

**TCHAIKAPHARMA HIGH QUALITY MEDICINES INC**

**Explanatory notes**

**To the Interim Consolidated Financial Statements**

**At 30 September 2021**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENT**

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## I. INFORMATION ABOUT THE GROUP

Tchaikapharma Group includes parent company and one subsidiary (30.09.2021)

### Parent Society

Tchaikapharma High Quality Medicines Inc. is a company, incorporated and developing its activity in compliance with provisions of the Commercial Act. The company was registered by Decision dated 14 March 2000 of the Varna District Court issued on company file 1096.

By Decision of the Supreme District Court No. 8866 of 10 October 2007 and Ruling of the Sofia City Court of 09 November 2007, the head office and registered address was changed - from Varna, Primorski Region, Tchaika Residential District, 1 Nikola Vaptsarov Str., to Sofia, Izgrev District, 1 G. M. Dimitrov Blvd.

The company is entered into the Commercial Register of the Sofia City Court as a joint-stock company under company file No. 16559/2007.

Date of incorporation and duration of the existence

Tchaikapharma High Quality Medicines Inc. was incorporated in 2000. The existence of the Company is of unlimited duration.

### Subsidiary

SWYSSI S.R.L. a trading company registered in the Republic of Romania.

### Ownership and management of the parent society.

Tchaikapharma High Quality Medicines Inc. is a public company under the Bulgarian Securities Offering Act of 21.05.2015.

The share capital of the company is allocated as follows:

	%
Tihomir Dimitrov Kamenov	95.43
Other legal entities	0.39
Natural persons	4.18

Tchaikapharma High Quality Medicines Inc. has a one-tier management system with a Board of Directors of three members. The management of the parent company in the person of the Board of Directors as of 30.09.2021 is composed of:

Biser Rosenov Georgiev	Chairman
Sylvia Slavcheva Patrikova	Member
Radka Alexandrova Tsenova	Member

The parent company is represented and managed by the Executive Director Biser Georgiev.

## II. SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

Herein below are presented the significant accounting policies applied in the preparation of the Consolidated financial statements. The policies have been applied consistently for all years presented, unless expressly stated otherwise.

### 1 Basis of preparation of the Consolidated financial statements

These Consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS), as adopted by the European Union.

The Company has prepared these separate Consolidated financial statements for the purposes of their presentation to shareholders, tax authorities and the Commercial Register in compliance with the requirements of the Bulgarian legislation.

The Consolidated financial statements have been prepared on a historical cost basis, which is limited in cases of revaluation of certain items of property, plant and equipment, investment property, financial assets held for sale, and financial assets and liabilities carried at fair value through profit or loss.

The preparation of the Consolidated financial statements in accordance with IFRS requires the use of accounting estimates. When applying the accounting policies of the Company, management relied on own judgment. The components of the Consolidated financial statements involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated financial statements as a whole are disclosed separately.

The company's management applies IFRS/IAS as the basis for the current reporting and preparation of the interim consolidated financial statements. In preparing the interim consolidated financial statements for the current year, management has complied with the following standards and interpretations:

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance

IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint arrangements
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 32	Financial Instruments: Presentation
IAS 33	Earnings per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Properties
IAS 41	Agriculture
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosure
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRS 15	Revenue from Customer Contracts
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4	Determining whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and

Electronic Equipment

IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
IFRIC 21	Levies
IFRIC 22	Transactions in foreign currency and advance payment`
IFRIC 23	Uncertainty about tax treatment of income
SIC 7	Introduction of the Euro
SIC 10	Government Assistance – No Specific Relation to Operating Activities
SIC 15	Operating Leases – Incentives
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
SIC 27	Evaluating the Substance of Transactions in the Legal Form of a Lease
SIC 29	Disclosure – Service Concession Arrangements
SIC 31	Revenue – Barter Transactions Involving Advertising Services
SIC 32	Intangible Assets – Website Costs

The company applies the amendments to International Accounting Standards effective for annual periods beginning on or after 1 of January 2016. The amendments were adopted by way of the following acts:

1. Commission Regulation (EU) 2015/2113 of 23 November 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards 16 and 41
2. Commission Regulation (EU) 2015/2173 of 24 November 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 11
3. Commission Regulation (EU) 2015/2231 of 2 December 2015 amending Regulation (EC)

No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards 16 and 38

4. Commission Regulation (EU) 2015/2343 of 15 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards 5 and 7 and International Accounting Standards 19 and 34

5. Commission Regulation (EU) 2015/2406 of 18 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 1

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 IFRS Interpretation Committee that were relevant to its activities.

Since the adoption of these standards and/or interpretations, which are practicable for *annual reporting periods beginning on or after January 1, 2019 for enterprises in the Republic of Bulgaria*, changes have been made to the Company's accounting policies regarding the principles, rules and criteria for accounting for the following reporting objects, as well as the presentation and disclosure of financial information about them: *assets with rights to use and financial liabilities under operating leases, depreciation and interest costs* related thereto. The changes result from the application of the following standards and interpretations: IFRS 16 *Leases*.

➤ IFRS 16 *Leases* (effective for annual periods beginning on or after January 1, 2019, adopted by the EC). This standard has a completely changed concept. It introduces new principles for recognizing, measuring and presenting a lease by imposing a new model in order to ensure a more accurate and adequate presentation of these transactions, especially with the lessee. The standard supersedes the current leasing standard - IAS 17. For lessees, the guiding principle of the new standard is the introduction of a single model for lease accounting treatment – for all lease contracts with an actual duration of more than 12 months, an asset will be recognized in the form of a “right of use” to be depreciated over the contract period and, respectively, a financial liability will be reported for the liability under those contracts. This is also a significant change regarding the current reporting practice. Short-term or very low-cost, leases are allowed to be exempted and the current practice to be retained. With lessors, there are no significant changes in the accounting practice and they shall continue to report leases in analogy with the old standard IAS 17 – as operational and financial. To the extent that the new standard gives a more comprehensive concept, they have undertaken a more detailed analysis of the terms of the contracts in order to allow for the reclassification of certain leasing transactions. The new standard requires more disclosures. The management has conducted a study and determined that changes through the new standard have an impact on the accounting policies and the values and classification of assets, liabilities, operations and the company's results with respect to a part of the operating lease contracts, because the company is a lessee. The effects of the initial implementation,

recalculations and reclassifications are presented in a separate table in these Annexes. The management has chosen to apply the modified retrospective approach of IFRS 16 for the first time and not to restate comparative data.

For the other standards and interpretations set out below and effective from January 1, 2019 the management has examined their possible effect and has determined that they would not have an effect on the accounting policies, respectively the assets, liabilities, operations and the company's results, due to the fact that it does not own/operate such facilities and/or does not carry out such deals and transactions:

➤ IFRS 9 (amended) – Financial Instruments – on the cases of negative compensations upon the early repayment and modifications of financial liabilities (effective for annual periods beginning on or after January 1, 2019, adopted by the EC). This change covers two issues. The first one relates to the amendment of the current requirements of IFRS 9 by allowing the classification of certain financial assets at depreciated cost and passing them to the OPIP test, regardless of the existence of conditions for early repayment with negative compensation. Negative compensation exists when the terms of the contract allow the debtor to pay the instrument early before its maturity, and the amount paid early may differ from other outstanding principal and interest, but this negative compensation must be reasonable and relevant for the early termination of the contract. Prepayment alone is not a sufficient indicator of judgement, i.e. it is important to be weighed against the currently prevailing interest rate, and against it, the amount of the prepayment may also benefit the party that initiated it. It is important that the calculation of compensation be consistent also both as an approach to the early payment penalty and the earlier payment benefit. Further, the respective asset should be included in the category “held for cash flow collection” according to the enterprise's business model. The second issue from the amendment to the standard confirms that when a financial liability reported at depreciated cost is modified without being written off, the effect of that modification must be recognized in profit or loss. The effect is measured as a difference between the original contractual cash flows and those, after the modification, discounted at the original effective interest rate.

➤ International Financial Reporting Standard (IFRS) 3 Business combinations has been amended.

An entity shall apply those amendments to business combinations for which the acquisition date occurs on or after the beginning of the first annual reporting period beginning on or after January 1, 2019.

It is specified that when a party to a joint venture (as defined in IFRS 11 Joint ventures) acquires control over a business that is a jointly controlled activity (as defined in IFRS 11) and has had rights over assets and liabilities in respect of the liabilities of this jointly controlled activity immediately before the acquisition date, the transaction is a business combination achieved in stages. Therefore, the acquirer applies the requirements for the business combination achieved in stages, including reassessing the participation it previously held in the jointly controlled activity, in the manner described in paragraph 42. Thus, the acquirer reassesses its entire participation previously held in the jointly controlled activity.

