroMed **	30.29	-	30.07.2013	-
ZAO Rostbalkanpharm	-	-	27.07.2001	10.04.2012
OOO Superlats **	-	-	20.05.2011	15.02.2012

** efficient percentage of interest*
*** indirect interest*

- Bulgarian Rose Sevtopolis AD is a subsidiary of SOPHARMA AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Bulgarian Rose Sevtopolis AD with 49.99% and by virtue of a concluded written control agreement between SOPHARMA AD and Telso AD, a shareholder with 9.99% interest as at 31 December 2013;
- Unipharm AD is a subsidiary to SOPHARMA AD, the control thereon being acquired and exercised through the direct participation of the parent company in the ownership of Unipharm

AD with 49.99 % and the indirect participation of the parent company with 1.88 % through the subsidiary Sopharma Trading AD holding 2.47% of the capital of Unipharm AD;

- Sopharma Buildings REIT is a subsidiary by virtue of a written agreement for control concluded between SOPHARMA AD and other shareholders;
- Extab Pharma Limited, United Kingdom, is a subsidiary through Extab Corporation, USA, the latter company being 100% capital holder of Extab Pharma Limited, United Kingdom;
- SOOO Brititrade, Belarus, is a subsidiary of Briz ltd., Latvia – Briz ltd. holds 98.50% of the capital of SOOO Brititrade;
- OOO Tabina, Belarus, is a subsidiary through Briz ltd., Latvia – Briz ltd. holds 89% of the capital of OOO Tabina;
- ZAO Interpharm, Belarus, is a subsidiary through Briz ltd., Latvia – Briz ltd. holds 55.90% of the capital of ZAO Interpharm;
- SOOO Brizpharm, Belarus, is a subsidiary through Briz ltd., Latvia – Briz ltd. holds 59% of the capital of SOOO Brizpharm;
- ODO Alean, Belarus, is a subsidiary through Briz ltd., Latvia – Briz ltd. holds 71% of the capital of ODO Alean;
- OOO Farmacevt Plus, Belarus, is a subsidiary through Briz ltd., Latvia – Briz ltd. holds 51% of the capital of OOO Farmacevt Plus;
- UAB TBS Pharma, Lithuania, is a subsidiary through Briz ltd., Latvia – Briz ltd. holds 51% of the capital of UAB TBS Pharma;
- ODO Vestpharm, Belarus, is a subsidiary through Briz ltd., Latvia – Briz ltd. holds 81% of the capital of ODO Vestpharm;
- OOO NPK Biotest, Belarus, is a subsidiary through Briz ltd., Latvia – Briz ltd. holds 57% of the capital of OOO NPK Biotest;
- ODO BelAgroMed, Belarus, is a subsidiary through Briz ltd., Latvia – Briz ltd. holds 57% of the capital of ODO BelAgroMed.

The principal activities of the Group companies are focused on the pharmaceutical sector except for separate companies having principal activities also in the field of investment in real estate and securities.

The principal activities of the companies within the Group are as follows:

- SOPHARMA AD – production and trade in medicinal substances (active ingredients) and finished drug forms; research and development activities in the field of medicinal products;
- Sopharma Trading AD – trade in pharmaceutical products;
- Bulgarian Rose Sevtopolis AD – production of finished drug forms;
- Biopharm Engineering AD – production and trade in infusion solutions;
- Pharmalogistica AD – secondary packaging of pharmaceutical products and real estate leases;
- Electroncommerce EOOD – trade, transportation and packaging of radioactive materials and nuclear equipment for medicinal use, household electronics and electrical equipment;
- Sopharma Buildings REIT – 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;

- Momina Krepost AD – development, implementation and production of medical goods for human and veterinary medicine;
- Unipharm AD – production and trade in pharmaceuticals;
- Phyto Palauzovo AD – production, collection, purchase, growing and trade in herbs and medicinal plants;
- PAO Vitamini – production and trade in pharmaceuticals;
- Ivanchich i Sinovi d.o.o. – production and trade in pharmaceuticals;
- Sopharma Poland Z.O.O., in liquidation – market and public opinion research;
- Sopharma Warsaw SP. Z.O.O. – market and public opinion research;
- OOO Sopharma Ukraine – trade in pharmaceuticals and market and public opinion research;
- Sopharma USA – trade in pharmaceuticals and food supplements;
- Extab Corporation, USA – market and public opinion research;
- Extab Pharma Limited, United Kingdom – market and public opinion research;
- Briz ltd., Latvia – trade in pharmaceuticals;
- SOOO Brititrade, Belarus – trade in pharmaceuticals;
- OOO Tabina, Belarus – trade in pharmaceuticals;
- ZAO Interpharm, Belarus – trade in pharmaceuticals;
- SOOO Brizpharm, Belarus – trade in pharmaceuticals;
- ODO Alean, Belarus – trade in pharmaceuticals (a subsidiary as from 7 February 2013);
- OOO Farmacevt Plus, Belarus – trade in pharmaceuticals (a subsidiary as from 1 June 2013);
- UAB TBS Pharma, Lithuania – trade in pharmaceuticals, production of finished drug forms and pharmaceutical products, research and development activities in the field of biotechnology;
- ODO Vestpharm, Belarus – retail trade in medicinal products and medical equipment;
- OOO NPK Biotest, Belarus – production of medicinal products on the basis of plant raw materials;
- ODO BelAgroMed, Belarus – retail trade in medicinal products and pharmaceuticals.

The parent company and the subsidiaries Sopharma Trading AD, Bulgarian Rose Sevtopolis AD, Pharmalogistica AD, Electroncommerce EOOD, Biopharm Engineering AD, Sopharma Buildings REIT, Momina Krepost AD, Unipharm AD, Phyto Palauzovo AD perform their activities in Bulgaria; Sopharma Poland Z.O.O. – in liquidation and Sopharma Warsaw SP. Z.O.O. operate in Poland, PAO Vitamini, OOO Sopharma Ukraine – in Ukraine, Ivanchich i Sinovi d.o.o. – in Serbia, Briz ltd. – in Latvia, SOOO Brititrade, OOO Tabina, ZAO Interpharm, ODO Alean, SOOO Brizpharm, OOO Farmacevt Plus, ODO Vestpharm, OOO NPK Biotest and ODO BelAgroMed – in Belarus, UAB TBS Pharma – in Lithuania, Extab Pharma Limited – in the United Kingdom, and Sopharma USA and Extab Corporation, USA – in USA.

As at 31 December 2013, the interest of the Group in the ***joint ventures*** is as follows:

- OOO Vivaton Plus, Belarus, with 50% interest together with Apteka Group Holding and a physical person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 20 December 2012.

- OOO Med-dent, Belarus, with 50% interest together with a physical person. The principal activities of the joint venture include trade in pharmaceuticals and food supplements. The company has been a joint venture for the Group since 17 December 2013.

The joint venture Sopharma Zdrovit SA was deleted from the National Court Register of Poland on 25 February 2013. The principal activities of the joint venture was research and development activities in the field of medical science and pharmacy, wholesale trade in pharmaceuticals.

As at 31 December 2013 the Group has interest in the following ***associate:***

- BOOO SpetzApharmacia, Belarus – a business entity registered in Belarus by Decision No. 22-8 / 30.10.2000 by Mogilevsk District Executive Committee, with a seat and address of management: Belarus, Mogilevsk District, Bobruysk, 120, K. Marx Str., office 2. The company was acquired by the Group through Briz, Latvia.

The companies ODO Vestpharm, Belarus, and ODO Alean, Belarus, acquired by the Group in 2012, had the status of 'associates' as at 31 December 2012 but in 2013 the Group obtain control on them and their status was changed to 'subsidiaries'.

The companies OOO NPK Biotest, Belarus, and ODO BelAgroMed, Belarus, acquired by the Group in 2013 initially had the status of associates respectively from 18 January 2013 to 2 September 2013 and from 18 January 2013 to 30 July 2013 but subsequently the Group obtained control on them and their status was changed to 'subsidiaries'.

From 4 April 2013 to 3 September 2013 the Group held indirectly interest of 19% in the associate OOO Med-dent; from 3 September 2013 to 17 December 2013 the Group held indirectly 38% of the company and subsequently acquired a joint control thereon.

From 1 June 2012 to 28 December 2012 the Group held indirectly 18.87% of the associate OOO Vivaton Plus and after that period it acquired joint control thereon.

At the date of these consolidated financial statements, the average number of Group's personnel was 4,122 workers and employees (2012: 3,945).

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the activities of the Group companies throughout the period 2011 – 2013, are presented in the table below:

Indicator	**2011**	**2012**	**2013**
GDP in million levs (Bulgaria)	75,308	78,089	78,115*
Actual growth of GDP (Bulgaria)	1.80%	0.60%	0.9% *
Year-end inflation (Bulgaria)	2.80%	4.20%	-1.60%
Year-end inflation (Belarus)	108.70%	21.70%	16.60%
USD/BGN average for the year	1.4065	1.52314	1.47362
USD/BGN at year-end	1.5116	1.4836	1.41902
PLN/BGN average for the year	0.4759	0.46772	0.46600
PLN/BGN at year-end	0.43872	0.47926	0.47143
RUB/BGN average for the year	0.04787	0.04902	0.04630
RUB/BGN at year-end	0.04683	0.04862	0.04330
RSD/BGN average for the year	0.01918	0.0173	0.01729
RSD/BGN at year-end	0.01869	0.0172	0.01706
UAH/BGN average for the year	0.1766	0.19042	0.18432
UAH/BGN at year-end	0.18992	0.18561	0.17713
GBP/BGN average for the year	2.25443	2.41275	2.30321
GBP/BGN at year-end	2.34147	2.39406	2.33839
LVL/BGN average for the year	2.76943	2.80501	2.78820
LVL/BGN at year-end	2.79604	2.80285	2.78410
1000 BYR/BGN average for the year	0.1813	0.18249	0.16610
1000 BYR/BGN at year-end	0.1813	0.17256	0.14967
LTL/BGN average for the year	0.56645	0.56645	0.56645
LTL/BGN at year-end	0.56645	0.56645	0.56645
Basic interest rate at the year-end (Bulgaria)	0.22%	0.03%	0.02%
Unemployment rate at the year-end (Bulgaria)	10.40%	11.40%	11.80%

**The data for 2013 are preliminary.*

Source: BNB, National Banks of Ukraine, the Russian Federation, Poland, Serbia, Belarus, Latvia and Lithuania.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE GROUP

2.1. Basis for the preparation of the consolidated financial statements

The consolidated financial statements of SOPHARMA Group 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 2013 and have been accepted by the Commission of the European Union.

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

The adoption of these standards and/or interpretations has caused changes mainly to Group's accounting policies on the principles, rules and criteria with regard to the accounting for the following reporting items: other comprehensive income and retirement benefit obligations as well as to the presentation and disclosure of financial information about them and about some other reporting items *(Note 3, Note 16 and Note 32).*

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

- *IAS 1 (amended) "Presentation of Financial Statements" (in force for annual periods beginning on or after 1 July 2012 – endorsed by EC).* The amendment introduces a requirement for entities to present the components of other comprehensive income in the consolidated statement of comprehensive income in two separate categories depending on whether they may or may not be subsequently reclassified to current profit or loss, including the tax effect thereof. In addition, the name of the consolidated statement of comprehensive income has been changed to 'consolidated statement of profit or loss and other comprehensive income'. Clarifications have been added as to the disclosing of comparative information for prior periods and the including of a third consolidated statement of financial position only in case of material retrospective adjustments. The management of the parent company has done research and has concluded that the amendment affects only the presentation of indicators on Group's operations and has no impact on the financial position and performance thereof. It has made the necessary changes while deciding to keep unchanged the name of the consolidated statement of comprehensive income itself regardless of the amendment whereby another new name has been introduced for this statement;
- *IAS 19 (as revised in 2011) "Employee Benefits" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC).* The amendments refer to defined benefit plans and termination benefits. The fundamental change is the elimination of the 'corridor' approach and the introduction of a rule that all subsequent remeasurements (referred to so far as actuarial gains or losses) of obligations and the fair value of defined benefit plan assets shall be recognised when occurred in a component of 'other comprehensive income', as well as the accelerated recognition of past service costs. Thus, the net liability/(asset) of the respective pension plan, recognised in the consolidated statement of financial position, reflects the full value of the plan deficit or surplus. Furthermore, the interest cost and the expected return on plan assets are replaced with a net interest amount, which is calculated by applying the discount rate to the net plan asset/(liability). In addition, more extensive disclosure requirements have been introduced along with a requirement for sensitivity analysis of the variables in the actuarial assumptions set for the obligation calculation. The management of the parent company has done research and has concluded that these amendments have an impact on the accounting policies and on the value and classification of Group’s assets, liabilities, transactions and performance, with regard to: employee benefits expense, other components of equity and long-term retirement benefit obligations to personnel. It has also made the necessary restatements, reclassifications and disclosures retrospectively *(Note 3, Note 16 and Note 32);*
- *IFRS 13 "Fair Value Measurement" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC).* This standard represents a single source of methodological guidance for fair value measurements applied with regard to particular reporting items by virtue of other IFRSs and the mandatory disclosures on this process. The standard contains a precise definition of the term 'fair value', a framework of valuation approaches and measurement techniques, including input data hierarchy (Levels 1, 2 and 3) as well as extensive disclosure requirements as to fair value measurement process for the respective items under IFRS. It applies to both financial instruments and non-financial assets and liabilities when fair value is required or permitted by IFRS and/or IFRS require a disclosure of their fair value. The

management of the parent company has done research and has concluded that the amendments through the new standard have an impact on the accounting policies and the extensive disclosures regarding the fair values of the following assets and liabilities, and the transactions with them, namely: property, plant and equipment *(Note 17)*, investment property *(Note 19)* and available-for-sale investments *(Note 21)*. IFRS13 requires prospective application and limited disclosures in certain cases. Therefore, the Group has made the necessary new disclosures for year 2013 only without supplementing the comparative information for year 2012 with such disclosures under IFRS 13 *(Note 17, Note 19 and Note 21)*;

- *Annual Improvements to IFRSs 2009-2011 Cycle (May 2012) - improvements to IAS 1, 16, 32, 34, IFRS 1 (in force for annual period beginning on or after 1 January 2013 – endorsed by EC).* These improvements introduce partial amendments to the respective standards primarily with a view to remove existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set up more precise terminology. These amendments are basically focused on the following items or transactions: (a) borrowing costs for qualifying assets for which the capitalisation commencement date is prior to the date of transition to IFRS (IFRS 1); (b) clarifications about the requirements for presentation of voluntary additional comparative information (IAS 1) and a third statement of financial position in the case of retrospective restatement and reclassification; (c) clarifications about the classification and treatment of spare parts and specific stand-by and servicing equipment as property, plant and equipment (IAS 16); (d) the accounting for the tax effect of distributions to holders of equity instruments according to the requirements of IAS 12 (IAS 32); and (e) interim reporting of segment information on total assets for achieving consistency with IFRS 8 (IAS 34).

With regard to the other standards and interpretations, stated below, the management of the parent company has assessed their possible effect and has concluded that they would not have an impact on the accounting policies and respectively, on the assets, liabilities, transactions and performance due to the fact that the Group does not possess/operate such items and/or does not perform such deals and transactions;

- *IAS 12 (amended) "Income Taxes" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC).* The amendment clarifies explicitly that the assessment of deferred tax (assets or liabilities) on the underlying asset should be based on the manner in which the respective entity intends to recover the investment in the carrying amount of the asset – though sale or through continuing use. It sets out specific rules for cases of non-current assets measured by applying the revaluation model in IAS 16 but mostly for investment properties measured by applying the fair value model in IAS 40, including those acquired in a business combination, i.e. a rebuttable presumption is introduced that deferred tax should be determined on the basis that the carrying amount will normally be recovered through sale;
- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the offsetting of financial assets and financial liabilities (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC).* These amendments are related to the enhanced disclosures for all financial instruments, which will be presented net (offset) in accordance with IAS 32 (par. 42) as well as with the rights of set-off under the enforceable arrangements;

- *IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC).* This interpretation sets out the accounting treatment of the overburden waste removal (stripping) costs in the production phase of surface mining operations intended to gain improved access to mineral ore deposits that will be mined operatively in future periods. The interpretation provides guidance on the treatment of these costs as a particular type of asset (intangible asset or inventory) as well as its initial and subsequent measurement.

At the date when these consolidated financial statements have been approved for issue, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2013, which have not been adopted by the Group for early application. The management of the parent company has concluded that out of them the following are likely to have a potential impact in the future for changes in the accounting policies and the classification and values of reporting items in the consolidated financial statements of the Group for subsequent periods, namely:

- *IAS 27 (as revised in 2011) "Separate Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014).* The standard was reissued with a changed title as the part of it outlining the composition of, criteria about and technology for preparation of consolidated financial statement was entirely separated in a new standard – IFRS 10 "Consolidated Financial Statements". Thus, remaining in the standard are basically the accounting and measurement rules regarding investments in subsidiaries, associates and joint ventures at the level of separate financial statements of investors in their capacity as parent companies, investors with significant influence and venturers in joint ventures as well as the disclosures specific for this type of financial statements;
- *IAS 28 (as revised in 2011) "Investments in Associates and Joint Ventures" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014).* The standard has a changed title and scope and outlines the application of the equity method in consolidated financial statements both for investments in associates and in joint ventures, which were previously included in the scope of IAS 31 "Interests in Joint Ventures", and starting from 1 January 2013 – in line with the new IFRS 11;
- *IAS 32 (amended) "Financial Instruments: Presentation" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding the offsetting of financial assets and financial liabilities.* These amendments relate to a clarification as to the application of the rules on offsetting financial instruments. They are mainly in four directions: (a) clarification of the meaning of 'current legally enforceable right of set-off'; (b) the application of the simultaneous realisation and settlement criterion; (c) offsetting of cash provided as collateral; (d) the unit of account for the application of the offsetting requirements – prospectively;
- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (effective date – deferred to 1 January 2015 – not endorsed by EC).* The amendment is related

to a relief from the requirement to restate the comparative financial statements and the option to present modified disclosures on the transition from IAS 39 to IFRS 9 (when this happens) depending on the date of the standard application by the Company and whether it chooses the option to restate prior periods;

- *IFRS 9 "Financial Instruments" (effective date – deferred to 1 January 2015 – not endorsed by EC).* This is a new standard for financial instruments that is ultimately intended to replace IAS 39 in its entirety. The replacement project consists of three phases: Phase 1: Classification and measurement of financial assets and financial liabilities; Phase 2: Impairment methodology; and Phase 3: Hedge accounting. At present, IFRS 9 has been issued three times, in November 2009, October 2010 and in November 2013. Phase 1: Classification and measurement of financial assets and financial liabilities – by the first issues it replaces those parts of IAS 39 that refer to the classification and measurement of financial instruments. It sets out new principles, rules and criteria for classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. IFRS 9 introduces a requirement that financial assets are to be classified based on entity's business model for their management and on the contractual cash flow characteristics of the respective assets. It establishes two primary measurement categories for financial assets: amortised cost and fair value. The new rules will lead to possible changes mainly in the accounting for financial assets as debt instruments and financial liabilities designated at fair value through current profit or loss (for credit risk). Phase 2: Impairment methodology – it is at the level of a revised exposure draft, which suggests the application of the "expected loss" model under which all expected losses are recognised throughout the life of an amortisable financial instrument and not only after a loss event has been identified as per the current model in IAS 39. Phase 3: Hedge accounting – a new Chapter 6 to IFRS 9 has been added for this purpose, issued in November 2013, whereby a new hedge accounting model is introduced that permits consistent and complete reflection of all financial and non-financial risk exposures, subject to hedge transactions, and also, better presentation of risk management activities in the financial statements and especially, their relation to hedge transactions, and the scope and type of documentation to be used. In addition, the requirements to the structure, contents and presentation approach for hedge disclosures have been improved. Furthermore, an option is introduced fair value changes of own debts, measured at fair value through profit or loss, in the part thereof due to changes in the entity's own credit quality, to be presented in other comprehensive income rather than in profit or loss. This option is valid also for entities that apply IAS 39. The amendments to IFRS 9 of November 2013 again defer the effective date of the standard;
- *IFRS 10 "Consolidated Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC)* – regarding the first-time application of this standard. This standard replaces a significant part of the old IAS 27 ("Consolidated and Separate Financial Statements") and SIC-12 ("Consolidation - Special Purpose Entities"). Its main objective is to establish improved principles and methods for the preparation and presentation of financial statements when an entity controls one or more other entities. It gives a new definition for the term 'control' as comprising three elements, establishes

control as the only basis for consolidation and provides more detailed rules and guidance for identifying existing relationships of control. The standard also sets out the main mandatory rules for the technology to prepare consolidated financial statements;

- *IFRS 11 "Joint Arrangements" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC) – regarding the first-time application of this standard.* This standard replaces IAS 31 "Interests in Joint Ventures", including SIC-13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers". It introduces only two types of joint arrangements – joint operations and joint ventures – whereas the classification criterion used is not the legal form but rather the rights and obligations of each party to an arrangement, i.e. whether they represent rights to the assets and liabilities and respectively, to the expenses and revenue from the joint arrangement (joint operation) or rights to the net assets of the joint arrangement (joint venture). The standard removes the option for proportionate consolidation and requires application of the equity method for consolidation of jointly controlled entities;
- *IFRS 12 "Disclosing of Interest in Other Entities" (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC – for mandatory application in the European Union for annual periods beginning on or after 1 January 2014). Transitional guidance (in force for annual periods beginning on or after 1 January 2013 – endorsed by EC) – regarding the first-time application of this standard.* This standard introduces a new frame of requirements to the scope of the disclosures in the consolidated financial statements regarding the interest of the reporting entity in other companies and entities, which are subsidiaries, associates, joint ventures or unconsolidated structured entities, including to the content of the information in order to ensure an option for a reasonable evaluation of the effects and the risks of those interests;
- *IAS 36 (amended) "Impairment of Assets" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding recoverable amount disclosures for non-financial assets.* This amendment relates to the necessity to decrease particular disclosures regarding recoverable amount under IAS 36 in connection with the requirements of IFRS 13 when applying methods for calculating the recoverable amount of non-financial assets at fair value less costs of disposal;
- *Annual Improvements to IFRSs 2010-2012 Cycle (December 2013) – improvements to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38 (in force for annual periods beginning on or after 1 July 2014 – not endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) change in the definition of 'vesting conditions' and 'market conditions' and add of separate definitions for 'performance condition' and 'service condition' (IFRS 2); (b) clarification on the accounting for a contingent consideration in a business combination that meets the definition for 'financial instrument' (as a financial liability or equity

instrument) and its measurement at fair value at the end of each reporting period, including the effects of that in the statement of comprehensive income (IFRS 3, IFRS 9, IAS 39 and IAS 37); (c) requirement for disclosure on the criteria applied in the aggregation of operating segments for segment reporting purposes (IFRS 8); (d) additional clarification on the adjustment technique regarding the gross carrying amount and accumulated depreciation in cases of revalued assets whereas setting a requirement for consistency with the revaluation approach of the carrying amount of the respective asset (IAS 16, IAS 38); (e) clarification that an entity providing key management personnel services to another entity it is also a related party thereto (IAS 24);

- *Annual Improvements to IFRSs 2011-2013 Cycle (December 2013) – improvements to IFRS 1, IFRS 3, IFRS 13, IAS 40 (in force for annual periods beginning on or after 1 July 2014 – not endorsed by EC).* These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items or transactions: (a) clarification that a first-time adopter of IFRS may apply standards that are not yet effective provided that the standards themselves permit early application (IFRS 1); (b) clarification that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself (IFRS 3); (c) clarification regarding the scope of contracts that fall within the scope of the exception for a group of financial assets and financial liabilities with offsetting positions in market and credit risk (IFRS 13); (d) clarification that in the treatment of a transaction, which simultaneously meets the criteria of IFRS 3 and refers to investment properties under IAS 40, requires the separate application of both standards independently of each other (IAS 40).

