INTERIM INDIVIDUAL FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY – 31 MARCH 2012

NOTES TO THE INTERIM SEPARATE FINANCIAL STATEMENTS:

1. BACKGROUND CORPORATE INFORMATION

Sopharma AD is a company registered in Bulgaria with a seat and address of management at 16, Iliensko Shousse Str., Sofia.

Company was registred in court on 15 November 1991, by Decision No. 1/1991 of Sofia City Court.

1.1. Ownership and management

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

The structure of Company's joint-stock capital as at 31 March 2012 is as follows:

	%
Donev Investment Holding AD	24.57
Telecomplect AD *(formal holder of the shares as per the Registry at the Central Depository (CD) until the entry of Telecomplect Invest AD in the Registry of CD – Note 40)*	20.42
Financial Consulting Company EOOD	16.24
Gramercy Select Master Fund	6.34
Gramercy Emerging Markets Fund	5.89
Other legal persons	23.18
Physical persons	3.36

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

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

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

The average number of Company personnel was 1,801 workers and employees as at 31 March 2012 (2011: 1,848).

1.2. Principal activities

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

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

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Company's activities throughout the period 2009 - 2011, are presented in the table below:

Indicator	2009	2010	2011
GDP in million BGN	68,322	70,511	75,265
Actual growth of GDP	-5.50%	0.40%	1.70%
Year-end inflation	0.60%	4.50%	2.80%
Average exchange rate of USD for the year	1.40	1.4779	1.4065
Exchange rate of the USD at the year-end	1.36	1.4728	1.5116
Unemployment rate at the year-end	9.10%	9.24%	10.40%
Basic interest rate at the year-end	0.55%	0.18%	0.22%

Source: BNB

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the separate financial statements

The separate financial statements of Sopharma AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2011 and have been accepted by the Commission of the European Union.

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

The adoption of these standards and/or interpretations, effective for annual periods beginning on 1 January 2011, has not resulted in changes in Company's accounting policies, except for some new disclosures and expanding of those already established, however, not resulting in other changes in the classification or valuation of individual reporting items and transactions.

These standards and interpretations include:

- *IFRS Improvements (May 2010) - improvements in IAS 1, 27, 28, 34, IFRS 1, 3 and 7 and IFRIC 13 (in force for annual period beginning on or after 1 January 2011 (or 1 July 2010) – endorsed by EC).* These improvements introduce partial amendments in the respective standards primarily with a view to remove existing inconsistency in the application rules and requirements of individual standards as well as to set up more precise terminology with regard to: (a) presentation of the analysis of other comprehensive income (by item – in a separate note or in the statement of changes in equity); (b) the approach for a measurement choice of the non-controlling interest, the presentation of the contingent consideration and all share-based payment transactions, which are part of business combinations – from the amendment of IFRS 3 (2008); (c) improvement of the qualitative disclosures on the risks associated with financial instruments together with the quantitative ones and the disclosures on the collateral held; (d) enhanced disclosure requirements for interim financial reporting regarding all significant events and transactions, including changes in fair values, transfers and classification of financial instruments, and financial information update compared to the most recent annual financial statements; (e) corresponding changes for prospective application in associates and joint ventures according to the amendments to IAS 27 (2008); (f) clarification of the term 'fair value' for the purpose of measuring the award credits in customer loyalty programmes.

With regard to the other standards and interpretations, stated below, the management has assessed their possible effect and has decided that they would not have an impact on the accounting policies and respectively, on Company's assets, liabilities, transactions and performance due to the fact that the Company does not possess/operate such items and/or does not perform similar deals and transactions:

- *IAS 24 (amended) "Related Party Disclosures" (in force for annual periods beginning on or after 1 January 2011 – endorsed by EC).* The amendments are focused on improvement of the definition for the scope and types of related parties and introduce a specific rule for a partial exemption from full disclosure regarding related parties, controlled by or under significant influence by government bodies at international, national and local level and other entities owned thereby – with regard to the types of relations, accounts and balances and transactions with them.
- *IAS 32 (amended) "Financial Instruments: Presentation" (in force for annual periods beginning on or after 1 February 2010 – endorsed by EC as from 1 February 2010)* – regarding the classification of issued rights. The amendment is aimed as a clarification of the treatment of rights, options and warrants for acquisition of a fixed number of entity's equity instruments for a *fixed* amount of any currency as equity instruments if they are offered on pro rata basis to all existing owners of the same class non-derivative equity instruments.
- *IFRIC 14 "Prepayments of a Minimum Funding Requirement" under IAS 19 (in force for annual periods beginning on or after 1 January 2011 – endorsed by EC as from 1 January 2011).* The amendment provides clarifications on defining the existing economic benefit of prepayments of minimum funding requirements, available as a reduction in future contributions in the two cases of existence or non-existence of a minimum funding requirement for contributions relating to future service and the possibility such prepayments to be recognised as an asset.
- *IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (in force for annual periods beginning on or after 1 July 2010 – endorsed by EC as from 1 July 2010).* This interpretation sets out clarifications on the accounting treatment of transactions related to settlement, in full or in part, of financial liabilities to creditors through the issue of equity instruments by debtor – measurement of the equity instruments as a consideration paid and treatment of the resulting differences between the

measurement of the equity instruments and that of the financial liability, as well as certain limitations of application.

At the date when these financial statements were approved for issue, there had been several new standards, amended/revised standards and interpretations issued but not yet in force for annual periods beginning on or after 1 January 2011, which were not adopted by the Company for early application. The management has judged that out of them the following are likely to have a potential impact in the future resulting in changes in the accounting policies and the financial statements of the Company for subsequent periods.

- *IAS 1 (amended) "Presentation of Financial Statements" (in force for annual periods beginning on or after 1 July 2012 – not endorsed by EC).* The amendment introduces a requirement for entities to present the components of other comprehensive income in the statement of comprehensive income in two separate categories depending on whether they could be subsequently reclassified or not to current profit or loss in the income statement, including their tax effect.
- *IAS 12 (amended) "Income Taxes" (in force for annual periods beginning on or after 1 January 2012 – not endorsed by EC).* The amendment clarifies explicitly that the assessment of deferred tax (asset or liability) 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. SIC-21 is incorporated in IAS 12 and therefore, it is to be withdrawn as of the date on which the amendment in IAS 12 becomes effective.
- *IAS 19 (amended) "Employee Benefits" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* The amendment changes the accounting for defined benefit plans and termination benefits. The fundamental change is the elimination of the 'corridor' approach and the introduction of the rule that all subsequent remeasurements (referred to so far as actuarial gains or losses) of defined benefit obligations and plan *assets* shall be recognised when occurred in a component of 'other comprehensive income', as well as the accelerated recognition of past service costs.
- *IAS 27 (as revised in 2011) "Separate Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* The standard was reissued with a changed title as the part of it referring to consolidated financial statement was entirely separated in a new standard – IFRS 10 "Consolidated Financial *Statements*". Thus the standard now includes only the rules on accounting for investments in subsidiaries, associates and joint ventures at the level of separate financial statements.
- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding transfer of financial assets (in force for annual periods beginning on or after 1 July 2011 – endorsed by EC as from 1 July 2011).*

These amendments are related to expanding the requirements for disclosure of data regarding transfer transactions of financial assets, including *depending* on the circumstances whether the reporting entity continues, at the reporting date, to have involvement in and responsibility to the respective financial asset by assuming certain risks, rights and benefits and regardless of whether the transferred assets are derecognised from the statement of financial position or not.

- *IFRS 9 (issued in November 2009 and October 2010) "Financial Instruments: Classification and Measurement" (in force for annual periods beginning on or after 1 January 2013 and revised effective date – for annual periods beginning on or after 1 January 2010 – not endorsed by EC).* This standard replaces parts of IAS 39 by establishing principles, rules and criteria for the classification, measurement and derecognition of financial assets and liabilities, including hybrid contracts. *It* introduces a requirement that financial assets are to be classified based on entity's business model for their management and 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 as at fair value through current profit or loss (for credit risk).
- *IFRS 10 "Consolidated Financial Statements" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC). This standard replaces a significant part of IAS 27 ("Consolidated and Separate Financial Statements") and SIC-12 ("Consolidation - Special Purpose Entities").* Its main objective is to establish the 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 of control that contains three elements and establishes control as the *sole* basis for consolidation. The standard also sets out the main mandatory rules for the preparation of consolidated financial statements.
- *IFRS 12 "Disclosing of Interest in Other Entities" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* This standard introduces obligations for disclosure in the financial statements and requirements to the *information* included therein with regard to all forms of interests of the reporting entity in other companies and entities, including both the effects and the risks of those interests.
- *IFRS 13 "Fair Value Measurement" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC);* This standard establishes a single source of methodological guidance by providing a precise definition of 'fair value', rules and methods for its measurement as well as more extensive disclosure requirements for fair value and its *measurement* for the purposes of all IFRSs. It applies to both financial instruments and non-financial assets and liabilities when fair value is required or permitted by IFRS.

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 2011, the management has judged that they are unlikely to have potential impact resulting in changes in the accounting policies and the financial statements of the Company:

- *IAS 28 (as revised in 2011) "Investments in Associates and Joint Ventures" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* The title of the standard has been changed and the standard sets out rules for application of the equity method when accounting for investments in associates as well as in joint ventures, which were previously *included* in the scope of IAS 31 "Interests in Joint Ventures" in line with the new IFRS 11 and IFRS 12. IAS 31 becomes inapplicable starting from 1 January 2013.
- *IAS 32 (amended) "Financial Instruments: Presentation" (in force for annual periods beginning on or after 1 January 2014 – not 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.
- *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 – not endorsed by EC).* These amendments are related to the enhanced disclosures for all financial instruments, which will be netted (offset) in accordance with IAS 32 (par. 42) as well as additional arrangements for offsetting outside the scope of IAS 32.
- *IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (in force for annual periods beginning on or after 1 January 2015 – not endorsed by EC).*
- *IFRS 11 "Joint Arrangements" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* 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.
- *IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (in force for annual periods beginning on or after 1 January 2013 – not endorsed by EC).* This interpretation provides clarifications regarding the differentiation of the accounting treatment of the *costs* of mine waste materials removal (stripping) for the purposes of production and the costs of improved access to further quantities of material that will be mined in future periods.

The financial statements have been prepared on a historical cost basis except for property, plant and equipment, investment property and available-for-sale financial instruments, which are measured at revalued amount and respectively, at fair value.

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

The presentation of financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in Note 2.27.

2.2. Consolidated financial statements of the Company

The Company started the process of preparation of its consolidated financial statements for the period 1 January – 31 March 2012 in accordance with IFRS effective for year 2012 whereas these individual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated financial statements will be issued not later than 30 May 2012 and after this date the financial statements will be publicly made available to third parties.

2.3. Comparatives

The accompanying financial statements of the Company include comparative information for one prior year.

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

2.4. Functional currency and recognition of exchange differences

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

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

The non-monetary items in the statement of financial position, which 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 revalued at the closing exchange rate.

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

2.5. Revenue

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

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 balance sheet date, if this stage as well as the transaction and completion costs, 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.

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

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

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

Finance income is presented separately on the face of the statement of comprehensive income (within profit or loss for the year) and is comprised of interest income on granted loans and term deposits, gains from investment transactions in available-for-sale securities and/or investments in subsidiaries and associates, including dividends, foreign exchange net gains from revaluation of loans to foreign currency.

2.6. Expenses

Expenses are recognised as they are incurred, following the accrual and matching concepts, to the extent that this would not cause recognition of assets and liabilities that do not the relevant definitions under IFRS.

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 statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses)'.

Finance costs are presented separately in the statement of comprehensive income (within profit or loss for the year) and are comprised of interest expenses under loans received, bank fees and charges under loans and guarantee, foreign exchange net loss from loans in foreign currencies, expenses/losses from investments available-for-sale securities and/or investments in subsidiaries and associates.

2.7. Property, plant and equipment

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

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 Company credit resources with analogous maturity and purpose.