➤ International Financial Reporting Standard (IFRS) 11 Joint ventures has been amended.



An entity shall apply those amendments to transactions in which it has received joint control on or after the beginning of the first annual reporting period starting on or after January 1, 2019.

The new wording states that a party which engages in a jointly controlled activity but does not have joint control over it may receive joint control over the jointly controlled activity, in which the exercise of the jointly controlled activity constitutes a business as defined in IFRS 3. In such cases, the equity interests in jointly controlled activities held in prior periods are not revalued.

➤ International Accounting Standard (IAS) 12 Income Taxes has been amended. The entity applies these amendments for annual periods beginning on or after January 1, 2019. Under the amendment, the entity recognizes the effect of dividends on income tax as defined in IFRS 9 when it recognizes an obligation to pay a dividend. The effect of dividends on income tax is more directly related to past transactions or events that have generated distributable profits than to distributions of profits to owners. Therefore, the entity recognizes the effect of dividends on income tax in profit or loss, in other comprehensive income or in equity, depending on whether the entity has initially recognized these transactions or events.

➤ International Accounting Standard (IAS) 19 Employee benefits has been amended. The companies shall apply those amendments not later than the commencement date of their first financial year beginning on or after January 1, 2019. Changes are regulated in the event of modification, contraction or settlement of the plan. Upon a modification, contraction or settlement of the plan, an entity recognizes and estimates the past service cost or the settlement profit/loss in accordance with paragraphs 99-101 and 102-112. Thus, the entity does not take into account the effect of the asset top limit. The entity then determines the effect of the asset top limit after the modification, contraction or settlement of the plan, and recognizes any change to that effect in accordance with paragraph 57 (d).

➤ International Accounting Standard (IAS) 23 Borrowing costs has been amended. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019. A further clarification has been made in accordance with the amended §14. To the extent an entity generally borrows funds and uses them to acquire a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the cost of that asset. The capitalization rate is the weighted average amount of borrowing costs applicable to all corporate loans that have not been repaid over the period. However, the entity does not include in this calculation the cost of borrowings applicable to loans taken specifically to acquire a qualifying asset until it has substantially completed all the activities necessary to prepare the asset for its intended use or sale. The amount of borrowing costs that the entity capitalizes over a specific period should not exceed the amount of borrowing costs incurred during that period.

➤ International Accounting Standard (IAS) 28 Investments in Associates and Joint Ventures has been amended. The amendments to the standard are effective for annual periods beginning on or after January 1, 2019. The basis for the changes to the standard is in the new §14A. The entity applies IFRS 9 also to other financial instruments in an associate or joint venture that are not subject to the equity method. This includes long-term holdings that essentially form part of the entity's net investment in an associate or joint venture (see paragraph 38). For such long-term holdings, the entity applies IFRS 9 before applying paragraph 38 and paragraphs 40 to 43 of this standard. When applying IFRS 9, the entity does not take into account any adjustments to the carrying amount of long-term holdings resulting from the application of this Standard.

As of the date of approval of these financial statements, several new standards and interpretations have been issued but were not yet effective for annual periods beginning on

January 1, 2019, as well as amended standards and interpretations that have not been adopted for early application by the company. The management has assessed that they would have no potential future effect on changes in accounting policies and the classification and values of reporting items in the company's financial statements for future periods.

In addition, for the following new standards, amended standards and interpretations adopted that have been issued but are not yet effective for annual periods beginning on or after January 1, 2019, the management has determined that the following would not have the potential effect for changes in the company's accounting policies and financial statements:

➤ **IFRS 17 Insurance Contracts.** This standard is a brand-new accounting standard for all types of insurance contracts, incl. for certain guarantees and financial instruments, covering rules for recognition and valuation, presentation and disclosure. The standard will replace the current standard for insurance contracts – IFRS 4. It establishes a new comprehensive model for insurance contracts accounting covering all relevant accounting aspects. It is not applicable to the business of the company. It was approved by the International Accounting Standards Board in May 2017. It is expected to enter into force on 01.01.2022, after adoption by a Commission Regulation (EU).

**IFRS 14 Deferred tariff differences.** The purpose of this standard is to set requirements for the presentation in the financial statements of deferred tariff differences, on providing customers with the organization of goods or services, of prices or tariffs that are subject to tariff regulation. The entity applies this standard if its first Interim Financial Statements have been prepared in accordance with IFRS for a period beginning on or after January 1, 2016. In fact, its application should start with the adoption by a Commission Regulation (EU).

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### *The company as a lessor*

The lessor classifies each of its lease contracts as an operating or finance lease. A lease contract is classified as a finance lease if it transfers substantially all the risks and benefits of the ownership over the principal asset, and as an operating lease contract if it does not substantially transfer all the risks and benefits of the ownership over the principal asset.

Whether a lease contract is a finance lease or an operating lease depends on the nature of the transaction, not the form of the lease. The main criteria that, individually or in combination, generally lead to the classification of a lease as a finance lease are, for example:

- a) the lease contract transfers the ownership of the principal asset to the licensee towards the end of the lease term;
- b) the lessee has an option to purchase the principal asset at a price that is expected to be sufficiently lower than the fair value at the date on which the option can be exercised, to be sufficiently certain at the effective date that the option will be exercised;
- c) the lease contract term covers most of the economic life of the principal asset, even if the ownership right is not transferred;
- d) at the date of implementation, the present value of the lease payments is substantially equal to at least the entire fair value of the principal asset;
- e) the principal asset is so specific in its nature, that only the lessee can use it without significant modifications.

### *The company as a lessee*

IFRS 16 Leasing has a completely changed concept. It introduces new principles for recognizing, measuring and presenting a lease by imposing a new model in order to ensure a more accurate and

adequate presentation of these transactions, especially with the lessee. For lessees, the guiding principle of the new standard is the introduction of a single model of accounting balance sheet lease treatment – for all lease contracts with a real term of more than 12 months an asset in the form of a “right to use” shall be recognized, that will be depreciated over the contract period, and respectively, a financial liability will be reported for the obligation under those contracts. This is also a significant change from the current reporting practices. Short-term or very low-cost leases are allowed to be exempted and the current practice to be retained. As far as the new standard gives a more comprehensive concept, they have made a more detailed analysis of the contractual terms to allow for the reclassification of certain leasing transactions. The new standard requires more disclosures. The management has conducted a study and determined that the changes through the new standard affect the accounting policies and the values and classification of assets, liabilities, operations and the company results with respect to a part of operating lease contracts, because the company is a lessee.

The company considers a lease to be a contract or part of a contract under which the right to use an asset (the principal asset) is transferred for consideration for a specified period of time. A finance lease contract is the one which transfers substantially all the risks and benefits ensuing from the ownership of a particular principal asset. An operating lease is a lease contract which does not transfer substantially all the risks and benefits of ownership over the principal asset.

The lessee may choose not to apply the requirements for the recognition of assets with the right to use with respect to:

- a) short-term lease contracts;
- b) lease contracts where the principal asset is of low value when new.

The lease of a principal asset is not eligible for a low-value asset lease if the nature of the asset is such that, when new, the asset is typically not of low value. For example, the leasing of a car would not be eligible for low-value asset leasing since a new car is not usually of low value. Major low-value assets may be, for example, tablets and PCs, small office furniture and telephones. The enterprise sets an exact minimum threshold in BGN for assets that will not be treated in the standard recognition and reporting order specified in the standard – BGN 9,000. The lessee chooses not to apply the requirements for lease contracts expiring within 12 months from the date of the initial application.

For the contracts referred to in the paragraph above, the lessee recognizes the related lease payments as an expense on a straight-line basis over the term of the lease contract or on another systematic basis. The lessee applies another systematic basis where that base more accurately reflects the benefits to the lessee. A low-value asset is assumed to exist if the lessee can benefit from its use individually or in conjunction with other resources that are readily available to the lessee and it is not highly dependent on other assets or closely related thereto.

At the beginning of the contract, the enterprise assesses whether the contract represents or contains elements of a lease. A contract represents or contains elements of a lease if, under that contract, the right to control the use of an asset for a specified period of time is transferred for consideration. For a contract containing a leasing component and one or more additional leasing or non-leasing components, the lessee allocates the contractual consideration to each leasing component based on the relative unit price of the leasing component and the aggregate unit price of the non-leasing components. The relative unit price of leasing and non-leasing components is determined on the basis of the price that the lessor or similar supplier would charge to the enterprise for this or similar component separately. If the observable unit price is not immediately available, the lessee estimates the unit cost making the most of the observable data.