Additionally, in regard of the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on or after 1 January 2013, the management of the parent company has concluded that the following would not have a potential impact for changes in the accounting policies, the classification and values of reporting items in the consolidated financial statements of the Group, namely:

- *IFRIC 21 "Levies" (in force for annual periods beginning on or after 1 January 2014 – not endorsed by EC) – regarding levies imposed by a government.* This interpretation provides guidance about the criteria for recognising a liability to pay a levy (charge, tax or other similar amount) imposed by the government in accordance with laws and regulations;
- *IAS 19 (as revised in 2011) "Employee Benefits" (in force for annual periods beginning on or after 1 July 2014 – not endorsed by EC).* This amendment relates to clarification regarding the treatment of contributions from employees or third parties to defined benefit plans in accordance with the formal terms of the respective plan. The change sets out that these contributions shall be treated as either a reduction in service costs or an effect in the remeasurements of the net liability (asset) of the plan depending on whether the contributions are related to the service or not;

- *IAS 39 (amended) "Financial Instruments: Recognition and Measurement" (in force for annual periods beginning on or after 1 January 2014 – endorsed by EC) – regarding novation of derivatives and continuation of hedge accounting.* This amendment has been introduced in response to legislative changes across certain jurisdictions whereby entities that use over-the-counter derivatives are required to novate them to a central counterparty (a clearing organisation/agency) in order that continuing designation to hedge accounting is allowed.
- *IFRS 14Regulatory Deferral Accounts (effective from 1 January 2016 – not endorsed by the EC). This standard introduces a framework of rules for recognition, valuation and impairment, presentation and disclosure of balances for deferred expenses and income as a result of business activities, whose products, goods and services are subject to regulations.* /

The consolidated financial statements have been prepared on a historical cost basis except for: a/ property, plant and equipment, which are measured at revalued amount; and 2/ investment property and available-for-sale financial instruments, which are measured at their fair value at the date of the consolidated statement of financial position. The figures of the companies, consolidated in these financial statements, which operate in the environment of hyperinflationary economy, have been restated for the effects of hyperinflation with the respective inflation index *(Notes 2.6, 2.10, 2.12, 2.16)*.

The Bulgarian companies of the Group maintain their accounting books in Bulgarian Lev (BGN), which is accepted as being their functional and presentation currency. The subsidiaries, associates and joint ventures abroad organise their accounting and reporting in accordance with the requirements of the respective local legislation (OOO Sopharma Ukraine and PAO Vitamini – Ukraine, Ivanchich i Sinovi d.o.o. – Serbia, Extab Pharma Limited – United Kingdom, Briz ltd. – Latvia, SOOO Brititrade, OOO Tabina, ZAO Interpharm, SOOO Brizpharm, OOO Farmacevt Plus, ODO Alean, OOO NPK Biotest, ODO BelAgroMed, ODO Vestpharm – Belarus and ZAO Rostbalkanpharm – the Russian Federation, the joint ventures OOO Vivaton Plus and OOO Med-dent, the associate BOOO SpetzApharmacia – Belarus, UAB TBS Pharma – Lithuania, Sopharma USA and Extab Corporation – USA legislation and Sopharma Poland Z.O.O. – in liquidation, Sopharma Warsaw SP. Z.O.O. and the joint venture Sopharma Zdrovit SA – deleted from the National Court Register of Poland on 25 February 2013 – the Polish legislation) and keep their accounting ledgers in the respective local currency – Rouble (RUB), Ukraine Hryvnia (UAH), Serbian Dinar (RSD), Euro (EUR), British Pound (GBP), Latvian Lat (LVL), Belarus Ruble (BYR), US Dollar (USD), Polish Zloty (PLN) and Lithuanian Lit (LTL).

The data in the consolidated financial statements and the notes thereto are presented in thousand Bulgarian Levs (BGN'000), unless explicitly stated otherwise, and the Bulgarian Lev is accepted as reporting and presentation currency of the Group. According to the policies of the Group, the financial statements of the Group companies abroad are restated from the local currency to Bulgarian Levs for the purposes of the consolidated financial statements *(Note 2.5).* The financial statements of the Group companies whose functional currency is a currency in hyperinflationary economy are restated with an inflation index so that they are expressed in measurement units valid at the end of the reporting period and after that they are restated from the local currency to Bulgarian Lev for the purposes of the Group consolidation.

The presentation of the consolidated financial statements in accordance with IFRS requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities and the disclosure of contingent receivables and payables as at the date of the financial statements, and respectively, on the reported amounts of income and expenses for the reporting year. These estimates, accruals and assumptions are based on the information, which is available at the date of the consolidated financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed in *Note 2.33, Note 17, Note 18, Note 19 and Note 21* .

2.2. Definitions

Parent company

This is the company that has control over the economic and financial policies and the operation of the subsidiaries by holding more than 50% of their capital shares and/or voting rights or by virtue of a written control agreement concluded between the shareholders.

The parent company is SOPHARMA AD, Bulgaria (Note 1.1).

Subsidiaries

These are companies, including such that are not legal entities, in which the parent holds directly or indirectly more than 50% of the voting rights in the General Meeting (in the joint-stock capital) and/or has the right to appoint more than 50% of the Board of Directors of the respective company or by virtue of a written control agreement, concluded between the shareholders, and can exercise control over their financial and operating policy (including by virtue of a control agreement concluded between shareholders). The subsidiary companies are consolidated as from the date on which the effective control over them has been acquired by the Group and are de-consolidated as from the date when the control over them ceases and is transferred outside the Group. The full consolidation method is applied for their consolidation.

The subsidiary companies are presented in *Note 1.2.*

Joint venture

A joint venture is established by virtue of a contractual agreement based on which two or more parties (companies) start a common business undertaking, which is subject to joint control.

The joint control represents a contractual sharing of control on a particular business. It is determined by the requirement that strategic financial and operating decisions relating to the business activities and the development of the joint venture shall be taken with mandatory unanimous consent of the controlling shareholders.

A controlling shareholder (venturer) in a joint venture is the party (company), which participates in the joint venture and shares the joint control on the latter.

The proportionate consolidation method is applied for the consolidation of the joint venture. The joint venture is being consolidated as from the date on which the joint control has been acquired by the venturer (the parent company) and its consolidation under this method is ceased when the joint venture is transformed into a subsidiary or when joint control is transferred from the venturer to third parties.

The joint ventures are: OOO Vivaton Plus, Belarus, OOO Med-dent, Belarus and Sopharma Zdrovit SA, Poland – until 25 February 2013 *(Note 1.2).*

Associate

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

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

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

BOOO SpetzApharmacia, Belarus, is an associate *(Note 1.2).*

2.3. Consolidation principles

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

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

2.3.1. Consolidation of subsidiaries

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

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

2.3.2. Acquisition of subsidiaries

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

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

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

2.3.3. Disposal of subsidiaries

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

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

- The fair value of the consideration received from the transaction, event or operation that resulted in the loss of control is recognised;
- All components of equity, representing unrealised gains or losses in accordance with the respective IFRS under the provisions of which these components fall, are reclassified to profit or loss for the year or are transferred directly to retained earnings;
- Any resulting difference as a ‘gain or loss from a disposal (sale) of a subsidiary’ attributable to the parent is recognised in the consolidated statement of comprehensive income.
- The remaining shares held that form investments in associates or available-for-sale investments are initially measured at fair value at the date of sale and subsequently – following the accounting policy adopted by the Group *(Notes 2.14 and Note 2.15).*

The acquisition (purchase) method is applied also in transactions for mergers and/or transformation of companies under common control if they represent direct acquisitions from the perspective of the parent company.

2.3.4. Transactions with non-controlling interests

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

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

2.3.5. Consolidation of joint ventures

The proportionate consolidation method is used for including the joint ventures in the consolidated financial statements. In the proportionate consolidation method, the share of the venturer (the parent company) in each of the assets, liabilities, income and expenses in the jointly controlled company is combined (added) line-by-line with the analogous items in the financial statements of the venturer. The Group recognises only the attributable portion of the recorded gains and losses on transactions for sale of assets by the Group to the joint venture, which refers to other investors and venturers. At the same time, all intra-group transactions and accounts with the joint venture are eliminated, including the unrealised intra-group gains or losses on purchases of assets of the joint venture by the Group to their resale to third independent parties by also making checks for impairment in case of loss. The effect of deferred taxes on these consolidation procedures has also been taken into account.

2.3.6. Consolidation of associates

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

The post-acquisition profits or losses for the Group (through the parent company) from the associate for the respective reporting period represent its share in the net financial results (after taxes) of its operating activities for the period, which share is recognised and presented on a separate line in the consolidated statement of comprehensive income. Analogously, the Group's share in post-acquisition changes in other components of comprehensive income of the associate is also recognised and presented as movement in the other components of comprehensive income in the consolidated statement of comprehensive income, and respectively the consolidated reserves of the Group - in the statement of changes in equity. The Group recognises its share of losses in an associate up to the amount of its investment, including the internal loans granted.

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

2.4. Comparatives

In these consolidated financial statements, the Group presents comparative information for one prior year.

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

Retrospective restatements and reclassifications of the comparative information for 2012 were made in 2013 with regard to the following items: long-term retirement benefit obligations to personnel, other comprehensive income (remeasurements of defined benefit pension plans) and accumulated profits and losses (retained earnings reserve). The revised IAS 19 *(Note 3)* provides the grounds for these restatements and reclassifications. The management of the parent company assessed the materiality of these changes and concluded that it was not necessary a third consolidated statement of financial position at the beginning of the prior period (1 January 2012) to be prepared and presented. In addition, the management of the parent company did not adopt the amendment to IAS 1 for a change in the name of the consolidated statement of comprehensive income to consolidated statement of profit or loss and other comprehensive income, as far as it was not mandatory.

In 2013, the Group adopted for application also the new IFRS 13. In accordance with the guidance for transition of the standard, it has presented the required information only for the current year 2013 without additional comparative information for year 2012.

2.5. Functional currency and recognition of exchange differences

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

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

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

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

The functional currency of the companies in Poland (Sopharma Poland Z.O.O. – in liquidation, Sopharma Warsaw SP. Z.O.O. and Sopharma Zdrovit SA – wound-up through liquidation on 25 February 2013) is the Polish Zloty, of the subsidiary in the Russian Federation (ZAO Rostbalkanpharm) until 10 April 2012 – the Russian Federation Ruble, of the subsidiaries in Ukraine (PAO Vitamini, OOO Sopharma Ukraine) – the Ukrainian Hryvnia, of the subsidiary in Serbia (Ivanchich i Sinovi d.o.o.) – the Serbian Dinar, of the subsidiary in Latvia (Briz ltd.) – Lat, of the subsidiaries in Belarus (SOOO Brititrade, OOO Tabina, ODO Alean, ZAO Interpharm, SOOO Brizpharm, OOO Farmacevt Plus, ODO Vestpharm, OOO NPK Biotest, ODO BelAgroMed) – Belarusian Ruble, of the subsidiary Extab Pharma Limited (United Kingdom) – the British Pound, of the companies in USA (Sopharma USA and Extab Corporation) – the US Dollar and the subsidiary in Lithuanie (UAB TBS Pharma) – Lithuanian Lit.

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

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

(b) all items of income and expenses are restated to the currency of the Group by applying an average rate of the local currency thereto for the reporting period or by applying the closing exchange rate of the local currency to the currency of the Group – for companies whose financial statements are being restated due to hyperinflation *(Note 2.6);*

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

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

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

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

2.6. Restatement of figures in the financial statements of Group companies operating in the environment of hyperinflation (restatements for hyperinflationary economies)

The figures in the financial statements of subsidiaries operating in hyperinflationary economies are firstly restated on the basis of the general price index to the measuring unit at the end of the reporting period with the aim to reflect the changes in the purchasing power of the money for the period and secondly they are translated to the presentation currency of the Group.

Monetary items in the statement of financial position, which include cash and cash equivalents as well as items that will be settled in cash and cash equivalents, are not restated for the effects of hyperinflation. All other assets and liabilities, such as: property, plant and equipment; intangible assets; investments, inventories, goodwill as well as equity components, are non-monetary items in the statement of financial position for the purposes of restatements for the effects of hyperinflation. Non-monetary items, presented at amounts current at the end of the reporting period, are not restated with an inflation index. All other non-monetary items, measured at cost or at cost less accumulated depreciation, are restated for the effects of hyperinflation by using the general price index – from the date of the transaction (acquisition) to the end of the current reporting period. Non-monetary items, carried at amounts current at dates other than the acquisition date (revalued amounts) or the end of the reporting period, are restated from the date of revaluation to the end of the reporting period. The restated inflated amount of a non-monetary item is reduced, in accordance with the appropriate IFRS, when this amount exceeds the recoverable amount of the non-monetary item.

All equity components, except for accumulated profits and all revaluation reserves, are restated for the effects of hyperinflation by applying a general price index – from the dates of contribution or arising of the respective components to the end of the current reporting period.

All items in the statement of comprehensive income are restated for the effects of hyperinflation by applying a general price index – from the date of the initial recognition of the respective business transactions to the end of the current reporting period.

The gain or loss on the net monetary position, reflecting the effects of restatements for hyperinflation of non-monetary items and items in the statement of comprehensive income, are presented in the consolidated statement of comprehensive income (within profit or loss) in the item 'gain or loss on net monetary position from restatements for hyperinflationary economies'.

2.7. Revenue

Revenue in the Group is recognised on accrual basis and to the extent and in the way the economic benefits will flow to the Group and respectively, the business risks are born thereby, and as far as revenue can be reliably measured.

The types of Group's revenue are presented in *Notes 4, Note 5 and Note 12.*

Upon sale of finished products, goods and materials, revenue is recognised when all significant risks and rewards of ownership have passed to the buyer.

Upon rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period, if this stage as well as the costs incurred for the transaction and the costs to complete the transaction, can be measured reliably.

Revenue is measured on the basis of the fair value of the products, goods and services sold, net of indirect taxes (excise duties and VAT) and any discounts and rebates granted.

Foreign exchange gains or losses related to cash, trade receivables and payables, denominated in foreign currency, are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) in the period, in which they arise and are presented net under 'other operating income/(losses), net'.

The gains from revaluation of investment property to fair value are presented in the consolidated statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses), net'. Revenue from investment property leased-out under the terms of operating lease is also accounted for under this item of the consolidated financial statements.

Upon sale on an instalment plan, revenue is recognised on the date of sale, excluding the incorporated interest.

Finance income is included in the consolidated statement of comprehensive income when earned and comprises: interest income on granted loans and term deposits, interest income on receivables under special contracts, interest income on past due receivables, income/gains from deals with investments in available-for-sale securities including dividends, net gains on exchange differences under loans in foreign currency, income from debt settlement transactions, gain on measurement of available-for-sale investments at fair value when a subsidiary is being acquired in stages. They are presented separately from of finance costs on the face of the consolidated statement of comprehensive income.

2.8. Expenses

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

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

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

Finance costs are included in the consolidated statement of comprehensive income when incurred separately from finance costs and comprise: interest expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, expenses/losses from investments in available-for-sale securities, expenses on debt settlement transactions, loss on fair value measurement of available-for-sale investments in the acquisition of a subsidiary performed in stages.

2.9. Mandatory dividend for distribution

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

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

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

2.10. Property, plant and equipment

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

Initial acquisition

Upon their initial acquisition, property, plant and equipment are valued at 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, professional fees for people involved in the project, non-refundable taxes etc.

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

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

The carrying amounts of all items of property, plant and equipment of Group companies, operating in the environment of hyperinflationary economies, initially measured at cost less accumulated depreciation, are restated for the effects of hyperinflation by applying a general price index – from the date of the transaction (acquisition) to the end of the current reporting period or from the date of the last revaluation of the assets.

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

Subsequent measurement

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

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

Subsequent costs

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

Depreciation methods

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

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- installations – 5-25 years;

- machinery and equipment – 7-25 years;
- computers and mobile devices – 2-5 years;
- motor vehicles – 7-17 years;
- furniture and fixtures – 6-12 years.

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

Impairment of assets

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might significantly differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) unless a revaluation reserve has been set aside for the respective asset. Then the impairment is treated as a decrease in this reserve (through other comprehensive income) unless it does not exceed its amount and the excess is included as expense in the consolidated statement of comprehensive income (within profit or loss for the year).

Gains and losses on disposal (sale)

Property, plant and equipment are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected from or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' group are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under ‘other operating income/(losses), net’ in the consolidated statement of comprehensive income (within profit or loss for the year). The part of ‘revaluation reserve’ component attributable to the sold asset is directly transferred to ‘retained earnings’ component in the consolidated statement of changes in equity.

2.11. Biological assets

Biological assets (perennial plants) are measured at fair value less the estimated costs to sell.

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

2.12. Intangible assets

Goodwill

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

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

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

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

Impairment losses on goodwill are presented in the consolidated statement of comprehensive income (within profit or loss for the year) in the item 'depreciation and amortisation expense'.

Other intangible assets

Intangible assets are stated in the consolidated financial statements at acquisition cost (cost) less accumulated amortisation and any impairment losses in value except where they belong to companies operating in hyperinflationary economy whose intangible assets are restated for the effects of hyperinflation from the date of their acquisition by applying the changes in the general price index to the end of the current reporting period. Intangible assets include mainly rights on intellectual property and software.

The Group applies the straight-line amortisation method for the intangible assets with determined useful life from 5 to 10 years.

The carrying amounts of all intangible assets (including goodwill) of Group companies, operating in the environment of hyperinflationary economies, initially measured at cost less accumulated depreciation (impairment), are restated for the effects of hyperinflation by applying a general price index – from the date of the transaction (acquisition) to the end of the current reporting period or from the date of the last revaluation of the assets.

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

Intangible assets are derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' in the consolidated statement of comprehensive income (within profit or loss for the year).

2.13. Investment property

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

Investment property is derecognised from the consolidated statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of investment property are determined as the difference between the disposal proceeds and the carrying amount of the asset at the date of sale. They are presented under 'other operating income/(losses), net' in the consolidated statement of comprehensive income (within profit or loss for the year).

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

2.14. Investments in associates

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

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

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

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

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

2.15. Available-for-sale investments

Available-for-sale investments (financial assets) are non-derivative financial assets representing shares in the capital of other companies (minority interest).

Initial measurement

Available-for-sale investments (financial assets) are initially recognised at cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition *(Note 2.26)*.

Subsequent measurement

The available-for-sale investments (financial assets), held by the Group, are subsequently measured at fair value *(Note 2.32)* with the assistance of an independent certified appraiser.

The effects of subsequent revaluation of securities to fair value are presented in a separate component of the consolidated statement of comprehensive income (within other comprehensive income) and recognised in the consolidated statement of comprehensive income (within profit or loss for the year) on disposal (sale) of the respective investment by being stated as ‘finance income’ or ‘finance costs’.

Dividend income related with long-term investments (financial assets) representing shares in other companies (minority interest) is recognised as current income and presented in the consolidated statement of comprehensive income (within profit or loss for the year) within the item 'finance income'.

When shares are written-off due to sale, the Company uses the method of weighted average price determined at the end of the month in which write-off is made.

Any purchase or sale of available-for-sale investments (financial assets) is recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The available-for-sale investments (financial assets) are reviewed at the end of each reporting period and if conditions for permanent impairment are identified, the latter is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) under ‘finance costs’.

Where conditions for impairment are identified, the latter is determined as the difference between the carrying amount and the recoverable value of the investment and is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) unless a positive reserve for this investment was formed in prior periods – then the impairment is at first covered at the account of this reserve and is presented net in the consolidated statement of comprehensive income (within other comprehensive income).

2.16. Inventories

Inventories are measured in the consolidated financial statements at the lower of acquisition cost (cost), including restated for the subsidiaries operating in the environment of hyperinflationary economy for the changes in the general price index from the transaction date to the date of the statement of financial position, and the net realisable value.

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

- raw materials, materials in finished form 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 and work-in-progress – cost of direct materials and labour and the attributable proportion of the manufacturing overheads, based on normal operating capacity of production facilities, but excluding administrative expenses, exchange rate gains and losses and borrowing costs.

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

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

- for production of medicinal products – direct labour valued on the basis of labour norms;
- for production of infusion solutions – quantity of manufactured finished products;
- for production of plastic medical disposable products – standard cost of production.

On use (sale) of materials and finished products the weighted average cost method is applied while on sale of goods – the first-in first-out (FIFO) method.

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

2.17. Trade and other receivables

Trade receivables are recognised in the consolidated financial statements and carried at fair value based on the original invoice amount (cost) less any allowance for uncollectable debts. 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 receivables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest rate method *(Note 2.26)*.

An estimate of allowances for doubtful and bad debts is made when significant uncertainty exists as to the collection of the full amount or a part of it. Bad debts are written-off when the legal grounds for this are available. Writing-off is against the formed allowance and/or as expense in the consolidated statement of comprehensive incomer (within profit or loss for the year).

2.18. Interest-bearing loans and other financial resources granted

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

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

2.19. Cash and cash equivalents

Cash includes cash in hand and cash at current accounts while cash equivalents include short-term bank deposits the funds of which are freely available to the companies of the Group in accordance with the terms and conditions agreed with the banks within the deposit term regardless of the original maturity of the respective deposit *(Note 2.26)*.

For the purposes of the consolidated statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);

- interest on investment purpose loans received is reported as payments for financial activities while the interest on loans related to current activities (working capital) is included in the operating activities;
- short-term blocked funds (for up to 3 months) are treated as cash and cash equivalents. Long-term blocked funds (for more than 3 months) are not included as cash in the consolidated statement of cash flows but are stated as ‘other proceeds/(payments), net’;
- interest received from short-term bank deposits is included in the composition of cash flows from investing activities;
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line ‘taxes paid’ while that paid on assets purchased from local suppliers is presented as ‘cash paid to suppliers’ in the cash flows from operating activities as far as it represents a part of the operating flows of the Group companies and is recovered therewith in the respective period (month).

2.20. Trade and other payables

Trade and other current amounts payable are carried to the consolidated financial statements at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest, incorporated in their nominal value, and determined following the effective interest rate method *(Note 2.26)*.

2.21. Interest-bearing loans and other borrowings

All loans and other borrowings are initially recognised in the consolidated financial statements at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured and presented in the consolidated financial statements at amortised cost by applying the effective interest rate method.The amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement associated with these loans. Gains and losses are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortisation period, or when the liabilities are derecognised or reduced *(Note 2.26)*.

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

2.22. Capitalisation of borrowing costs

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

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

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

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

2.23. Leases

Finance lease

Lessee

Finance leases, which transfer to the Group a substantial part of all risks and rewards incidental to ownership of the leased property, plant and equipment, are recognised as assets in the statement of financial position of the lessee and are presented as leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the consolidated statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate *(Note 2.26).*

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

Lessor

Finance lease where a substantial portion of all risks and rewards incidental to the ownership of the leased asset is transferred outside the Group, is written-off from the goods of the lessor 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 consolidated statement of comprehensive income (within profit or loss for the year) in the beginning of the lease term (when the asset is delivered) as sales income.

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

Operating lease

Lessee

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

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

Lessor

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

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

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

The employment and social security relations with workers and employees of the Group are based on the Labour Code and the provisions of the effective social security legislation for the companies operating in *Bulgaria*, the Polish Code – for the companies in *Poland*, the employment legislation and the Collective Labour Agreement – for the company in *Ukraine*, the employment legislation, the General Collective Labour Agreement and the effective Employment Rules and Regulations – for the company in *Serbia*, the Labour Act – for the company in *Latvia*, the employment legislation – for the company in *Belarus*, the Labour Code of the Russian Federationn Federation – for the company in *the Russian Federation* and Labour Code – for the company in *Lithuania*.

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

Tantieme and bonus schemes

Sopharma

In accordance with Articles of Association of the parent company and upon a decision for approval of the General Meeting of Shareholders, the Executive Director is entitled to one-off payment (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'.

Sopharma Trading

In accordance with the Articles of Association, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of company's net profit as well as to distribution of up to 2% of company's net profit between the members of the higher managing personnel upon his own discretion and in line with their individual contribution – in case of reported positive financial result for the past financial year and subject to a decision of the General Meeting of Shareholders. 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 as long-term payables to personnel. For the remaining personnel, including managing personnel, the amount of bonuses is accrued in the period when worked-out.