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

Subsequent measurement

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

Depreciation methods

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

The useful life per group of assets is as follows:

- buildings – 20-70 years;
- road facilities - 20 years;
- machinery and equipment – 7 - 15 years;
- installations - 7 - 10 years;
- computers – 2 -5 years;
- motor vehicles – 7 - 17 years;
- furniture and fixtures – 6-7 years.

The useful life, set for any tangible fixed asset, is reviewed at the end of each reporting period and in case of any material deviation from the future expectations 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 statement of comprehensive income (within profit or loss for the year) unless a revaluation reserve has been set aside for the respective asset. Then the impairment is at the expense of this reserve and is presented in the statement of comprehensive income (within other comprehensive income) unless it exceeds the reserve amount whereas in such a case the surplus is included as expense in the statement of comprehensive income (within profit or loss for the year).

Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of property, plant and equipment 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 statement of comprehensive income (within profit or loss for the year). The part of the 'revaluation reserve' component attributable to the sold asset is directly transferred to the 'retained earnings' component in the statement of changes in equity.

2.8. Biological assets

Biological assets are measured at fair value less the estimated costs to sell. They are comprised of perennial plants.

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. 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 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 Company changes its approach and switches to measuring the asset at fair value less the estimated costs to sell.

2.9. Intangible assets

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

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

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

Intangible assets are derecognised from the balance sheet when they are permanently disposed of and no future economic benefits are expected from their use 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 statement of comprehensive income (within profit or loss for the year).

2.10. Investment property

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

Investment property is derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. 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 statement of comprehensive income (within profit or loss for the year).

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

2.11. Investments in subsidiaries and associates

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

Most of these investments are not traded in a stock exchange or the sales of shares in a stock exchange are of minimum amount. This circumstance does not provide opportunity for ensuring active market price quotations in order to determine reliably and directly the fair value of these shares.

The investments of the Company in subsidiaries and associates are subject to review for impairment. Where conditions for impairment are identified, the impairment is recognised in the statement of comprehensive income (within profit or loss for the year) (Note 2.27).

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

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

2.12. Available-for-sale investments

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 2.23).

Subsequent measurement

Company's investments (financial assets) representing shares in public companies traded in a stock exchange are subsequently measured at fair value commonly determined based on the average prices of realised transactions for the last month of the year unless the Company trades in an insignificant package of these companies' capital and/or has strongly limited volume of transactions with them – then the stock exchange prices are adjusted with the values obtained by applying other valuation methods and prices of similar instruments, including in other capital markets. (Note 2.27).

The effects of subsequent revaluation of securities to fair value are presented in a separate component of the statement of comprehensive income (within other comprehensive income) and recognised in the 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'.

Company's investments (financial assets) representing shares in other companies (minority interest), which are not traded in an active market and no market price quotations are available for them while the assumptions for the application of alternative valuation methods are related to high uncertainty in respect of achieving a reliable fair value determination, are measured and presented at cost (Note 2.23).

The available-for-sale investments (financial assets) of the Company are reviewed for impairment at the end of each reporting period and if conditions for permanent impairment are identified, the latter is recognised in the 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 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 statement of comprehensive income (within other comprehensive 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 when the Company undertakes the engagement to buy or sell the asset.

2.13. Inventories

Inventories are valued at the lower of acquisition cost (cost) and net realisable value.

Expenses, incurred at bringing certain product to its current 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. The Company has chosen to allocate the fixed production overheads to produced items by using direct labour, based on set labour standards.

Upon putting into production (sale) of inventories, the Company applies the weighted average cost method.

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

2.14. Trade and other receivables

Trade receivables are recognised 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 2.23).

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. Impairment of trade receivables is being accrued through a respective corresponding allowance account for each type of receivable in the item 'other expenses' on the face of the statement of comprehensive income (within profit or loss for the year).

2.15. 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 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 statement of comprehensive income (within profit or loss for the year) as finance income (interest) or costs throughout the amortisation period, or when the receivables are settled, derecognised or reduced.

Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) the Company has unconditionally the right to collect its receivable within a term of more than 12 months after the end of the reporting period (Note 2.23).

2.16. Cash and cash equivalents

Cash and cash equivalents include cash in hand, current accounts and short-term deposits with banks, with original maturity of less than three months (Note 2.23).

For the purposes of the statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on received investment purpose loans is reported as payments for financial activities while the interest on working capital loans related to current activities is included in the operating activities;
- short-term (up to 3 months) blocked cash is treated as cash and cash equivalents;
- on the existence of bank deposits with original maturity of up to three months they are treated as cash and cash equivalents while the interest received thereon are included in the 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 Company and is recovered therewith in the respective period (month).

2.17. Trade and other payables

Trade and other current amounts payable are carried at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest rate method (Note 2.23).

2.18. Interest-bearing loans and other borrowings

All loans and other borrowings are initially recognised 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 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 statement of comprehensive income (within profit or loss for the year) as finance costs (interest) or income throughout the amortisation period, or when the liabilities are derecognised or reduced (Note 2.23).

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

2.19. Capitalisation of borrowing costs

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

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

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

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

2.20. Leases

Finance lease

Lessee

Finance leases, which transfer to the Company 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 (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate.

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

Lessor

Finance lease where a substantial portion of all risks and rewards incidental to the ownership of the leased asset is transferred outside the Company, is written-off from the 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 financial income. The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the statement of comprehensive income (within profit or loss for the year) in the 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 statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

Lessor

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

Lease 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.

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

The employment and social security relations with the employees of Sopharma AD are based on the provisions of the Labour Code and the effective social security legislation.

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

The social security and pension plans, applied by the Company in its capacity of an employer, are based on the Bulgarian legislation and are defined contributions plans. Under these plans, the employer pays defined monthly contributions to the government funds as follows: Pensions Fund, GDM Fund, Unemployment Fund, LAPD Fund and GRWE 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.

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

Short-term benefits

Short-term employee benefits in the form of remuneration, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or has met the required terms and requirements) are recognised as an expense in the statement of comprehensive income (within profit or loss for the year) in the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount. The Company's obligations for social security and health insurance are recognised as a current expense and liability at their undiscounted amount together with the relevant benefits and within the period of the respective income to which they are related.

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

Long-term retirement benefits

In accordance with the requirements of the Labour Code, the employer 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 their nature these are 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 included in the statement of financial position, adjusted with the amount of the unrecognised actuarial gains and losses, and respectively, the change in their value including the recognised actuarial gains and losses is included in the statement of comprehensive income (within profit or loss for the year).

Past service costs are recognised immediately in the statement of comprehensive income (within profit or loss for the year).

At the end of each reporting period, the Company assigns 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, denominated in Bulgarian levs.

Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments. Those exceeding the 10% corridor of the present value of the defined benefit obligations as at the end of the year are recognised immediately in the statement of comprehensive income (within profit or loss for the year) for the period in which they arise.

The changes in the amount of Company's liabilities to personnel for indemnities upon retirement, including the interest from unwinding of the present value and the recognised actuarial gains or losses, are recognised as employee benefits expense in the statement of comprehensive income (within profit or loss for the year).

Termination benefits

In accordance with the provisions of the Labour Code, the Company in its capacity of employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities.

The Company recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on announced plan, 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 after more than 12 months from the end of the reporting period are discounted and presented in the statement of financial position at their present value.

2.22. Share capital and reserves

The Company is a joint-stock one and is obliged to register with the Commercial Register a specified ***share capital***, which should serve as a security for the creditors of the Company for execution of their receivables. 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 Company reports its share capital at the nominal value of the shares registered in the court.

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

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

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

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

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

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

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

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 statement of comprehensive income (within profit or loss for the year) when the financial assets are disposed of (sold) by the Company and/or on identified permanent impairment of particular financial assets.

2.23. Financial instruments

2.23.1. Financial assets

The Company 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 determines the classification of the financial assets of the Company at the time of their initial recognition on the statement of financial position.

The Company usually recognises its financial assets in the statement of financial position on the trade date, being the date on which the Company commits to purchase the respective financial assets. All financial assets are measured at their fair value plus the directly attributable transaction costs.

Financial assets are derecognised from the Company's statement of financial position when the rights to receive cash from these assets have expired or have been transferred, and the Company has transferred substantially all the risks and rewards of ownership of the asset to another entity (person). If the Company 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 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 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 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 statement of financial position (Notes 2.14, 2.15 and 2.16). 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 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 Company assesses whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired (Note 2.27).

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. These are usually shares or interests in other companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where the Company intends to sell them in the following 12 months and is actively searching for a buyer (Note 2.12).

Available-for-sale financial assets are measured at

- fair value for companies whose shares are quoted in a stock exchange. The fair value of these assets is determined by applying average stock exchange bid price commonly for the last month at the date of the statement of financial position unless only an insignificant package of the capital of these companies is being traded and/or the volume of transactions with them is very limited – then stock exchange prices are adjusted by applying other valuation methods (Note 2.27), or as an exception,
- at acquisition cost for closed-end companies for which it is difficult to find analogous market transactions data or due to the circumstance that the future operation of these companies is related to certain doubts so that reasonable and justifiable long-term assumptions are not possible for the calculation of the fair value of their shares through other alternative valuation methods.

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

2.23.2. Financial liabilities and equity instruments

The Company 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

Financial liabilities include loans and payables to suppliers and other counterparts. They are initially recognised on the balance sheet at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method (Notes 2.17, 2.18, 2.20).

2.24. Income taxes

Current income taxes are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate for year 2012 was 10 % (2011: 10%).

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

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 statement of financial position date and reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, whereby they can be deducted or set-off.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period when the asset will be realised or the liability will be settled (paid), based on the tax laws that are enacted or substantively enacted.

As at 31 March 2012, the deferred income taxes were computed at a tax rate of 10 % (31 March 2011: 10 %).

2.25. Earnings per share

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

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

In case of a 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.

2.26. Segment reporting

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

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

Information by operating segments

The Company 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. Usually they include: (a) for revenue - sales of finished products; (b) for expenses - raw materials and consumables used, depreciation and amortisation and production staff remuneration; (c) for assets - property, plant and equipments and inventories; (d) for liabilities - payables to personnel and for social security. 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 Company manages its investments in securities, trade accounts and financial resources granted/received as well as taxes at entity's level and they are not allocated at segment level.

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

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

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

Inventories

Normal capacity

The normal production capacity of the Company is determined on the grounds of the monthly weighted average man-hours worked-out in three consecutive reporting periods (years) individually for each type of production and each workshop.

Allowance for impairment

At the end of each financial year, the Company reviews 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 Company impairs the inventories to net realisable value.

Actuarial calculations

Calculations of certified actuaries have been used when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor (Note 29).

Revaluation of property, plant and equipment

As at 31 December 2011, the Company performed an overall review and assessment for price changes of property, plant and equipment with the assistance of independent certified appraisers.

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

- 'Market-based approach' through the 'market analogues method' – with regard to land and buildings for which actual market were available, analogous properties and deals with them were observed and basis for comparison existed and their market value determined by the comparative method was accepted as fair value;
- 'Approach based on the real value of assets' through the 'method of amortised recoverable amount' – for special-purpose buildings for which there was not available actual market 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 timeline) and taking into account: physical ware, functional and economic impairment.

As a result of the assessment performed, a revaluation reserve at the amount of BGN 2,706 thousand was recognised net of impairment (Note 15).

The main information sources, used for fair value calculation, assumptions and assessment, with regard to fair values cover: internal data and opinion of Company's management on the functional status of assets, level of capacity utilization, intention for sale of specific assets, general repairs performed, perspectives for assets utilization, public information on the financial, technical and operative status of the Company during the last five years, published prices of realised transactions on real estate markets, information of realised or quoted transactions for sale and purchase of similar assets (Note 15).

Impairment of investments in subsidiaries

At each reporting date, the management makes an assessment about whether indicators for impairment exist in respect of its investments in subsidiaries and associates. The following are accepted as main indicators for impairment: significant volume reduction (over 25%) or termination of activities of the subsidiary where investments have been made; reporting of losses for a longer period of time (over three years) as well as reporting of negative net assets or assets below the registered share capital. The calculations were made by the management with the assistance of independent certified appraisers. As a base for projected pre-tax cash flows, the Company uses financial budgets developed by the respective companies that cover a 4-year period, as well as other average-term and long-term plans and intents for their development, including projections for basic economic ratios at national level and at the level of EU/the Balkans. The key assumptions used in the calculations of recoverable value are as follows:

- growth rate – from 2% to 27%;
- discount rate (based on WACC) – from 9.4 % to 16.1 %.