The enterprise defines the lease contract term as an irrevocable lease term, together with:

- a) the periods for which there is an option to extend the lease contract, if it is reasonably certain that the lessee will exercise that option;
- b) the periods for which there is an option to terminate the lease contract if it is reasonably certain that the lessee will exercise that option.

In assessing whether it is sufficiently certain that the lessee will exercise the option to extend or shall not exercise the option to terminate the lease term, the enterprise considers all facts and

circumstances creating an economic incentive for the lessee to exercise the option to extend or not exercise the option to terminate the lease term.

On the commencement date, the lessee recognizes the asset with a right to use. On the commencement date, the lessee also recognizes the lease liability. On the commencement date, the lessee evaluates the asset with the right to use at cost of acquisition. The cost of the asset acquisition with the right to use includes:

- a) the amount of the initial estimate of the lease liability;
- b) the lease payments made on or before the commencement date less the leasing incentives received;
- c) the initial direct costs incurred by the lessee (trade commissions, legal fees, etc.);
- d) an estimate of the costs that the lessee will incur for dismantling and moving the principal asset, restoring the site where the asset is located, or restoring the underlying asset in the condition required under the terms and conditions of the lease contract, unless such costs are made for the production of inventories. The liability for these costs is borne by the lessee at the commencement date or, as a result of the use of the principal asset, for a specified period.

At the commencement date, the lessee estimates the lease liability at the present value of the lease payments not paid at that date. Lease payments shall be discounted at the rate of interest set out in the lease contract if that rate can be directly determined. If that rate cannot be directly determined, the lessee uses the lessee's differential interest rate. On the commencement date, the lease payments included in the estimate of the lease liability comprise the following payments for the right to use the principal asset during the lease contract term that were not paid as of the commencement date:

- a) fixed payments less the lease incentives due to be received;
- b) variable lease payments, dependent on an index or percentage, which are estimated at the index value or percentage as of the commencement date;
- c) amounts expected to be payable by the lessee under the residual value guarantees;
- d) the cost of exercising a purchase option if it is reasonably certain that the lessee will exercise that option;
- e) payments of penalties for the lease contract termination, if the term of the lease contract reflects the exercise of the contract termination option by the lessee.

When applying the acquisition cost model, the lessee evaluates the asset with a right to use at acquisition cost:

- a) minus any accumulated depreciation and any accumulated impairment loss;
- b) adjusted for any revaluation of the lease liability.

The lessee applies the depreciation requirements of IAS 16 Property, Plant and Equipment when it depreciates an asset with the right to use. If the ownership over the asset is transferred to the lessee under the lease contract by the end of the term of that contract, or if the cost of the asset with the right to use reflects the exercise of an option to purchase by the lessee, the lessee depreciates the asset with the right to use from the commencement date until the end of the useful life of the principal asset. Otherwise, the lessee depreciates the asset with the right to use from the commencement date until the end of the useful life of the asset with the right to use or until the expiry of the lease contract, whichever comes first. The lessee applies IAS 36 Impairment of Assets to determine whether an asset with a right to use is impaired and to account for any identified impairment losses.

If the principal asset in a lease contract meets the definition of an investment property, the enterprise applies IAS 40 to account for the asset with the right to use. The same policy for subsequent assessment applies to both own and leased investment property. The same policy for subsequent assessment is not mandatory for the own and rented property, plant and equipment. The Company applies the acquisition cost model for land and buildings, which it classifies as assets with the right to use, as opposed to its own land and buildings to which the revaluation model applies.

After the commencement date, the lessee reassesses the lease liability to reflect the changes in the lease payments. The lessee recognizes the amount of the lease liability revaluation as an adjustment to the asset with a right to use. However, if the carrying amount of the asset with a right to use is reduced to zero and there is a further decrease in the assessment of the lease liability, the lessee

recognizes the residual amount of the revaluation in profit or loss.

The lessee reassesses the lease liability by discounting the adjusted lease payments by an adjusted discount rate in the following cases:

- a) there is a change in the term of the lease contract. The lessee determines the adjusted lease payments based on the adjusted term of the lease contract;
- b) there is a change in the valuation of the principal asset purchase option made in accordance with the events and circumstances of the option. The lessee determines the adjusted lease payments to reflect the change in the amounts due under the purchase option.

The lessee reports the change in the lease contract as a *separate lease* if at the same time:

- a) the change extends the scope of the lease contract by adding the right to use for one or more principal assets;
- b) the consideration under the lease contract is increased by an amount commensurate with the standalone price for the increase in the scope and any adjustments to that price to reflect the circumstances of the particular contract.

The second option is that the amendment to the lease contract is not recorded as a separate lease at the effective date of the change. In this case, the lessee shall:

- a) distribute the consideration in the amended contract;
- b) determine the term of the lease contract;
- c) revalue the lease liability by discounting the adjusted lease payments at an adjusted discount rate.

If the amendment in the lease contract is not recorded as a separate lease, the lessee shall account for the revaluation of the lease liability by:

- a) reducing the carrying amount of the asset with a right to use to reflect the partial or total termination of the lease contract, for amendments to the lease contract reducing its scope. The lessee recognizes in profit or loss any profit or loss arising from the partial or total termination of the lease contract;
- b) making appropriate adjustments to the asset with a right to use for any other changes to the lease contract.

The enterprise does not apply this standard retrospectively by the full retrospective method in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with cumulative effect calculation as of 01.01.2018. The transition method used is the modified retrospective method used in accordance with the choice of standard option. This method is applied only to contracts that have not been completed as of 01.01.2019, the date of initial application of the standard. The cumulative effect of the initial application of this standard is recognized in adjusting the retained profit balance at the beginning of the annual reporting period, i.e. as of 01.01.2019. No adjustments are made to the previous reference period in the Interim Consolidated Financial Statements.

### **Investments in subsidiaries, associates and other enterprises**

The requirements of IFRS 12 *Disclosure of Interests in Other Entities* are complied with when reporting shares held in subsidiaries, joint arrangements, associated companies and unconsolidated structured entities. Information about the significant judgments and assumptions determining the control, joint control, significant influence and the type of joint venture is disclosed.

For interests in subsidiaries, information about the composition of the group, the interests of non-controlling shareholdings, the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, the nature of, and changes in, the risks associated with its interests in consolidated structured entities, and other requirements, is disclosed. For a subsidiary, the name of the subsidiary, the principal place of business, the proportion of ownership interests held by non-controlling interests, the profit or loss allocated to non-controlling interests, accumulated non-controlling interests of the subsidiary at the end of the reporting period, and summarised financial information are disclosed. The nature and extent of significant restrictions are disclosed as well.

For interests in joint arrangements and associates, information about the nature, extent and financial effects, and the nature of the risks, is disclosed. For a joint venture and associate that is material to the entity, the name, the nature of the relationship, the principal place of business, whether the investment in the joint venture or associate is measured using the equity method or at fair value, and summarised financial information are disclosed. The nature and extent of significant restrictions are disclosed as well.

For interests in unconsolidated structured entities, information about the nature and scope, and the nature of risks is disclosed. Qualitative and quantitative information about the nature of interests is disclosed. With respect to the nature of the risks, additional information is disclosed.

Investments are reported using the cost model of accounting. According to that method, share participations are carried at cost less accumulated impairment losses. Investment income is recognised on the statement of comprehensive income only in so far as a share is received from the accumulated profits of the investee in the form of dividends

### **Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment reflects the provision of products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. The reporting by segments is required for presentation in the consolidated financial statement of an enterprise quoting financial instruments on the stock exchange.

### **Foreign currency transactions**

#### *(1) Functional currency and presentation currency*

The separate components of the Company's Consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The Consolidated financial statements are presented in Bulgarian lev (BGN), which is the functional currency. According to the currency board regime introduced in Bulgaria, since 1 January 1999 the exchange rate of the Bulgarian lev has been anchored to the Euro.

#### *(2) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Major exchange rates:

	<b>30 September 2021</b>
	BGN
USD 1 is equal to	1.68912
EUR 1 is equal to	1.95583
GBP 1 is equal to	2.27282
CHF 1 is equal to	1.80594

Changes in the fair value of monetary securities denominated in foreign currencies and classified as available-for-sale financial assets are analysed and split into a result from changes in their amortised cost and from other changes in their carrying amount. Any foreign exchange differences relating to changes in the amortised cost are recognised in profit or loss, while other changes in the carrying amount are recognised in the equity.

Foreign exchange differences from restatement of non-monetary assets and liabilities, such as shares carried at fair value through profit or loss, are recognised in profit or loss as part of the profit or loss relating to their restatement at fair value. Foreign exchange differences on investments held to maturity are recognised in the statement of comprehensive income.