Bulgarian Rose Sevtopolis AD

In accordance with the Articles of Association and following a decision of the General Meeting of Shareholders, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of company's net profit.

Momina Krepost

In accordance with the Articles of Association and following a decision of the General Meeting of Shareholders, the Executive Director is entitled to one-off payment (tantieme) at the amount of 1% of company's net profit.

Long-term retirement benefits

Defined contribution plans

For Bulgaria

The major duty of companies-employers in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund 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) at the ratio 60:40 (2012: 60:40).

The 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 assets to pay the respective individuals the benefits they have worked-out over the period of their service. The obligations referring to health insurance are analogous.

For companies abroad

The rates of the social security contributions in Poland are approved by the Law on the National Social Security System, in the Russian Federation – the Federal Law on Obligations for Pension Security in the Russian Federation and the Tax Code, in Ukraine – Law on Pension Provision, in Serbia – the Law on Labour in the Republic of Serbia, in Latvia – the Law on Social Security, in Lithuania - Law on National Social Security and in Belarus – the Law on the Mandatory Contributions to the Fund for Social Security of the Population of the Ministry of Labour and Social Security. The social security contributions are being apportioned between an employer and employees at ratios regulated by the relevant local laws.

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

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

Defined benefit plans

In accordance with the requirements of the Labour Code, the employer of the companies in *Bulgaria* is obliged to pay to its personnel upon retirement an indemnity, which depending on the length of service at the entity varies between two and six gross monthly salaries as at the termination date of the employment. In accordance with the Law on Labour in *Serbia*, the employer of the Serbian company is obliged to pay to its personnel on coming of age for retirement an indemnity at the amount of at least three average salaries calculated at the time of payment. In accordance with the employment legislation in *Ukraine* and the Collective labour Agreement of the Ukrainian company, the employer is obliged to pay to its personnel on coming of age for retirement an indemnity, which depending on the length of service with the entity may vary between UAH 100 and UAH 200 (between BGN 25 and BGN 50). Also, the company in Ukraine accrues social indemnities, which are paid before retirement of employees due to specific labour conditions. According to the employment legislation in Poland, the employer is obliged to pay upon retirement one gross monthly salary. According to the employment legislation, there are no obligations to the personnel on retirement in Lithuania, Latvia and Belarus.

In their nature these are unfunded defined benefit schemes.

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

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

Termination benefits

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

The Group recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on an 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 consolidated statement of financial position at their present value.

2.25. Share capital and reserves

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

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

- at least one tenth of the profit, which should be allocated to the Fund until its amount reaches one tenth of the share capital or any larger amount as may be decided by the General Meeting of Shareholders;

- any premium received in excess of the nominal value of shares upon their issue (share premium reserve);
- other sources as provided for by a decision of the General Meeting.

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

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

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

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

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

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

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

Available-for-sale financial assets reserve is being set aside from the difference between the carrying amount of the available-for-sale financial assets and their fair values at the revaluation date. This reserve is transferred to current profit and loss in the consolidated statement of comprehensive income (within profit or loss for the year) when the financial assets are disposed of (sold) by the Group and/or on identified permanent impairment of particular financial assets.

The ***Translation of foreign operations reserve*** includes the effects of restating the financial statements of the companies abroad from local currency to the presentation currency of the Group. This reserve is recognised as a separate component of equity in the consolidated statement of financial position and as part of the profit or loss in the consolidated statement of comprehensive income on the line 'gains/(losses) on acquisition and disposal of subsidiaries, net' on disposal (sale) of a foreign operation (company) *(Note 2.5)*.

2.26. Financial instruments

2.26.1. Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale assets. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management of the parent company together with the management of the respective subsidiary determine the classification of the financial assets for the purposes of the Group at the date of their initial recognition in the statement of financial position.

The Group companies usually recognise their financial assets in the statement of financial position on the trade date, being the date on which they commit to purchase the respective financial assets. All financial assets are initially measured at their fair value plus the directly attributable transaction costs.

Financial assets are derecognised from the Group's consolidated statement of financial position when the rights to receive cash from these assets have expired or have been transferred, and the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity (person) external thereto. If the Group retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognise the transferred asset in its consolidated statement of financial position but also recognises a secured liability (a loan) for the consideration received.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured in the consolidated statement of financial position at their amortised cost using the effective interest method less any allowance for impairment. These assets are included in the group of current assets when having maturity within 12 months or within a common operating cycle of the respective Group company while the remaining ones are carried as non-current assets.

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the consolidated statement of financial position *(Notes 2.17, 2.18, 2.19 and 2.20)*. Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the consolidated statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

At the date of each statement of financial position, the Group companies assess whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired *(Note 2.33)*.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are either acquired for the purpose of being sold or are not classified in any other category. For the Group, these are usually shares, bonds or interest in other (third) companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where a Group company intends to sell them in the following 12 months and is actively searching for a buyer *(Note 2.15)*.

Available-for-sale financial assets are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment.

The available-for-sale financial assets are subsequently measured at fair value except for the shares in closed-end companies not traded in a stock-exchange market *(Note 2.15)*.

The effects, gains or losses, of revaluation to fair value of the available-for-sale investments are included in the consolidated statement of comprehensive income (within other comprehensive income) under the item ‘net change in fair value of available-for-sale financial assets’ and are accrued to a separate equity component – ‘available-for-sale financial assets reserve’.

Where subsequent permanent impairment is identified or on sale of an available-for-sale investment, the amount of impairment and all previously accumulated losses (net) to the reserve are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as ‘finance costs’ Analogously, on each sale of investment of this type, the unrealised gains accumulated in the reserve are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as ‘finance income’.

The recycling of accumulated effects from change in the fair value of available-for-sale investments are presented with other comprehensive income (in ‘net change in fair value of available-for-sale financial assets’), net of those resulting from new revaluations for the period.

Dividends on shares, classified as available-for-sale financial assets, are recognised in the consolidated statement of comprehensive income (within profit or loss for the year) when the company’s right to receive the dividends is established.

The available-for-sale investments are reviewed at each date of the statement of financial position for events or circumstances indicating the existence of objective evidence for impairment of a particular financial asset or group of assets. Financial assets are impaired if their carrying amount is higher than the expected recoverable amount. The recognised impairment loss is equal to the difference between the acquisition cost less the repayments and their recoverable amount, which is accepted to be equal to the present value of the expected future cash flows, discounted at the current interest rate or through the yield for similar financial assets.

2.26.2. Financial liabilities and equity instruments

The Group classifies debt and equity instruments either as financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments.

Financial liabilities

The financial liabilities of the Group include loans and payables to suppliers and other counterparts. They are initially recognised in the consolidated statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method *(Note 2.20, Note 2.21 and Note 2.2).*

2.27. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle (repay) the obligation. The provisions are valued based on the best estimate of the respective company management and the

Group at the date of the consolidated statement of financial position of the expenses necessary to settle the respective obligation. The estimate is discounted if the obligation is long-term. When part the resources required to settle the obligation are expected to be recovered from a third party, the respective company of the Group recognises a receivable if it is virtually certain that reimbursement will be received, its amount can be reliably measured and income (credit) is recognised in the same item of the consolidated statement of comprehensive income (within profit or loss for the year) where the provision itself is presented *(Note 2.33).*

2.28. Income taxes

Current income taxes of the Bulgarian companies of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for year 2013 was 10 % (2012: 10%).

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

Subsidiary company	***Country***	***Tax rate***	
		2013	***2012***
OOO Sopharma Ukraine	Ukraine	19%	21%
PAO Vitamini	Ukraine	19%	21%
Ivanchich i Sinovi d.o.o.	Serbia	15%	10%
Sopharma USA	USA	15.35%	15.35%
Extab Corporation	USA	15.35%	15.35%
Extab Pharma Limited	United Kingdom	23%	24%
Briz ltd.	Latvia	15%	15%
OOO Tabina	Belarus	18%	18%
ZAO Interpharm	Belarus	18%	18%
SOOO Brititrade	Belarus	18%	18%
SOOO Brizpharm	Belarus	18%	18%
ODO Alean	Belarus	18%	-
OOO Farmacevt Plus	Belarus	18%	-
UAB TBS Pharma	Lithuania	15%	-
ODO Vestpharm	Belarus	18%	18%
OOO NPK Biotest	Belarus	18%	-
ODO BelAgroMed	Belarus	18%	-
Sopharma Poland Z.O.O. – in liquidation	Poland	19%	19%
Sopharma Warsaw SP. Z.O.O.	Poland	19%	19%
ZAO Rostbalkanpharm	Russian Federation	-	20%
Joint venture			
OOO Med-dent	Belarus	18%	-
OOO Vivaton Plus	Belarus	18%	18%
Sopharma Zdrovit SA – wound-up through liquidation on 25 February 2013	Poland	19%	19%
Associate			
BOOO SpetzApharmacia	Belarus	18%	-
ODO Alean	Belarus	-	18%

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

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

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 utilized, with the exception of the differences arising from the initial recognition of an asset or liability, which has affected neither the accounting nor taxable profit or loss as at the date of the transaction.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that they will reverse and sufficient taxable profit to be generated or occurring in the same period taxable temporary differences to allow the deferred tax asset to be utilized (deducted or compensated).

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

Deferred tax assets and liabilities are measured at the tax rates 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 under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

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

As at 31 December 2013, the deferred income taxes of the Group companies are assessed at the rate, valid for 2014, which is 10% for the Bulgarian companies, while those of the subsidiaries, joint ventures and associates abroad are as follows:

Subsidiary company	***Country***	***Tax rate 2014***
OOO Sopharma Ukraine	Ukraine	18%
PAO Vitamini	Ukraine	18%
Ivanchich i Sinovi d.o.o.	Serbia	15%
Extab Corporation	USA	15.35%
Extab Pharma Limited	United Kingdom	23%
Briz ltd.	Latvia	15%
OOO Tabina	Belarus	18%
ZAO Interpharm	Belarus	18%
SOOO Brititrade	Belarus	18%
SOOO Brizpharm	Belarus	18%
ODO Alean	Belarus	18%
OOO Farmacevt Plus	Belarus	18%
UAB TBS Pharma	Lithuania	15%
ODO Vestpharm	Belarus	18%
OOO NPK Biotest	Belarus	18%
ODO BelAgroMed	Belarus	18%
Sopharma Poland Z.O.O. – in liquidation	Poland	18%
Sopharma Warsaw SP. Z.O.O.	Poland	18%
Joint venture		
OOO Med-dent	Belarus	18%
OOO Vivaton Plus	Belarus	18%
Associate		
BOOO SpetzApharmacia	Belarus	18%

2.29. Government grants

Gratuitous aids from public institutions (municipal, government and international institutions, including under the procedure of using the European funds and programmes), are initially recognised as deferred income (financing) when there is reasonable assurance that they will be received by the Group and that the latter has complied and still complies with the associated thereto conditions and 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 usually proportionately to the amount of the recognised depreciation charge.

2.30. Earnings per share

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

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

In case of a capitalization, additional 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.

Diluted earnings per share are not calculated because no dilutive potential ordinary shares have been issued within the Group.

2.31. Segment reporting

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

Group's operating segments are currently monitored and directed separately as each of them represents a separate business area that bears various business risks and rewards. The operating segments by which the Group's management monitors, measures and controls the risks and returns thereof are identified in line with the main business activities performed with pharmaceuticals, namely: production and trade.

Information by operating segments

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

Segment assets, liabilities, respective revenue, expenses and results include those that are and can be directly attributable to the respective segment as well as such that can be allocated on a reasonable basis, including inter-segment ones. Usually, these are: (a) for revenue – sales of finished products and goods; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration, carrying amount of goods sold; (c) for assets – property, plant and equipment, inventories, receivables from related parties, trade receivables; (d) for liabilities – current payables to personnel and for social security, payables to related parties and trade payables.

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

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

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

Intersegmental transfers: segment revenue, segment expense and segment results include internal transfers between business segments. These transfers are stated at competitive market prices charged to non-related clients for similar goods and are eliminated at consolidated financial statements level.

The investments in associates recorded under the equity method are excluded from the assets by segment and the revenue by segment. They are presented as part of unallocated assets and the income therefrom is presented in ‘gains/(losses) from an associate, net’.

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

In addition, the Group discloses information regarding important clients when the amount of achieved revenue from a client exceeds 10% of the total amount of consolidated revenue earned from Group’s operations.

2.32. Fair value measurement

Some of Group's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. Such are (a) <u>on a recurring basis</u> – *available-for-sale financial assets, investment property, granted and received bank loans and loans from third parties, certain trade and other receivables and payables, finance lease receivables and payables; and other* (b) <u>on a non-recurring basis</u> – *non-financial assets such as property, plant and equipment.*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between 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 of liability. Both the designated as a principal market and the most advantageous market are markets to which the Group companies must have an access.

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

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

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

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

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

The Group applies mainly Level 2 and Level 3 fair value.

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

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

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

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

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

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

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

2.33.1. Group companies operating in the environment of hyperinflationary economies

At 31 December 2013 the total inflation in Belarus for the last three years exceeded 100%. Therefore, the management of the parent company has defined the Group companies performing their business activities in Belarus as companies operating in the environment of hyperinflationary economy. In addition, it undertakes all necessary measures so that the subsidiaries in Belarus are maintained to operate under the going concern principle *(Note 44)*.

Because of these circumstances, for the purposes of theseconsolidated financial statements, the figures in the financial statements of the companies operating in Belarus – SOOO Brititrade, OOO Tabina, ZAO Interpharm, SOOO Brizpharm, OOO Vivaton Plus, ODO Alean, ODO Vestpharm, OOO NPK Biotest, ODO BelAgroMed and OOO Farmacevt Plus – were restated for the effects of hyperinflation.

The prior period comparatives were not restated again but those already restated with the relevant inflation index (for year 2012) were used. The general index of consumer prices officially determined and published by the National Statistics Committee of Belarus was applied in these restatements.

The consumer price index in Belarus for the period from 2010 to 31 December 2013 is as follows:

Year	**2010**	**2011**	**2012**	**2013**
Consumer price index compared to prior period (%)	10.1	108.7	21.8	16.5

2013

Q 1	***%***	***Q 2***	***%***	***Q 3***	***%***	***Q 4***	***%***
January	3.0	April	0.5	July	1	October	1.9
February	1.2	May	0.7	August	0.1	November	1.6
March	1.1	June	0.3	September	1.7	December	2.4

2012

Q 1	***%***	***Q 2***	***%***	***Q 3***	***%***	***Q 4***	***%***
January	1.9	April	1.7	July	1.3	October	1.8
February	1.5	May	1.6	August	2.3	November	1.7
March	1.5	June	1.8	September	1.3	December	1.4

***Q** - quarter*

Inflation indices in the range from 1.076 to 1.166 were used for the restatement of the figures in the financial statements of the subsidiaries in Belarus (2012: from 1.01 to 1.22).

The gain on the net monetary position from restatements for hyperinflationary economy at the amount of BGN 1,690 thousand (2012: BGN 823 thousand) includes profit from remeasurement of goodwill of the entities in Belarus at the amount of BGN 150 thousand (2012: BGN 1,227 thousand).

2.33.2. Recognition of tax assets

On recognition of deferred tax assets, the management of the Group has assessed the probability the individual deductible temporary differences to reverse in the future and each of the Group companies' capability to generate sufficient taxable profit for their offset. The management of the Group has assessed at the date of issue of the consolidated financial statements the subsidiaries that continue to report losses in the last years with regard to existing significant uncertainties as to whether and to what extent within the final term, determined with the respective local tax regulations for tax loss carry forward, these companies would be able to generate sufficient taxable profit. As a result of this analysis, it has taken a decision to not recognise deferred tax assets in the consolidated financial statements at the amount of BGN 2,174 thousand (2012: BGN 3,850 thousand) *(Note 31).*

2.33.3. Inventories

Normal capacity

The normal production capacity of the Group companies is determined using the following bases: (a) man-hours worked-out (weighted average per month); (b) machine-hours worked-out (weighted average per month); (c) production volume in quantitative terms, in kind (weighted average per month).

The normal capacity is determined by type of production and based on observations of the respective indicator movement within a period between three to five years.

The choice of a specific base for the respective company depends on the characteristic features of the organisation of production, including the labour intensity and machinery performance.

Allowance for impairment

At the end of each financial year, the Group companies review the state, useful life and usability of the existing inventories. Where inventories are identified that are potentially likely to not be realised at their current carrying amount in the following reporting periods, the Group companies impair the inventories to net realisable value.

As a result of the performed reviews and analyses as at 31 December 2013, impairment of inventories at the amount of BGN 1,654 thousand has been recognised in the consolidated statement of comprehensive income (within profit or loss for the year) (2012: BGN 967 thousand) *(Note 10).*

2.33.4. Impairment of receivables

The losses from doubtful and bad debts are estimated at the date of the consolidated financial statements on individual basis for each receivable. Where difficulties in collecting certain receivables are observed, they are subject to analysis in order to determine the actually collectable portion while the remaining portion to the nominal value is recognised in the consolidated statement of comprehensive income (within profit or loss for the year) as impairment *(Note 10)*.

After 180 days of delay it is already considered that indicators for impairment may exist. In the assessment of the collectability of receivables, the management of the Group companies perform analysis of the total exposure of each counterparty in order to establish the actual possibility for their collection and not only at the level of past due individual receivables from the total amount due by the counterparty, including the potential for collecting interest for compensating delays. When the collectability of a receivable (a group of receivables) is highly uncertain, an assessment is made what part thereof is secured by collateral (pledge, mortgage, guarantees) and thus with ensured collection (through future realisation of the collateral or guarantee payment). Where the management has concluded that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are impaired to 100% *(Notes 25, 26 and 25).*

The amount of recognised impairment losses for 2013 (net of the reversed ones) is BGN 2,366 thousand (2010: BGN 2,201 thousand) *(Note 10).*

2.33.5. Actuarial calculations

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

2.33.6. Operating lease

The Group classified a building, part of which had been leased to related parties under operating lease terms, in the group of 'property, plant and equipment' of the consolidated statement of financial position. Since a significant part of the building was used by the Group as well, the management decided that the building should not be treated as investment property.

2.33.7. Litigation provisions

With regard to the pending litigations against companies of the Group, the management of the respective companies, jointly with their lawyers, have judged that at this stage the probability and risks of a negative outcome is still below 50% and therefore, no provisions have been included for litigation liabilities in the consolidated statement of financial position as at 31 December 2013 (31 December 2012: none) *(Note 41).*

3. EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The management of the parent company has performed a summarised assessment of the effects of the amendments to *IAS 19 (revised) (in force for annual periods beginning on or after 1 January 2013 – endorsed by EU)* for the Group. The necessary restatements were made in the consolidated statement of financial position as at 1 January 2012 and as at 31 December 2012 as well as in the consolidated statement of comprehensive income for the period 1 January – 31 December 2012.

(a) in the consolidated statement of financial position as at 1 January 2012:

The effects of changes in the accounting policies are result of additionally recognised actuarial gain on the obligation for long-term benefits to personnel and are as follows:

	originally stated	***change in the accounting policies***	***restated***
	01.01.2012		***01.01.2012***
	BGN'000	***BGN'000***	***BGN'000***
Retained earnings	154,465	(48)	154,417
Retirement benefit obligations to personnel	2,390	(48)	2,438

(b) in the consolidated statement of financial position as at 31 December 2012:

The effects of changes in the accounting policies are result of additionally recognised actuarial loss on the obligation for long-term benefits to personnel and are as follows:

	originally stated	***change in the accounting policies***	***restated***
	31.12.2012		***31.12.2012***
	BGN'000	***BGN'000***	***BGN'000***
Retained earnings	177,900	(283)	177,617
Retirement benefit obligations to personnel	2,331	283	2,614

(c) in the consolidated statement of comprehensive income for 2012:

The effects of changes in the accounting policies are result of additionally recognised actuarial loss on the obligation for long-term benefits to personnel and are as follows:

	originally stated	***change in the accounting policies***	***restated***
	2012		***2012***
	BGN'000	***BGN'000***	***BGN'000***
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension plans	-	(235)	(235)

The effect of the change in accounting policies to the other comprehensive income component *Remeasurements of defined benefit pension plans* for year 2013 is a recognised actuarial loss on the obligation at the amount of BGN 117 thousand.

4. REVENUE

Group revenue includes:

	2013	***2012***
	BGN'000	***BGN'000***
Goods	495,035	422,317
Finished products	267,654	266,262
	762,689	**688,579**

Sales of goods by type	***2013***	***2012***
	BGN'000	***BGN'000***
Tablet dosage forms	230,743	204,399
Ampoule dosage forms	135,152	115,617
Consumables, dressing materials and apparatuses	36,717	27,678
Drops	24,957	20,478
Syrup dosage forms	13,389	10,220
Cosmetics	12,318	7,662
Food supplements and herbs	10,032	8,916
Other	19,651	17,270
Total	**495,035**	**422,317**

Sales of finished products by type	***2013***	***2012***
	BGN'000	***BGN'000***
Tablet dosage forms	170,741	185,081
Ampoule dosage forms	44,979	33,434
Syrup dosage forms	14,951	15,163
Lyophilic products	9,198	5,164
Ointments	7,725	8,138
Drops	4,552	5,007
Syringes	3,319	2,375
Infusion solutions	1,922	1,763
Blow-moulded articles	1,136	1,033
Veterinary vaccines	1,596	876
Other	7,535	8,228
Total	**267,654**	**266,262**

5. OTHER OPERATING INCOME AND LOSSES, NET

Other operating income and losses, net include:

	2013	*2012*
	BGN'000	***BGN'000***
Services rendered	5,333	2,394
Rentals	776	735
Government grants	573	563
Social activities and events	168	598
Liabilities written-off	144	12
Income from penalties	131	705
Gain/(loss) on sale of non-current assets	23	(88)
Loss from sales of materials	(268)	(171)
Insurance indemnities received	6	43
Net loss from exchange differences under trade receivables and payables and current accounts	(2,775)	(3,683)
(Loss)/gain on changes in the fair value of investment property *(Note 19)*	(31)	116
Other	831	1,104
Total	**4,911**	**2,328**

6. RAW MATERIALS AND CONSUMABLES USED

Expenses on materials include:

	2013	*2012*
	BGN'000	***BGN'000***
Basic materials	62,401	64,725
Spare parts, laboratory and technical materials	6,427	6,985
Electric energy	5,606	4,866
Heat power	4,367	4,994
Fuels and lubricating materials	3,931	3,737
Water	889	947
Impairment of materials	226	88
Labour safety measures	170	138
Scrapped materials	129	119
Other	3,020	2,976
Total	**87,166**	**89,575**

Expenses on ***basic materials*** include:

	2013	*2012*
	BGN'000	*BGN'000*
Substances (active ingredients)	31,226	33,326
Packaging materials	9,498	10,435
Liquid and solid chemicals	6,371	6,822
Aluminium foil	5,472	5,883
Ampoules	2,384	2,593
Herbs	2,242	1,178
Polypropylene, polyethylene, polystyrene	1,583	1,464
Solution sacks	1,120	1,100
Other	2,505	1,924
Total	**62,401**	**64,725**

7. HIRED SERVICES EXPENSE

Hired services expense includes:

	2013	*2012*
	BGN'000	*BGN'000*
Advertising	17,662	16,698
Consulting services	7,729	4,969
Rentals	6,141	4,438
Buildings and equipment maintenance	3,063	3,712
Forwarding and transportation services	2,984	3,335
Manufacturing of medicinal products	2,970	4,773
Bank and regulatory charges	1,748	1,638
Subscription fees	1,555	1,497
Services under civil contracts	1,518	1,794
Local taxes and charges	1,402	1,171
Services on medicinal products registration	1,282	1,241
Security	1,277	1,118
Insurance	987	1,403
Announcements and communications	953	1,102
Motor vehicles repair	835	724
Medical service	733	609
Taxes on expenses	704	644
Destruction of pharmaceuticals	445	305
Commission fees	439	344
Logistic services	522	952
Documentation translation	366	630
Other	3,990	2,395
Total	**59,305**	**55,492**

8. EMPLOYEE BENEFITS EXPENSE

	2013	*2012*
	BGN'000	*BGN'000*
Current wages and salaries	56,257	51,966
Social security/health insurance contributions	11,572	10,785
Social benefits and payments	3,808	3,631
Tantieme	1,105	1,288
Accruals for unused paid leaves	713	727
Social security/health insurance contributions on leaves	227	190
Accruals for long-term benefits to personnel upon retirement *(Note 32)*	977	385
Total	**74,659**	**68,972**

9. OTHER OPERATING EXPENSES

	2013	*2012*
	BGN'000	*BGN'000*
Charged/(reversed) impairment of current assets, net *(Note 10)*	3,794	3,080
Entertainment allowances	3,296	2,778
Business trips	1,596	1,741
Scrap and shortages of goods	1,215	1,115
Taxes and interest on taxes paid	776	225
Scrap and shortages of finished products and work-in-progress	649	189
Receivables written-off	623	146
Donations	541	519
Training	382	318
Scrapping of non-current assets	377	226
Unrecognised input tax	213	200
Awarded amounts under litigations	123	766
Other	546	245
Total	**14,131**	**11,548**

10. IMPAIRMENT OF CURRENT ASSETS

Impairment losses on receivables and inventory, net include:

	2013	***2012***
	BGN'000	***BGN'000***
Impairment of receivables	*3,561*	*1,939*
Reversed impairment of receivables	*(1,202)*	*(313)*
Net change in the impairment of receivables *(Notes 9, 25, 26 and 27)*	2,359	1,626
Impairment of finished products *(Note 9)*	901	727
Impairment of goods *(Note 9)*	429	147
Impairment of materials *(Note 6)*	226	88
Impairment of receivables under trade loans granted	*7*	*575*
Reversed impairment of trade loans granted	-	-
Net change in the impairment of trade loans granted	7	575
Impairment of work-in-progress *(Note 9)*	98	5
Total	**4,020**	**3,168**

11. IMPAIRMENT OF NON-CURRENT ASSETS

Impairment losses on non-current assets include:

	2013	***2012***
	BGN'000	***BGN'000***
Impairment of property, plant and equipment *(Note 17)*	2,303	-
Impairment of goodwill *(Note 18)*	140	2,108
Total	**2,443**	**2,108**

The impairment of tangible fixed assets and goodwill is presented in the consolidated statement of comprehensive income (within profit or loss for the year) within ‘depreciation and amortisation expense’.