The discount rate is determined specifically for each company by year and in line with its specific operations, business environment and risks.

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

As a result of the calculations made in 2011, necessity for recognition of impairment of particular investments in subsidiaries was identified at the amount of BGN 863 thousand (2010: BGN 1,818 thousand) (Notes 10, 18).

Subsequent measurement of available-for-sale investments (financial assets) to fair value and treatment of the results of negative revaluation

As at 31 December 2011, the Company made a detailed comparative analysis of the changes and movements of stock-exchange prices in the national stock market with regard to the shares in public companies held thereby.

With regard to the investments in companies whose shares are registered for trading in the Bulgarian Stock Exchange, the management performed research and analysis and is of the opinion that the stock prices are not sufficiently directly indicative for the fair value of the respective securities mainly because of the still significantly decreased volumes. This circumstance lead to its decision to change the valuation approach applied by 31 December 2008 – from direct stock (unadjusted) average prices of realised deals in the stock market for the last month of the financial year (Level 1) to adjusted stock prices (Level 2). The calculations for these adjusted stock prices were made by the management with the assistance of independent certified appraisers using for the purpose share prices of other entities with similar characteristics, quoted on the Bulgarian Stock Exchange and/or other foreign analogous stock exchanges (Notes 14 and 19).

For investments in companies whose shares are registered for trade in foreign stock exchanges and traded in sufficient volume of transaction in the capital market, it was accepted that they can be subsequently measured at fair value determined directly on the basis of average prices of realised deals in the stock exchange in the last month of the financial year (Level 1). The applied prices were additionally analyzed for trends in the behaviour of stock prices of the respective securities at least for the last three months of the year and respectively, to the date of issue of the financial statements. (Notes 14 and 19).

The management also used mandatory alternative valuation methods for additional confirmation of the applied value as fair value for both years.

Specific analysis was also made with regard to all investments in available-for-sale securities of the behavioural graph of their stock exchange prices and the fair values determined by alternative valuation methods for a period of 18 months at 31 December in order to determine whether conditions exist for permanent and significant impairment. As a result of this analysis, the following it was found for part of the investments as at 31 December 2011: (a) a trend of retaining the low level of share prices; (b) continuous decrease against the prior period; (c) prices of analogous entities and/or existence of other valuations of the held shares-investments, determined by alternative valuation methods (e.g. discounted cash flows method, market analogues), which are maintained or decreased compared to the values at the end of the prior year.

These results of the analysis are the grounds for the position of the management to recognise the impairment of these investments and all previously accumulated losses (net) to the reserve in the statement of comprehensive income (within profit or loss for the year) as 'finance costs' – at the amount of BGN 2,624 thousand (2010: BGN 4,299 thousand).

Operating lease

The Company has classified a building, leased to a related party under operating lease terms, in the group of 'property, plant and equipment'. Since a significant part of the building is used thereby in its own operations as well the management has decided that the building shall not be treated as investment property.

Impairment of receivables

The Company estimates the losses from doubtful and bad debts at each balance sheet date on individual basis. Where difficulties in collecting certain receivables are observed, they are subject to analysis in order to determine the actually collectable portion therefrom while the remaining portion to the nominal value is recognised in the statement of comprehensive income (within profit or loss for the year) as impairment (Note 9).

After 180 days of delay it is already considered that indicators for impairment may exist. In the judgment of collectability of receivables, the management performs 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 of a counterparty, including the possibilities of collecting interest for delay. 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, warrant, bank guarantee) and thus with ensured collection (through future realisation of the collateral or guarantee payment). Where the management has judged 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 fully written off.

For the first quarter of 2021, the recognised impairment of receivables (net of the reversals) amounts to BGN 270 thousand (2011: BGN 172 thousand).

Litigation provisions

With regard to the pending litigations against the Company (as a defendant), the management together with Company's lawyers has judged that at this stage the probability and risks of a negative outcome therefrom is still below 50% and therefore, it has not included a provisions for litigation payables in the statement of financial position as at 31 December 2011 (Notes 37).

Deferred tax assets

The Company has not recognised deferred tax assets at the amount of BGN 1,234 thousand related to impairment of investments in subsidiaries because the management is not planning to dispose of these investments and has judged that it is unlikely the temporary difference to be manifested in a foreseeable future. The temporary difference on which no tax asset is recognised amounts to BGN 12,341 thousand (Note 28).

3. REVENUE

The main *revenue* earned from sales of Company's finished products includes:

	2012	*2011*
	BGN '000	*BGN '000*
Export	37 861	36 893
Domestic market	12 612	15 389
Total	**50 473**	**52 282**

Sales of products - export	*2012*	*2011*
	BGN '000	*BGN '000*
Tablet dosage forms	29 730	30 676
Syrup dosage forms	3 000	2 623
Ampoule dosage forms	3 105	1 689
Ointments	1 302	1 249
Lyophilic products	552	381
Suppositories	125	219
Drops	39	28
Infusion solutions	8	28
Total	**37 861**	**36 893**

Sales by product – domestic market	*2012*	*2011*
	BGN '000	*BGN '000*
Tablet dosage forms	7 574	8 730
Ampoule dosage forms	3 463	4 189
Lyophilic products	1 169	1 358
Syrup dosage forms	76	507
Ointments	198	275
Drops	53	247
Suppositories	78	83
	1	0
Total	**12 612**	**15 389**

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

	2012 BGN '000	*Relative share*	*2011 BGN '000*	*Relative share*
Europe	34 227	68%	33 547	64%
Bulgaria	12 612	25%	15 389	29%
Other countries	3 634	7%	3 346	7%
Total	**50 473**	**100%**	**52 282**	**100%**

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

	2012 BGN '000	*% of revenue*	*2011 BGN '000*	*% of revenue*
Client 1	22 532	45%	22 364	43%
Client 2	12 588	25%	15 358	29%
Client 3	5 938	12%		

4. OTHER OPERATING INCOME AND LOSSES

Company's *other operating income and losses* include:

	2012 BGN '000	*2011 BGN '000*
Sales of materials	*4 467*	*3 273*
Cost of materials sold	*(4 291)*	*(3 184)*
Gain on sales of materials	176	89
Sales of non-current assets	*173*	*5*
Carrying amount of non-current assets sold	*0*	*0*
Gain/(loss) on sale of non-current assets	173	5
Sales of goods	*295*	*310*
Cost of goods sold	*(197)*	*(177)*
Gain on sales of goods	98	133
Services rendered	534	581
Income from penalties	0	-
Losses from revaluation on investment property to fair value	0	0
Net loss from exchange differences under trade receivables and payables and current accounts	(25)	(161)
Other income	19	12
Total	**975**	**659**

Income from sales of materials comprises mainly: sales of substances and packaging materials - aluminium foil, vials, tubes etc.

Sales of goods include:

	2012	*2011*
	BGN '000	*BGN '000*
Foodstuffs	134	123
Goods with technical designation	70	143
Cosmetics	91	22
Food supplements	0	22
Total	**295**	**310**

The *cost of goods sold* by type is as follows:

	2012	*2011*
	BGN '000	*BGN '000*
Foodstuffs	106	107
Cosmetics	80	20
Food supplements	-	19
Goods with technical designation	11	31
Total	**197**	**177**

Services rendered include:

	2012	*2011*
	BGN '000	*BGN '000*
Rentals	389	443
Social activities	67	60
Gamma irradiation	36	40
Laboratory analyses	4	1
Regulatory services	6	21
Advertising services	0	-
Royalty	0	-
Transport organisation	2	2
Other	30	14
Total	**534**	**581**

5. RAW MATERIALS AND CONSUMABLES USED

The *raw materials and consumables* used include:

	2012	*2011*
	BGN '000	*BGN '000*
Basic materials	13 518	12 388
Spare parts, laboratory and technical materials	1 342	991
Heat power	1 416	1 203
Electric energy	623	592
Fuels and lubricating materials	319	277
Water	230	239
Working clothes	155	133
Impairment of materials	0	0
Scrapped materials	0	1
Total	**17 603**	**15 824**

Expenses on *basic materials* include:

	2012	*2011*
	BGN '000	*BGN '000*
Substances	7 661	7 020
Packaging materials	2 273	2 083
Aluminium and PVC foil, vials, tubes	1 586	1 453
Liquid and solid chemicals	1 022	940
Ampoules	822	710
Herbs	154	182
Total	**13 518**	**12 388**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2012	*2011*
	BGN '000	*BGN '000*
Manufacture	35,991	34,440
Advertising	8,788	8,587
Consulting services	3,862	1,310
Commission fees	2,974	3,411
Transport	2,495	2,796
Buildings and equipment maintenance	2,105	1,378
Logistic services – domestic market	1,463	1,229
State and regulatory charges	1,324	1,409
Civil contracts	1,020	879
Insurance	928	938
Logistic services on export	820	905
Rentals	794	495
Security	769	725
Services on drug registration	741	460
Local taxes and charges	697	732
Clinical trials	526	133
Taxes on expenses	497	452
Documentation translation	493	620
Subscription fees	483	452
Medical service	479	428
Announcements and communications	408	546
Vehicles repair and maintenance	367	239
Licence fees and charges	349	178
Fees for servicing of current bank accounts	282	212
Courier services	149	169
Drug destruction costs	143	69
Service fees	25	51
Other	0	55
Total	**15 888**	**13 931**

7. EMPLOYEE BENEFITS EXPENSE

	2012	*2011*
	BGN '000	*BGN '000*
Current wages and salaries	5 975	5 632
Tantieme	0	-
Social security/health insurance contributions	1 298	1 156
Social benefits and payments	366	284
Accruals for unused paid leaves	434	402
Social security/health insurance contributions on leaves	79	89
Accruals for long-term payables to personnel	75	81
Total	**8 227**	**7 644**

8. OTHER OPERATING EXPENSES

Other operating expenses include:	*2012*	*2011*
	BGN '000	*BGN '000*
Business events	414	283
Accrued impairment of finished products and work in progress, net (Note 9)		216
Business trips	133	125
Other taxes	34	22
Donations	36	72
Scrapped finished products and work-in-progress		72
Receivables written-off	6	-
Scrap and shortages of non-current assets	3	50
Training	23	15
Unrecognised input VAT	8	2
Awarded amounts under litigations		2
Scrapped perennial plants		-
Accrued impairment of receivables, net (Note 9)	270	287
Other		-
Total	**927**	**1 146**

9. IMPAIRMENT OF CURRENT ASSETS

Impairment losses on current assets include:	*2012*	*2011*
	BGN '000	*BGN '000*
Impairment of receivables	*270*	*311*
Reversed impairment of receivables	*0*	*(24)*
Net change in receivables write-down	270	287
Impairment of finished products	0	216
Impairment of materials	0	0

Impairment of work-in-progress	0	0
Total	**270**	**503**

10. FINANCE INCOME

Finance income includes:

	2012	***2011***
	BGN '000	***BGN '000***
Income from participation	0	0
Interest income on loans granted	1 222	1 324
Interest income on deposits	3	0
Net gain on transactions with securities	0	239
Net gain from exchange differences on loans	0	0
Total	**1 225**	**1 563**

11. FINANCE COSTS

Finance costs include:

	2012	*2011*
	BGN '000	*BGN '000*
Interest expense on loans received	1 185	1 463
Impairment of available-for-sale investments		0
Bank fees and charges on loans and guarantees	125	148
Interest expense on finance lease	65	55
Net loss on transactions with securities	7	7
Net loss on exchange rate differences on loans	125	212
Total	**1 507**	**1 885**

12. INCOME TAX EXPENSE

	2012 BGN '000			**2011 BGN '000**		
	Pre-tax amount	**Tax benefit/(expense)**	**Amount net of tax**	**Pre-tax amount**	**Tax benefit/(expense)**	**Amount net of tax**
Net change in the fair value of available-for-sale financial assets			-	36		36
Gain on revaluation of property, plant and equipment			-			-
Total other comprehensive income for the year	**-**	**-**	**-**	**36**	**-**	**36**