### **5 Property, plant and equipment (PPE)**

Land and buildings (except for investment property) are measured at fair value. When fair values are used, the requirements and rules of IFRS 13 *Fair Value Measurement* are observed. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the most advantageous market for the asset or liability, including transportation costs and excluding other transaction costs.

Management applies the fair value hierarchy, and if possible the assessment is at Level 1 according to market prices in active markets. If Level 1 cannot be used, it is proceeded to Level 2 - directly or indirectly observable prices. The last option is Level 3, at which hypotheses are developed. All assets and liabilities are categorised within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement.

The most appropriate valuation technique is used in the fair value measurement. The market approach uses current market prices, recent market prices or adjusted market prices of a similar item. It is applied to investment properties, debt or equity instruments on a stock exchange /shares and bonds/, investments outside the stock exchange and biological assets. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset with a new asset; the age and condition of the asset, and its economic obsolescence. It is applicable to fixed tangible assets and non-current intangible assets. The income approach employs direct methods for calculating cost savings, premium pricing, exemption from licensing fees, excessive profits, or indirect methods of return on assets, residual profit, to align the assumptions for cash flows and discount rate. It is applicable to impairment of non-financial liabilities, financial instruments and cash-generating units.

Management discloses reporting items whose fair value is reported in the balance sheet. When necessary and materially, the fair value of reporting items that are not included in the balance sheet is disclosed as well. The fair value is assessed based on regular assessments by an independent external valuer, less any subsequent depreciation of buildings. The depreciation accumulated at the date of revaluation is eliminated against the asset's book value and the resulting net amount is adjusted by the asset's revalued amount. Any other plant and equipment are stated at historical cost, less any accumulated depreciation and impairment. The historical cost includes all expenses directly related to the acquisition of the asset.

The other groups of property, plant and equipment (excluding land and buildings) are presented in the annual financial statements using the acquisition cost model. From the book value, the depreciation charged to date, as well as the accumulated depreciation of the assets, are deducted.

The materiality level set by the Company with respect to items of property, plant and equipment is BGN 700.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Any other repair and maintenance costs are recognised in the income statement in the period in which they were incurred.

Increases in the carrying amounts resulting from revaluation of land and buildings are taken to the revaluation reserve. A decrease reversing a previous increase for the same asset is charged against the revaluation reserve, any other decrease in value is taken to the statement of comprehensive income. When revalued assets are derecognised, the accumulated revaluation reserve is transferred into retained earnings carried forward.

Land is not depreciated. Machinery with a significant effect on the production volume is depreciated using the functional method, based on the number of operation hours per machine against the total number of hours per machine under the technical specification. Depreciation of items of property, plant and equipment is charged using the straight-line depreciation method so as to allocate the difference between the carrying amount and the residual value over the estimated useful life of the assets. The following depreciation rates (in percentage) are applied:

Buildings and constructions	4%
Plant and equipment	30%
Hardware and peripherals	50%
Fixture and fittings	15%

The residual value and useful lives of the assets are and are adjusted as at each date of Consolidated financial statements, as necessary.

The asset's residual value is reduced immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount (Note 2.8).

Gains and losses on disposal of PPE are determined by comparing the sale proceeds with the carrying amount, and are included in the operating result.

Borrowings costs for PPE are expensed as current expenses in the period to which they relate.

## **6 Investment property**

Investment properties are most frequently associated with buildings or parts of buildings that are not used, but are held by the Company to earn rentals under operating leases. Investment properties are measured at fair value, which is the market price determined by independent valuers annually or at longer periods, if there is a significant change in their fair values. Any changes in fair values are recognised in the statement of comprehensive income as part of other income. The company held no investment property at the end of the current year.

## **7 Intangible assets**

Costs of acquisition of patents, licences, software and trademarks are reported as an asset and measured at historical cost, less any accumulated amortisation and impairment. They are amortised under the straight-line method over their useful lives of not more than 20 years. Intangible assets are not subject to revaluation. Management carries out annual reviews of assets subject to impairment and if the asset's carrying amount exceeds its recoverable amount, the asset is written down to its recoverable amount.

The materiality level set by the Company with respect to items of property, plant and equipment is



BGN 700.

The following amortisation rates, in percentage, are applied:

Intellectual property rights	15%
Software	50%
Other intangible assets	15%

### **Impairment of assets**

Depreciable / amortisable assets, as well as investments in subsidiaries and associates, are tested for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. The excess of the carrying amount over the recoverable amount is recognised as an impairment loss. The recoverable amount is the higher of the fair value less the costs to make the sale and the value in use. In estimating the value in use, assets are grouped in the smallest possible identifiable cash generating units.

## **8 Financial assets and liabilities and impairment**

Until 31.12.2017 the Company classifies its financial assets in the following categories: financial assets carried at fair value through profit or loss; loans and receivables; held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired for. Management determines the classification of its investments at initial recognition.

### *(a) Financial assets carried at fair value through profit or loss*

Financial assets carried at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired for the purpose of selling it in the near term. Assets in this category are classified as current assets.

### *(b) 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 included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables are recognised in the balance sheet under the heading of Trade and other receivables and Cash and cash equivalents (Notes 2.10 and 2.11).

### *(c) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Company's management intends and is able to hold to maturity.

### *(d) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative assets designated in this category or not classified in any other category. They are included as part of fixed assets, unless management intends to dispose of its investments within 12 months.

The purchase and sale of investments is accounted for taking into account the trading date, the date on which the Company committed to the purchase or sale of the asset.

Financial assets and financial liabilities are reclassified at the initial application of IFRS 9 as of 01.01.2018.

Classification of financial assets is made on the basis of the following two conditions:

(a) the business model for the management of the entity's financial assets;

(b) the characteristics of the contractual cash flows of the financial asset.

A financial asset is measured at amortized cost if the following two conditions are met:

(a) the financial asset is held within a business model whose purpose is to hold assets in order to collect the contractual cash flows; and

(b) under the contractual terms of the financial asset at specific dates, cash flows arise, which are only principal and interest payments on the outstanding amount of the principal.

The depreciated cost of a financial asset or financial liability is a defined term for the amount at which the financial assets or financial liabilities are measured at initial recognition minus principal repayments, plus or minus the accumulated depreciation of the difference between that initial value and the value at maturity calculated by the effective interest method, and for financial assets – adjusted for each loss adjustment. Trade receivables, trade payables, other receivables, other liabilities, loans granted, loans received, government securities and other assets and liabilities are chosen to be evaluated at depreciated cost.

A financial asset is measured at fair value through other comprehensive income if the following two conditions are met:

(a) the financial asset is held within a business model, the purpose of which is to collect both contractual cash flows and sales of financial assets;

(b) under the contractual terms of the financial asset at specific dates, cash flows arise, which are only principal and interest payments on the outstanding amount of the principal.

The principal is the fair value of the financial asset at initial recognition. The interest comprises the remuneration for the value of money over time, for the credit risk related to the amount of outstanding principal over a certain period of time and other major credit risks and costs as well as a profit margin. Equity shares, other financial instruments in equity, government securities, financial instruments – liabilities, other assets and liabilities are selected to be evaluated at fair value through other comprehensive income.

A financial asset is evaluated at fair value through profit or loss unless it is measured at depreciated cost or at fair value through other comprehensive income. On initial recognition, however, the enterprise may make an irrevocable choice for specific investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in the fair value in other comprehensive income. Equity shares in companies, other financial instruments in equity, financial instruments – liabilities, other assets and liabilities are selected to be evaluated fair value through profit or loss.

An enterprise may, at the initial recognition, irrevocably designate a financial asset to be evaluated at fair value through profit or loss, if it would substantially eliminate or reduce the evaluation or recognition discrepancy (sometimes referred to as “accounting discrepancy”) that would otherwise be attributable to the evaluation of assets or liabilities or recognition of profits and losses on different bases.

For the evaluation of a financial asset at depreciated cost, the basic condition is that assets be held for receipt in order to collect the contractual cash flows. For the evaluation of a financial asset at fair value through other comprehensive income, the main condition is that the assets are simultaneously held for the collection of contractual cash flows and for sale. For the evaluation of a financial asset at fair value through profit or loss, the primary condition is that assets are not valued by one of the other two business models, be held for sale as a primary objective.

For the proper evaluation of financial assets, the enterprise management has developed a business model. The business model defines the individual types of financial assets and their affiliation to the classification groups according to the purpose defined under IFRS 9. The enterprise determines the specific composition of the financial assets groups according to the objectives set in the business model. Assets targeted to receive contractual cash flows are set in the group of “Financial assets reported at depreciated value”. Assets intended to receive contractual cash flows and sale of assets are included in the group of “Financial assets reported at fair value through other comprehensive income”. Assets intended for sale (and any other assets

outside the previous two groups, if any) are included in the group of “Financial assets at fair value through profit or loss”.