12. FINANCE INCOME

Finance income includes:	***2013*** ***BGN'000***	***2012*** ***BGN'000***
Interest income on loans granted	3,700	4,109
Interest income on past due receivables	2,452	1,246
Income from equity investments (dividends)	393	184
Interest income on bank deposits	8	71
Net gain from exchange differences on loans in foreign currency	-	433
Total	**6,553**	**6,043**

13. FINANCE COSTS

Finance costs include:	***2013*** ***BGN'000***	***2012*** ***BGN'000***
Interest expense on loans received	8,429	7,338
Impairment of available-for-sale investments	6,769	1,071
Expenses on investments in securities	5,068	31
Net loss from exchange differences on loans in foreign currency	1,197	-
Bank fees and charges on loans and guarantees	684	520
Interest expense on finance lease	367	381
Total	**22,514**	**9,341**

14. LOSSES FROM ASSOCIATES

Losses from associates include:	***2013*** ***BGN'000***	***2012*** ***BGN'000***
Share in (profits)/losses of the Group	(105)	56
Valuation of previously held shares on acquisition of control in the companies from the Group	841	-
Total	**736**	**56**

This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year 2013.

15. INCOME TAX EXPENSE

Consolidated statement of comprehensive income (profit or loss for the year)	**2013** *BGN '000*	**2012** *BGN '000*
Taxable profit of the Group companies for the year	66,626	58,932
Revaluation reserve included as an increase in the annual tax return	(263)	(588)
Taxable profit for the year	66,363	58,344
Current income tax expense for the year – 10 %, 15%, 15.35%, 18%, 19%, 23%(2012: 10 %, 15%, 15.35%, 18%, 19%, 20 %, 21% , 24%)	(7,331)	(6,194)
Prior periods tax expense	(37)	(62)
Deferred income taxes		
Occurrence and reversal of temporary differences	2,185	1,586
Tax rate change – Ukraine (2012: Ukraine, Belarus)	4	(264)
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	**(5,179)**	**(4,934)**

Reconciliation of income tax expense applicable to the consolidated accounting profit or loss	***2013*** *BGN'000*	***2012*** *BGN'000*
Accounting profit for the year	37,817	42,900
Income tax – 10 %, 15%, 15.35%, 18%, 19%, 23% (2012: 10 %, 15%, 15.35%, 18%, 19%, 20 %, 21% , 24%)	(3,244)	(4,125)
Unrecognised amounts under the tax return		
Related to increases	(2,912)	(1,035)
Related to decreases	1,053	806
Tax loss for the current year on which no deferred tax assets are recognised	(238)	(269)
Recognised deferred taxes due to temporary differences from prior periods	195	15
Prior periods tax expense	(37)	(62)
Tax rate changes – Ukraine (2012: Ukraine, Belarus)	4	(264)
Total income tax expense carried to the consolidated statement of comprehensive income (within profit or loss for the year)	**(5,179)**	**(4,934)**

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

	2013			2012		
	BGN'000			BGN'000		
	Pre-tax amount	**Tax benefit/ (expense)**	**Amount net of tax**	**Pre-tax amount**	**Tax benefit/ (expense)**	**Amount net of tax**
Items that will not be reclassified to profit or loss						
(oss)/gain on revaluation of property, plant and equipment	(353)	35	(318)	18	(2)	16
Remeasurements of defined benefit pension plans	(117)	-	(117)	(235)	-	(235)
	(470)	**35**	**(435)**	**(217)**	**(2)**	**(219)**
Items that may be reclassified to profit or loss						
Net change in the fair value of available-for-sale financial assets	(217)	-	(217)	1,214	-	1,214
Exchange differences from restating foreign operations	(1,406)	-	(1,406)	(507)	-	(507)
	(1,623)	**-**	**(1,623)**	**707**	**-**	**707**
Other comprehensive income for the year	**(2,093)**	**35**	**(2,058)**	**490**	**(2)**	**488**

16. OTHER COMPREHENSIVE INCOME

Other components of ***comprehensive income*** include:

	Other components of comprehensive income attributable to the Group		Other components of comprehensive income attributable to non-controlling interests		Total other components of comprehensive income	
	2013 *BGN '000*	***2012*** *BGN '000*	***2013*** *BGN '000*	***2012*** *BGN '000*	***2013*** *BGN '000*	***2012*** *BGN '000*
Items that will not be reclassified to profit or loss						
(Loss)/gain on revaluation of property, plant and equipment	(353)	18	-	-	(353)	18
Remeasurements of defined benefit pension plans	(117)	(235)	-	-	(117)	(235)
Items that may be reclassified to profit or loss						
Net change in fair value of available-for-sale financial assets:						
Gains arising during the year	633	1,113	(119)	101	514	1,214
Less: Reclassification adjustments for (gains)/losses included in profit or loss for the current year	(720)	-	(11)	-	(731)	-
Exchange differences from restating foreign operations	(857)	(349)	(549)	(158)	(1,406)	(507)
Income tax relating to components of other comprehensive income	35	(2)	-	-	35	(2)
Other comprehensive income for the year	**(1,379)**	**545**	**(679)**	**(57)**	**(2,058)**	**488**

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Other*		*Assets in progress*		*Total*	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Book value										
Balance at 1 January	**141,457**	**137,359**	**128,032**	**116,151**	**41,107**	**32,938**	**81,946**	**36,467**	**392,542**	**322,915**
Additions	6,973	3,176	4,134	2,647	3,608	5,097	25,914	65,484	40,629	76,404
Assets in newly acquired subsidiaries and joint ventures	338	16	139	18	132	29	145	-	754	63
Effects of foreign currency and hyperinflationary restatements	61	(337)	18	(153)	(2)	(201)	(2)	(198)	75	(889)
Disposals	(248)	(616)	(1,405)	(1,295)	(3,874)	(1,995)	(761)	(338)	(6,288)	(4,244)
Written-off book value of assets on sale of subsidiaries	-	(502)	-	(544)	-	(61)	-	(181)	-	(1,288)
Allowance for impairment	(379)	-	(74)	-	(2)	-	-	-	(455)	-
Transfer to property, plant and equipment	44,096	2,597	53,194	11,379	2,157	5,312	(99,447)	(19,288)	-	-
Transfer to investment property	-	(236)	-	(171)	-	(12)	-	-	-	(419)
Balance at 31 December	**192,298**	**141,457**	**184,038**	**128,032**	**43,126**	**41,107**	**7,795**	**81,946**	**427,257**	**392,542**
Accumulated depreciation and impairment										
Balance at 1 January	**13,893**	**10,575**	**67,379**	**59,685**	**19,196**	**16,317**	**-**	**-**	**100,468**	**86,577**
Depreciation charge for the year	4,307	3,504	11,491	9,305	4,911	4,740	-	-	20,709	17,549
Allowance for impairment	2,291	-	12	-	-	-	-	-	2,303	-
Effects of foreign currency and hyperinflationary restatements	189	5	195	24	61	(21)	-	-	445	8
Depreciation written-off	(14)	(17)	(1,261)	(1,076)	(2,167)	(1,779)	-	-	(3,442)	(2,872)
Written-off depreciation of assets on sale of subsidiaries	-	(174)	-	(559)	(7)	(61)	-	-	(7)	(794)
Balance at 31 December	**20,666**	**13,893**	**77,816**	**67,379**	**21,994**	**19,196**	**-**	**-**	**120,476**	**100,468**
Carrying amount at 31 December	**171,632**	**127,564**	**106,222**	**60,653**	**21,132**	**21,911**	**7,795**	**81,946**	**306,781**	**292,074**
Carrying amount at 1 January	**127,564**	**126,784**	**60,653**	**56,466**	**21,911**	**16,621**	**81,946**	**36,467**	**292,074**	**236,338**

As at 31 December 2013, the tangible fixed assets of the Group include: land amounting to BGN 44,281 thousand (31 December 2012: BGN 42,012 thousand) and buildings of carrying amount BGN 127,351 thousand (31 December 2012: BGN 85,552 thousand).

Tangible fixed assets in progress as at 31 December include:

- advances **-** BGN 5,290 thousand (31 December 2012: BGN 4,332 thousand);
- supply of equipment – BGN 846 thousand (31 December 2012: BGN 20,271 thousand);
- buildings reconstruction – BGN 588 thousand (31 December 2012: BGN 775 thousand);

- expenses on new buildings construction – BGN 295 thousand (31December 2012: BGN 56,353 thousand);
- other – BGN 776 thousand (31 December 2012: BGN 215 thousand).

Finance lease

The carrying amount of the tangible fixed assets (motor vehicles) of the Group obtained under finance lease as at 31 December 2013 was BGN 5,433 thousand (31 December 2012: BGN 3,789 thousand).

Operating lease

The Group has leased fixed tangible assets with carrying amount of BGN 3,368 thousand as at 31 December 2013 to related parties BGN 1,138 thousand). In addition, tangible fixed assets at carrying amount of BGN 844 thousand were leased to third parties as at 31 December 2013 (31 December 2012: BGN 492 thousand).

Other data

The following encumbrances were constituted on tangible fixed assets of the Group as at 31 December 2013 in relation to received loans (Notes 30 and 35) as follows:

- Land and buildings with carrying amount of BGN 25,853 thousand and BGN 95,246 thousand, respectively (31 December 2012: respectively, BGN 15,973 thousand and BGN 53,128 thousand);
- Pledge on facilities with carrying amount of BGN 829 thousand (31 December 2012: BGN 1,214 thousand);
- Pledges on equipment, transportation vehicles and office equipment – BGN 48,039 thousand (31 December 2012: BGN 32,150 thousand).

Revaluation of property, plant and equipment to fair value

As at 31 December 2011, the Company performed an overall review and assessment for price changes of property, plant and equipment of the Group with the assistance of certified appraisers: As a result of this review it made the latest revaluation of property, plant and equipment the results of which are displayed in the consolidated financial statements.

The following two basic approaches and valuation methods were used in these revaluations to measure the fair value of the different types (groups) of tangible fixed assets:

- ‘Market-based approach” through the ‘Market comparables (analogues) method’ – with regard to land and buildings for which actual market existed, analogous properties and transactions with them were observed and basis for comparison was available – their adjusted price determined under the comparative method was accepted as fair value;

- 'Assets (expenses)-based approach' through the 'Method of amortised recoverable amount' – for special-purpose buildings for which no actual market existed, and comparative sales of analogous assets – their amortised recoverable amount was accepted as their fair value and under the hypothesis of their common use in technologically-related production business process (including the term) and taking into account: physical ware, functional and economic impairment.

Revaluation reserve at the amount of BGN 3,099 thousand was then recognised as a result of the revaluation net of impairment.

The Group’s management again analyzed the price changes of its key tangible fixed assets, occurred as at 31 December 2013, and concluded that no conditions and grounds were available for a new revaluation of the assets before the expiry of the adopted usual term. (Note 2.10).

18. INTANGIBLE ASSETS

	Goodwill		*Intellectual property rights*		*Software*		*Other*		*Assets in progress*		*Total*	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Book value												
Balance at 1 January	**21,846**	**21,602**	**10,249**	**9,263**	**5,676**	**5,181**	**2,685**	**1,966**	**2,559**	**2,062**	**43,015**	**40,074**
Additions	318	55	27	184	320	380	1	32	873	1,486	**1,539**	**2,137**
Acquired assets in subsidiaries and joint ventures	-	-	3,047	-	400	-	1,044	679	-	-	**4,491**	**679**
Effects of foreign currency and hyperinflationary restatements	(205)	189	(150)	72	-	(1)	32	20	-	(4)	**(323)**	**276**
Transfer	-	-	381	731	2,065	116	-	(12)	(2,446)	(835)	-	-
Disposals	-	-	(2)	(1)	(78)	-	(29)	-	(77)	(150)	**(186)**	**(151)**
Balance at 31 December	**21,959**	**21,846**	**13,552**	**10,249**	**8,383**	**5,676**	**3,733**	**2,685**	**909**	**2,559**	**48,536**	**43,015**
Accumulated amortisation and impairment												
Balance at 1 January	**8,929**	**6,821**	**3,948**	**2,511**	**3,109**	**2,213**	**649**	**550**	**-**	**-**	**16,635**	**12,095**
Amortisation charge for the year	-	-	1,667	1,493	1,001	898	367	141	7	-	**3,042**	**2,532**
Allowance for impairment	140	2,108	-	-	-	-	-	-	-	-	**140**	**2,108**
Effects of foreign currency and hyperinflationary restatements	-	-	3	(56)	3	(2)	1	(42)	7	-	**14**	**(100)**
Amortisation written-off	-	-	(2)	-	(31)	-	-	-	-	-	**(33)**	-
Balance at 31 December	**9,069**	**8,929**	**5,616**	**3,948**	**4,082**	**3,109**	**1,017**	**649**	**14**	**-**	**19,798**	**16,635**
Carrying amount at 31 December	**12,890**	**12,917**	**7,936**	**6,301**	**4,301**	**2,567**	**2,716**	**2,036**	**895**	**2,559**	**28,738**	**26,380**
Carrying amount at 1 January	**12,917**	**14,781**	**6,301**	**6,752**	**2,567**	**2,968**	**2,036**	**1,416**	**2,559**	**2,062**	**26,380**	**27,979**

The rights on intellectual property include mainly products of development activities related to medicinal substances (active ingredients) and dosage forms and acquired patents and trademarks. Within the total intellectual property, owned by the Group, the largest share belongs to internally created trademarks, which have not been capitalised in the consolidated statement of financial position.

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

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

The other intangible assets include mainly the exclusive contracts with suppliers, licences and distribution network, acquired in business combinations.

Goodwill impairment

For each reporting year, the management of the Group performs the necessary procedures for the mandatory annual test for impairment of goodwill recognised in the consolidated statement of financial position on the acquisition of the subsidiaries Bulgarian Rose Sevtopolis AD, PAO Vitamini, Ivanchich i Sinovi d.o.o., Sopharma Buildings REIT, Momina Krepost AD, Unipharm AD, Briz ltd., Extab Corporation USA, OOO Tabina, ZAO Interpharm, SOOO Brititrade, SOOO Brizpharm, OOO Sopharma Ukraine and the joint-venture OOO Vivaton Plus. For the purpose, it is accepted that each individual company is in its capacity of a ‘cash generating unit’. The calculations are made by the management of the Group and the assistance of an independent certified appraiser was used. The (pre-tax) projected cash flows are based on the financial budgets developed by the management of the respective companies and of the Group as a whole that covered 3 to 5-year period as well as other medium-term and long-term plans and intents for the development and restructuring of the activities within the Group. The recoverable amount of each cash generating unit is determined on the basis of the ‘value in use’. The key assumptions used in the calculations of recoverable amount of each unit are within the following ranges:

- growth rate within a three (or five) year period – from -1 % to 20 %;
- growth rate of EBITDA – from 1% to 67%;
- growth after the projected period upon calculation of terminal value – 0%;
- discount rate (based on WACC) – from 9 % to 30%.

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

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

With regard to this goodwill, the analysis of the reasonably possible changes in the key assumptions, used for the calculation of value in use, shows that the carrying amount of the respective goodwill would be higher than its recoverable amount mainly in: a. change in the discount rate (increase) within the range from 0.2% to 4%; and b. change in EBITDA (decrease)from 0.5% to 50%.

As a result of the calculations made as at 31 December 2013, no need was identified for impairment of recognised goodwill for the subsidiary OOO Tabina to the amount of BGN 140 thousand (31 December 2012: goodwill impairment at the total amount of BGN 2,108 thousand was recognised (for the subsidiary ZAO Interpharm – BGN 669 thousand, OOO Tabina – BGN 543 thousand, Momina Krepost5 AD – BGN 364 thousand, Sopharma Buildings REIT – BGN 484 thousand and Extab Corporation USA – BGN 48 thousand). (Note 11).

19. INVESTMENT PROPERTY

	2013	*2012*
	BGN '000	***BGN '000***
Balance at 1 January	**7,110**	**6,555**
Additions	3,359	-
Capitalised costs	99	-
Disposals	(3)	
Net loss from fair value adjustment, included in profit or loss *(Note 5)*	(31)	116
Effect of restatement	(8)	2
Reclassification from property, plant and equipment *(Note 17)*	-	419
Net gain from fair value adjustment, included in items that will not be reclassified to profit or loss *(Note 16)*	-	18
Balance at 31 December	**10,526**	**7,110**

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. By group they are as follows:

Group of assets	***31.12.2013***	***31.12.2012***
	BGN '000	***BGN '000***
Warehouse premises	3,851	3,773
Offices	3,859	1,539
Production buildings	2,382	1,361
Social objects	434	437
Total	**10,526**	**7,110**

There are established encumbrances on investment property as at 31 December 2013 – mortgage of offices – BGN 1,197 thousand (31 December 2012: BGN 1,205 thousand) (Note 35).

Fair value measurement

Fair value hierarchy

The fair values of the groups of investment properties are categorised as Level 2 fair values based on the inputs to the valuation technique used.

The investment property measurement to fair value is recurring and is due to the application of the fair value model under IAS 40. It is performed regularly at the end of each reporting period. The fair value is determined with the assistance of independent certified appraisers.

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

	Warehouse premises	***Offices***	***Production buildings***	***Social objects***	***Total***
Opening balance at 1 January	**3,773**	**1,539**	**1,361**	**437**	**7,110**
Purchases and capitalised costs	94	2,332	1,032	-	3,458
Disposals	-	-	(3)	-	(3)
Net change in fair value through profit or loss – unrealised *(Note 5)*	(16)	(4)	(8)	(3)	(31)
Effect of restatement	-	(8)	-	-	(8)
Closing balance at 31 December	**3,851**	**3,859**	**2,382**	**434**	**10,526**

Valuation techniques and significant unobservable inputs

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

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

20. INVESTMENTS IN ASSOCIATES

As at 31 December 2013 an associated company is BOOO SpetzApharmacia, Belarus, with trade in pharmaceutical products being its main activity.

Company	**% interest**	**Acquisition cost (cost) BGN'000**	**Date of shares acquisition**
BOOO SpetzApharmacia	38	1,033	03.09.2013

The associates of the Group as at 31 December 2012 were as follows: ODO Alean, Belarus, and ODO Vestpharm, Belarus, with trade in pharmaceutical products being their main activity.

Company	**% interest**	**Acquisition cost BGN'000**	**Date of shares acquisition**
ODO Alean	38	185	26.09.2012
ODO Vestpharm	38	398	29.10.2012
Total		**583**	

The movement of the investments in associates is presented below:

	2013	***2012***
	BGN'000	***BGN'000***
Balance at 1 January	**582**	**-**
Acquisition of shares	4,503	583
Transfer to subsidiaries *(Note 44.1)*	(4,052)	-
Share in the (loss)/profit for the year	14	(1)
Effect from recalculations	(45)	
Balance at 31 December	**1,002**	**582**

The share of the Group in the results of the associates and its aggregated assets (including goodwill) and liabilities is as follows:

31.12.2013	**Share of the assets**	**Share of the liabilities**	**Share of revenue**	**Share of profit/(loss)**	**Interest**
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***%***
BOOO SpetzApharmacia	450	339	624	14	38

The investment in the associate as at 31 December 2013 includes also the recognised goodwill amounting to BGN 455 thousand.

31.12.2012	**Share of the assets**	**Share of the liabilities**	**Share of revenue**	**Share of profit/(loss)**	**Interest**
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***%***
ODO Alean	398	157	183	(4)	38
ODO Vestpharm	548	291	226	3	38

The investment in associates as at 31 December 2012 includes recognised goodwill at the amount of BGN 21 thousand for ODO Alean and BGN 74 thousand for ODO Vestpharm.

21. AVAILABLE-FOR-SALE INVESTMENTS

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

	Country	*31.12.2013 BGN '000*	*Interest %*	*31.12.2012 BGN '000*	*Interest %*
Medica AD	Bulgaria	2,539	10.21	2,574	10.20
Doverie Obedinen Holding AD	Bulgaria	2,303	14.88	15,036	18.80
Olainfarm AD	Latvia	1,313	0.77	1078	0.77
Lavena AD	Bulgaria	1,279	10.90	399	8.47
Hydroizomat AD	Bulgaria	270	10.02	374	9.38
Elpharma AD	Bulgaria	136	19.00	158	19.00
Elana Agrocredit AD	Bulgaria	101	1.95	-	-
Sopharma Properties REIT	Bulgaria	75	0.20	234	0.70
Todorov AD	Bulgaria	39	4.50	33	5.10
CF Elana Money Market Fund	Bulgaria	-	-	104	0.76
Krimgaz OAO	Ukraine	-	-	2,734	9.07
OOO NPK Biotest	Belarus	-	-	491	19.00
BelAgroMed	Belarus	-	-	92	19.00
Other		132		118	
Total		**8,187**		**23,425**	

"Other" available-for-sale financial assets as at 31 December 2013, amounting to BGN 132 thousand (31 December 2012: BGN 118 thousand), include a number of minority interests of the Group in the capital of ten companies (31 December 2012: nine companies). They are measured and presented in the consolidated financial statements at acquisition cost.