The net change in the fair value of available-for-sale financial assets is related to valuation of shares in public companies, which is not subject to corporate tax according to the Bulgarian tax legislation.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Machinery and equipment*		*Other*		*Assets in progress*		*Total*	
	2012	***2011***	***2012***	***2011***	***2012***	***2011***	***2012***	***2011***	***2012***	***2011***
	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	**68 373**	**67 224**	**81 892**	**80 031**	**17 813**	**16 965**	**32 892**	**8 874**	**200 970**	**173 094**
Additions	117	909	574	1 376	487	1 007	9 056	24 734	10 234	28 026
Transfer to property, plant and equipment		15	133	645		56	(708)	(716)	(575)	-

Transfer to investment property		-		-		-	-	-	-	-
Allowance for impairment		-		(6)		(6)	-	-	-	(12)
Disposals		(57)	(10)	(534)		(209)	-	-	(10)	(800)
Effect of revaluation to fair value		282		380		-	-	-	-	-
Balance at 31 March/December	**68 490**	**68 373**	**82 589**	**81 892**	**18 300**	**17 813**	**41 240**	**32 892**	**210 619**	**200 308**
Accumulated depreciation										
Balance at 1 January	**4 957**	**3 272**	**50 500**	**48 243**	**10 465**	**9 082**	**-**	**-**	**65 922**	**60 597**
Depreciation charge for the year	424	1 693	1 107	4 805	384	1 542	-	-	1 915	8 040
Depreciation written-off		(8)	(7)	(504)		(159)	-	-	(7)	(671)
Effect of revaluation to fair value	-	-		(2 044)	-	-	-	-	-	(2 044)
Balance at 31 March/December	**5 381**	**4 957**	**51 600**	**50 500**	**10 849**	**10 465**	**-**	**-**	**67 830**	**65 922**
Carrying amount at 31 March/December	**63 109**	**63 416**	**30 989**	**31 392**	**7 451**	**7 348**	**41 240**	**32 892**	**142 789**	**135 048**
Carrying amount at 1 January	**63 416**	**63 952**	**31 392**	**31 788**	**7 348**	**7 883**	**32 892**	**8 874**	**135 048**	**112 497**

As at 31 March 2012 the Company's tangible fixed assets include: land amounting to BGN 27,210 thousand (31 December 2011: BGN 27,150 thousand) and buildings of carrying amount BGN 35,899 thousand (31 December 2011: BGN 36,266 thousand).

Tangible fixed assets in progress as at 31 March include:

- expenses on construction of new production buildings – BGN 32,595 thousand (31 December 2011: BGN 27,539 thousand);
- buildings reconstruction – BGN 1,115 thousand (31 December 2011: BGN 1,164 thousand);
- advances granted at the amount of BGN 6,183 thousand (31 December 2011: BGN 4,151 thousand);
- other – BGN 1,348 thousand (31 December 2011: BGN 38 thousand).

The amount of other assets as at 31 March 2012 includes also biological assets – Golden Chain (Laburnum anagyroides) plantation at the amount of BGN 140 thousand (31 December 2011: BGN 140 thousand).

Operating lease

The Company leased tangible fixed assets with carrying amount of BGN 8,239 thousand as at 31 March 2012 to related parties (31 December 2011: BGN 8,141 thousand). In addition, tangible fixed assets at carrying amount of BGN 73 thousand were leased to third parties as at 31 March 2012 (31 December 2011: BGN 74 thousand).

Finance lease

As at 31 March 2012, assets at the carrying amount of BGN 698 were acquired under finance lease contracts (31 December 2011: BGN 604 thousand).

Other data

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

- machinery and equipment – BGN 20,167 thousand (31 December 2010: BGN 19,327 thousand);
- motor vehicles – BGN 579 thousand (31 December 2011: BGN 541 thousand);
- furniture and fixtures – BGN 3,106 thousand (31 December 2011: BGN 3,039 thousand).

14. INTANGIBLE ASSETS

	Intellectual property rights		*Software*		*Assets in progress*		*Total*	
	2012	***2011***	***2012***	***2011***	***2012***	***2011***	***2012***	***2011***
Book value	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance at 1 January	**1 140**	**822**	**2 082**	**1 735**	**1 786**	**503**	**5 008**	**3 060**
Additions	94	4	102	347	362	1 597	558	1 948
Transfer		314		-	(94)	(314)	(94)	-
Balance at 31 March/December	**1 234**	**1 140**	**2 184**	**2 082**	**2 054**	**1 786**	**5 472**	**5 008**
Accumulated amortisation								
Balance at 1 January	**508**	**355**	**1 114**	**755**	**-**	**-**	**1 622**	**1 110**
Amortisation charge for the year	49	153	96	359	-	-	145	512
Balance at 31 March/December	**557**	**508**	**1 210**	**1 114**	**-**	**-**	**1 767**	**1 622**
Carrying amount at 31 March/December	**677**	**632**	**974**	**968**	**2 054**	**1 786**	**3 705**	**3 386**
Carrying amount at 1 January	**632**	**467**	**968**	**980**	**1 786**	**503**	**3 386**	**1 950**

The rights on intellectual property include mainly products of development activities.

Intangible assets in progress as at 31 March include:

- expenses on software implementation – BGN 1,208 thousand (31 December 2011: BGN 1,086 thousand);
- expenses on permits for use of medicinal products – BGN 846 thousand (31 December 2011: BGN 700 thousand).

15. INVESTMENT PROPERTY

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
Balance at 1 January	**19 170**	**19 535**
Fair value measured as at 31 December, carried to the statement of comprehensive income		(365)
Transfer from property, plant and equipment	-	0
Fair value measurement, carried to the statement of changes in equity on the transfer to the group of investment property	-	0
Balance at 31 March/December	**19 170**	**19 170**

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

18. INVESTMENTS IN SUBSIDIARIES

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

31.03.2012	***Interest***	***31.12.2011***	***Interest***

		BGN '000	%	*BGN '000*	%
Sopharma Trading AD	Bulgaria	32 273	81.33	32 273	81.33
Unipharm AD	Bulgaria	19 449	49.99	19 449	49.99
Bulgarian Rose Sevtopolis AD	Bulgaria	8 729	49.99	8 729	49.99
Briz OOD	Latvia	6 262	51.00	6 262	51.00
Vitamina AD	Ukraine	6 187	99.56	6 187	99.56
Ivanchich and sons	Serbia	5 739	51.00	5 739	51.00
Biopharm Engineering AD	Bulgaria	3 451	69.43	3 451	69.43
Momina Krepost AD	Bulgaria	2 893	49.90	2 891	49.85
Pharmalogistica AD	Bulgaria	1 911	76.54	1 911	76.54
Sopharma Buildings REIT	Bulgaria	1 128	42.64	1 128	42.64
Electroncommerce EOOD	Bulgaria	384	100.00	384	100.00
Extab Corporation	USA	47	80.00	47	80.00
Sopharma Warsaw EOOD	Poland	7	100.00	7	100.00
Rostbalkanpharm AD	Russia	4	51.00	4	51.00
Sopharma Zdrovit AD	Poland	-	50.01	-	50.01
Sopharma Poland Ltd.	Poland	-	60.00	-	60.00
Sopharma USA	USA	-	100.00	-	100.00
		88 464		**88 462**	

Sopharma AD has direct or indirect control on the above-mentioned companies.

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

- Pharmalogistica AD – Scope of activities: secondary packaging and real estate leases. Date of acquisition – 15 August 2002.
- Rostbalkanpharm AD – Scope of activities: manufacture and trade in pharmaceuticals. Date of acquisition – 27 July 2001.
- Bulgarian Rose-Sevtopolis AD – Scope of activities: manufacture of finished drug forms. Date of acquisition – 22 April 2004.
- Electroncommerce EOOD – Scope of activities: trade, transportation and packaging of radioactive materials and nuclear equipment, household electronics and electrical equipment. Date of acquisition – 9 August 2005.
- Sopharma Poland Ltd. – Scope of activities: market and public opinion research. Date of acquisition – 16 October 2003. The company is in a procedure of liquidation.
- Sopharma USA – Scope of activities: trade in pharmaceuticals and food supplements. Date of acquisition – 25 April 1997.
- Sopharma Trading AD – Scope of activities: trade in pharmaceuticals. Date of acquisition – 8 June 2006.
- Biopharm Engineering AD – Scope of activities: manufacture and trade in solutions for infusion. Date of acquisition – 10 March 2006.
- Sopharma Zdrovit AD – Scope of activities: research and development activities in the field of medical science and pharmacy, wholesale in pharmaceuticals. Date of acquisition – 27 September 2007. The company is in a procedure of liquidation.
- Vitamina AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 18 January 2008.
- Ivanchich and sons OOD – Scope of activities: production and trade in pharmaceuticals. Date of

acquisition – 10 April 2008.

- Sopharma Buildings REIT – Scope of activities: investment of funds, accumulated by issuance of securities, in real estate (securitisation of real estate) through purchase of title and other real rights over real estate, rent-out, lease, and/or sale. Date of acquisition – 4 August 2008.
- Momina Krepost AD – Scope of activities: development, implementation and production of medical goods for human and veterinary medicine. Date of acquisition – 1 January 2008.
- Briz OOD – Scope of activities: trade in pharmaceuticals; Date of acquisition – 10 November 2009.
- Extab Corporation – Scope of activities: management of financial assets and investment portfolios. Date of acquisition – 5 August 2009.
- Unipharm AD – Scope of activities: production and trade in pharmaceuticals. Date of acquisition – 27 October 2010.
- Sopharma Warsaw EOOD – Scope of activities: market and public opinion research. Date of acquisition – 23 November 2010.

The movement of investments in subsidiaries is presented below:

	Investments in subsidiaries	
	31.03.2012	***31.12.2011***
Acquisition cost (cost)	***BGN '000***	***BGN '000***
Balance at 1 January	**100 803**	**101 222**
Direct acquisition	2	45
Acquisition through a merge-in of an associate	-	-
Disposals	-	(464)
Balance at 31 March/December	**100 805**	**100 803**
Accrued impairment		
Balance at 1 January		
Accrued impairment	**12 341**	**11 478**
Balance at 31 December	-	863
Carrying amount at 31 March/December	**12 341**	**12 341**
Carrying amount at 1 January	**88 464**	**88 462**

In the first quarter of 2012, the Company did not acquire new subsidiaries (2011: no new subsidiaries were acquired).

17. AVAILABLE-FOR-SALE INVESTMENTS

The *available-for-sale investments* (financial assets) at carrying amount include the participation (shares) in the following companies:

	31.03.2012	***Interest***	***31.12.2011***	***Interest***
	BGN '000	***%***	***BGN '000***	***%***
Doverie United Holding AD	12 864	14.85	12 870	14.86
Medica AD	2 420	10.13	2 420	10.13
Olainfarm AD - Latvia	703	0.77	703	0.77

Lavena AD	426	4.99	426	4.99
Maritzatex AD	146	3.49	146	3.68
Sopharma Properties AD	167	0.57	115	0.36
Hydroizomat AD	94	6.67	51	3.74
Todorov AD	46	4.97	46	4.97
Ecobulpack AD	7	1.48	7	1.48
Bulgarian Stock Exchange – Sofia AD	4	0.02	4	0.03
UniCredit Bulbank AD	3	0.001	3	0.001
Aroma AD	1	0.03	1	0.03
Total	**16 881**		**16 792**	

All above companies except for Olainfarm AD, Latvia, have their seat and operations in Bulgaria.

The investments in Ecobulpack AD and UniCredit Bulbank AD are valued and presented at acquisition price. The remaining investments are measured at fair value based on: (a) adjusted stock exchange prices for shares traded on the Bulgarian Stock Exchange (Level 2), and (b) average stock exchange prices for the month of December for shares traded on a foreign stock exchange (Level 1) (Notes 2.27 and 14).