The enterprise classifies all financial liabilities as subsequently evaluated at depreciated cost, except for:

- (a) financial liabilities at fair value through profit or loss. These liabilities, including derivatives which are liabilities, are subsequently evaluated at fair value;
- (b) financial liabilities arising from the transfer of a financial asset not qualifying for write-off or when the continuing involvement approach applies;
- (c) financial guarantee contracts. After initial recognition, the publisher of such a contract subsequently evaluates it at the higher of:
  - (i) the value of the loss allowance determined in accordance with Section 5.5; and
  - (ii) the amount initially recognized minus, where appropriate, the cumulative amount of the revenue recognized in accordance with this standard;
- (d) loan commitments with an interest rate lower than the market rate. The issuer of such a commitment then evaluates it at the higher of:
  - (i) the value of the loss allowance determined in accordance with Section 5.5; and
  - (ii) the amount initially recognized minus, where appropriate, the cumulative amount of the revenue recognized in accordance with IFRS 15;
- (e) contingent consideration recognized by the buyer in a business combination to which IFRS 3 applies. Such contingent consideration is subsequently evaluated at fair value; the changes being recognized in profit or loss.

2. The subsequent evaluation of financial assets and financial liabilities is carried out by the enterprise in accordance with the standard under consideration. Upon initial recognition, the enterprise evaluates a financial asset on:

- (a) depreciated cost;
- (b) fair value through other comprehensive income;
- (c) fair value through profit or loss.

The enterprise applies the impairment requirements regarding the financial assets which are evaluated at depreciated cost, and regarding the financial assets evaluated at fair value – through another comprehensive income.

The ultimate impairment allowances under IAS 39 are matched with the initial impairment adjustments under IFRS 9 classified by valuation categories. There is no significant change in the results for the current year compared to the previous financial year.

Accounting for impairment is different for financial asset groups. In the case of impairment of financial assets of the group “Financial assets evaluated at depreciated value”, the difference to the carrying amount is reflected in the profit or loss. When there is an impairment of financial assets from the group of the of “Financial assets reported at fair value through other comprehensive income”, the difference to the carrying amount is reflected in other comprehensive income (the revaluation reserve).

At each reporting date, the enterprise estimates the loss allowance for a financial instrument of an amount equal to the expected credit losses over the life of the instrument, if the credit risk of that financial instrument has increased significantly following the initial recognition. The objective of the impairment requirements is to recognize the expected credit losses over the life of all financial instruments whose credit risk has increased significantly following their initial recognition – whether individually or collectively – taking into account all reasonable and reasoned information, including also for future periods.

A financial asset with credit impairment is a defined term for a financial asset when one or more events adversely affecting the expected future cash flows from that financial asset have occurred. Monitored data for the following events can be used as evidence of credit impairment of a financial asset:

- (a) significant financial difficulty of the issuer or debtor;

- (b) breach of a contract as a default or delay;
- (c) the lender/s/, for economic or contractual reasons connected with the borrower's financial difficulty, makes a discount/s/ to the borrower which the lender/s/ would not do in other circumstances;
- (d) it is likely that the borrower will be declared insolvent or be subject to another financial rehabilitation;
- (e) disappearance of an active market for this financial asset due to financial difficulties; or
- (f) Purchase or initial creation of a financial asset with a large discount reflecting the credit losses incurred.

If, at the reporting date, the credit risk of a financial instrument has not increased significantly following its initial recognition, the enterprise shall evaluate a loss allowance for that financial instrument at a rate equal to the expected credit loss for 12 months. If during the previous reporting period it has estimated a loss correction for a financial instrument of an amount equal to the expected credit losses for the full term of the instrument but at the current reporting date the enterprise determines that the terms of paragraph 5.5.3 are no longer met, it shall estimate a loss allowance amounting to the expected credit losses for 12 months as to the current reporting date.

Expected credit losses over a 12-month period is a defined term for the portion of the expected credit losses over the life of the instrument representing the expected credit losses which arise from defaults on a financial instrument that may occur within 12 months after the reporting date.

Credit loss is a defined term for the difference between all contractual cash flows payable to the enterprise under a contract, and all cash flows that the enterprise expects to receive (i.e. the entire cash insufficiency) discounted at the original effective interest rate (or the effective interest rate on purchased or originally created financial assets with credit impairment adjusted for credit loss). The enterprise shall evaluate the cash flows by taking into account all contractual terms of the financial instrument (such as early repayment options, extension, call options and similar options) for the expected term of that financial instrument. The cash flows taken into account include cash flows from the sale of held collateral or other credit enhancements which are an integral part of the contractual terms. It is assumed that the expected life of the financial instrument can be estimated approximately reliably. In the rare cases, however, when it is not possible to estimate the expected term of the financial instrument in a reliable manner, the enterprise uses the remaining contractual term of the financial instrument.

Estimated credit losses is a defined term for the weighted average of credit losses, with weights corresponding to the risks of default. Estimated credit losses over the life of the instrument are the expected credit losses arising from all possible cases of non-performance over the expected term of a financial instrument. Loss adjustment is the adjustment for expected credit losses on financial assets evaluated in accordance with the requirements of the standard, lease and contract assets, accumulated impairment for financial assets, and provisions for expected credit losses under loan commitments and financial guarantee contracts.

The enterprise recognizes in profit or loss, as an impairment profit or loss, the amount of expected credit loss (or reversal) that is required to offset the loss allowance as at the reporting date of the amount which is to be recognized under this standard.

At each reporting date, the enterprise assesses whether the credit risk of a financial instrument has increased significantly since the initial recognition. In the assessment, the enterprise recognizes the change in the default risk over the expected term of the financial instrument rather than the change in the amount of expected credit losses. To make this assessment, the enterprise compares the default risk of the financial instrument to the reporting date and to the date of initial recognition and takes into account the reasonable and reasoned information available, without incurring unnecessary expense or effort, which demonstrates a significant increase in the credit risk after the initial recognition.

If there is reasonable and reasoned information for future periods, available without incurring unnecessary expense or effort, the enterprise cannot rely solely on past due information when

determining whether the credit risk has increased significantly since the initial recognition. However, when it is not possible to provide information on future developments rather than on past-due status (on an individual or collective basis) without incurring undue expense or effort, the enterprise may use past due information to determine whether there has been a significant increase in the credit risk after the initial recognition. Regardless of how the enterprise estimates the significant increase in the credit risk, there is a rebuttable presumption that the credit risk of a financial asset has increased significantly since the initial recognition when the contractual payments overdue exceed 30 days. The enterprise may rebut this presumption if it has reasonable and reasoned information available without incurring unnecessary expense or effort, which certifies that the credit risk has not increased significantly since the initial recognition, though the default over the contractual payments exceeds 30 days. If the enterprise determines that there is a significant increase in the credit risk before the contractual payments are overdue for more than 30 days, the rebuttable presumption does not apply.

If the contractual cash flows of a financial asset have been renegotiated or modified, and the financial asset has not been written off, the enterprise shall assess whether there has been a significant increase in the credit risk of the financial instrument by comparing:

- (a) the risk of default as at the reporting date (based on the modified contractual terms); and
- (b) the risk of default as at the date of initial recognition (based on the original, unmodified contractual terms).

Effective interest rate adjusted for credit losses is a defined term for the percentage which accurately discounts the estimated future cash payments or receipts for the expected term of the financial instrument to the depreciated cost of the financial asset which is a purchased or initially created financial asset with credit impairment. When calculating the effective interest rate adjusted for credit losses, the enterprise assesses the estimated cash flows by taking into account all the contractual terms of the financial asset (for example, early repayment options, extension, call options and other similar options) as well as the expected credit losses. The calculation includes all charges and other fees paid or received by the contractors under the contract, which are an integral part of the effective interest rate, transaction costs and all other bonuses and rebates. It is assumed that the cash flows and the expected term of the group of similar financial instruments can be estimated approximately in a reliable manner. On rare occasions, however, when it is not possible to estimate the cash flows or the remaining life of the financial instrument (or group of financial instruments) approximately and reliably, the enterprise uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

At each reporting date, the enterprise recognizes in profit or loss the amount of the change in the expected credit losses over the entire term of the instrument as a profit or loss on impairment. The enterprise recognizes the favourable changes in the expected credit losses over the entire term of the instrument as an impairment loss even if the expected credit losses for the entire life of the instrument are less than the expected credit losses that were included in the estimated cash flows at the initial recognition.