The available-for-sale investments measured at fair value as at 31 December 2013 are as follows:

	31.12.2013			*31.12.2012*		
	Number of shares held	*Fair value per share*	*Fair value as per the statement of financial position*	*Number of shares held*	*Fair value per share*	*Fair value as per the statement of financial position*
		BGN	*BGN'000*		*BGN*	*BGN'000*
Medica AD	1,027,561	2.47	2,539	1,026,969	2.51	2,574
Doverie Obedinen Holding AD	2,789,345	0.83	2,303	3,521,003	4.27	15,036
Olainfarm AD	108,500	12.10	1,313	108,500	9.94	1,078
Lavena AD	29,062	44.01	1,279	16,959	23.53	399
Hydroizomat AD	299,499	0.90	270	280,437	1.33	373
Elpharma AD	95	1,431.58	136	95	1,663.16	158
Elana Agrocredit AD	100,000	1.01	101	-	-	-
Sopharma Properties REIT	30,656	2.46	75	90,870	2.59	235
Todorov AD	152,919	0.25	39	173,469	0.19	33
Maritzatex AD	58,201	-	-	-	-	-
CF Elana Money Market Fund	-	-	-	742	139.75	104
Krimgaz OAO	-	-	-	1,335,175	2.05	2,734
OOO NPK Biotest*	-	-	-	-	-	491
ODO BelAgroMed*	-	-	-	-	-	92
Total			**8,055**			**23,307**

* Due to the specifics of the Belarusian legislation the proportion of the share in the capital of the Belarusian companies OOO NPK Biotest and ODO Belagromed is determined as % from the total capital, and corresponds to the ratio between the value of the paid-in capital of the corresponding company and its registered capital. Due to this it is not possible to determine fair value per share of the acquired investments in these companies as at 31 December 2012

The table below presents Company's available-for-sale investments, which are measured at fair value on a recurring basis in the consolidated statement of financial position:

Fair value hierarchy

Available-for-sale financial investments	***Fair value 31.12.2013***	***(Level 1)***	***(Level 2)***	***(Level 3)***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
Medica AD	2,539	-	-	2,539
Doverie Obedinen Holding AD	2,303	-	-	2,303
Olainfarm AD – Latvia	1,313	1,313	-	-
Lavena AD	1,279	-	1,279	-
Hydroizomat AD	270	-	270	-
Elpharma AD	136	-	-	136
Elana Agrocredit AD	101	101	-	-
Sopharma Properties AD	75	-	75	-
Todorov AD	39	39	-	-
Total	**8,055**	**1,453**	**1,624**	**4,978**

Available-for-sale financial investments	***Fair value 31.12.2012***	***(Level 1)***	***(Level 2)***	***(Level 3)***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***
Doverie Obedinen Holding AD	15,036	-	-	15,036
OAO Krimgaz, Ukraine	2,734	-	-	2,734
Medica AD	2,574	-	-	2,574
Olainfarm AD – Latvia	1,078	1,078	-	-
Lavena AD	399	-	399	-
Hydroizomat AD	374	-	374	-
Sopharma Properties AD	234	-	234	-
Elpharma AD	158	-	-	158
CF Elana Money Market Fund	104	104	-	-
Todorov AD	33	-	33	-
OOO NPK Biotest, Belarus	491	-	-	491
BelAgroMed, Belarus	92	-	-	92
Total	**23,307**	**1,182**	**1,040**	**21,085**

The table below shows reconciliation between the opening and closing balances of the fair values at Level 1, Level 2 and Level 3:

Available-for-sale financial investments	***(Level 1)*** ***BGN'000***	***(Level 2)*** ***BGN'000***	***(Level 3)*** ***BGN'000***	***Total*** ***BGN'000***
Balance at 1 January 2012	**703**	**1,090**	**18,053**	**19,846**
Purchases	104	294	647	1,045
Emissions	-	271	2,081	2,352
Sales	-	(10)	(10)	(20)
Realised gain/(loss) included in the current profit and loss for the year in the item *Finance income – Net gain on transactions with securities*	-	1	(7)	(6)
Unrealised gain/(loss) included in the current profit and loss for the year *(Note 13)*	-	(606)	(518)	(1,124)
Unrealised gain included in other comprehensive income *(Note 15)*	375	-	839	1,214
Balance at 31 December 2012	**1,182**	**1,040**	**21,085**	**23,307**
Purchases	109	686	791	1,586
Emissions	-	174	-	174
Reclassification to subsidiaries	-	-	(583)	(583)
Sales	(113)	(203)	(4,132)	(4,448)
Realised gain/(loss) included in the current profit and loss for the year in the item *Finance costs – Net loss on transactions with securities*	1	(6)	(5,721)	(5,726)
Transfers to Level 1	-	(29)	-	(29)
Transfers from Level 2	29	-	-	29
Unrealised loss included in the current profit and loss for the year *(Note 13)*	-	(316)	(6,453)	(6,769)
Unrealised gain/(loss) included in other comprehensive income *(Note 15)*	245	278	(9)	514
Balance at 31 December 2013	**1,453**	**1,624**	**4,978**	**8,055**

Valuation techniques and significant unobservable inputs

The table below shows the valuation techniques used in measuring the fair value as at 31 December 2013 at Level 2 and Level 3 as well as the used significant unobservable inputs:

Available-for-sale financial investments (shares)	***Valuation approaches and techniques***	***Significant unobservable inputs***
Level 2	*Market comparables approach:* Valuation technique: Market multiples method	-
Level 3	*a. Income approach* Valuation technique: Discounted cash flows method	* projected annual revenue growth rate * revenue growth rate after the projected period * projected annual growth rate of expenses * discount rate (based on WACC)
	b. Market approach Valuation technique: Market multiples method (supportive valuation technique)	-

Quantitative information about fair value measurements (Level 3)

The table below presents quantitative information regarding fair value measurements in which significant unobservable inputs have been used (Level 3):

Valuation technique	***Unobservable inputs***	***Range (weighted average)***	***Relationship between significant unobservable inputs and fair value measurement – sensitivity to key assumptions***
Discounted cash flows			The estimated fair value would increase (decrease), if:
	* projected annual revenue growth rate	* 0 % - 3 % (weighted average 1.5%)	* the projected annual revenue growth rate was higher (lower)
	* revenue growth rate after the projected period	* 2 % (weighted average 2 %)	* the revenue growth rate after the projected period was higher (lower)
	* projected annual growth rate of expenses	* 0 % (weighted average 0 %)	* the projected annual growth rate of expenses was lower (higher)
	* discount rate (based on WACC)	* 8.5%-11.30% (weighted average 9.9 %)	* the discount rate was lower (higher)

Sensitivity analysis

The sensitivity analysis of the fair value of available-for-sale financial investments (shares) Level 3 to the significant unobservable inputs is based on the reasonably possible changes (increase or decrease) by 0.5% of each of the individual indicators presented:

a. projected annual revenue growth rate
b. revenue growth rate after the projected period
c. projected annual growth rate of expenses
d. discount rate (based on WACC)

while accepting that the others remain unchanged.

The effects of the change in the significant unobservable inputs on: (a) *the fair value* of the measured assets (Level 3), (b) *the current profit for the year,* and (c) the equity component *Available-for-sale financial assets reserve as at 31 December 2013,* are presented in the table below:

Significant unobservable inputs	*Fair value of available-for-sale financial investments (shares) (Level 3)*		*Current profit for the year*		*Equity – component Available-for-sale financial assets reserve*	
Effect in BGN'000	*Increase*	*Decrease*	*Increase*	*Decrease*	*Increase*	*Decrease*
31 December 2013						
Projected annual revenue growth rate	261	(321)	72	(188)	189	(133)
Revenue growth rate after the projected period	403	(359)	252	(233)	151	(126)
Projected annual growth rate of expenses	(1,401)	1,488	(1,379)	1,377	(22)	111
Discount rate (based on WACC)	(536)	482	(399)	329	(137)	153

22. NON-CURRENT RECEIVABLES FROM RELATED PARTIES

The *non-current receivables from related parties* as at 31 December refer to companies related through key managing personnel and include:

	31.12.2013	***31.12.2012***
	BGN '000	***BGN '000***
Long-term loans granted to related parties	25,221	748
Receivable under a long-term rental deposit granted	435	435
Total	**25,656**	**1,183**

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

Currency	*Contracted amount*	*Maturity*	*Interest %*	*31.12.2013*		*31.12.2012*	
	'000			*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
					including interest		*including interest*
EUR	10,637	01.12.2015	5.00%	22,554	*1,750*	-	-
EUR	1,278	01.12.2015	5.00%	2,660	*160*	-	-
BYR	84,500	30.09.2022	-	*7*	-	-	-
BGN	1,100	31.12.2014	*8.08%*	-	-	748	*25*
Total				**25,221**	***1,910***	**748**	***25***

The long-term loans granted to related parties are not secured by collateral.

The deposit receivable related with a rent under a concluded rental contract for administrative offices with validity term on 1 August 2022.

23. OTHER NON-CURRENT RECEIVABLES

The ***other non-current receivables*** of the Group as at 31 December include:

	31.12.2013	*31.12.2012*
	BGN'000	*BGN'000*
Loans granted	467	1,314
Other	118	146
Total	**585**	**1,460**

The *loans granted* by the Group as at 31 December 2013 are to third parties, without collateral and with agreed annual interest from 2% to 8.08% (31 December 2012: from 7 % to 8.08 %).

24. INVENTORIES

Inventories include:	***31.12.2013***	***31.12.2012***
	BGN'000	***BGN'000***
Goods	64,749	55,012
Finished products	33,969	38,954
Materials	33,897	29,228
Work-in-progress	4,589	4,574
Semi-finished products	2,392	3,182
Total	**139,596**	**130,950**

Goods *by type are as follows:*	***31.12.2013***	***31.12.2012***
	BGN'000	***BGN'000***
Tablet dosage forms	35,167	26,986
Ampoule dosage forms	10,444	10,379
Syrups	2,727	2,314
Ointments	2,072	1,472
Drops	1,454	2,177
Goods in transit	883	883
Other	12,002	10,801
Total	**64,749**	**55,012**

Finished products existing at 31 December include:

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
Tablet dosage forms	20,082	26,146
Ampoule dosage forms	5,081	6,969
Syrups	2,970	2,418
Other	5,836	3,421
Total	**33,969**	**38,954**

Materials by type are as follows:	***31.12.2013***	***31.12.2012***
	BGN'000	***BGN'000***
Basic materials	31,141	25,235
Auxiliary materials	619	484
Materials in transit	457	1,909
Technical materials	413	426
Spare parts	374	389
Other	893	785
Total	**33,897**	**29,228**

Basic materials by type are as follows:

	31.12.2013	*31.12.2012*
	BGN'000	***BGN'000***
Substances (active ingredients)	20,789	15,573
Vials, tubes and ampoules	3,317	3,695
Chemicals	2,224	2,108
Packaging materials	2,013	1,351
PVC and aluminium foil	1,159	1,279
Herbs	859	648
Other	780	581
Total	**31,141**	**25,235**

As at 31 December 2013, there were established special pledges on inventories at the amount of BGN 75,509 thousand (31 December 2012: BGN 88,380 thousand) as collateral under received by the Group bank loans and issued bank guarantees (Notes 30, 35 and 41).

25. TRADE RECEIVABLES

Trade receivables include:	***31.12.2013***	***31.12.2012***
	BGN'000	***BGN'000***
Receivables from clients	*189,818*	*158,129*
Impairment of uncollectable receivables	*(2,758)*	*(3,345)*
Receivables from clients, net	187,060	154,784
Advances to suppliers	*4,126*	*5,816*
Impairment of advances	*(54)*	*(42)*
Advances granted, net	4,072	5,774
Total	**191,132**	**160,558**

The ***receivables from clients*** are interest-free and are mainly denominated in BGN and EUR.

Usually the Group companies negotiate with their clients payment term within the range of 30 to 180 days for receivables under sales unless there are determined specific conditions for maturity for particular clients or in the cases where new markets and products are developed and new trade counterparts are attracted.

The Group has set a common credit period of 180 days for which no interest is charged to clients. Any delay after this period is regarded by the Group as an indicator for impairment. The management of the Group companies assess collectability by analysing the exposure of the particular client, the opportunities for settlement (of the client and through the collateral) and make a decision on the amount, the recognition and charging of the respective impairment.

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

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
up to 30 days	53,775	38,510
from 31 to 90 days	52,377	47,308
from 91 to 180 days	18,419	23,154
from 181 to 365 days	6,172	3,401
from 1 to 2 years	3,824	891
over 2 years	635	-
Total	**135,202**	**113,264**

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

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
from 31 to 90 days	9,409	11,485
from 91 to 180 days	4,287	3,507
from 181 to 365 days	11,006	7,131
from 1 to 2 years	2,520	3,102
over 2 years	365	1,291
Total	**27,587**	**26,516**

With regard to the past due but not impaired receivables, there are usually already achieved or pending agreements for interest-bearing rescheduling of payments for each specific client (including penalty interest for delay).

The *age structure* of past due impaired trade receivables is as follows:

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
from 31 to 90 days	822	390
from 91 to 180 days	3,343	1,788
from 181 to 365 days	10,042	5,041
from 1 to 2 years	9,464	7,652
over 2 years	3,358	3,478
Allowance for impairment	(2,758)	(3,345)
Total	**24,271**	**15,004**

The larger part of the past due impaired receivables is from state hospitals and interest is charged and invoiced thereon. For this reason, the management of the Group made an assessment that only a partial impairment was necessary for the above receivables.

As at 31 December 2013, there were established special pledges on trade receivables at the amount of BGN 88,700 thousand (31 December 2012: BGN 32,562 thousand) as collateral under received by the Group bank loans and issued bank guarantees (Notes 30, 35 and 41).

Movement of the allowance for impairment

	2013	*2012*
	BGN'000	***BGN'000***
Balance at the beginning of the year	**3,345**	**3,296**
Impairment amount	*1,368*	*274*
Amounts written-off as uncollectable receivables	*(389)*	*(29)*
Reversed impairment	*(1,118)*	*(156)*
Transfer to impairment of legal claims *(Note 27)*	*(448)*	*(30)*
Effect of restatement	**-**	*(10)*
Balance at the end of the year	**2,758**	**3,345**

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

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
Services	*1,938*	*419*
Raw materials and consumables	*1,259*	*1,932*
Goods	*899*	*3,368*
Other	*30*	*97*
Allowance for impairment	*(54)*	*(42)*
Total	**4,072**	**5,774**

26. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include*:*	***31.12.2013***	***31.12.2012***
	BGN'000	***BGN'000***
Receivables from companies related through key managing personnel	20,411	39,981
Receivables from companies under a common indirect control	8,352	12,359
Receivables from main shareholding companies	-	8,531
Total	**28,763**	**60,871**

The ***receivables from related parties*** by type are as follows:

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
Trade loans granted	25,359	56,553
Receivables on sales of finished products and materials	3,404	4,318
Total	**28,763**	**60,871**

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

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
Companies related through key managing personnel	17,726	37,156
Companies under a common indirect control	7,633	10,866
Main shareholding companies	-	8,531
Total	**25,359**	**56,553**

The ***granted loans*** are as follows:

Currency	***Contracted amount***	***Maturity***	***Interest***	***31.12.2013***		***31.12.2012***	
	'000		*%*	*BGN '000*	*BGN '000 including interest*	*BGN '000*	*BGN '000 including interest*
to companies related through key managing personnel							
EUR	10,455	31.12.2014	4.50%	11,346	16	12,257	*62*
BGN	27,050	31.08.2014	8.08%	5,662	14	9,230	-
BGN	1,300	31.12.2014	8.08%	551	50	510	*9*
BGN	190	31.12.2014	8.08%	167	-	227	*37*
BGN	18,478	31.12.2013	8.30%	-	-	14,932	*324*
to companies under a common indirect control							
EUR	7,661	31.12.2014	4.50%	7,477	-	10,010	-
BGN	120	10.02.2014	8.08%	156	36	146	*26*
BGN	1,375	31.12.2013	8.08%	-	-	710	-
to main shareholding companies							
EUR	4,035	31.12.2013	4.80%	-	-	8,170	*278*
BGN	300	31.12.2013	8.08%	-	-	361	*61*
				25,359	**116**	**56,553**	**797**

The ***receivables on sales of finished products and materials*** are interest-free and denominated in BGN and in EUR.

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

The Group has set a maximum credit period of up to 365 days to sales counterparts – related parties. Any delay after this period is regarded by the Group as an indicator for impairment. The management of the Group companies assess collectability by analysing the specific receivables and the position of the debtor company as well as the circumstances for the delay and the opportunities for repayment and after that, they take a decision on whether impairment shall be recognised and charged on individual basis and at what amount.

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

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
up to 30 days	1,561	506
from 31 to 90 days	742	373
from 91 to 180 days	112	2,824
from 181 to 365 days	172	-
Total	**2,587**	**3,703**

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

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
from 31 to 90 days	145	275
from 91 to 180 days	92	-
from 181 to 365 days	247	2
Total	**484**	**277**

The ***age structure*** of past due impaired receivables from related parties is as follows:

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
over 1 year	519	816
Allowance for impairment	(186)	(478)
	333	**338**

Movement of the allowance for impairment

	2013	***2012***
	BGN'000	***BGN'000***
Balance at 1 January	**478**	**399**
Impairment amount	186	79
Reversed impairment	(225)	-
Impairment written-off as uncollectable receivables	(253)	-
Balance at 31 December	**186**	**478**

27. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments of the Group include:

	31.12.2013 ***BGN'000***	***31.12.2012*** ***BGN'000***
Court and awarded receivables	*6,023*	*13,067*
Impairment of court receivables	*(5,226)*	*(2,736)*
Court and awarded receivables, net	797	10,331
Taxes refundable	5,636	7,824
Prepayments	1,669	1,519
Loans granted to third parties	1,242	482
Guarantees under litigations *(Note 41)*	733	846
Receivables on deposits placed as guarantees	705	664
Amounts granted to an investment intermediary	327	652
Other	530	203
Total	**11,639**	**22,521**

The court and awarded receivables originate mainly in relation to sales to state hospitals. Repayment schedules have been agreed or in a process of agreement for most of them. For this reason, the management of the Group has made an assessment that only a partial impairment is necessary for the above receivables.

Taxes refundable include:	***31.12.2013*** ***BGN'000***	***31.12.2012*** ***BGN'000***
Excise duties	4,110	3,878
VAT	861	2,309
Income tax	630	1,527
Withholding taxes	35	110
Total	**5,636**	**7,824**

Prepayments include:	***31.12.2013*** ***BGN'000***	***31.12.2012*** ***BGN'000***
Insurance	603	587
Subscriptions	364	544
Advertising	287	148
Rentals	88	111
Licence and patent fees	49	23
Vouchers	33	8
Other	245	98
Total	**1,669**	**1,519**

The loans granted to third parties amounted to BGN 1,242 thousand (31 December 2012: BGN 482 thousand) and were granted to nine entities (2012: nine entities) – counterparts for working capital. The annual interest agreed for these loans for 2013 was between 2 % and 8.08 % (2012: 6% and 8.08%).

28. CASH AND CASH EQUIVALENTS

	31.12.2013 *BGN'000*	*31.12.2012* *BGN'000*
Cash at current bank accounts	20,819	11,847
Short-term deposits	3,875	2,718
Cash in hand	1,870	1,129
Short-term blocked funds	65	73
Cash and cash equivalents presented in the statement of cash flows	**26,629**	**15,767**
Blocked cash under litigations	527	-
Cash and cash equivalents presented in the consolidated statement of financial position	**27,156**	**15,767**

The available cash and cash equivalents of the Group are mainly denominated in BGN,EUR and in BYR (31 December 2012: BGN and EUR).

The average level of the annual interest on current accounts in BGN and foreign currency is within the range from 0.01% to 0.5% (2012: from 0.10% to 0.11%) and that on deposit accounts in BGN and foreign currency is mainly within the range from 0.3% to 5.25% (2012: from 0.43 % to 5.5 %).

The short-term blocked funds as at 31 December 2013 amounting to BGN 65 thousand (31 December 2012: BGN 73 thousand) represent mainly performance guarantees.

With regard to the current accounts in foreign currencies there is an active distraint levied under a litigation at the amount of BGN 527 thousand (USD 372 thousand) (31 December 2012: none) *(Note 41)*.

29. EQUITY

Share capital

As at 31 December 2013, the registered share capital of SOPHARMA AD amounted to BGN 132,000 thousand distributed in 132,000,000 shares of nominal value BGN 1 each.

The treasury shares were 5,675,342 at the amount of BGN 18,995 thousand (31 December 2012: 3,853,735 at the amount of BGN 13,594 thousand), based on a decision of the General Meeting of Shareholders of 23 June 2010.

The ***statutory reserves*** amounting to BGN 30,051 thousand (31 December 2012: BGN 25,934 thousand) were set aside from allocation of profit of the parent company and included all amounts for the Reserve Fund.

The ***revaluation reserve – for property, plant and equipment*** amounting to BGN 24,657 thousand (31 December 2012: BGN 26,395 thousand) was set aside from the positive difference between the carrying amount of property, plant and equipment of the Group companies and their fair values at the dates of the respective regular revaluation. The effect of deferred taxes on the revaluation reserve is stated directly through other components of comprehensive income for the year.

Available-for-sale financial assets reserve amounting to BGN 961 thousand – a positive figure (31 December 2012: BGN 1,048 thousand – a positive figure) was set aside from the effects of subsequent measurement of available-for-sale investments to fair value (including the consolidated share of the change in this reserve in associates on their valuation under the equity method)..

The ***Translation of foreign operations reserve*** amounting to BGN 4,661 thousand – a negative figure (31 December 2012: BGN 3,804 thousand – a negative figure) was set aside from exchange differences arising as a result of translation of the currency in the financial statements of foreign companies to the presentation currency of the Group.

The ***Retained Earnings reserve*** includes also the component 'other reserves', which contains the amounts distributed from profits of the Group companies generated in prior years, as well as a component 'accumulated profits/losses'.

Retained earnings, amounting to BGN 194,585 thousand at 31 December (31 December 2012: BGN 177,617 thousand), include also recognised accumulated actuarial loss at the amount of BGN 975 thousand (31 December 2012: BGN 858 thousand), stated upon remeasurements of defined benefit pension plans in relation with the amendment to IAS 19 *Employee Benefits.*

Basic earnings per share

	2013	***2012***
Weighted average number of shares	127,148,634	128,557,606
Net profit for the year, attributable to the equity holders of the parent (BGN'000)	29,248	35,196
Basic earnings per share (BGN)	**0.23**	**0.27**

30. LONG-TERM BANK LOANS

	Contracted loan amount	*Maturity*	*31.12.2013*			*31.12.2012*		
			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*
Credit lines and working capital loans								
EUR	1,452	31.12.2017	1,622	582	2,204	2,188	614	2,802
BGN	4,250	16.04.2023	1,342	201	1,543	-	-	-
EUR	450	31.12.2017	514	174	688	690	191	881
EUR	113	30.11.2015	62	68	130	130	74	204
EUR	500	07.04.2014	-	301	301	301	677	978
EUR	300	28.06.2014	-	-	-	-	303	303
Investment-purpose loans								
EUR	32,000	15.04.2021	48,723	3,822	52,545	51,779	5,888	57,667
EUR	2,000	30.06.2018	3,341	566	3,907	-	-	-
EUR	1,800	25.07.2014	-	543	543	542	960	1,502
EUR	1,617	30.01.2015	40	479	519	519	479	998
EUR	800	09.12.2015	348	347	695	695	348	1,043
EUR	1,675	30.06.2013	-	-	-	-	25	25
Total			**55,992**	**7,083**	**63,075**	**56,844**	**9,559**	**66,403**

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

The bank loans received in Euro are mainly agreed at interest rate based on EURIBOR plus a mark-up of 5 points (2012: EURIBOR plus a mark-up of 5 points).

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

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

- Real estate mortgages *(Note 17);*
- Special pledges on:
  - machinery and equipment *(Note 17);*
  - raw materials, consumables and finished products *(Note 24)*;
  - trade receivables *(Note 25).*

As at 31 December 2013, there were established special pledges on receivables from related parties subject to consolidation and elimination for the purpose of the consolidation financial statements at the amount of BGN 1,481 thousand (31 December 2012: BGN 1,481 thousand) as collateral under received by the Group bank loans and issued bank guarantees *(Notes 30, 35 and 41)*.

31. DEFERRED TAX ASSETS AND LIABILITIES

The total change in ***deferred tax assets and liabilities*** of the Group for the respective financial year is as follows:

	2013	2012
	BGN'000	*BGN'000*
Balance at 1 January	**(3,255)**	**(4,822)**
Acquired on purchase of a subsidiary	(812)	(70)
Recognised in profit or loss for the year	2,189	1,322
Recognised in other components of comprehensive income	35	(2)
Derecognised on disposal of a subsidiary	-	299
Translation of foreign operations reserve	223	18
Balance at 31 December	**(1,620)**	**(3,255)**

On recognising deferred tax assets, the probability of a reversal of the individual differences and the abilities of the Group companies to generate sufficient taxable profit in the future, have been taken into account (Note 2.33.2).