18. LONG-TERM LOANS GRANTED TO RELATED PARTIES

Long-term loans granted to related parties are as follows:

	31.03.2012	*31.12.2011*
	BGN '000	*BGN '000*
Subsidiaries	9 474	15 340
Companies under a common control through key managing personnel	736	729
Companies – main shareholders	-	0
Total	**10 210**	**16 069**

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

Currency	*Contracted amount '000*	*Maturity*	*Interest %*	*31.03.2012 BGN'000*	*31.03.2012 BGN'000 including interest*	*31.12.2011 BGN'000*	*31.12.2011 BGN'000 including interest*
to subsidiaries							
USD	3 000	25.01.2015	9.80%	5 764	*1 371*	5 845	*1 311*
EUR	2 770	21.01.2013	6.10%	-	-	5 732	*314*
USD	1 000	25.01.2015	9.80%	1 993	*528*	2 022	*510*
USD	3 000	25.01.2015	9.80%	1 717	*399*	1 741	*381*
to companies under a common indirect control through key managing personnel							
BGN	1 100	31.12.2014	8.08%	736	*13*	729	*1*
				10 210	***2 311***	**16 069**	***2 517***

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

19. INVENTORIES

Company's *inventories* include:

	31.03.2012	*31.12.2011*
	BGN '000	*BGN '000*
Materials	19 282	21 949
Finished products	22 581	22 054
Semi-finished products	3 679	3 813
Work-in-progress	5 601	3 054
Goods	48	46
Total	**51 191**	**50 916**

Materials by type are as follows:

	31.03.2012	*31.12.2011*
	BGN '000	*BGN '000*
Basic materials	18 309	18 647
Materials in a process of delivery	42	2 335
Technical materials	276	398
Auxiliary materials	389	300
Spare parts	106	116
Other	160	153
Total	**19 282**	**21 949**

Basic materials by type are as follows:

	31.03.2012	*31.12.2011*
	BGN '000	*BGN '000*
Substances	11 920	11 928
Vials, tubes and ampoules	3 250	3 667
Chemicals	1 259	1 222
Packaging materials	869	888
PVC and aluminium foil	931	792
Herbs	80	150
Total	**18 309**	**18 647**

Finished products existing at 31 December include:

	31.03.2012	*31.12.2011*
	BGN '000	*BGN '000*

Tablet dosage forms	13 866	13 940
Ampoule dosage forms	5 125	4 266
Syrups	1 321	1 683
Other	2 269	2 165
Total	**22 581**	**22 054**

20. RECEIVABLES FROM RELATED PARTIES

Receivables from related parties include:

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
Receivables from subsidiaries	*79 211*	*73 840*
Impairment of uncollectible receivables	*(641)*	*(641)*
	78 570	73 199
Receivables from companies under a common control through key managing personnel	35 397	36 088
Receivables from companies – main shareholders	16 474	14 468
Receivables from companies under a common indirect control	*13 211*	*13 478*
Impairment of uncollectible receivables	*(2 179)*	*(2 129)*
	11 032	11 349
Total	**141 473**	**135 104**

The receivables from related parties by type are as follows:

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
Receivables on sales of finished products and materials	72 463	72 520
Trade loans granted	68 538	61 767
Advances granted	209	0
Dividend receivable	263	817
Total	**141 473**	**135 104**

The receivables on sales are interest-free and BGN 55,631 thousand of them are denominated in BGN (31 December 2011: BGN 52,760 thousand) and in EUR – BGN 19,760 thousand (31 December 2011: BGN 19,760 thousand).

The receivables from a subsidiary with principal activities in the field of trade in pharmaceuticals are the most significant and amounted to BGN 52,329 thousand as at 31 March 2012 or 72,20 % of all receivables on sales of finished products and materials to related parties (31 December 2011: BGN 50,088 thousand - 69.07 %).

The Company usually negotiates with its subsidiaries payment terms of 180 days for receivables on sales of finished products and up to 90 days for receivables on sales of materials (incl. substances).

The Company determined a credit period of up to 270 days for which no interest was charged to sales counterparts - related parties and this was in line with the specifics of the end users – hospitals, Health Insurance Fund and other. Any delay after this period is regarded by the Company as an indicator for impairment. The management judges collectability on an individual basis by analyzing the specific receivables and circumstances related to delay in order that impairment is charged.

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

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
up to 30 days	10 191	17 530
from 31 to 90 days	13 312	19 276
from 91 to 180 days	33 535	22 652
from 181 to 270 days	-	-
from 271 to 360 days	-	-
Total	**57 038**	**59 458**

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

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
from 31 to 90 days	655	474
from 91 to 180 days	447	577
from 180 to 365 days	12 280	10 470
from 1 to 2 years	2 043	1 541
Total	**15 425**	**13 062**

The past due but not impaired receivables are mainly from subsidiaries, which are in a process of implementing the purposes of the Group for expanding its market share in the territory in which they operate.

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

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
over 1 years	1001	987
Allowance for impairment	(1 001)	(987)
	-	**-**

Movement of the allowance for impairment

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***

Balance at the beginning of the year	**987**	**931**
Stated impairment of receivables from companies under common control	14	56
Balance at the end of the year	**1 001**	**987**

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

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
Receivables from companies under common control through key managing personnel	35 397	36 088
Companies – main shareholders	16 354	14 458
Companies under a common indirect control	12 469	12 737
Impairment of trade loans	*(1 819)*	*(1 783)*
	10 650	10 954
Subsidiaries	6 137	267
Total	**68 538**	**61 767**

The *granted loans* are as follows:

Currency	***Contracted amount '000***	***Maturity***	***Interest %***	***31.03.2012***		***31.12.2011***	
				BGN'000	***BGN'000 including interest***	***BGN'000***	***BGN'000 including interest***
to companies under a common indirect control through key managing personnel							
BGN	14 287	31.12.2012	8.30%	15 241	*952*	14 492	*662*
EUR	7 200	25.10.2012	4.50%	14 322	*240*	14 164	*82*
EUR	1 581	31.12.2012	5.50%	1 821	*30*	3 387	*295*
BGN	2 477	31.12.2012	8.08%	2 717	*336*	2 669	*288*
BGN	945	31.12.2012	8.08%	1 027	*227*	1 011	*211*
BGN	190	31.12.2012	8.08%	215	*25*	211	*21*
BGN	120	10.07.2012	8.08%	0	-	101	-
BGN	500	31.12.2012	8.08%	54	*3*	53	*3*
to companies – main shareholders							
EUR	4 035	30.09.2012	4.80%	8 086	*193*	7 991	*99*
BGN	18 495	31.08.2012	8.08%	8 268	*131.00*	6 467	-
to companies under a common indirect control							
EUR	7 000	28.12.2012	4.50%	10 120	*42.00*	10 604	-
BGN	570	15.03.2012	8.08%	530	-	350	-
to subsidiaries							
BGN	600	02.12.2012	7.00%	151	*1*	151	*1*
USD	30	31.12.2012	3.50%	103	*1.00*	45	-
USD	25	31.12.2012	3.50%	38	*1*	39	*1*
USD	20	31.12.2012	3.50%	31	*2*	32	*2*
EUR	2 770	21.01.2013	6.10%	5 814	*396*	-	-
				68 538	***2 580***	**61 767**	***1 665***

21. TRADE RECEIVABLES

31.03.2012	***31.12.2011***

	BGN '000	BGN '000
Receivables from clients	25 137	26 827
Impairment of uncollectible receivables	(39)	(39)
	25 098	26 788
Advances granted	2 397	2 601
Impairment of uncollectible receivables	(6)	(6)
	2 391	2 595
Total	**27 489**	**29 383**

The *receivables from clients* are interest-free and BGN 253 thousand of them are denominated in BGN (31 December 2011: BGN 141 thousand), in USD – BGN 326 thousand (31 December 2011: BGN 962 thousand), in EUR – BGN - 21,764 thousand (31 December 2011: BGN 25,602 thousand) and in PLN – BGN 2,755 thousand (31 December 2011: 83).

About 79.46 % of the receivables from clients are attributable to three main counterparts of the Company (for 2011: 86,49%).

Generally, the Company agrees with its clients a term from 60 to 180 days for the payment of receivables under sales.

The Company 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 Company as an indicator for impairment. The management assesses collectability by analyzing the exposure of the client as well as the possibilities for repayment and takes a decision as to whether to charge impairment.

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

	31.03.2012 BGN '000	31.12.2011 BGN '000
up to 30 days	15 761	2 884
from 31 to 90 days	7 991	21 490
from 91 to 180 days	737	1 399
Total	**24 489**	**25 773**

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

	31.03.2012 BGN '000	31.12.2011 BGN '000
from 31 to 90 days	169	65
from 91 to 180 days	31	45
from 181 to 365 days	371	632
from 1 to 2 years	38	273
Total	**609**	**1 015**

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

	31.03.2012	*31.12.2011*
	BGN ‘000	*BGN ‘000*
over 1 year	39	39
Allowance for impairment	(39)	(39)
	-	-

The *movements of the allowance for impairment* are as follows:

	2012	*2011*
	BGN ‘000	*BGN ‘000*
Balance at the beginning of the year	**39**	**297**
Stated impairment	0	30
Amounts written-off as uncollectable	0	(108)
Reversal of impairment	0	(180)
Balance at the end of the year	**39**	**39**

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

	31.03.2012	*31.12.2011*
	BGN ‘000	*BGN ‘000*
Raw and other materials	2 350	2 020
Services	41	575
Total	**2 391**	**2 595**

The *advances granted* are regular. They include: in BGN - BGN 715 thousand (31 December 2011: BGN 811 thousand), in EUR – BGN 156 thousand (31 December 2011: BGN 531 thousand), in USD – BGN 1,514 thousand (31 December 2010: BGN 1,032 thousand), in PLN – BGN 0 thousand (31 December 2010: 218) and in other currencies – BGN 6 thousand (31 December 2010: BGN 3 thousand).

22. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.03.2012	*31.12.2011*
	BGN ‘000	*BGN ‘000*
Taxes refundable	6 601	5 189
Loans granted to third parties	1 123	937
Court and awarded receivables	2 972	2 622
Impairment of court receivables	*(362)*	*(142)*
	2 610	2 480

Prepayments	898	1 245
Amounts granted to an investment intermediary	91	197
Receivables on deposits placed as guarantees	191	191
Other	108	94
Total	**11 622**	**10 333**

Taxes refundable include:

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
Excise duties	2 886	2 758
VAT	3 142	2 065
Corporate tax	417	314
Withholding taxes	156	52
Total	**6 601**	**5 189**

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

Currency	***Contracted amount***	***Maturity***	***Interest %***	***31.03.2012***		***31.12.2011***	
	'000			***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
					including interest		***including interest***
BGN	800	27.12.2012	7.00%	809	9	801	1
BGN	100	31.12.2012	8.08%	102	*2*	103	*3*
BGN	31	8.9.2012	6.00%	32	*1*	31	-
BGN	25	1.6.2012	8.08%	1	*0*	2	-
BGN	178	23.2.2013	7.00%	179	*1*		
				1 123	**12**	**937**	**4**

Prepayments include:

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
Insurance	299	431
Subscriptions	60	255
Licence and patent fees	297	188
Advertising	102	167
Vouchers	111	111
Rentals	2	52
Other	27	41
Total	**898**	**1 245**

Deposits placed as guarantees include:

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
Guarantees under contracts for fuel supply	86	86
Guarantees under communication service contracts	31	31
Guarantees for medicinal products supply	26	26
Other	48	48
Total	**191**	**191**

Other non-current assets, amounting to BGN 272 thousand as at 31 March 2012 (31 December 2011: 272 thousand) include receivables under guarantees granted under a long-term rental contract with validity expiring in 2016.

23. CASH AND CASH EQUIVALENTS

Cash includes:

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
Deposits with original maturity of up to one month	0	9 901
Cash at current bank accounts	2 913	8 075
Cash in hand	140	62
Total	**3 053**	**18 038**

The cash at current bank accounts is denominated as follows: in BGN – BGN 389 thousand (31 December 2011: BGN 7,232 thousand), in EUR – BGN 1,739 thousand (31 December 2011: BGN 90 thousand), in USD – BGN 785 thousand (31 December 2011: BGN 753 thousand) and in other currency – none (31 December 2011: BGN none).