The enterprise always estimates an adjustment for losses equal to the expected credit losses over the entire life of the instrument for:

- (a) trade receivables or contractual assets arising from transactions within the scope of IFRS 15 and which:
  - (i) do not contain an essential component of financing (or when the enterprise applies a practical, appropriate measure for contracts with a term of one year or less) in accordance with IFRS 15;
  - (ii) contain an essential component of financing in accordance with IFRS 15, if the enterprise has chosen as its accounting policy to measure a loss adjustment amounting to the expected credit losses over the life of the instrument.

This accounting policy applies to all similar trade receivables or contractual assets but may also be applied separately for trade receivables and contract assets;

(b) lease receivables arising from transactions which are within the scope of IFRS 17, if the enterprise has chosen as its accounting policy to measure the losses adjustment amounting to the expected credit losses over the life of the instrument. This accounting policy applies to all lease receivables but may also be applied separately for financial and operating lease receivables.

The enterprise estimates the expected credit losses on a financial instrument so as to take into account:

(a) the amount determined fairly and weighted on the basis of probability by estimating the range of possible outcomes;

(b) the value of money over time; and

(c) the reasonable and reasoned information available without incurring unnecessary expense or effort towards the reporting date, for past events, current conditions and projected future economic conditions.

The maximum period to be taken into account at the expected credit losses estimation is the maximum duration of contracts (including extension options) during which the enterprise is exposed to credit risk rather than a longer term even if it is in line of the business practice. However, some financial instruments include both credit and non-utilized loan commitments, such as the contractual rights of the enterprise to require repayment and cancellation of the non-utilized loan commitment, do not restrict the exposure of the enterprise to credit losses for only the contractual term of notice. Only in respect of such financial instruments the enterprise estimates the expected credit losses for the period over which the enterprise is exposed to credit risk and the expected credit losses cannot be reduced by credit risk management measures even if that term exceeds the maximum contractual period.

The impairment of financial assets under IFRS 9 is tied to expected credit losses. If, at the reporting date, the credit risk of a financial instrument has not increased significantly following the initial recognition, the enterprise shall measure a loss adjustment for that financial instrument at a rate equal to the expected credit loss for 12 months. The enterprise recognizes the changes in the expected credit losses over the life of the instrument, as long as there is a significant increase in the credit risk.

3. There is no need and no changes in accounting policies have been made to modify, discontinue and write off financial assets. The enterprise's financial assets are mainly trade receivables and trade payables. For trade receivables a policy with an impairment model is defined.

4. Interest income on financial assets is calculated using the effective interest method. Separately, the amount of interest income on assets evaluated at depreciated cost and on assets with fair value evaluation through other comprehensive income is presented.

The evaluation of financial assets at depreciated cost is carried out according to the requirements of the standard. Interest income is calculated using the effective interest method. In this calculation, the effective interest rate is applied to the gross Carrying amount of the financial asset, with the exception of:

(a) purchased or initially created financial assets with credit impairment. For those financial assets, the enterprise applies the effective interest rate to the depreciated cost of the financial asset at initial recognition, adjusted for credit loss;

(b) financial assets which are not purchased or initially created financial assets with credit impairment but have subsequently become financial assets with credit impairment. For these financial assets, the enterprise applies the effective interest rate to the depreciated cost of the financial asset in the subsequent reporting periods.

The effective interest method is a defined term for the method used to calculate the depreciated cost of a financial asset or financial liability, and to allocate and recognize the interest income or interest expense in profit or loss over the period. The effective interest rate is a defined term for the rate of accurately discounting the estimated future cash payments or receipts for the expected term of the financial asset or financial liability to the gross Carrying amount of a financial asset or to the depreciated cost of a financial liability. When calculating the effective interest rate, the

enterprise assesses the estimated cash flows, taking into account all contractual terms of the financial instrument (such as early repayment options, extensions, call options and other similar options) but does not take into account the expected credit losses. The calculation includes all charges and other fees paid or received by contractors under the contract which are an integral part of the effective interest rate, transaction costs and any other bonuses or discounts. It is assumed that cash flows and the expected period of a group of similar financial instruments can be estimated approximately reliably. On rare occasions, however, when it is not possible to approximately reliably estimate the cash flows or the expected life of the financial instrument (or group of financial instruments), the enterprise uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

5. Expenses with impairment losses on financial assets are calculated using a model complying with the main requirements of the standard. These costs are presented in a separate article on income and expenses. Recoverable impairment losses on assets are also presented in a separate article in the statement.

Trade receivables are grouped for impairment purposes. Groups for historical analysis and calculation of a specific amount of impairment are set up according to payment deadlines, deadlines for overdue payments, customer relationship with respect to connectivity and other additional factors.

6. The enterprise does not have operations exposed to risks from hedged items. If such operations are required, an accounting policy has been selected for the non-application of IFRS 9 hedge accounting requirements.

7. During the reporting period, which includes the date of initial application of IFRS 9, the enterprise discloses the following information for each class of financial assets and financial liabilities at the date of initial application, i.e. 01.01.2018:

(a) the initial valuation category and the carrying amount determined in accordance with IAS 39:

The Company has classified its financial assets by the end of 2017 in the following categories:

(a) Financial assets, reported at fair value through profit or loss

Financial assets, reported at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired in order to be sold in the short term. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined payments which are not quoted in an active market. They are included in current assets, with the exception of those maturing more than 12 months after the balance sheet date, which are classified as non-current.

(c) Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management intends and is able to hold to maturity.

(d) Financial assets available for sale

Financial assets available for sale are non-derivative assets which are designated in this category or not defined in other categories. They are included in the long-term assets unless the management intends to sell its investments within 12 months.

## **9 Inventories**

Inventories are evaluated at the lower of the acquisition cost and net realizable value. Costs incurred to prepare the product for sale in a given state and location are included in the cost (acquisition price). These costs include:

(a) materials and goods – all delivery costs, including import duties and fees, transport costs, non-

recoverable taxes and other costs which contribute to bringing the materials and goods into ready-to-use form;

(b) production and work in progress – the direct costs of materials and labour and a deductible proportion of indirect production costs under normal capacity of production facilities. The basis for allocating the total Productive Cost by Products is the amount of output produced.

When writing off for use and sale, inventories are valued using the standard cost method. The standard cost takes into account normal levels of materials and supplies, labour, efficiency and capacity utilization. They are reviewed regularly and, if necessary, recalculated according to the new conditions. Deviations from standard cost to actual cost are currently written off for the sold products and goods and also at the end of each reporting period.

The net realizable value is the estimated selling price of an asset in the normal course of business, less the estimated service cost. It is determined on the basis of information used from external or internal sources, taking into account the specifics of different types of inventories.

When inventories are sold, their carrying amount is recognized as an expense in the period in which the respective revenue was recognized. The amount of any impairment of inventories to their net realizable value, as well as any material inventory losses, is recognized as an expense for the period of impairment or the occurrence of losses. The amount of any possible reversal of the value of the impairment of inventories arising from the increase in net realizable value is recognized as a reduction in the amount of recognized cost of inventories during the period in which the recovery has occurred.

### **10 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, cash in bank accounts, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are recognised in the balance sheet as a short-term liability under the heading of short-term loans.

### **11 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

When the Company redeems its treasury shares, the amount paid, including any relevant, directly related additional costs (net of income tax effects), is deducted from the capital held by the Company's owners until the shares redeemed are cancelled, sold or re-issued. When these shares are sold or re-issued on a later stage, income, net of any relevant, directly related additional transaction costs and the corresponding tax effects, is added to the capital held by the Company's owners.

### **12 Current and deferred taxesdeferred taxes**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated



financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date, which relate to the periods when it is expected that the related temporary tax differences will reverse..

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary tax differences can be utilised.

### **13 Employee benefits**

According to a defined contribution plan, the Company pays instalments to State-run pension and social insurance plans on mandatory basis. Once the instalments have been paid, the Company has no further payment obligations. Instalments are recognised as personnel expenses when they become due. Prepaid instalments are recognised as an expense in a future period to the extent that the amounts will be deducted from future payments or refunded.

Since 2015 Tchaikapharma High Quality Medicines Inc. has been setting aside provisions for retirement benefits of personnel in compliance with the requirements of Article 222 of the Labour Code. International Accounting Standard (IAS) 19 - Employee Benefits treats this requirement as an employer's long-term liability for defined severance pay and requires the application of actuarial methods for calculating the employer's liability. The standard requires that the present value of the employer's future obligations to pay defined benefits is determined by applying the projected unit credit method.