Deferred tax assets for the following temporary differences have not been recognised:

	31.12.2013	*31.12.2013*	*31.12.2012*	*31.12.2012*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
	temporary difference	*Tax*	*temporary difference*	*Tax*
Tax loss carried forward	6,251	811	10,575	1,957
Impairment of assets	13,316	1,332	13,361	1,856
Other	314	31	374	37
	19,881	**2,174**	**24,310**	**3,850**

The change in the balance of ***deferred tax assets*** for 2013 by items of temporary differences is as follows:

Deferred tax assets (by temporary differences)	*Balance at 1 January 2013*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Translation of foreign operations reserve*	*Balance at 31 December 2013*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Intangible assets	200	-	(4)	-	-	1	197
Available-for-sale investments	199	-	51	-	-	(7)	243
Inventories	3,359	-	794	-	-	47	4,200
Trade receivables	932	-	544	-	-	-	1,476
Retirement benefit obligations to personnel	492	-	207	-	-	(3)	696
Other current liabilities	67	(2)	208	-	-	15	288
Total	**5,249**	**(2)**	**1,800**	**-**	**-**	**53**	**7,100**

The change in the balance of ***deferred tax liabilities*** for 2013 by items of temporary differences is as follows:

Deferred tax liabilities (by temporary differences)	*Balance at 1 January 2013*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Translation of foreign operations reserve*	*Balance at 31 December 2013*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(7,650)	-	308	35	-	61	(7,246)
Intangible assets acquired in business combinations	(854)	(810)	81	-	-	109	(1,474)
Total	**(8,504)**	**(810)**	**389**	**35**	**-**	**170**	**(8,720)**

The change in the balance of ***deferred tax assets*** for 2012 by items of temporary differences is as follows:

Deferred tax assets (by temporary differences)	*Balance at 1 January 2012*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Translation of foreign operations reserve*	*Balance at 31 December 2012*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Intangible assets	117	-	61	-	-	22	200
Available-for-sale investments	98	53	48	-	-	-	199
Inventories	2,771	-	642	-	-	(54)	3,359
Trade receivables	725	-	207	-	-	-	932
Retirement benefit obligations to personnel	465	-	70	-	-	(43)	492
Other current liabilities	69	-	-	-	(2)	-	67
Total	**4,245**	**53**	**1,028**	**-**	**(2)**	**(75)**	**5,249**

The change in the balance of ***deferred tax liabilities*** for 2012 by items of temporary differences is as follows:

Deferred tax liabilities (by temporary differences)	*Balance at 1 January 2012*	*Acquired on purchase of a subsidiary*	*Recognised in profit or loss for the year*	*Recognised in other comprehensive income*	*Derecognised on disposal of a subsidiary*	*Translation of foreign operations reserve*	*Balance at 31 December 2012*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(8,129)	-	129	(2)	301	51	(7,650)
Intangible assets acquired in business combinations	(938)	(123)	165	8	-	34	(854)
Total	**(9,067)**	**(123)**	**294**	**6**	**301**	**85**	**(8,504)**

32. RETIREMENT BENEFIT OBLIGATIONS

The long-term employee benefits as at 31 December include:

	2013	*2012*
	BGN '000	*BGN '000*
Long-term retirement benefit obligations	3,412	2,614
Long-term benefit obligations for tantieme	145	-
Total	**3,557**	**2,614**

Long-term retirement benefit obligations

The long-term payables to personnel include the present value of the obligation of the Group companies, operating mainly in *Bulgaria, Ukraine and Serbia*, to pay indemnities to the hired personnel at the date of the statement of financial position on coming of age for retirement.

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

The obligations of the employer to the personnel on retirement for the companies abroad are as follows:

- *Serbia* – the employer is obliged to pay 3 average salaries;
- *Ukraine* – the employer is obliged to pay between BGN 25 and BGN 50 depending on the length of service as well as social pensions, which the company accrues after employees' retirement due to specific work conditions;
- *The Russian Federation, Latvia and Belarus* – the employer has no legal obligation to personnel upon retirement;
- *Poland, USA and United Kingdom* – the Group has no hired personnel and therefore, no obligation.

For the purpose of establishing the amount of these obligations to personnel, the Group companies have assigned an actuarial valuation by using the services of a certified actuary.

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

	2013	*2012*
	BGN'000	*BGN '000*
Present value of the obligation at 1 January	**2,614**	**2,438**
Current service cost for the year	834	267
Interest cost for the year	139	118
Payments made in the year	(296)	(434)
Effect of restatement	-	(10)
Remeasurement gains or losses for the year, including:	121	235
Actuarial losses arising from changes in financial assumptions	*80*	*166*
Actuarial losses arising from changes in demographic assumptions	*7*	-
Actuarial losses arising from experience adjustments	*34*	*69*
Present value of the obligation at 31 December	**3,412**	**2,614**

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

	2013	***2012***
	BGN'000	***BGN '000***
Current service cost	838	267
Interest cost	139	118
Components of defined benefit costs recognised in profit or loss (Note 8)	**977**	**385**
Remeasurement gains or losses on the retirement benefit obligations, including:		
Actuarial losses arising from changes in financial assumptions	72	166
Actuarial losses arising from changes in demographic assumptions	7	-
Actuarial losses arising from experience adjustments	38	69
Components of defined benefit plan costs recognised in other comprehensive income *(Note 16)*	**117**	**235**
Total	**1,094**	**620**

The following actuarial assumptions were used in calculating the present value of the liabilities for the companies in Bulgaria as at 31 December 2013:

- The discount factor is calculated by using 4 % annual interest rate as basis (2012: 4.5 %). The assumption is based on yield data for long-term government securities with 10-year maturity;
- The assumption for the future level of the salaries is based on the information provided by the Company's management and amounts to 5 % annual growth compared to the prior reporting period (2012: 5 %);
- Mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2010 - 2012 (2012: 2009 - 2011);
- Staff turnover rate – from 0 % to 16 % for the five age groups formed (2012: from 0% to 16 %).

This defined benefit plan exposes the Group companies to the following risks: investment risk, interest risk, longevity risk and salary growth related risk: The management of the parent defines them as follows:

- investment risk – as far as this is unfunded plan, the Group companies should monitor and balance currently the forthcoming payments under it with the ensuring of sufficient cash resources. The historical experience and the liability structure show that the annual resource required is not material compared to the commonly maintained liquid funds;
- interest risk – any increase in the yield of government securities with similar term will increase the plan liability;
- longevity risk – the present value of the retirement benefit liability is calculated by reference to the best estimate and updated information about the mortality of plan participants. An increase

in life expectancy would result in a possible increase in the liability. A relative stability of this indicator has been observed in the recent years; and

- salary growth related risk – the present value of the retirement benefit liability is calculated by reference to the best estimate of the future increase in plan participants' salaries. Such an increase would increase the plan liability.

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

The effects of the change (increase or decrease) by 1% of salary growth, discount rate and staff turnover rate on the amount of the stated current service cost and interest cost for 2013 and respectively, on the present value of the obligation for payment of defined retirement benefits, are assessed as follows:

Effects of changes in the basic assumptions on the amount of stated expenses for 2013:

	Increase	***Decrease***
	BGN '000	*BGN '000*
Change in salary growth	37	(33)
Change in discount rate	(16)	21
Change in staff turnover rate	(26)	25

Effects of changes in the basic assumptions on the amount of the stated liability as at 31 December 2013:

	Increase	***Decrease***
	BGN '000	*BGN '000*
Change in salary growth	230	(198)
Change in discount rate	(173)	200
Change in staff turnover rate	(148)	158

The weighted average duration of the defined benefit obligation to personnel is within the range of 6 to 13.2 years.

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

Forecasted payments	***Total***
	BGN '000
Payments in 2014	755
Payments in 2015	308
Payments in 2016	389
Payments in 2017	404
Payments in 2018	405
Total	**2,261**

33. FINANCE LEASE LIABILITIES

As at 31 December, the finance lease liabilities are under revocable contracts for motor vehicles acquisition. They are presented net of the interest due in the future and are as follows:

Term	***31.12.2013***	***31.12.2012***
	BGN'000	***BGN'000***
Up to one year *(Note 40)*	700	1,011
Over one year	2,382	2,509
Total	**3,082**	**3,520**

The minimum lease payments under finance lease are due as follows:

Term	***31.12.2013***	***31.12.2012***
	BGN'000	***BGN'000***
Up to one year	797	1,512
From one to three years	3,137	3,583
	3,934	5,095
Future finance costs under finance leases	(852)	(1,575)
Total	**3,082**	**3,520**

The lease payments due within the next 12 months are presented in the consolidated statement of financial position as 'other current liabilities' *(Note 40)*.

34. GOVERNMENT GRANTS

The government grants to Group companies as at 31 December include:

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
Government grants, non-current portion	5,612	2,567
Government grants, current portion *(Note 40)*	667	463
Total	**6,279**	**3,030**

The government grants received as at 31 December are to the following Group companies:

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
Sopharma AD	3,712	-
Unipharm AD	1,690	2,024
Bulgarian Rose Sevtopolis AD	850	970
Sopharma Trading AD	27	36
Total	**6,279**	**3,030**

This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year 2013.

The government grants are received by the Group companies under European Operational Programmesmainly in relation to the acquisition of machinery and equipment *(Note 17 and Note 41)*.

The current portion of the grants, amounting to BGN 667 thousand (31 December 2012: BGN 463 thousand), will be recognised as current income over the following 12 months from the date of the consolidated statement of financial position and is presented as 'other current liabilities' *(Note 40)*.

35. SHORT-TERM BANK LOANS

The short-term bank loans of the Group as at 31 December are as follows:

Currency	*Contracted amount*	*Maturity*	*31.12.2013*	*31.12.2012*
	'000		*BGN'000*	*BGN'000*
Bank loans (overdrafts)				
EUR	20,000	31.05.2014	38,522	39,091
EUR	27,382	31.08.2014	24,514	3,359
EUR	19,529	30.06.2014	19,529	19,558
EUR	7,000	23.03.2015	13,691	-
EUR	10,757	25.04.2014	10,757	-
BGN	10,000	30.06.2014	10,002	10,003
BGN	10,000	30.06.2014	9,980	-
BGN	5,000	31.05.2014	9,806	9,785
EUR	12,500	17.02.2014	8,472	24,384
BGN	5,000	31.05.2014	5,072	-
EUR	5,867	25.04.2014	4,876	5,859
EUR	2,108	28.08.2014	4,193	-
EUR	4,009	30.08.2014	3,904	2,252
USD	600	08.06.2014	727	-
EUR	500	15.09.2014	677	-
USD	490	22.12.2014	446	-
USD	250	21.01.2014	252	-
BGN	500	20.09.2014	206	285
USD	4,000	01.05.2013	-	5,936
EUR	1,968	01.05.2013	-	3,632
EUR	3,000	28.09.2013	-	2,858
			165,626	**127,002**
Credit lines				
EUR	8,434	30.06.2014	15,884	15,909
BGN	18,000	30.08.2014	13,041	15,028
BGN	15,000	31.01.2014	7,335	19,772
EUR	5,000	31.08.2014	6,628	9,772
EUR	129	30.06.2014	129	129
EUR	3,000	25.08.2013	-	5,863
EUR	2,500	20.11.2013	-	4,851
EUR	2,500	06.09.2013	-	3,865
EUR	2,500	31.08.2013	-	1,803
			43,017	**76,992**
Total			**208,643**	**203,994**

The bank loans obtained in Euro are contracted at interest rate determined on the basis of EURIBOR plus a mark-up of up to 3.5% or EONIA plus a mark-up of up to 2.1%, loans in BGN –SOFIBOR plus a mark-up of up to 3.75% and in USD – LIBOR plus a mark-up of up to 3.25%, floating or fixed 9.50% and in UAH – 5.446% (2012: EURIBOR plus a mark-up of up to 4.09% , loans in BGN – monthly SOFIBOR plus a mark-up of up to 3.75%, in USD – LIBOR plus a mark-up of up to 3.85% and in UAH – none). Loans are intended for providing working capital.

The bank loans which are due to 25.04.2014 have been renegotiated for a further one year while maintaining the terms of the contract except for a change in interest which becomes EURIBOR plus 2.8%.

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

- machinery and equipment *(Note 17);*
- raw materials, consumables and finished products *(Note 24);*
- trade receivables *(Note 25).*

As at 31 December 2013, there were established special pledges on receivables from related parties subject to consolidation and elimination for the purpose of the consolidation financial statements at the amount of BGN 16,229 thousand (31 December 2012: BGN 10,500 thousand) as collateral under received by the Group bank loans and issued bank guarantees *(Notes 30, 35 and 41)*.

36. TRADE PAYABLES

Trade payables include:	***31.12.2013***	***31.12.2012***
	BGN'000	***BGN'000***
Payables to suppliers	60,515	53,760
Advances from clients	1,197	1,482
Total	**61,712**	**55,242**

The ***payables to suppliers*** refer to:	***31.12.2013***	***31.12.2012***
	BGN'000	***BGN'000***
Suppliers outside Bulgaria	39,501	38,988
Suppliers from Bulgaria	21,014	14,772
Total	**60,515**	**53,760**

The payables to suppliers are regular, interest-free and refer to supplies of materials, goods and services. The average credit period for which interest is not usually charged for trade payables is up to 180 days.

The payables to suppliers are denominated as follows:

- in EUR – BGN 29,685 thousand (31 December 2012: BGN 32,907 thousand);

- in BGN: BGN 20,978 thousand (31 December 2012: BGN 14,499 thousand);
- in USD: BGN 776 thousand (31 December 2012: BGN 1,467 thousand);
- in BYR: BGN 7,250 thousand (31 December 2012: BGN 3,377 thousand);
- in other foreign currency: BGN 1,836 thousand (31 December 2012: BGN 1,510 thousand).

37. PAYABLES TO RELATED PARTIES

The ***payables to related parties*** refer to:

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
Payables to companies related through key managing personnel	3,013	1,273
Payables to companies under a common control	793	250
Payables to main shareholding companies	22	19
Payables to other related parties	-	18
Total	**3,828**	**1,560**

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

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
Payables for supplies of goods and materials	3,828	1,501
Other	-	59
Total	**3,828**	**1,560**

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

38. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security include:

	31.12.2013	***31.12.2012***
	BGN'000	***BGN'000***
Payables to personnel, including:	5,356	5,366
current wages and salaries	*2,536*	*2,478*
tantieme	*1,537*	*1,627*
accruals on unused compensated leaves	*1,283*	*1,261*
Payables for social security/health insurance, including:	1,401	1,258
current payables for social security/health insurance contributions	*1,216*	*1,071*
accruals on unused compensated leaves	*185*	*187*
Total	**6,757**	**6,624**

39. TAX PAYABLES

Tax payables include:

	31.12.2013	*31.12.2012*
	BGN'000	*BGN'000*
VAT	2,060	1,603
Income taxes	1,531	397
Withholding taxes	406	14
Individual income taxes payable	374	367
Other	39	27
Total	**4,410**	**2,408**

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

Company	**Full scope tax audit**	**VAT inspection**	**Inspection under the social security legislation**
Sopharma AD	31.12.2011	30.11.2011	30.09.2013
Sopharma Trading AD	31.12.2011	31.12.2011	31.12.2004
Bulgarian Rose Sevtopolis AD	31.12.2009	31.01.2010	31.12.2008
Biopharm Engineering AD	31.12.2009	31.10.2010	29.02.2008
Momina Krepost AD	31.12.2005	31.10.2006	31.10.2006
Pharmalogistica AD	31.12.2005	31.03.2007	няма
Sopharma Buildings REIT	none	30.06.2013	none
Electroncommerce EOOD	31.12.2005	30.04.2006	none
Unipharm AD	31.12.2005	30.04.2006	31.08.2013
Ivanchich i Sinovi d.o.o.	none	31.12.2012	none
PAO Vitamini	30.06.2010	14.09.2011	01.04.2012
Briz ltd.	31.12.2010	30.06.2013	31.12.2013
SOOO Brititrade	31.12.2011	31.12.2011	31.12.2011
OOO Tabina	31.12.2010	31.12.2010	31.12.2006
ZAO Interpharm	31.10.2007	31.10.2007	30.06.2006
ODO Alean	28.02.2011	28.02.2011	none
OOO Vivaton Plus	29.02.2012	29.02.2012	29.02.2012
SOOO Brizpharm	31.12.2012	31.12.2012	none
OOO Med-dent	31.12.2010	31.12.2010	31.12.2007
ODO Vestpharm	30.04.2005	30.04.2005	31.03.2004
OOO NPK Biotest	31.12.2011	31.12.2011	31.03.2007
ODO BelAgroMed	28.02.2003	28.02.2003	30.05.2005

The companies Sopharma Poland Z.O.O. – in liquidation,Poland, Sopharma Warsaw SP. Z.O.O.,Poland, OOO Sopharma Ukraine, Ukraine, Extab Corporation USA, Extab Pharma Limited,United Kingdom, Phyto Palauzovo AD,Bulgaria, OOO Farmacevt Plus, Belarus and BOOO SpetzApharmacia, Belarus, have not been subject to tax inspections or audits related to the social security legislation.

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

For the companies outside Bulgaria a tax audit is performed as follows: in Ukraine, the Russian Federation, Latvia and Belarus – within a term of three years, in Poland – within a term of five years, Serbia – within a term of ten years and in Lithuania – within a term of five years.

40. OTHER CURRENT LIABILITIES

Other current liabilities include:	***31.12.2013 BGN'000***	***31.12.2012 BGN'000***
Awarded amounts under litigations	1,380	1,339
Liabilities under sold rights from shares issue	941	882
Finance lease liabilities *(Note 33)*	700	1,011
Trade loans received from third parties	670	-
Government grants *(Note 34)*	667	463
Dividends payable	569	539
Deductions from work salaries	222	219
Other	186	137
Total	**5,335**	**4,590**

41. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

Sopharma AD

In 2012, the claim of Sopharma AD against a client in relation with unpaid supplies of goods at the amount of EUR 1,034 thousand (BGN 2,022 thousand) was satisfied by a ruling dated 23 October 2012 of the Court of Arbitration in Paris.

In 2013 the Court of Arbitration in Paris entitled Sopharma AD to file a complementary claim as follows:

- to compensate the loss of business suffered as a result of a harm on Company's image – at the amount of EUR 1,240 thousand (BGN 2,425 thousand);
- to compensate court and other expenses at the amount of USD 75 thousand (BGN 106 thousand) and EUR 153 thousand (BGN 298 thousand).

Bulgarian Rose Sevtopolis AD

According to a ruling, dated 8 November 2012, of the Appellate Court in Sofia (ACS) as an appeal instance, the Company was ordered to pay liabilities to a foreign supplier. The principal, interest and expenditures at the amount of USD 739 thousand and BGN 28 thousand (BGN 1,077 thousand), including the initial payable under the supply, are recognised in full in company's statement of financial position *(Note 40*). In 2012, additional expenses on interest, penalties and litigation expenditures at the total amount of BGN 481 thousand were charged.

At the date of issue of these financial statements, cassation appeals were lodged to the Supreme Court of Cassation (SCC) and a guarantee at the amount of BGN 577 thousand (USD 389 thousand) was paid to the SCC account without the interest and expenditures for stopping the execution of the ACS ruling.

By an order of 11 January 2013 the SCC ruled that the implementation of the appellate ruling of ACS of 8 November 2012 shall be stopped.

Biopharm Engineering AD

In 2010, the company was a subject of full-scope tax audit, including under the application of VATA for periods from 1 February 2007 to 31 October 2010. In the issued tax assessment notice, dated 23 June 2011, the tax authorities assessed tax liabilities to the state budget at the amount of BGN 282 thousand (principal and interest) under the VATA for previous reporting periods the financial result of the company under the Corporate Income Tax Act (CITA) for prior years was transformed.

By Decision No 394/19.02.2013 the Administrative Court in Burgas rejected the additional liabilities under VATA assessed to the companyand the decision has been accepted as final in favour of the company.

The company appealed the results before the Supreme Administrative Court which on its behalf repealed the decision of the Administrative Court in Burgas and returned the case to the first-instance court for a new hearing.The Administrative Court in Burgas started case No 2947 / 2013 and ordered an accounting expert examination. The hearing under the case is scheduled for 10 June 2014.

The management of the company believes that the amounts, by which the prior-years financial result under CITA has been increased, are not due and therefore, no possible litigation provisions have been included.

<u>Issued and granted guarantees</u>

Sopharma AD

The company is a co-debtor under received bank loans and a guarantor of the following companies outside the Group before banks:

	Maturity	Currency	Amount		Status of the debt
			Original currency	BGN'000	*31.12.2013* BGN'000
Sopharma Properties REIT	29.12.2020	EUR	30,000	58,675	48,896
Energoinvestment AD	28.08.2014	BGN	2,018	2,018	518
Veta Pharma AD	19.11.2014	BGN	1,000	1,000	503
Mineralcommerce AD	20.09.2017	EUR	100	196	147
Mineralcommerce AD	20.12.2015	EUR	50	98	86
Total					**50,150**

Sopharma Trading AD

The bank guarantees issued for the Company amount to BGN 9,291 thousand (31 December 2012: BGN 7,382 thousand) and are to guarantee payments to suppliers of goods, for good performance – ensuring future deliveries of pharmaceutical and medical products to hospitals under concluded contracts, customs office guarantees and tender participation.

The bank guarantees have been issued by:

	31.12.2013 *BGN '000*	*31.12.2012* *BGN '000*
Raiffeisenbank (Bulgaria) EAD	3,241	2,617
SG Expressbank AD	3,187	3,746
ING Bank	2,812	-
BNP Paribas – Bulgaria Branch	51	1,019
Total	**9,291**	**7,382**

The collateral for issued bank guarantees is as follows:

- Special pledge on goods in circulation at the amount of BGN 5,867 thousand (31 December 2012: BGN 8,801 thousand)
- Special pledge on TFA (motor vehicles) with a carrying amount of BGN 153 thousand (31 December 2012: BGN 487 thousand)

Unipharm AD

Bank guarantees at the amount of BGN 50 thousand were issued to the company within the limit of the loan agreement:

Electroncommerce EOOD

The issued bank guarantees to the company as at 31.12.2013 amount to BGN 48 thousand.

Assets held under safe custody

Sopharma Trading AD

According to concluded pre-distribution contracts, the Company received goods for safe custody amounting to BGN 3,066 thousand as at 31 December 2013 (31 December 2012: BGN 449 thousand).

Significant irrevocable agreements and commitments

Sopharma AD

In 2013, the Company assumed a self-participation commitment at the amount of BGN 3,000 thousand under a grant contract under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 2013. The execution of the contract is envisaged to last 18 months and is related mainly with financing the implementation of innovative products in the ampoule production section. As at 31.12.2013 no financing relating to the project has been received.

Tthe Company is a beneficiary under a contract for a government grant under the Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 - 2013 in connection to a project for technological renovation and modernisation of tablet production facilities (Note 34 and Note 40). The Company undertook a commitment that for a period of 5 years after the completion of the project, counted as of 11 March 2013, the project shall not undergo significant modifications affecting its essence and the terms and conditions for its execution or giving rise to unjustified benefits to the Company, neither modifications resulting from change in the nature of ownership over the assets acquired in relation with the grant. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the consolidated financial statements, all contractual requirements were complied with.

Sopharma Trading AD

The company is a beneficiary under a government grant contract related to the Operational Programme for Development and Implementation of Information Security Management System Project in accordance with ISO 27001:2007 in the amount of BGN 82 thousand *(Note 34 and Note 40).*

Unipharm AD

As at 31 December 2013, the company has also a concluded grant contract "Implementation in Regular Production of Innovative Eye Drops of Artificial Tears Type, Developed by Unipharm AD" under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 2013. The project amount is BGN 359 thousand and the implementation term is 15 months. The project grant amount is BGN 323 thousand. There is no financing received under the project as at 31 December 2013.