Cash in hand is mainly denominated in BGN.

The deposits as at 31 December 2011 were agreed in EUR – BGN 9,901 thousand (31 December 2010: BGN 1,912 thousand) and in BGN – none (31 December 2010: BGN 1,000 thousand). They are presented at amortised cost.

The effective interest rate of the deposit agreed in EUR was 6.5%.

24. EQUITY

Share capital

As at 31 March 2012, 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 shares are ordinary, non-cash, with right of dividend and liquidation share and are registered for trade in the Bulgarian Stock Exchange – Sofia AD and Warsaw Stock Exchange.

Ordinary shares issued and fully paid

	Shares	*Share capital net of treasury shares*
	number	*BGN '000*
Balance at 1 January 2010	**132,000,000**	**132,000**
Treasury shares	(607,428)	(2,381)
Expense on treasury shares	-	(11)
Balance at 31 December 2010	**131,392,572**	**129,608**
Balance at 1 January 2011	**131,392,572**	**129,608**
Treasury shares	(1,961,181)	(7,606)
Expense on treasury shares	-	(38)
Balance at 31 December 2011	**129,431,391**	**121,964**
Treasury shares	(2 457)	(8)
Expense on treasury shares	-	-
Balance at 31 March 2012	**129 428 934**	**121 956**

The treasury shares were 2,571,066 at the amount of BGN 10,044 thousand as at 31 March 2012 (31 December 2011: 2,568,609 at the amount of BGN 10,036 thousand). In the current year the Company purchased 2,457 shares and in 2011 - 1,961,181 shares through an investment intermediary.

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

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
Statutory reserves	21 855	21 855
Property, plant and equipment revaluation reserve	25 360	25 360
Available-for-sale financial assets reserve	2	2
Additional reserves	110 696	110 696
Total	**157 913**	**157 913**

The ***statutory reserves*** amounting to BGN 21,855 thousand (31 December 2011: BGN 21,855 thousand) were set aside from allocation of profit and included all amounts for the Reserve Fund.

The movements of statutory reserves are as follows:

	2012	*2011*
	BGN '000	*BGN '000*
Balance at 1 January	**21 855**	**17 788**
Distribution of profit	0	4 067
Balance at 31 March/December	**21 855**	**21 855**

The ***Property, plant and equipment*** revaluation reserve amounting to BGN 25,360 thousand (31 December 2011: BGN 25,360 thousand), was set aside from the positive difference between the carrying amount of property, plant and equipment and their fair value at the date of the respective revaluation. The deferred tax effect on the revaluation reserve is directly carried to this reserve.

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

	2012	*2011*
	BGN '000	*BGN '000*
Balance at 1 January	**25 360**	**23 031**
Gain on revaluation of property, plant and equipment	0	2 706
Deferred tax liability arising on revaluation	-	(271)
Transfer to retained earnings	-	(106)
Balance at 31 March/December	**25 360**	**25 360**

The ***available-for-sale financial assets reserve*** was a positive figure amounting to BGN 2 thousand as at 31 March 2012 (31 December 2011: BGN 2 thousand) and was set aside from the effects of subsequent revaluation of available-for-sale investments to fair value.

The movements of available-for-sale financial assets reserve are as follows:

	2012	*2011*
	BGN '000	*BGN '000*
Balance at 1 January	**2**	**(312)**
Net gain arising on revaluation of available-for-sale financial assets	-	84
Cumulative loss on revaluation reclassified to current profit or loss on sale of available-for-sale financial assets	-	-
Cumulative loss on revaluation reclassified to current profit or loss on impairment of available-for-sale financial assets	-	230
Balance at 31 March/December	**2**	**2**

The ***additional reserves*** amounting to BGN 110,696 thousand (31 December 2011: BGN 110,696 thousand) were set aside from distribution of profits under a decision of shareholders and could be used for payment of dividend, share capital increase as well as to cover losses.

The movements of additional reserves are as follows:

	2012	***2011***
	BGN '000	***BGN '000***
Balance at 1 January	**110 696**	**85 172**
Distributed profit in the year	0	25 524
Balance at 31 December	**110 696**	**110 696**

The movements of ***retained earnings*** are as follows:

	2012	***2011***
	BGN '000	***BGN '000***
Balance at 1 January	**40 791**	**40 672**
Distribution of profit for reserves	-	(29 591)
Payment of dividend	-	(11 081)
Transfer from property, plant and equipment revaluation reserve	-	106
Current profit for the year	8 441	40 685
Balance at 31 December	**49 232**	**40 791**

27. LONG-TERM BANK LOANS

			31.12.2012			***31.12.2011***		
Currency	***Contracted loan amount***	***Maturity***	***Non-current portion***	***Current portion***	***Total***	***Non-current portion***	***Current portion***	***Total***
	'000		***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Investment-purpose loans								
EUR	32 000	15.04.2021	20 963	0	**20 963**	18 737	37	-
Credit lines								
EUR	12 000	31.1.2013	-	23 479	**23 479**	-	22 583	**22 583**
EUR	5 000	31.08.2012	-	9 774	**9 774**	-	9 774	**9 774**
EUR	3 000	25.08.2012	-	5 863	**5 863**	-	5 863	**5 863**
EUR	2 500	31.08.2012	-	2 289	**2 289**	-	2 192	**2 192**
BGN	18 000	30.06.2012	-	293	**293**	-	286	**286**
			20 963	**41 698**	**62 661**	**18 737**	**40 735**	**40 698**

The loans received in EUR have been agreed at interest rate based on 3-month EURIBOR plus a mark-up of up to 2.8 points while these in BGN – on monthly SOFIBOR plus a mark-up of up to 4.75 points (2010: monthly EURIBOR plus a mark-up of up to 5.5 points while for those in USD – 3-month LIBOR plus a mark-up of up to 6 points).

28. DEFERRED TAX LIABILITIES

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

	temporary difference	*tax*	*temporary difference*	*tax*
	31.03.2012	***31.03.2012***	***31.12.2011***	***31.12.2011***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	52 791	5 279	52 791	5 279
including revaluation reserve	*24 530*	*2 453*	*24 530*	*2 453*
Total deferred tax liabilities	**52 791**	**5 279**	**52 791**	**5 279**
Accruals for liabilities	(1 600)	(160)	(91)	(9)
Receivables	(6 822)	(682)	(6 552)	(655)
Payables to personnel	(3 086)	(309)	(2 562)	(256)
Intangible assets	(2 522)	(253)	(2 522)	(252)
Inventories	(1 613)	(162)	(1 613)	(161)
Investment property	(791)	(79)	(791)	(79)
Biological assets	(14)	(1)	(14)	(1)
Total deferred tax assets	**(16 448)**	**(1 646)**	**(14 145)**	**(1 415)**
Deferred income tax liabilities, net	**36 343**	**3 634**	**38 646**	**3 864**

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

The Company did not recognise deferred taxes at the amount of BGN 1,234 thousand (31 December 2011: BGN 1,234 thousand) related to impairment of investments in subsidiaries totalling BGN 12,341 thousand (31 December 2011: BGN 12,341 thousand) (Note 18).

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

Deferred tax (liabilities)/ assets	***Balance at 1 January 2012***	***Recognised in the statement of comprehensive income***	***Recognised in equity***	***Recognised in the statement of changes in equity and the current tax return***	***Balance at 31 March 2012***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	(5 279)				(5 279)
Accruals for liabilities	9	151			160
Receivables			-	-	681

	655	27			
Payables to personnel	256	53	-	-	309
Intangible assets	253		-	-	253
Inventories	162		-	-	162
Investment property	79		-	-	79
Biological assets	1		-	-	1
Total	**(3 864)**	**231**	**-**	**-**	**(3 634)**

Deferred tax (liabilities)/ assets	*Balance at 1 January 2011*	*Recognised in the statement of comprehensive income*	*Recognised in equity*	*Recognised in the statement of changes in equity and the current tax return*	*Balance at 31 December 2011*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(4 958)	(58)	(271)	8	(5 279)
Accruals for liabilities	-	9			9
Receivables	285	370	-	-	655
Payables to personnel	166	90	-	-	256
Intangible assets	230	22	-	-	253
Inventories	82	79	-	-	162
Investment property	42	37	-	-	79
Biological assets	1	-	-	-	1
Total	**(4 152)**	**549**	**(271)**	**8**	**(3 864)**

29. RETIREMENT BENEFIT OBLIGATIONS

Long-term employee benefits include the present value of the Company's liability at the end of the reporting period to pay indemnities to its employees upon retirement. In accordance with the Labour Code 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.

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

The change in Company's obligation for payment of defined benefits to its personnel on retirement, recognised in the statement of financial position, is as follows:

	31.03.2012	*31.12.2011*
	BGN '000	*BGN '000*
Present value of the obligations at 1 January	*1 240*	*1 400*
Unrecognised actuarial loss at 1 January	*29*	*(133)*
Liability recognised in the statement of financial position at 1 January	**1 269**	**1 267**
Expense recognised in the statement of comprehensive income for the period	75	308

Payments for the period	-	(306)
Liability recognised in the statement of financial position at 31 March/December	**1 344**	**1 269**
Unrecognised actuarial gain/(loss) at 31 December		*29*
Present value of the obligations at 31 December		*1 240*

The following actuarial assumptions are used in calculating the present value of the liabilities as at 31 December 2011:

- The discount factor is calculated by using 5.7 % annual interest rate as basis (2010: 6.5 %). 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 (2010: 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 2008 - 2010 (2010: 2007 - 2009);
- Staff turnover rate – from 0 % to 16 % for the five age groups formed (2010: from 0% to 20 %).

30. FINANCE LEASE LIABILITIES

The finance lease liabilities, included in the statement of financial position as at 31 March, are under agreements for acquisition of motor vehicles. They are presented net of the future interest due and are as follows:

Term	***31.03.2012 BGN '000***	***31.12.2011 BGN '000***
Up to one year	285	273
Over one year	361	304
Total	**646**	**577**

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

Term	***31.03.2012 BGN '000***	***31.12.2011 BGN '000***
Up to one year	419	409
Over one year	599	490
	1 018	**899**
Future finance costs under finance leases	(372)	(322)
Present value of finance lease liabilities	**646**	**577**

The lease payments due within the next 12 months are presented in the statement of financial position as 'other current liabilities' (Note 36).

31. SHORT-TERM BANK LOANS

Currency	*Contracted amount*	*Maturity*	*31.03.2012*	*31.12.2011*
	'000		*BGN'000*	*BGN'000*
Bank loans				
EUR	20 000	31.05.2012	36 497	39 095
EUR	12 000	1.5.2012	9 779	23 595
EUR	12 500	17.2.2013	24 373	15 127
BGN	10 000	31.12.2012	8 518	10 003
EUR	5 000	30.11.2012	8 779	8 789
USD	4 000	1.5.2012	5 858	6 027
EUR	3 000	28.09.2012	5 866	5 864
EUR	5 000	1.5.2012	1 092	3 508
Total			**100 762**	**112 008**

The loans received in EUR are contracted at an interest rate based on 3-month EURIBOR plus a mark-up of up to 4.5 points, the loans in USD – 3-month LIBOR plus a mark-up of up to 3.85 points, and the loans in BGN – monthly SOFIBOR plus a mark-up of up to 2 points. (2010: 3-month EURIBOR plus a mark-up of 4.5 points). Loans are intended for providing working capital.

32. TRADE PAYABLES

Trade payables include:

	31.03.2012	*31.12.2011*
	BGN '000	*BGN '000*
Payables to suppliers	7 751	16 330
Advances received	297	214
Total	**8 048**	**16 544**

	31.03.2011	*31.12.2010*
	BGN '000	*BGN '000*
Payables to foreign suppliers	4 017	8 184
Payables to local suppliers	3 734	8 146
Total	**7 751**	**16 330**

The payables to suppliers are regular, interest-free and refer to supplies of materials and services. The payables in foreign currency amount to BGN 4,017 thousand (31 December 2011: BGN 8,184 thousand). They include: in EUR - BGN 3,354 thousand (31 December 2011: BGN 4,970 thousand), in USD – BGN 663 thousand (31 December 2011: BGN 3,212 thousand) and in other currency – BGN none (31 December 2011: BGN 2 thousand).