An estimate is made, on an individual basis, for all employees hired by the employer under employment agreements, based on the completed and expected length of service. The total obligation is distributed over the employee's expected length of service with the employer. The amount of the obligation at the time of the assessment is proportionate to the completed years of service. Each unit – a completed year of service, is measured separately to determine the final amount of the liability. Based on the employees' structure by sex and age, statistical probabilities have been applied, which assume that the individuals may not survive to the age required for them to be entitled to a pension or that they may resign on other grounds before becoming eligible to a contributory-service and retirement-age pension.

The calculation of these liabilities requires the participation of qualified actuaries in order to determine their present value at the date of the Consolidated financial statements on which they are presented in the statement of financial position and the respective change in their amount is recognised in the statement of comprehensive income whereas: a) the current and past service costs, interest expenses and the effects of redundancies and settlements are recognised immediately in the period in which they arise and are presented in the current profit or loss under item "personnel expenses", and b) the effects of subsequent valuations of obligations, which essentially represent actuarial gains and losses, are recognised immediately in the period in which they arise and are presented as part of other components of comprehensive income in item "subsequent valuations of defined benefit pension plans". Actuarial gains and losses originate from changes in the actuarial assumptions and experience.

At the date of each set of annual financial statements, the Company appoints certified actuaries, who issue a report with calculations of the long-term retirement benefit obligations. For the purpose, they apply the projected unit credit method. The present value of the defined benefit obligation is calculated by discounting the future cash flows expected to be paid within the maturity of that obligation and using the interest rates on long-term government bonds with similar duration quoted in Bulgaria, where the company itself functions.

Since the provisions for personnel compensation are of a long-term nature of commitment, they

are recognised as non-current liabilities in the statement of the financial position of Tchaikapharma High Quality Medicines Inc.

The demographic assumptions reflect the probability that individuals appointed under an employment contract will still be with the employer at the time of contributory-service and retirement-age pension entitlement, and that an obligation to pay them compensation will arise. Individuals may drop out before retirement for various reasons: resignation, staff cuts, disease, death, and other similar. The demographic assumptions reflect specific probabilities that are based on statistical information on the population and are relating to the staff structure by sex and age at the time of the assessment.

The mortality table reflects the probability that the individuals will survive to the age required for them to be entitled to a pension. It is calculated individually for each person based on his/her sex and age at the time of the assessment. The table showing the mortality rates and average life expectancy of the population in Bulgaria of the National Statistical Institute has been used.

Based on the information provided for the staff turnover in the last four years and the expected restructuring of the company over the next two years, the probability of retirements or impending personnel reduction is reflected. This probability is applied to the existing staff structure according to the sex and age of the individuals at the time of the assessment.

Financial assumptions are applied to the development of cash flow over time and affect the size of future commitment and determination of its present value. The interest rates applied are an essential part of the evaluation process as they are used for discounting the expected future cash flows, as a result of which the capitalized value of future payments is calculated. The financial assumptions reflect real expectations for the development and future size of some basic parameters, such as return on investment, salary growth, inflation rates, and others. In determining the financial parameters, the long-term nature of the obligation to the majority of employees should be borne in mind, according to the time when the liability to pay compensation will arise.

The rate of wage growth applied is essential for determining the amount of the obligation at the time of its occurrence. This rate has been determined on the basis of statistics on salary growth in the company over the past five years and the forecasted expectations for the coming years, according to the expected level of inflation. Given the statistics on income and inflation, and employer's expectations, the projected salary growth is calculated. The projected salary growth is 2 percent a year.

According to the standard requirement, the rate at which the obligation will be discounted should correspond to the market yields of high quality corporate bonds at the balance sheet date. Provided that there is no matured capital market, the market yields of government bonds should be used. Moreover, it is convenient the future rate of return on assets to be used as a discount rate. Due to the long-term nature of the obligation and the lack of such financial instruments covering fixed income for a longer period, it has been judged that the expected rate of return on instruments with longer maturities may be used as a discount rate, following the requirements of IAS 19. The discount rate, which has been used in calculating the liability of TCHAIKAPHARMA HIGH QUALITY MEDICINES INC as of 31 December 2015, amounts to 4 per cent per year over the entire duration of the liability, while as of 31 December 2016 it amounted to 3 per cent per year over the entire duration of the liability. As of 31.12.2017 the discount rate is 2 per cent per year over the entire duration of the liability. As of 31.12.2018 The discount rate is 2 per cent per year over the entire duration of the liability. As of 31.12.2019 the discount rate is 2 per cent per year over the entire duration of the liability. As of 31.12.2020 the discount rate is 1 per cent per year over the entire duration of the liability.

In determining the time of retirement for all persons working under an employment contract with the company, it is presumed that they will retire according to the requirement for a contributory-service and retirement-age pension for employees working under the third

category of labour.

As of 30.09.2021 TCHAIKAPHARMA HIGH QUALITY MEDICINES INC. has not set aside provisions for the occurrence of retirement of staff, such provisions shall be set aside at the end of the reporting period.

### **14 Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely (than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When several similar liabilities exist, the probability for outflows for their settlement is measured for the whole class of similar liabilities. A provision is recognised even in the cases when the probability for an outflow to settle certain liability in this class is unlikely.

### **15 Lease contracts**

#### *Operating lease – the Company as a lessor and as lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Proceeds received under operating leases (net of any incentives received from the lessor) are recognised as income in the income statement, in equal instalments over the lease term according to the current accrual principle. The operating lease payments (offset by the lessor's rebates) are recognized as an expense in the income statement in equal parts for the lease contract term in accordance with the current accrual principle.

#### *Finance lease – the Company as a lessee and lessor*

Leases of property, plant and equipment where the Company actually bears all the risks and rewards incidental to ownership of the asset are classified as finance leases with the resulting liabilities. At the commencement of the lease term, finance leases are capitalized at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance costs so as to produce a constant rate of reduction of the lease liability. The corresponding rents, less finance costs, are added to other long-term liabilities. The interest portion of finance price is recognised in the income statement and is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Items of property, plant and equipment acquired under finance leases are depreciated over the shorter of the lease term and its useful life.

A lease of property, plant and equipment where the Company has actually transferred all the risks and rewards incidental to ownership of the asset is classified as finance lease with related receivable. At the commencement of the lease term, finance leases are capitalized at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance income so as to produce a constant rate of reduction of the lease receivable. The corresponding rents, less finance income, are added to other long-term receivables. The interest portion of finance price is recognised in the income statement and is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### **16 Revenue and costs recognition**

The company-specific accounting policies have been developed in accordance with the principles of IFRS 15 on the enterprise's main revenue flows. When applying the standard, the

enterprise analyses the following stages:

1. Identification of the contract with a customer.
2. Identifying the individual execution obligations in the customer contract.
3. Determination of the transaction price in the contract with the customer.
4. If necessary, apportion of the transaction price to the individual execution obligations in the customer contract.
5. Recognition of revenue, including upon the satisfaction of any individual obligation in the customer contract.

The enterprise reports a contract with a customer which is within the scope of this standard only when all of the following criteria are met:

- (a) the parties to the contract have approved the contract (in writing, orally or in accordance with other normal commercial practices) and are determined to fulfil their respective obligations;
- (b) the enterprise can identify the rights of either party in respect of the goods or services to be transferred;
- (c) the enterprise can identify the payment terms for the goods or services to be transferred;
- (d) the contract has a commercial nature (i.e. the contract is expected to change the risk, timing, or the amount of the enterprise's future cash flows); and
- (e) the enterprise is likely to receive the remuneration to which it is entitled in return for the goods or services to be transferred to the customer. When assessing the likelihood of the remuneration being received, the enterprise takes into account only the ability and intent of the customer to pay the amount of the remuneration within the required term. The amount of the remuneration to which the enterprise will be entitled may be lower than the price specified in the contract if the remuneration is variable, as the enterprise may offer the customer a discount.

The enterprise does not apply this standard retrospectively using the full retrospective method in accordance with IAS 8 Accounting Policies, changes in the accounting approximate estimates and errors, by calculation of cumulative effect as at 01.01.2017. The transition method applied is the modified retrospective method used in accordance with paragraph C3b of the standard. This method only applies to contracts which have not been executed as at 01.01.2018 – the date of the initial application of the standard. The cumulative effect of the initial application of this standard in adjusting the retained earnings balance at the beginning of the annual reporting period is recognized, i.e. as of 01.01.2018. This method does not make adjustments to the previous comparative period in the annual financial statements.

Additional disclosures about the amount of impact which the IFRS 15 implementation has in the current reporting period on each separate article in the financial statements over the requirements applied to date and an explanation of the reasons for material changes are presented below:

There are no material changes in the recognition of revenue during the current financial year compared to the accounting policy applied in the previous financial year.

The enterprise recognizes revenue when (or as) the enterprise satisfies the performance obligation by transferring the promised product or service (i.e. asset) to the customer. An asset is transferred when (or as) the customer assumes the control over that asset.