The company is beneficiary under three agreements for government grants for acquisition of assets (Note 34 and Note 40). According to the clauses of the agreements, the tangible fixed and intangible assets acquired using funds under the projects should remain within the assets of the beneficiary and in the region of the recipient (the territory of the Republic of Bulgaria) for a term of minimum five years after the total investment project is executed. On non-compliance with these requirements, the financing shall be returned.

Under the project "Modernisation and Development of Unipharm AD",the term of the engagement started in November 2011 while under the project "Development of a New Haemodialysis Solution and Proving its Therapeutic Effect" to the National Innovation Fund the term of the engagement started in 2010. At the date of preparation of the consolidated financial statements, all contractual requirements were complied with.

Bulgarian Rose Sevtopolis AD

The company is a beneficiary under a contract for gratuitous financial aid (grant), under Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 – 2013 in relation with a project for technological renovation and modernisation of tablets production at the amount of BGN 1,200 thousand (Note 34 and Note 40). The term of the contract is 5 years and commenced on 9 February 2011 and according to the contract the product should not suffer significant changes referring to its nature, the conditions of its performance or leading to unjustifiable benefits for the company as well as changes resultant from modification in the nature of ownership of infrastructural component or discontinuance of production activities. On non-compliance with these requirements, the financing shall be returned. At the date of preparation of the consolidated financial statements, all contractual requirements were complied with.

Biopharm Engineering AD

In 2011, the company assumed a self-participation commitment at the amount of BGN 2,708 thousand under a contract for financing under Operating Programme "Development of the Competitiveness of the Bulgarian Economy" 2007 - 2013. The execution of the contract is envisaged to last 20 months and is related with financing the purchase of property, plant and equipment. At the date of preparation of the consolidated annual financial statements no amounts have been drawn under this project.

Other

Sopharma AD has met its obligations under the Waste Management Act (WMA) and therefore, has not included a product charge liability in the consolidated statement of financial position as at 31 December 2013 regardless of the fact that the official document evidencing that Ecobulpack (the organization in which the parent company is a member) has fulfilled its commitments under WMA, has not been issued yet at the date of preparation of these financial statements.

42. SEGMENT REPORTING

The segment reporting in the Group is organised on the basis of two basic business segments – 'production of pharmaceutical products' and 'distribution of pharmaceutical products (goods)'. The group 'other' includes mainly production and distribution of non-pharmaceutical products.

The ***items of income, expenses and result of business segments*** determined in the Group include:

	Production of pharmaceutical products		*Distribution of pharmaceutical products (goods)*		*Other*		*Elimination*		*Consolidated*	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
External sales	*116,550*	*123,488*	*632,815*	*550,587*	*13,324*	*14,504*	*-*	*-*	*762,689*	*688,579*
Intersegmental sales	*129,905*	*113,969*	*324*	*67*	*187*	*223*	*(130,416)*	*(114,259)*	*-*	*-*
Total revenue	**246,455**	**237,457**	**633,139**	**550,654**	**13,511**	**14,727**	**(130,416)**	**(114,259)**	**762,689**	**688,579**
Segment result (margin)	**131,917**	**114,592**	**65,926**	**52,603**	**2,480**	**4,493**	**(22,860)**	**(22,693)**	**177,463**	**148,995**
Non-allocated operating income									4,911	2,328
Non-allocated operating expenses									(129,539)	(105,855)
Profit from operations									**52,835**	**45,468**
Finance (costs)/income, net									(15,961)	(3,298)
Losses on disposal of subsidiaries									(11)	(37)
Losses from associates, net									(736)	(56)
Gain on net monetary position from restatement for hyperinflation									1,690	823
Profit before income tax									**37,817**	**42,900**
Income tax expense									(5,179)	(4,934)
Net profit for the year before statutory dividend for distribution									**32,638**	**37,966**
Statutory dividend for distribution									-	(6)
Net profit for the year									**32,638**	**37,960**
Attributable to equity holders of the parent									29,248	35,196
Non-controlling interest									3,390	2,764

The ***assets and liabilities*** of the business segments include:

Assets by business segment	***Production of pharmaceutical products***		***Distribution of pharmaceutical products (goods)***		***Other***		***Total***	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Property, plant and equipment	163,677	92,309	42,455	39,848	13,571	8,115	219,703	140,272
Inventories	76,375	71,487	60,715	58,028	2,506	1,435	139,596	130,950
Receivables from related parties	51,305	57,915	2,383	3,653	731	-	54,419	61,568
Trade receivables	26,373	26,231	154,465	126,462	10,294	7,814	191,132	160,507
Segment assets	**317,730**	**247,942**	**260,018**	**227,991**	**27,102**	**17,364**	**604,850**	**493,297**
Non-allocated assets							177,938	252,121
Total assets							**782,788**	**745,418**

Liabilities by business segment	***Production of pharmaceutical products***		***Distribution of pharmaceutical products (goods)***		***Other***		***Total***	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Payables to personnel and for social security	1,933	1,601	1,636	1,348	203	218	3,772	3,167
Trade payables	6,822	11,178	52,671	43,336	2,219	636	61,712	55,150
Payables to related parties	3,125	29	581	1,525	123	-	3,829	1,554
Segment liabilities	**11,880**	**12,808**	**54,888**	**46,209**	**2,545**	**854**	**69,313**	**59,871**
Non-allocated liabilities							300,700	294,477
Total liabilities							**370,013**	**354,348**

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

	Production of pharmaceutical products		***Distribution of pharmaceutical products (goods)***		***Other***		***Total***	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Capital expenditures	18,387	61,157	1,715	5,002	1,127	63	21,229	66,222
Depreciation/amortisation	11,929	9,016	6,711	2,434	1,278	420	19,918	11,870
Non-monetary expenses, other than depreciation and amortisation	1,398	818	1,131	1,108	-	-	2,529	1,926

The distribution of Group revenue *by type and by geographic area* is as follows:

	Bulgaria		***Europe***		***Other countries***		***Total***	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Sales of finished products	85,090	85,702	159,829	160,765	22,734	19,795	267,654	266,262
Sales of goods	433,550	387,722	61,485	34,595	-	-	495,035	422,317
Total	**518,640**	**473,424**	**221,315**	**195,360**	**22,734**	**19,795**	**762,689**	**688,579**

The carrying amount as at 31 December 2013 of Group's non-current assets other than financial instruments, *distributed by geographic area*, is as follows:

	Bulgaria		***Europe***		***Other countries***		***Total***	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Property, plant and equipment	282,992	268,031	23,383	23,730	406	313	306,781	292,074
Intangible assets	9,417	9,962	6,431	3,501	-	-	15,848	13,463
Goodwill	5,635	6,106	7,255	6,811	-	-	12,890	12,917
Investment property	9,329	5,905	1,197	1,205	-	-	10,526	7,110
Total	**307,373**	**290,004**	**38,266**	**35,247**	**406**	**313**	**346,045**	**325,564**

The total revenue from transaction with the largest clients of the Group and the respective business segment is as follows:

	2013	***%***	***2012***	***%***	***business segment***
	BGN'000		***BGN'000***		
Client 1	91,937	12%	79,299	12%	Distribution of pharmaceutical products (goods)
Client 2	63,237	8%	69,868	10%	Production of pharmaceutical products

Client 1 is an association of a group of enterprises with similar business characteristics, which are under common control by the Bulgarian state.

43. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows. The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that might affect the financial results and position of the Group. The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the finished products and services of the Group companies and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations.

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

The structure of financial assets and liabilities is as follows:

	31.12.2013	***31.12.2012***
	BGN '000	***BGN '000***
Financial assets	**280,062**	**269,170**
Loans and receivables, including:	**271,875**	**245,745**
Receivables and loans (Notes 22, 23, 25, 26 and 27)	*245,246*	*229,978*
Cash and cash equivalents (Note 28)	*26,629*	*15,767*
Available-for-sale financial assets	**8,187**	**23,425**
Available-for-sale investments *(Note 21)*	8,187	23,425

Financial liabilities	***31.12.2013***	***31.12.2012***
	BGN '000	***BGN '000***
Financial liabilities at amortised cost	**341,903**	**331,225**
Short-term and long-term bank loans (Notes 30 and 35)	*271,718*	*270,397*
Other loans and liabilities (Notes 33, 34, 36, 37 and 40)	*70,185*	*60,828*

Foreign currency risk

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

The Group through the companies in Belarus and Ukraine carries out business in these countries and, therefore, has significant exposure in BYR and UAH. The currency risk is related with the adverse floating of the exchange rate of these currencies against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies.

The rest of the companies abroad perform sales mainly to the local markets, which lead to currency risk to their currencies as well – , Serbian Dinar (RSD),the Russian Federation,Polish Zloty (PLN) and Lithuanian Lit (LTL).

In addition , the total inflation in Belarus for the last three years exceeded 100% and Belarus was regarded a hyperinflationary economy, which to a large degree resulted in increased volatility of the functional currency exchange rate of the companies operating in such environment to Group's presentation currency. As far as all of these macroeconomic effects were beyond the control of the Group companies operating in Belarus the management of the Group undertook actions to control this currency risk by regulating currently the working capital of these companies and making efforts to maintain a reasonable balance of their current assets and liabilities whereby to regulate on timely basis the significant adverse effects for the Group as a whole.

The remaining part of most operations of the Group companies are usually denominated in BGN, in EUR or in LVL. The fact that the BGN and the LVL are fixed currencies to the EUR reduces the potential currency volatility for the companies of the Group.

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

The assets and liabilities of the Group denominated in BGN, presented in different foreign currencies are as follows:

31 December 2013	*in BGN*	*in EUR*	*in BYR*	*in UAH*	*in other currency*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	6,857	-	13	-	1,317	8,187
Loans and receivables, including:	169,204	79,076	7,893	7,000	8,702	271,875
Receivables and loans	*156,278*	*71,477*	*6,058*	*6,176*	*5,257*	245,246
Cash and cash equivalents	*12,926*	*7,599*	*1,835*	*824*	*3,445*	26,629
Total financial assets	**176,061**	**79,076**	**7,906**	**7,000**	**10,019**	**280,062**
Short-term and long-term bank loans	117,019	153,274	-	-	1,425	271,718
Other loans and liabilities	26,262	31,834	7,920	1,057	3,112	70,185
Total financial liabilities	**143,281**	**185,108**	**7,920**	**1,057**	**4,537**	**341,903**

31 December 2012	*in BGN*	*in EUR*	*in BYR*	*in UAH*	*in other currency*	*Total*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	19,021	-	3	2,734	1,667	23,425
Loans and receivables, including:	170,745	61,984	2,110	2,982	7,924	245,745
Receivables and loans	*160,323*	*59,288*	*1,861*	*2,763*	*5,743*	229,978
Cash and cash equivalents	*10,422*	*2,696*	*249*	*219*	*2,181*	15,767
Total financial assets	**189,766**	**61,984**	**2,113**	**5,716**	**9,591**	**269,170**
Short-term and long-term bank loans	83,915	180,546	-	-	5,936	270,397
Other loans and liabilities	17,533	32,795	3,423	1,995	5,082	60,828
Total financial liabilities	**101,448**	**213,341**	**3,423**	**1,995**	**11,018**	**331,225**

Foreign currency sensitivity analysis

The foreign currency sensitivity of the Group exposures is mainly related the Ukrainian Hryvnia (UAH) and the Belarus Ruble (BYR) as a currency in hyperinflationary economy. The foreign currency risk of the Group is limited with regard to the other foreign currencies in which the Group operates – US Dollar or in which certain Group companies operate – Serbian Dinar, Polish Zloty and Lithuanian Lit – because the exposures in these companies are relatively small and are more easily regulated by the managing bodies of the respective subsidiaries.

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

	2013		**2012**	
	BYR	**UAH**	**BYR**	**UAH**
	BGN '000	**BGN '000**	**BGN '000**	**BGN '000**
Financial result	(1)	487	(107)	301
Retained earnings	(1)	487	(107)	301

On 10% increase in the exchange rate of BYR to BGN, the ultimate impact on Group's (post-tax) profit for 2013 would be a decrease by BGN 1 thousand (-0.003%) and for 2012 – a decrease by BGN 107 thousand (0.3%). The effect in terms of value on Group's equity – through the component 'retained earnings' – would be the same. Due to the functioning of the companies in Belarus in hyperinflationary environment – the management of the Group analyses the currency exposure in this currency and undertakes timely measures to reduce its effects for the results of the group.

On a 10% increase (2012: 10%) of the exchange rate of the UAH to BGN, the ultimate impact on the (post-tax) profit of the Group for 2013 would be and increase by BGN 487 thousand (1.7%) and for 2012 the impact would be an increase by BGN 80 thousand (0.8%). The same ultimate impact on the (post-tax) profit of the Group would be equal and reciprocal of the stated above.

On a 10% decrease in the exchange rates of UAH and BYR to BGN, the ultimate impact on the (post-tax) profit of the Group would be equal and reciprocal of the stated above.

Due to the significant reduction of the exchange rate of the Ukrainian hryvnia to the Bulgarian lev for the period from the end of the reporting period to the date of issue of the consolidated financial statements, the management has undertaken an analysis of the currency sensitivity of the net exposure in this currency with 50% increase/decrease and the effect on the profit of the Group (after tax) for the year 2013 would have been BGN 2,437 thousand increase/decrease.

“In other currency” are included mainly: BGN 282 thousand in USD net financial liabilities, BGN 2,010 thousand in PLN net financial assets, BGN 1,870 thousand in RSD net financial assets (for 2012: BGN 6,906 thousand in USD net financial liabilities, BGN 317 thousand in PLN net financial assets, BGN 1,589 thousand in RSD net financial assets).

The impact of the remaining currencies (other than UAH, BYR, EUR and LVL) on 10% increase in their exchange rates to BGN on Group’s (post-tax) profit is:.

	2013			2012		
	USD	**PLN**	**RSD**	**USD**	**PLN**	**RSD**
	BGN '000	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**	**BGN '000**
Financial result	(24)	163	159	(585)	26	143
Retained earnings	(24)	163	159	(585)	26	143

On a 10% decrease respectively in the exchange rates of USD, PLN and RSD to BGN, the ultimate impact on the (post-tax) profit of the Group would be equal and reciprocal of the stated above.

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

Group’s 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 usual currency sensitivity of the Group for the reporting year.

Price risk

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

(a) a possible increase of purchase prices of raw materials and consumables, since a significant portion of the raw materials used are imported and they represent a significant share of production costs;

(b) a possible increase in supplier prices of goods and

(c) the growing competition on the Bulgarian pharmaceutical market, affecting the prices of pharmaceuticals.

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

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

Credit risk

Credit risk is the risk that any of the Group's clients will fail to discharge in full and within the normally envisaged terms the amounts due under trade receivables. The latter are presented in the consolidated statement of financial position at net value after deducting the impairment related to doubtful and bad debts. Such impairment is made where and when events have existed identifying loss due to uncollectability as per previous experience.

In the years of its trade experience, the Group has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts. The Group works on its main markets with counterparts with history of their relations on main markets, which include a big number of licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the state hospitals also require the implementation of deferred payments policy. There is a concentration of significant credit risk in this type of counterparts that form 49 % of Group's trade receivables (31 December 2012: 48%). Its is mitigated through implemented procedures for selection and current monitoring of the liquidity and financial stability of these trade partners. On delay in payments of the receivables from these counterparts, the Group has set a period of 30 days after which it starts activities for collection of receivables. With regard to clients - hospitals, in case of 30 days of delay after the date on which the credit period expires, interest for delay is being charged and if delays persist after further 30 days, a meeting with the management is arranged for the purpose of signing rescheduling agreement. If the agreement is not complied with, legal proceedings are initiated. With regard to clients – pharmacies, on a 5-day delay after the expiry of the credit period, the sales under deferred payment terms are suspended. If delinquencies continue, on the 45th day all sales are ceased and negotiations are held for concluding an agreement. If the agreement is not complied with, legal proceedings are initiated.

Deferred payments (credit sales) to other counterparts are offered only to clients having long account of business relations with the Group, good financial position and no history of credit terms violations.

The credit policy of the Group envisages that every new client shall be investigated with regard to its creditworthiness prior to being offered the standard terms of supply and payment. The analysis, performed by the Group, includes but is not limited to visit to clients premises, collection of information on monthly turnovers and in some cases a promissory note is required in favour of the Group company for 130% - 135% of the credit granted. These limits are reviewed on a monthly basis. The clients that cannot cover the creditworthiness criteria may perform purchases in cash.

Collectability of receivables is controlled directly by the Executive Director, the Finance and Trade Directors of the parent company and, respectively, by the management of the subsidiaries. Their responsibility is to provide operating control and regulate receivables in conformity with the actual market situation and the needs of the Group.

The Group has developed policy and procedures to assess the creditworthiness of its counterparts and to assign credit rating and credit limits by groups of clients.

The management of the Group currently monitors and regulates the concentration of receivables from client and counterpart of the Group as a whole.

As at 31 December 2013, the Group has no concentration in trade receivables from a single counterpart that exceeds 10% of the total amount of trade receivables as presented in the consolidated statement of financial position. The concentration of the first five clients with regard to trade receivables of the Group is as follows:

	31.12.2013	*% credit exposure to total trade receivables*	*31.12.2012*	*% credit exposure to total trade receivables*
	BGN'000		***BGN'000***	
Client 1	12,779	7%	11,935	7%
Client 2	11,922	6%	11,870	7%
Client 3	11,452	6%	9,589	6%
Client 4	4,695	3%	6,129	4%
Client 5	4,531	2%	4,567	3%

The financial resources of the Group as well as the settlement operations are concentrated in different first-class banks. To distribute cash flows among them, the management of the parent company and the subsidiaries take into consideration a great deal of factors, as the amount of capital, reliability, liquidity, the credit potential and rating of the bank etc.

Liquidity risk

Liquidity risk is the adverse situation when the Group encounters difficulty in meeting unconditionally its obligations within their maturity, including because of the existence of hyperinflation and the indexation of the trade accounts of the companies operating in such environment.

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is its main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. Existing open positions in Belarusian Roubles (BYR) and the hyperinflation in this market during the period 2011 -

2013 represented an additional source of risk. However, the exit of Belarus from the hyperinflation market eliminates this risk in 2014. In order to isolate any possible general liquidity risk, the Group implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is supplemented by current monitoring of the maturities of assets and liabilities, control over cash outflows and ensuring their current balancing with inflows, including renegotiation of maturities and optimisation of debt structure, increase and internal restructuring of self-generated funds and their investment.

Maturity analysis

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

31 December 2013	*up to 1 month* BGN '000	*from 1 to 3 months* BGN '000	*from 3 to 6 months* BGN '000	*from 6 to 12 months* BGN '000	*from 1 to 2 years* BGN '000	*from 2 to 5 years* BGN '000	*over 5 years* BGN '000	*Total* BGN '000
Short-term and long-term bank loans	9,445	35,428	119,575	59,694	12,811	28,862	17,603	**283,418**
Other loans and liabilities	29,163	26,803	8,046	5,183	654	1,291	-	**71,140**
Total liabilities	**38,608**	**62,231**	**127,621**	**64,877**	**13,465**	**30,153**	**17,603**	**354,558**

31 December 2012	*up to 1 month* BGN '000	*from 1 to 3 months* BGN '000	*from 3 to 6 months* BGN '000	*from 6 to 12 months* BGN '000	*from 1 to 2 years* BGN '000	*from 2 to 5 years* BGN '000	*over 5 years* BGN '000	*Total* BGN '000
Short-term and long-term bank loans	66,397	26,273	77,549	47,762	12,387	29,062	24,064	**283,494**
Other loans and liabilities	29,213	23,900	3,194	2,295	814	2,987	-	**62,403**
Total liabilities	**95,610**	**50,173**	**80,743**	**50,057**	**13,201**	**32,049**	**24,064**	**345,897**

Due to renegotiations in 2013 of 3 of the current bank loans for the Group, presented according to their original maturity in the table above in the categories from 1 to 3 months and from 3 to 5 months, the amounts related to them (Note 35) are being transferred with 12 months forward.

Risk of interest-bearing cash flows

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

(a) optimisation of resources and structure 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 favorable for the Group companies. The permanent 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 management of the Group companies together with that of the parent company currently monitor and analyse the exposure of the respective company to the changes in interest levels. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated. 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.

Interest analysis	***interest-free***	***with floating interest %***	***with fixed interest %***	***Total***
31 December 2013	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	8,187	-	-	8,187
Loans and receivables, including:	192,049	20,833	58,993	271,875
Receivables and loans	*190,113*	15	*55,118*	245,246
Cash and cash equivalents	*1,936*	*20,818*	*3,875*	26,629
Total financial assets	**200,236**	**20,833**	**58,993**	**280,062**
Short-term and long-term bank loans	267	271,451	-	271,718
Other loans and liabilities	67,098	3,082	5	70,185
Total financial liabilities	**67,365**	**274,533**	**5**	**341,903**

Interest analysis	***interest-free***	***with floating***	***with fixed***	***Total***
31 December 2012		***interest %***	***interest %***	
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Available-for-sale financial assets	23,425	-	-	23,425
Loans and receivables, including:	150,359	11,548	83,838	245,745
Receivables and loans	*148,841*	-	*81,137*	229,978
Cash and cash equivalents	*1,518*	*11,548*	*2,701*	15,767
Total financial assets	**173,784**	**11,548**	**83,838**	**269,170**
Short-term and long-term bank loans	334	269,760	303	270,397
Other loans and liabilities	57,311	3,517	-	60,828
Total financial liabilities	**57,645**	**273,277**	**303**	**331,225**

The table below demonstrates the Group's sensitivity to possible changes in interest rates by 0.5% 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 respectively, on equity.

Increase/decrease of interest %	***Effect on the financial result and share capital after taxation – profit/loss***	
	2013 BGN'000	**2012 BGN'000**
Increase	(1,230)	(1,222)
Decrease	1,230	1,222

Capital risk management

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

The Group currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital amount. Net debt is calculated as total borrowings (current and non-current ones) as presented in the consolidated statement of financial position less cash and cash equivalents. Total employed capital is calculated as the sum of equity and net debt.

It is a characteristic feature for both presented periods that the Group finances its operations both through its own generated profit and by maintaining a certain level of trade and other current payables and loans (bank, commercial ones). In 2013, the strategy of the parent company management was to maintain the ratio within 35 -45 % at a Group level (2012: 35 - 40 %). The table below shows the gearing ratios based on capital structure as at 31 December:

	2013 BGN'000	***2012 BGN'000***
Total borrowings, including:	**274,800**	**273,917**
Bank loans	271,718	270,397
Loans and finance lease liabilities	3,082	3,520
Less: Cash and cash equivalents	**(26,629)**	**(15,767)**
Net debt	**248,171**	**258,150**
Total equity of the Group	**358,598**	**345,879**
Total capital of the Group	**606,769**	**604,029**
Gearing ratio	**0.41**	**0.43**

The liabilities shown in the table are disclosed in Notes 30, 33, 35 and 40.

Fair values

The fair value concept presumes realisation of the financial instruments through sales. However, in most cases especially in regard of trade receivables and payables as well as loans and deposits with banks, the Group expects to realise these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at their amortised cost.

In addition, a large part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the consolidated statement of financial position at market value (deposits placed with banks, investments in securities) and therefore, their fair value is almost equal to their carrying amount. Part of the investments in other companies as minority interests represent an exception to this rule, since neither market nor objective conditions exist so that their fair value could be reliably determined. Therefore, they are presented at acquisition cost (cost).

As far as no sufficient market experience, stability and liquidity exist in regards of purchases and sales of certain financial assets and liabilities, still no adequate and reliable quotes of market prices are available thereof.

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

44. ACQUISITIONS AND INCREASING THE INTERESTS IN SUBSIDIARIES

44.1. Acquisition of subsidiaries

In 2013, the Group acquired via its subsidiary Briz ltd. the following new subsidiaries:

	date of acquisition	**% interest**	**acquired net assets at fair value**
			BGN '000
OOO Farmacevt Plus, Belarus	01.06.2013	26.01%	412
TBS Pharma UAB, Lithuania	01.03.2013	26.01%	2
ODO Vestpharm, Belarus	04.07.2013	31.62%	255
ODO Alean, Belarus	07.02.2013	24.48%	85
OOO NPK Biotest, Belarus	02.09.2013	29.07%	651
ODO BelAgroMed, Belarus	30.07.2013	29.07%	87

The principal activities of the acquired subsidiaries are disclosed in *Note 1*.