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

33. PAYABLES TO RELATED PARTIES

The *payables to related parties* refer to:

	31.03.2012	*31.12.2011*
	BGN '000	***BGN '000***
Payables to subsidiaries	2 948	2 998
Payables to companies – main shareholders	3 186	1 486
Payables to companies under a common indirect control	234	750
Payables to companies under a common control through key management personnel	0	2
Total	**6 368**	**5 236**

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

	31.03.2012	*31.12.2011*
	BGN '000	***BGN '000***
Services	3 209	3 786
Payables for construction of new production facilities	3 152	1 450
Payables for supply of inventories and goods	7	-
Total	**6 368**	**5 236**

The trade payables to related parties are regular, denominated in BGN and EUR and are not additionally secured by the Company. At 31 March 2011, the payables in BGN amounted to BGN 6,368 thousand (31 December 2011: BGN 5,195 thousand) and those in EUR – BGN none (31 December 2011: BGN 41 thousand).

34. TAX PAYABLES

Tax payables include:

	31.03.2012	*31.12.2011*
	BGN '000	***BGN '000***
Individual income taxes payable	169	251
Withholding taxes	0	11
Property tax and garbage fee	58	0
Corporate tax	-	-
Total	**227**	**262**

The following inspections and audits were performed by the date of issue of these financial statements:

- under VAT – covering the period until 31 October 2008;
- full-scope tax audit – covering the period till 31 December 2007;
- National Social Security Institute – until 31 October 2008.

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

By order No 1200019 of 16 January 2012 inspections were assigned by type and period as follows:

- under VATA – for the period from 1 November 2008 to 30 November 2011;
- full-scope tax audit – for the period from 1 January 2008 to 31 December 2010.

35. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

Payables to personnel and for social security are as follows:

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
Payables to personnel, including:	2 606	2 207
current liabilities	*1 734*	*903*
tantieme	-	*811*
accruals on unused compensated leaves	*872*	*493*
Payables for social security/health insurance, including:	589	541
current liabilities	*435*	*457*
accruals on unused compensated leaves	*154*	*84*
Total	**3 195**	**2 748**

36. OTHER CURRENT LIABILITIES

Other current liabilities include:

	31.03.2012	***31.12.2011***
	BGN '000	***BGN '000***
Finance lease liabilities	285	273
Deductions from work salaries	188	189
Dividend liabilities	98	102
Awarded amounts under litigations	4	4
Other	43	30
Total	**618**	**598**

37. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

On 28 July 2011, Sopharma started arbitrary proceedings before the International Chamber of Commerce in Paris against a client in relation with unpaid supplies of goods at the amount of EUR 1,034 thousand (BGN 2,022 thousand). On his part, the client filed a counter-claim for damages caused by unjustifiable termination of a distribution contract by Sopharma at the amount of EUR 2,426 thousand (BGN 4,745 thousand). According to Company's lawyers, the claim of Sopharma is well-grounded and it is supposed to be confirmed in favour of the Company while the counter-claim will be rejected and therefore, no provision has been included under this case.

At the date of the annual financial statements, Sopharma AD is a defendant under a case initiated by a supplier for unpaid supplies received by its subsidiary at the amount of BGN 597 thousand (USD 352 thousand principal and USD 43 thousand – interest for delay). The Company has lodged higher claims against the claimant related to intellectual property protection, for violations under the Trademarks and Geographical Names Act in particular, i.e. unlawful use of trademarks belonging to the Company. In accordance with the information from Company's lawyers, the prospects are that the case will be closed with a final rejection of the claim and therefore, no provisions were recognised.

Issued guarantees

The Company is a co-debtor under received bank loans and a guarantor of the following pharmaceutical trading companies before banks:

	Maturity	Currency	Amount		Status of the debt
			Original currency	BGN'000	31.03.2012 BGN'000
Sopharma Properties REIT	29.12.2020	EUR	30 000	58 675	58 675
Sopharma Trading AD	31.12.2012	EUR	10 000	19 558	19 558
Sopharma Trading AD	31.12.2012	EUR	8 434	16 495	16 472
SCS Franchise AD	30.6.2012	EUR	2 500	4 889	0
Sopharma Trading AD	31.12.2012	BGN	3 732	3 732	3 238
SIA BRIZ	31.1.2013	EUR	2 050	4 009	3 208
Sopharma Trading AD	28.9.2012	EUR	2 000	3 912	2 003
Bulgarian Rose Sevtopolis AD	31.01.2015	EUR	1 617	3 163	1 361
Sopharma Trading AD	30.4.2012	EUR	2 000	3 912	59
Sopharma Trading AD	25.10.2016	EUR	432	846	786
Energoinvestment AD	28.8.2012	BGN	2 000	2 000	500
Mineralcommerce AD	20.3.2017	EUR	100	196	196
Sopharma Trading AD	25.5.2016	EUR	89	174	149
Sopharma Trading AD	25.3.2013	EUR	2 000	3 912	1 740
Sopharma Trading AD	31.12.2012	EUR	66	129	129
Sopharma Trading AD	25.7.2016	EUR	63	124	110
Sopharma Trading AD	30.6.2012	EUR	2 050	4 009	1 955
Unipharm AD	22.2.2013	EUR	50	98	98
Sopharma Trading AD	25.5.2016	EUR	51	100	82
Sopharma Trading AD	30.06.2013	EUR	1 675	3 276	53
Mineralcommerce AD	19.1.2014	EUR	25	49	49
Sopharma Trading AD	25.9.2016	EUR	27	53	47
Sopharma Trading AD	25.6.2016	EUR	23	45	39
Sopharma Trading AD	25.6.2016	EUR	22	43	37
Sopharma Trading AD	25.9.2016	EUR	15	29	26
Sopharma Trading AD	25.4.2012	EUR	3 000	5 867	5 867
Veta Pharma AD	31.11.2012	BGN	850	850	746
Veta Pharma AD	31.11.2012	BGN	150	150	32
				140 295	**117 215**

Significant irrevocable agreements and commitments

Sopharma AD concluded a contract with a supplier for the purchase and implementation of an integrated information system Microsoft Dynamics AX for the amount of BGN 3,700 thousand (EUR 1,892 thousand). The final term for implementation of the information system is 2012.

In 2011, the Company assumed a self-participation commitment at the amount of BGN 3,997 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 24 months and is related with financing the purchase of machinery and equipment.

Other

The Company has met its obligations under the Waste Management Act (WMA) and therefore, has not included a product charge liability in the statement of financial position as at 31 December 2011 regardless of the fact that the official document evidencing that Ecobulpack (the organization in which the Company is a member) has fulfilled its commitments under WMA, has not been issued yet at the date of preparation of these financial statements.

38. FINANCIAL RISK MANAGEMENT

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

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

Categories of financial instruments:

Financial assets	***31.03.2012***	***31.12.2010***
	BGN '000	***BGN '000***
Available-for-sale financial assets	***16 881***	***16 792***
Available-for-sale investments (in shares)	*16 881*	*16 792*
Loans and receivables	***183 558***	***199 925***
Long-term loans granted to related parties	*10 210*	*16 069*
Short-term receivables from related parties	*141 265*	*135 104*
Trade receivables	*25 098*	*26 788*
Other receivables	*3 660*	*3 654*
Other non-current assets (long-term receivables)	272	272
Cash and cash equivalents	*3 053*	*18 038*
Total	***200 439***	***216 717***

Financial liabilities	*31.03.2012*	*31.12.2010*
	BGN '000	*BGN '000*
Financial liabilities at amortised cost	***178 290***	***193 740***
Long-term bank loans	20 963	18 737
Short-term bank loans	*100 762*	*112 008*
Current portion of long-term bank loans	*41 698*	*40 735*
Trade payables to related parties	*6 368*	*5 236*
Trade payables	*7 750*	*16 330*
Other liabilities	*749*	*694*
Total	***178 290***	***193 740***

Currency risk

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. Part of Company's revenue is earned from export of finished products contracted as payable in USD. At the same time, the Company supplies part of its raw and other materials in USD as well. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies.

The remaining part of company operations are usually denominated in BGN and/or EUR.

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

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

31 March 2012	**in USD**	**in EUR**	**in BGN**	**in other currency**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	-	-	16 178	703	16 881
Receivables and loans granted	10 053	85 986	81 447	3 019	180 505
Cash and cash equivalents	785	1 739	512	17	3 053
Total financial assets	**10 838**	**87 725**	**98 137**	**3 739**	**200 439**
Bank loans	5 858	125 275	32 290	-	163 423
Other liabilities	692	3 324	10 205	646	14 867
Total financial liabilities	**6 550**	**128 599**	**42 495**	**646**	**178 290**

31 December 2011	**in USD**	**in EUR**	**in BGN**	**in other currency**	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	-	-	16,089	703	16,792
Receivables and loans granted	10,686	89,781	80,520	900	181,887
Cash and cash equivalents	753	9,991	7,291	3	18,038

Total financial assets	**11,439**	**99,772**	**103,900**	**1,606**	**216,717**
Bank loans	6,027	155,164	10,289	-	171,480
Other liabilities	3,211	5,012	13,458	579	22,260
Total financial liabilities	**9,238**	**160,176**	**23,747**	**579**	**193,740**

Foreign currency sensitivity analysis

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

		USD	
		31.03.2012 **BGN '000**	**31.12.2011** **BGN '000**
Financial result	+	386	198
Accumulated profits	+	386	198
Financial result	-	(386)	(198)
Accumulated profits	-	(386)	(198)

In case of 10% increase in the rate of USD to BGN, the final effect on post-tax profit of the Company for the first quarter of 2012 would be an increase by BGN 386 thousand (4.5 %). For 2011, the final effect on Company's post-tax profit would be an increase by BGN 198 thousand (0.5 %). The effect in terms of value on Company's equity – through the component 'retained earnings' – would be the same. The loans granted to related parties have the greatest impact for this increase for 2011 and 2012.

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

The impact of the remaining currencies (other than USD) on the post-tax profit of the Company in case of 10% increase in their exchange rates to BGN on Company's (post-tax) profit is an increase by BGN 232 thousand (2011: increase at the amount of BGN 45 thousand). The effect on equity is of the same amount and in a direction of increase / decrease and reflects in the component 'retained earnings'.

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

Price risk

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

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

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

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

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

The sensitivity analysis of the Company to the fair value of the shares held thereby is based on the state and structure of the available-for-sale investments as at 31 December. The effect of 25% increase in prices would result in increase in the other components of the statement of comprehensive income and respectively, in equity ('available-for-sale financial assets reserve') by BGN 4,192 thousand (2010: BGN 4,434 thousand). On interest rate decrease by 25 %, the final effect stated in equity would be equal and reciprocal to the presented above.

Credit risk

Credit risk is the risk that any of the Company's clients will fail to discharge in full and within the normally envisaged terms the amounts due under trade receivables. The latter are presented in the balance sheet 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 Company 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 Company works on its main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the National Health Insurance Fund and the state hospitals also require the implementation of deferred payments policy. In this sense, regardless of credit risk concentration, it is controlled through the choice of trade counterparts, current monitoring of their liquidity and financial stability as well as direct communication with them and search of prompt measures on first indications for existing problems.

The Company has concentration of receivables from other companies of Sopharma Group (trade receivables and loans) as follows:

	31.03.2012	*31.12.2011*
	BGN '000	*BGN '000*
Client 1	39 %	37 %
Client 2	15 %	15 %
Client 3	13 %	14 %
Client 4	10%	

The Company has concentration of trade receivable from a single client, which is outside Sopharma Group, and is accountable for 70,90 % of all trade receivables (31 December 2011: 65.99 %).

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

Collectability of receivables is controlled directly by the Executive Director, Finance Director and Commercial Director. Their responsibility is to provide operating control and regulate receivables in conformity with the actual market situation and the needs of the Company.

The Company 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 financial resources of the Company as well as the settlement operations are concentrated in different first-class banks. To distribute cash flows among them, Company management takes into consideration a great number of factors, as the amount of capital, reliability, liquidity, the credit potential of the bank etc.

Liquidity risk

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

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. Company's liquidity could be significantly affected by USD exchange rate fluctuations with regard to our US dollar positions on the Russian market and market dynamics, if this rate deviates from our forecasts. To isolate any possible liquidity risk, the Company implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Maturity analysis

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

31 March 2011	up to 1 month *BGN '000*	1 to 3 months *BGN '000*	3 to 6 months *BGN '000*	6 to 12 months *BGN '000*	1 to 2 years *BGN '000*	2 to 5 years *BGN '000*	over 5 years *BGN '000*	Total *BGN '000*
Available-for-sale financial assets	-	-	-	-	16 881	-	-	**16 881**
Receivables and loans granted	38 841	40 281	35 580	57 993	0	12 621	-	**185 316**
Cash and cash equivalents	3 053	-	-	-	-	-	-	**3 053**
Total assets	**41 894**	**40 281**	**35 580**	**57 993**	**16 881**	**12 621.00**	**-**	**205 250**
Bank loans	2 118	58 562	18 569	66 405	759	2 278	23 272	**171 963**
Other liabilities	8 104	6 250	99	186	244	355	-	**15 238**
Total liabilities	**10 222**	**64 812**	**18 668**	**66 591**	**1 003**	**2 633**	**-**	**187 201**

31 December 2011	up to 1 month *BGN '000*	1 to 3 months *BGN '000*	3 to 6 months *BGN '000*	6 to 12 months *BGN '000*	1 to 2 years *BGN '000*	2 to 5 years *BGN '000*	over 5 years *BGN '000*	Total *BGN '000*
Available-for-sale financial assets	-	-	-	-	16 792	-	-	**16 792**
Receivables and loans granted	25 000	24 794	21 978	97 077	6 079	13 011	-	**187 939**
Cash and cash equivalents	18 038	-	-	-	-	-	-	**18 038**
Total assets	**43 038**	**24 794**	**21 978**	**97 077**	**22 871**	**13 011**	**-**	**222 769**
Bank loans	71 646	615	46 157	37 248	787	2 360	21 394	**180 207**
Other liabilities	8 673	8 895	4 313	191	224	265	-	**22 561**
Total liabilities	**80 319**	**9 510**	**50 470**	**37 439**	**1 011**	**2 625**	**21 394**	**202 768**

Risk of interest-bearing cash flows

Interest-bearing assets are presented in the structure of Company's assets by cash, bank deposits and loans granted, which are with fixed interest rate. On the other hand, Company'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 Company partially dependent on interest risk. This risk is covered in two ways:

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

(b) the combined structure of interest rates on loans, which consists of 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 Company. 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 Company's management currently monitors and analyzes its exposure to changes in interest rates. 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

31 March 2012	Interest-free	With floating interest %	With fixed interest %	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	16 881	-	-	16 881
Receivables and loans granted	105 540	-	74 965	180 505
Cash and cash equivalents	140	2 913	-	3 053
Total financial assets	122 561	2 913	74 965	200 439
Bank loans	3	163 420	-	163 423
Other liabilities	14 221	646	-	14 867
Total financial liabilities	**14 224**	**164 066**	**-**	**178 290**

31 December 2011	Interest-free	With floating interest %	With fixed interest %	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Available-for-sale financial assets	16,792	-	-	16,792
Receivables and loans granted	107,299	-	74,588	181,887
Cash and cash equivalents	184	8,075	9,779	18,038
Total financial assets	**124,275**	**8,075**	**84,367**	**216,717**
Bank loans	419	171,061	-	171,480
Other liabilities	21,683	577	-	22,260
Total financial liabilities	**22,102**	**171,638**	**-**	**193,740**

The table below demonstrates the Company's sensitivity to possible changes in interest rates by 50 points based on the structure of assets and liabilities as at 31 December and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and on equity.

31 March 2011	*Increase / decrease in interest rate*	*Impact on post-tax financial result – profit/(loss)*	*Impact on equity - increase/(decrease)*

EUR	Increase	(564)	(564)
BGN	Increase	(145)	(145)
USD	Increase	(26)	(26)
UAH	Increase	(2)	(2)
KZT	Increase	-	-
EUR	Decrease	564	564
BGN	Decrease	145	145
USD	Decrease	26	26
UAH	Decrease	2	2
KZT	Decrease	-	-

2011	***Increase / decrease in interest rate***	***Impact on post-tax financial result – profit/(loss)***	***Impact on equity - increase/(decrease)***
EUR	Increase	(696)	(696)
BGN	Increase	(46)	(46)
USD	Increase	(27)	(27)
UAH	Increase	(2)	(2)
EUR	Decrease	696	696
BGN	Decrease	46	46
USD	Decrease	27	27
UAH	Decrease	2	2

Capital risk management

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

The Company currently monitors capital availability and structure on the basis of the gearing ratio.

In the first quarter of 2012, the strategy of the Company management was to maintain the ratio within 30 - 35% (2011: 30 – 35%).

The table below shows the gearing ratios based on capital structure as at 31 March/December:

	31.03.2011 BGN '000	*31.03.2010* BGN '000
Total borrowings, including:	**164 069**	**172 057**
bank loans	*163 423*	*171 480*
finance lease liabilities	*646*	*577*
Less: Cash and cash equivalents	**(3 053)**	**(18 038)**
Net debt	**161 016**	**154 019**
Total equity	**329 101**	**320 668**
Total capital	**490 117**	**474 687**
Gearing ratio	**0.33**	**0.32**

The liabilities included in the table above are disclosed in Notes 27, 30, 31 and 36.

Fair values

Fair value is generally the amount for which an asset could be exchanged, or a liability settled in an arm's length transaction between independent, willing and knowledgeable parties. The Company's policy is to disclose in its financial statements mostly the fair value of these assets and liabilities for which market quotations are available.

The fair value of financial instruments, which are not traded in active markets, is determined through valuation methods based on various valuation techniques and management assumptions made in accordance with the market circumstances as at the balance sheet date.

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, the Company 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 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. The investments in subsidiaries and associates (and part of the investments in other companies with minority interest) represent an exception to this rule and they are presented at cost.

As far as no sufficient market experience, stability and liquidity exist in regard of purchases and sales of certain financial assets and liabilities, no adequate and reliable quotes of market prices are available thereof, which is additionally complicated at the present stage by the financial crisis occurring in the country.

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

39. RELATED PARTY TRANSACTIONS

Related parties	***Relation type***	***Relation period***
Telecomplect AD** (formal holder of the shares as per the Registry at the Central Depository (CD) until the entry of Telecomplect Invest AD in the Registry of CD – Note 40)	Company – main shareholder	2011 and 2012
Telecomplect AD	Company – main shareholder	2010
Donev Investments AD	Company – main shareholder	2011 and 2012
Sopharma Trading AD	Subsidiary company	2011 and 2012
Pharmalogistica AD	Subsidiary company	2011 and 2012
Bulgarian Rose Sevtopolis AD	Subsidiary company	2011 and 2012
Sopharma Poland OOD	Subsidiary company	2011 and 2012
Sopharma Zdrovit AD	Subsidiary company	2011 and 2012
Rostbalkanpharm AD	Subsidiary company	2011 and 2012
Sopharma USA	Subsidiary company	2011 and 2012
Electroncommerce EOOD	Subsidiary company	2011 and 2012
Biopharm Engineering AD	Subsidiary company	2011 and 2012
Vitamina AD	Subsidiary company	2011 and 2012
Ivanchich and Sons OOD	Subsidiary company	2011 and 2012
Sopharma Buildings REIT	Subsidiary company	2011 and 2012
Momina Krepost AD	Subsidiary company	2011 and 2012
Extab Corporation	Subsidiary company	2011 and 2012
Briz OOD	Subsidiary company	2011 and 2012
Brititrade SOOO	Subsidiary through Briz OOD	2011 and 2012
Tabina OOO	Subsidiary through Briz OOD	as from 8.04.2011 and 2012
Superlats OOO	Subsidiary through Briz OOD	as from 25.05.2011 and 2012
ZAO Interpharm	Subsidiary through Briz OOD	from 21.12.2011 and 2012
	Associate through Briz OOD	from 01.02. to 20.12.2011
Unipharm AD	Subsidiary company	2011 and 2012
Sopharma Warsaw	Subsidiary company	2011 and 2012
Pharmachim Holding EAD	Company under a common indirect control in the group	2011 and 2012
NIHFI AD	Company under a common indirect control in the group	until 05.08.2011
Kaliman RT AD	Company under a common indirect control	2011 and 2012
Seiba Pharmacies and Drugstores AD	Company under a common indirect control	2011 and 2012
Mineralcommerce AD	Company under a common indirect control	2011 and 2012
Sopharma Properties REIT	Company under a common indirect control in the group	2011 and 2012
Sofia Inform AD	Company under a common indirect control	2011 and 2012
Sofprint Group AD	Company under a common indirect control	2011 and 2012
Sofconsult Group AD	Company under a common indirect control	2011 and 2012
Elpharma AD	Company under a common indirect control	2011 and 2012
Telso AD	Company under common control through key management personnel	2011 and 2012
Media Group Bulgaria – Holding	Companies under joint control through key management personnel	from 09.04.2011 and 2012
DOH Group	Companies under common control through key management personnel	2011 and 2012

** According to the plan for transformation of Telecomplect AD under the procedure of the Commercial Act (Art. 262a, para 2) through spin-off through establishing a new company - Telecomplect

Invest AD (entered in the Commercial Register under No 164905 of 29 July 2011), the title on 26,948,052 shares of the capital of Sopharma AD is transferred to the newly established company.

At the date of issue of these interim separate financial statements, the transfer of the shares to Telecomplect Invest AD has not been registered yet in Central Depository AD.

For the purpose of disclosing the deals, transactions and balances with related parties, we have accepted the rule of giving priority to the formal legal criteria for ownership and disposal of shares held by a particular person, regardless of the economic substance and intent of the parties. For this reason, the transactions and balances with Telecomplect AD for the whole year 2011 and the first quarter of 2012 are presented as type of relationship "company – main shareholder".

In the first quarter of 2012 and in 2011, Sopharma AD did not perform deals with Telecomplect Invest AD and had no outstanding balances therewith as at 31 March 2012 / 31 December 2011.

Supplies from related parties:	***31.03.2012***	***31.03.2011***
	BGN '000	***BGN '000***
Supply of inventories from:		
Companies under a common indirect control	2 433	2 189
Subsidiaries	1 208	1 476
Companies – main shareholders	23	42
Companies under a common indirect control through key managing personnel	2	3
	3 666	**3 710**
Supply of services from:		
Subsidiaries	6 843	4 580
Companies – main shareholders	968	506
Companies under a common indirect control through key managing personnel	113	101
Companies under a common indirect control	319	4
	8 243	**5 191**
Supply of tangible fixed assets from:		
Companies – main shareholders	0	27
Companies under a common indirect control	-	0
	0	**27**
Supplies for acquisition of non-current assets:		
Companies – main shareholders	4 616	3 837
Companies under a common indirect control	0	-
	4 616	**3 837**
Total	**16 525**	**12 765**

Sales to related parties	***31.03.2012***	***31.03.2011***
	BGN '000	***BGN '000***
Sales of finished products to:		

Subsidiaries	98 297	19 940
Companies under a common indirect control	185	31
	98 482	**19 971**
Sales of services to:		
Subsidiaries	1 719	423
Companies under a common indirect control	80	22
Companies – main shareholders	51	13
	1 850	**458**
Sales of goods and materials to:		
Subsidiaries	15 435	3 125
Companies under a common indirect control	965	232
Companies – main shareholders	56	3
	16 456	**3 360**
Sales of tangible fixed assets to:		
Subsidiaries	11	69
Companies – main shareholders	5	8
Companies under a common indirect control	-	28
	16	**105**
Total	**116 804**	**23 894**

The terms and conditions of these transactions do not deviate from the market ones for similar transactions.

The accounts and balances with related parties are disclosed in Notes 20, 22 and 33.

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

40. EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period.