The companies were acquired through the purchase of the following shares in their capital by the subsidiary Briz ltd., Latvia:

	share
OOO Farmacevt Plus, Belarus	51%
ODO Vestpharm, Belarus	62%
ODO Alean, Belarus	57%
OOO NPK Biotest, Belarus	57%
ODO BelAgroMed, Belarus	57%

TBS Pharma UAB, Lithuania, was established by Briz ltd., Latvia, through contribution at the amount of BGN 3 thousand for 51% of the shares in company's capital.

In 2012, the Group acquired the following new subsidiaries:

	date of acquisition	**% interest**	**acquired net assets at fair value**
			BGN '000
SOOO Brizpharm, Belarus	20.12.2012	26.01%	(4)
OOO Sopharma Ukraine, Ukraine	04.08.2012	100.00%	198
Phyto Palauzovo AD	21.09.2012	50.13%	95

The principal activities of the acquired subsidiaries are disclosed in *Note 1*.

SOOO Brizpharm, Belarus, was acquired through the purchase of 51% of the capital by the subsidiary Briz ltd., Latvia.

Phyto Palauzovo AD was established by Bulgarian Rose Sevtopolis AD with interest of 95% in the capital of the company, amounting to BGN 95 thousand.

OOO Sopharma Ukraine, Ukraine, was established by Sopharma AD through a contribution in-kind of non-current assets at the amount of BGN 198 thousand.

The carrying amounts and fair values of the net assets on acquisition of the new subsidiaries *(Note 2.3)* are presented below:

In 2013:

	fair value BGN'000	***carrying amount BGN'000***
Property, plant and equipment *(Note 17)*	752	752
Intangible assets *(Note 18)*	4,363	1
Inventories	5,707	5,707
Other receivables and assets	5,725	6,078
Cash and cash equivalents	324	324
Loans	(1,324)	(1,324)
Trade payables	(9,120)	(9,120)
Other current liabilities	(1,152)	(366)
Total net assets	**5,275**	**2,052**

	Net assets at:		Non-controlling interests	Share of non-controlling interest		Net assets acquired by the Group	
	fair value	carrying amount		fair value	carrying amount	fair value	carrying amount
	BGN'000	BGN'000	%	BGN'000	BGN'000	BGN'000	BGN'000
OOO Farmacevt Plus, Belarus	1,585	386	74%	1,173	286	412	100
ODO Vestpharm, Belarus	807	97	68%	552	66	255	31
ODO Alean, Belarus	346	18	76%	261	14	85	4
OOO NPK Biotest, Belarus	2,239	1,489	71%	1,588	1,056	651	433
ODO BelAgroMed, Belarus	298	62	71%	211	44	87	18
	5,275	**2,052**		**3,785**	**1,466**	**1,490**	**586**

In 2012:

	SOOO Brizpharm	
	fair value **20.12.2012** ***BGN'000***	***carrying amount*** **20.12.2012** ***BGN'000***
Property, plant and equipment *(Note 17)*	16	14
Intangible assets *(Note 18)*	435	-
Inventories	190	192
Other receivables and assets	49	346
Cash and cash equivalents	12	12
Loans	(421)	(421)
Trade payables	(249)	(249)
Other current liabilities	(48)	(22)
Net assets	**(16)**	**(128)**

	Net assets at:		Non-controlling interests	Share of non-controlling interest		Net assets acquired by the Group	
	fair value	carrying amount		fair value	carrying amount	fair value	carrying amount
	BGN'000	BGN'000	%	BGN'000	BGN'000	BGN'000	BGN'000
SOOO Brizpharm, Belarus	(16)	(128)	73.99%	(12)	(95)	(4)	(33)

The investment price on the acquisition of subsidiaries and the resulting goodwill at the date of the transaction for acquisition of control by the parent company itself were as follows:

In 2013:

Acquisition cost (cost)	**OOO Farmacevt Plus, Belarus**	**ODO BelAgroMed, Belarus**	**ODO Vestpharm, Belarus**	**ODO Alean, Belarus**	**OOO NPK Biotest, Belarus**	**Total**
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Interest to the date of acquisition of control	-	92	401	181	491	1,165
Measurement to fair value of previous interest by the date of acquisition of control	(331)	(35)	(128)	(23)	(72)	(589)
Amounts paid in current period	1,901	161	391	58	959	3,470
Share of the non-controlling interests in the investment on indirect acquisition	(932)	(124)	(388)	(131)	(710)	(2,285)
Total acquisition cost	**638**	**94**	**276**	**85**	**668**	**1,761**
Fair value of the acquired net assets	**(412)**	**(87)**	**(255)**	**(85)**	**(651)**	**(1,490)**
Goodwill	**226**	**7**	**21**	**-**	**17**	**271**

UAB TBS Pharma, Lithuania, was established by Briz ltd., Latvia.

In 2012:

	SOOO Brizpharm
	BGN'000
Acquisition cost (cost)	
Amounts paid in current period	146
Share of the non-controlling interests in the investment on indirect acquisition	(71)
Measurement to fair value of previous interest by the date of acquisition of control	(33)
Total acquisition cost	**42**
Fair value of the acquired net assets	**(4)**
Goodwill	**46**

OOO Sopharma Ukraine, Ukraine, and Phyto Palauzovo AD were established by Sopharma AD and Bulgarian Rose - Sevtopolis AD.

The cash outflows from acquisition of control were as follows:

In 2013:

Cash flows on acquisition of control	OOO Farmacevt Plus, Belarus	ODO BelAgroMed, Belarus	ODO Vestpharm, Belarus	ODO Alean, Belarus	OOO NPK Biotest, Belarus	Total
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Consideration paid in cash	1,901	161	391	58	959	3,470
Cash and cash equivalents in the acquired companies	(81)	(48)	(39)	(9)	(147)	(324)
Cash outflow on acquisition of control, net	**1,820**	**113**	**352**	**49**	**812**	**3,146**

Share of the capital of TBS Pharma UAB, Lithuania, amounting to BGN 3 thousand, was paid in 2013.

In 2012:

Cash flows on acquisition of control	**SOOO Brizpharm**
	BGN'000
Consideration paid in cash	146
Cash and cash equivalents in the acquired companies	(12)
Cash outflow on acquisition of control, net	**134**

The capital of Sopharma Warsaw SP. Z.O.O. at the amount of BGN 316 thousand and that of Phyto Palauzovo AD at the amount of BGN 95 thousand was paid in 2012.

44.2. Increasing interest (purchases of non-controlling interests)

The Group performed the following transactions for purchase of additional shares of non-controlling interests:

In 2013:

Increases in interests (purchases of non-controlling interests)	**transaction date**	**% change in interest**	**acquired net assets**
			BGN '000
Sopharma Buildings REIT	31.12.2013	0.25%	4
ODO BelAgroMed	31.12.2013	1.22%	5
Momina Krepost AD	31.12.2013	1.99%	154
ODO Alean	31.12.2013	13.25%	40
SOOO Brizpharm	31.12.2013	5.34%	(8)
Briz ltd.	31.12.2013	2.14%	397
SOOO Brititrade	31.12.2013	2.11%	(36)
OOO Farmacevt Plus	31.12.2013	1.09%	5
ODO Vestpharm	31.12.2013	11.42%	94
OOO NPK Biotest	31.12.2013	1.22%	31
Total			**686**

In 2012:

Increases in interests (purchases of non-controlling interest)	**transaction date**	**% change in interest**	**acquired net assets**
			BGN '000
Biopharm Engineering AD	31.12.2012	27.72%	2,719
Unipharm AD	31.12.2012	0.16%	44
Momina Krepost AD	31.12.2012	0.20%	9
SOOO Brititrade	31.12.2012	0.51%	9
Bulgarian Rose Sevtopolis AD	31.12.2012	0.01%	-
Total			**2,781**

The acquisition cost of the purchased additional shares in 2013, the effects and the cash outflows, relating to these transactions, were as follows:

Increases in interests (purchases of non-controlling interests)	**Total**
	BGN'000
Acquisition cost (cost)	
Paid through issue of capital	(2,218)
Consideration paid in cash	(904)
Indirect acquisition through interest increase in Briz ltd.	(110)
Share of the non-controlling interests on indirect acquisition	2,075
Total acquisition cost	**(1,157)**
Fair value of the acquired net assets	**686**
Effects assumed by the Group at the account of Group's 'retained earnings' reserve	**(471)**
Cash outflow on increases in interests (purchases of non-controlling interests)	**(904)**

The acquisition cost of the purchased additional shares in 2012, the effects and the cash outflows, relating to these transactions, were as follows:

Increases in interests (purchases of non-controlling interests)	**Total**
	BGN'000
Acquisition cost (cost)	
Paid through issue of capital	(1,536)
Consideration paid in cash	(199)
Share of the non-controlling interests on indirect acquisition	(336)
Total acquisition cost	**(2,071)**
Fair value of the acquired net assets	**2,781**
Effects assumed by the Group at the account of Group's 'retained earnings' reserve	**710**
Cash outflow on increases in interests (purchases of non-controlling interests)	**(199)**

44.3. Acquisition of a share in a joint venture

In 2013 the Group acquired shares in a joint venture via its subsidiary Briz ltd, Latvia:

	date of acquisition	**% interest**	**acquired net assets at fair value**
			BGN '000
OOO Med-dent, Belarus	17.12.2013	26.57%	55

	OOO Med-dent	
	fair value	***carrying amount***
	17.12.2013	**17.12.2013**
	BGN'000	***BGN'000***
Property, plant and equipment *(Note 17)*	3	3
Intangible assets *(Note 18)*	128	3
Inventories	117	117
Other receivables and assets	14	15
Cash and cash equivalents	5	5
Trade payables	(135)	(134)
Other payables and liabilities	(27)	(5)
Net assets	**104**	**3**
Non-controlling interests (%)	**47%**	**47%**
Share of non-controlling interests (BGN'000)	**49**	1
Net assets acquired by the Group	**55**	**2**

The principal activities of the acquired joint venture are disclosed in Note 1.

The Group acquired indirect share in OOO Med-dent, Belarus, through the purchase of 50% interest of the its capital (joint-venture) by the subsidiary Briz ltd., Latvia.

In 2012 the Group acquired shares in a joint venture via its subsidiary Briz ltd, Latvia:

	date of acquisition	**% interest**	**acquired net assets at fair value**
			BGN '000
OOO Vivaton Plus, Belarus	20.12.2011	25.50%	(4)

This is a translation from Bulgarian of the consolidated financial statements of Sopharma Group for year 2013.

	OOO Vivaton Plus	
	fair value	***carrying amount***
	20.12.2012	**20.12.2012**
	BGN'000	***BGN'000***
Property, plant and equipment *(Note 17)*	47	47
Intangible assets *(Note 18)*	244	-
Inventories	197	197
Trade receivables	3	3
Other receivables and assets	121	121
Cash and cash equivalents	20	20
Trade payables	(245)	(245)
Other payables and liabilities	(132)	(88)
Net assets	**255**	**55**
Non-controlling interests (%)	**49%**	**49%**
Share of non-controlling interests (BGN'000)	**125**	**27**
Net assets acquired by the Group	**130**	**28**

The principal activities of the acquired joint venture are disclosed in Note 1.

The Group acquired indirect share in OOO Vivaton Plus, Belarus, through the purchase of 50% interest of the its capital (joint-venture) by the subsidiary Briz ltd., Latvia.

	OOO Med-dent
	BGN '000
Acquisition cost (cost)	
Amounts paid in current period	498
Share of the non-controlling interests in the investment on indirect acquisition	(234)
Measurement to fair value of previous interest by the date of acquisition of control	(162)
Total acquisition cost	**102**
Fair value of the acquired net assets	**55**
Goodwill	**47**

	OOO Vivaton Plus
	BGN'000
Acquisition cost (cost)	
Amounts paid in current period	314
Share of the non-controlling interests in the investment on indirect acquisition	(157)
Measurement to fair value of previous interest by the date of acquisition of control	(18)
Total acquisition cost	**139**
Fair value of the acquired net assets	**130**
Goodwill	**9**

The cash outflows from acquisition of joint control were as follows:

In 2013:

Cash flows on acquisition of shares in a joint venture	**OOO Med-dent**
	BGN'000
Consideration paid in cash	498
Cash and cash equivalents in the acquired companies	(5)
Cash outflow on acquisition of control	**493**

In 2012:

Cash flows on acquisition of shares in a joint venture	**OOO Vivaton Plus**
	BGN'000
Consideration paid in cash	314
Cash and cash equivalents in the acquired companies	(20)
Cash outflow on acquisition of control	**294**

45. DISPOSAL OF SUBSIDIARIES AND JOINT VENTURES AND DECREASING THE INTERESTS IN SUBSIDIARIES

45.1. Total disposal of subsidiaries and joint ventures

In 2013 the Group disposed of its total interest in the following joint venture:

Company	**Date of sale**	**% interest**
Sopharma Zdrovit SA	25.02.2013	50.01%

The net assets of the disposed of company are presented as follows:

Disposal with loss of control	**100%**
Date of disposal of interest	**25.02.2013**
	BGN ‘000
Cash and cash equivalents	218
Total net assets	**218**
Totally disposed of share of net assets	**109**

The financial result from the disposal of the subsidiary is as follows:

	BGN'000
Fair value of the consideration received	109
Recycling of reserve from transformation	11
	120
Less:	
Disposed of share of net assets (50%)	109
Loss on disposal of the joint venture	**11**

Net cash flows on disposal of the joint venture	***BGN '000***
Cash received	109
Less:	
Cash in the joint venture	(109)
Net cash flows on disposal of the joint venture	-

In 2012 the Group disposed of its total interest in the following subsidiary:

Company	**Date of sale**	**% interest**
ZAO Rostbalkanpharm	04.04.2012	51.00%

The net assets of the disposed of company are presented as follows:

Disposal with loss of control	**100%**
Date of disposal of interest	**04.04.2012**
	BGN '000
Property, plant and equipment	494
Inventories	14
Trade receivables	146
Other receivables and assets	35
Cash and cash equivalents	29
Loans	(326)
Other payables and liabilities	(874)
Total net assets	**(482)**
Losses assumed by the Group	(327)
Total disposal of share of net assets and losses assumed by the Group	**(809)**

The financial result from the disposal of the subsidiary is as follows:

	BGN'000
Fair value of the consideration received	5
Recycling of translation reserve in the currency of foreign operations	(2)
	3
Less:	
Disposed of share of net assets (51%)	246
Assumed losses by the Group related to the subsidiary disposed of	(286)
Loss on disposal of the subsidiary	**(37)**

Net cash flows on disposal of the subsidiary	***BGN '000***
Cash received	5
Less:	
Cash in disposed of the subsidiary	29
Net cash flows on disposal of the subsidiary	**(24)**

45.2 Decreasing interests (sales of non-controlling interests)

In 2013:

The decrease (partial disposals of) in interest (shares) in subsidiaries without loss of control, the effects and cash flows, relating to the transactions, were as follows:

Decreases in interests (sales of non-controlling interests)	**transaction date**	**% change in interest**	**net assets sold**
			BGN '000
Momina Krepost AD	31.12.2013	-1.04%	(53)
Sopharma Trading AD	31.12.2013	-5.10%	(3,022)
Bulgarian Rose Sevtopolis AD	31.12.2013	-2.78%	(677)
Unipharm AD	31.12.2013	-0.34%	(84)
Phyto Palauzovo AD	31.12.2013	-2.64%	(2)
ZAO Interpharm	31.12.2013	-6.60%	(95)
OOO Tabina	31.12.2013	-0.65%	(2)
			(3,935)

Decreases in interests (sales of non-controlling interests)	**Total**
	BGN'000
Proceeds from partial disposal of shares in subsidiaries	4,718
Deductible portion for non-controlling interests	(440)
Proceeds from partial disposal of shares in subsidiaries for the Group	**4,278**
Carrying amount of the net assets at the date of partial disposal of shares in subsidiaries	(3,935)
Effects assumed by non-controlling interests at the account of Group's 'retained earnings' reserve	181
Cash inflow on partial disposal of shares in subsidiaries	**4,718**

In 2012:

The decrease (partial disposals of) in interest (shares) in subsidiaries without loss of control, the effects and cash flows, relating to the transactions, were as follows:

Decreases in interests (sales of non-controlling interests)	**transaction date**	**% change in interest**	**net assets sold**
			BGN '000
ZAO Interpharm	31.12.2012	-0.79%	(152)
OOO Tabina	31.12.2012	-0.79%	(17)
Sopharma Trading AD	31.12.2012	-0.32%	(181)
			(350)

Decreases in interests (sales of non-controlling interests)	**Total**
	BGN'000
Proceeds from partial disposal of shares in subsidiaries	1,343
Share of the non-controlling interests on indirect acquisition	(570)
Proceeds from partial disposal of shares in subsidiaries for the Group	**773**
Carrying amount of the net assets at the date of partial disposal of shares in subsidiaries	(350)
Effects assumed by non-controlling interests at the account of Group's 'retained earnings' reserve	423
Cash inflow on partial disposal of shares in subsidiaries	**1,343**

46. RELATED PARTY TRANSACTIONS

Related parties	*Relation type*	*Relation period*
Telecomplect Invest AD	Main shareholding company	2012 and 2013
Donev Investments AD	Main shareholding company	2012 and 2013
Pharmachim Holding AD	Company under a common indirect control	2012 and 2013
Elpharma AD	Company under a common indirect control	2012 and 2013
Kaliman RT AD	Company under a common indirect control	2012 and 2013
SCS Franchise AD	Company under a common indirect control	2012 and 2013
Seiba Pharmacies and Drugstores AD	Company under a common indirect control	2012 and 2013
Sanita Franchising AD	Company under a common indirect control	2012 and 2013
Sopharma Properties REIT	Company under a common indirect control	2012 and 2013
Sofia Inform AD	Company under a common indirect control	2012 and 2013
Sofprint Group AD	Company under a common indirect control	2012 and 2013
Sofconsult Group AD	Company under a common indirect control	2012 and 2013
Mineralcommerce AD	Company under a common indirect control	2012 and 2013
Telecomplect AD	Company related through key managing personnel	2012 and 2013
Telso AD	Company related through key managing personnel	2012 and 2013
Riton P AD	Company related through key managing personnel	2012 and 2013
DOH Group	Company related through key managing personnel	2012 and 2013
Media Group Bulgaria Holding OOD	Company related through key managing personnel	2012 and until 25.04.2013

Related party transactions are as follows:

Supplies from related parties:	***2013***	***2012***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies under a common indirect control	9,840	10,761
Companies related through key managing personnel	660	4,761
	10,500	**15,522**
Supply of services from:		
Companies related through key managing personnel	2,831	3,026
Companies under a common indirect control	2,936	2,452
Main shareholding companies	325	625
	6,092	**6,103**
Supply of tangible fixed assets from:		
Companies related through key managing personnel	4,075	313
Companies under a common indirect control	100	18
	4,175	**331**
Supplies for acquisition of non-current assets:		
Companies related through key managing personnel	11,760	29,188
	11,760	**29,188**
Total	**32,527**	**51,144**

Sales to related parties	***2013***	***2012***
	BGN '000	***BGN '000***
Sales of inventories to:		
Companies under a common indirect control	4,268	7,322
Companies related through key managing personnel	3,806	3,624
	8,074	**10,946**
Sales of services to:		
Companies under a common indirect control	197	170
Companies related through key managing personnel	104	120
	301	**290**
Other sales to:		
Companies under a common indirect control	187	1
Companies related through key managing personnel	11	5
Main shareholding companies	-	58
	198	**64**
Interest on loans granted to:		
Companies related through key managing personnel	2,917	2,902
Companies under a common indirect control	467	663
Main shareholding companies	166	403
	3,550	**3,968**
Total	**12,123**	**15,268**

The accounts and balances with related parties are disclosed in Notes 22, 26 and 37.

The composition of key management personnel of the Group includes the disclosed in Note 1 Executive Director and the members of the Board of Directors of the parent company. Additionally, it includes the Executive Directors, the members of Boards of Directors and the General Managers of the subsidiaries in the Group.

Salaries and other short-term benefits of key managing personnel amount to BGN 4,561 thousand (2012: BGN 3,866 thousand), including:

* current wages and salaries – BGN 4,075 thousand (2012: BGN 3,394 thousand);
* tantieme – BGN 486 thousand (2012: BGN 472 thousand).

47. EVENTS AFTER THE REPORTING PERIOD

Transactions with shares

Transactions with shares of the parent company

On 7 February 2014 Rompharm Company OOD purchased 4,230,000 shares of the capital of Sopharma AD and as a result of that its interest in the capital of the parent company increased to 17.31%.

On 11 February 2014 Universal Pension Fund Doverie AD sold 3,424,005 shares of the capital of Sopharma AD and as a result of that its interest in the capital of the parent company decreased to 4.16%.

Transactions with shares of companies within the Group

On 20 January 2014 the Group purchased 12% of the shares of BOOO SpetzApharmacia (through Briz Ltd, Latvia) whereas the status of the company was changed from an associate to a joint venture of the Group.

On 28 January 2014 and on 26 February 2014 the Group performed a purchase and a sale of shares of OOO NPK Biotest, Belarus (through Briz Ltd, Latvia) and as a result of that its interest was increased to 37.20%.

On 31 January 2014, an increase in the capital of Briz Ltd – Latvia by the parent company was registered and as a result of that the interest of the Group increased to 66.13%.

On 4 February 2014 and on 27 February 2014 the Group performed a sale and a purchase of shares of ODO Vestpharm, Belarus (through Briz Ltd, Latvia) and as a result of that its interest increased to 50.48%.

On 5 February 2014 and on 26 February 2014 the Group performed a purchase and a sale of shares of ODO BelAgroMed, Belarus (through Briz Ltd, Latvia) and as a result of that its interest was increased to 35.60%.

On 6 February 2014 Sopharma AD sold 616,015 shares from the capital of Sopharma Trading AD held thereby and as a result of that the interest of the Group decreased to 74.05%.

The political crisis in Ukraine

Starting from the end of 2013, including at the date of issue of these consolidated financial statements, Ukraine continues to be in a process of political crisis due to the annexation of the Crimean Peninsular by the Russian Federation. As a result of that the European Union and the USA imposed economic sanctions of the Russian Federation. Furthermore, strained relations exist between Ukraine and the Russian Federation with regard to a number of towns in the Eastern part of Ukraine. The Western countries introduce military units in the region while the Russian Federation does the same along the Eastern border of Ukraine.

As a result, the exchange rate of the Ukrainian Hryvnia to the Bulgarian Lev has dropped by more than 30% while the interest rates have increased by 3% for the period until April 2014 compared to the rates at the end of 2013 and inflation of about 15% is expected for the year by the Ukrainian National Bank. The purchasing power of the population shows is in a downturn.

This situation has a definite effect on the pharmaceutical market but the products of the Group are in a comparatively favourable position by being in the moderate price segment (the refrain from purchase of medicinal products refers mostly to the high price segment). Furthermore, the assets of PAO Vitamini are located in the town of Uman, in the western part of Ukraine, where no present indications exist that any possible development of the conflict would progress in that part of Ukraine.

The management of Sopharma Group closely monitors the events in Ukraine as well as the movements in the Ukrainian pharmaceutical market. The applied prices and the terms of trade are persistently revised. In addition, the existence of a local distributor (OOO Sopharma Ukraine) for the Group in Ukraine decreases the risk of receivables uncollectability from third parties and the trade policy of this subsidiary is primarily focused on sales of goods to other distributors after their previous obligations have been paid.

Other

As of 1 January 2014, the companies in Belarus are already operating in a non-hyperinflationary environment.

Starting from 1 January 2014, the company in Latvia started to use the Euro as its functional and presentation currency due to Latvia joining the eurozone and respectively, accepting the Euro as its official currency replacing the Lats.