Identifying and meeting performance obligations results in the application of a method of revenue recognizing at a certain point in time. No method of revenue recognizing over time is applied. The methods used for revenue recognizing are retained compared to the previous financial year. When a method for revenue recognizing over time has to be applied, estimated amounts are calculated for possible warranties, maintenance services, pre-paid fees and pre-production costs.

Only when needed, appropriate methods are used to approximately estimate the unit sale price of a product or service including, but is not limited to the following:

- (a) adjusted market valuation approach – the enterprise could assess the market on which it

sells its goods or services and approximately estimate the price that the customer on that market would be willing to pay for the goods or services. This approach may also include a reference to prices for similar goods or services offered by competitors of the enterprise and adjustment of those prices as necessary to reflect the costs and margins of the enterprise;

(b) estimated cost-plus-margin approach – the enterprise could predict its expected costs related to meeting the obligation to execute and then add an appropriate margin for that good or service;

(c) Residual approach – the enterprise can estimate approximately the unit sale price by referring to the total transaction price minus the sum of observed unit sales prices of other goods or services promised in the contract.

When assessing performance obligations to meet timing, revenue is recognized when the enterprise's business does not create an asset with an alternative use for the enterprise and it has a guaranteed payment entitlement for the business performed at that date.

If an obligation to execute is not satisfied over time, the enterprise satisfies the obligation at a certain point in time. In order to determine the moment a particular customer receives control of the promised asset and the enterprise satisfies the obligation to execute, the enterprise takes the control requirements into account. In addition, the enterprise takes account of the signs for transfer of control, which include, without limitation, the following:

(a) the enterprise has an existing payment entitlement to the asset – if the customer is currently required to pay for the asset, this may mean that in return the customer has been given the opportunity to manage the use and receive substantially all other benefits from the asset;

(b) the customer has the legal right to ownership on the asset – the legal right to ownership may indicate which party may direct the use of the asset and obtain substantially all the other benefits thereof or restrict the access of other enterprises to those benefits. Therefore, the transfer of legal ownership of an asset may mean that the customer has received control over the asset. If the enterprise retains the legal right of ownership only as protection against non-payment by the customer, those company rights do not prevent the customer from gaining control over the asset;

(c) the enterprise has transferred the physical possession of the asset – the physical possession of the asset may indicate that the customer has the ability to manage the use and receive substantially all other benefits of the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with the control of an asset. For example, in some repurchase agreements and consignment contracts, the customer or the recipient may have physical possession of the asset the enterprise controls. Conversely, in some billing and retention arrangements, the enterprise can retain the physical possession of an asset controlled by the customer. Examples include repurchase agreements, consignment agreements and billing and retention arrangements;

(d) the customer carries the significant risks and benefits from the ownership on the asset – the transfer to the customer of the significant risks and benefits of ownership on the asset may indicate that it has been given the opportunity to manage the use and obtain substantially all other benefits of the asset. However, when assessing the risks and rewards of ownership of the pledged asset, the enterprise excludes any risks which give rise to a separate performance obligation in addition to the performance obligation associated with the transfer of the asset. For example, the enterprise may have transferred the control over the asset to the customer but has not yet satisfied the additional performance obligation associated with the provision of maintenance services in respect of the transferred asset;

(e) the customer has accepted the asset – the asset acceptance by the customer may indicate that it has been given the opportunity to manage the use and receive substantially all the other benefits of the asset.

The enterprise recognizes the revenue at the control transfer by acting as a principal as it controls the goods and services before transferring them to the customer. According to the

contractual agreements with the customers, the enterprise is not an agent in the sale.

In determining the transaction price, the enterprise adjusts the promised amount of remuneration to the impact of the value of money over time if the time of payment agreed (directly or indirectly) by the parties to the contract gives rise to a significant benefit to the customer or the enterprise upon the financing of the transfer of goods or services to the customer. Under these circumstances, the contract contains a significant component of funding. A significant component of funding may exist regardless of whether the promised funding is explicitly specified in the contract or is implied by the payment arrangements agreed by the parties to the contract. In the ordinary course of business, there is no significant component of financing in customer contracts.

When determining the transaction price, the enterprise takes into account the terms of the contract and its usual business practices. The transaction price is the amount of the consideration the enterprise expects to be entitled to in exchange for the transfer of the promised goods or services to the customer, except for amounts collected on behalf of third parties (such as sales tax). The remuneration promised in the contract with the customer may include fixed amounts, variable amounts, or both.

The nature, timelines, and the amount of the remuneration promised by the customer affect the approximate transaction price. When determining the transaction price, the enterprise shall take into account the impact of all of the following:

- (a) variable remuneration;
- (b) variable remuneration estimates, containing limitations;
- (c) the existence of a significant component of financing in the contract;
- (d) non-cash consideration; and
- (e) remuneration owed to a customer.

There is no need to allocate the transaction price to the individual execution obligations. Where necessary, relative standalone sales prices apply. An estimation method based on the use of observable input data is applied as a last resort.

Assets under contracts with customers reflect receivables from recognized sales revenue. During the reporting period, cash was received as a result of the repayment of receivables on sold products, goods and services with transfer of control. Liabilities under contracts with customers reflect the liabilities for advances received for future sales. During the reporting period, received advances for sales of products, goods and services with transfer of control are also recognized as income and current income. At the end of the financial year, the assets under contracts with customers were adjusted by an appropriate pattern of expected credit loss under IFRS 9.

The disclosure of revenue by categories reflects the nature, timing, and uncertainty of revenue and cash flows, with an understanding of the main factors. The same applies to the disclosure of the expected credit loss. The main disclosures are presented below in the appendices.

The revenue includes the fair value of the goods and services sold, net of value added tax and rebates granted. The revenue is recognized as follows:

Expenses are recognized at the time they arise on the basis of documentary evidence. The principles of current accrual and revenue comparability are respected.

Future periods expenses are deferred for recognition as current expense for the period in which the contracts to which they relate are executed. The economic benefit of deferred expenses is tied to a subsequent reporting period.

## **17 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Consolidated financial statements in the period in which the dividends were approved.

The revenue from dividends is recognised when the right of payment receipt is established

## **18 Significant accounting estimates and judgments**

Accounting estimates and judgments are based on experience gained and other factors including expectations of future events given the existing circumstances. The trustworthiness of accounting estimates and assumptions is reviewed regularly.

### **18.1 Significant accounting estimates and assumptions**

The Company makes estimates and judgements for the purpose of accounting and disclosures which may differ from the actual results. Significant accounting estimates that have a considerable risk of causing material adjustments to the carrying amounts of the respective assets or liabilities in subsequent reporting periods are discussed herein below:

#### *(a) Income taxes*

The Company is a tax entity under the tax jurisdiction. Significant judgment is required in order to determine the tax provision. There are many transactions and calculations for which the final tax due cannot be specified in the normal course of business. The Company recognises liabilities for anticipated tax liabilities based on management judgment. When the final tax due as a result of such events differs from the original liabilities, such differences will affect the current and deferred tax assets and liabilities in the period of tax audits.

In the income tax determination the requirements of IAS 12 Income Taxes are met.

#### *(b) Fair value of financial instruments*

The fair values of investments quoted in active markets are based on current market prices. If there is no active market for a financial instrument, the Company calculates the fair prices using valuation techniques. Such techniques include the use of recent transactions concluded at fair values, discounted cash flows, option valuation models, and other techniques employed by market participants. Valuation models reflect current market conditions at the valuation date, which may not be representative of market conditions before and after that date. At the balance sheet date, management conducts a review of its models in order to ensure that they appropriately reflect current market conditions, including relative market liquidity and credit spread.

In the determination of the fair value of financial instruments the requirements of IFRS 13 Estimation on fair value are met.

#### *(c) Impairment of receivables*

In carrying out an impairment of the receivables, the Company's management estimates the amount and timing of expected future cash flows relating to the receivables based on its experience with receivables of similar nature, taking into account also the current circumstances for claims tested for impairment.

In the determination of the credit risk on receivables and other financial instruments the requirements of IFRS 9 Financial Instruments are met.

#### *(d) provisions for compensations at personnel retirement*

International Accounting Standard (IAS) 19 – Employee income treats this requirement as a long-term liability of the employer for defined income payments upon resignation and requires the application of actuarial methods to calculate the employer's liability. The standard requires

that the present value of future employer's defined benefit obligations be determined by applying the projected unit credit method.

The calculations are made individually for all employees recruited under an employment contract with the employer on the basis of their work experience and their upcoming work experience. The total liability is allocated throughout the employee's expected length of service for the employer, with the amount of the liability at the time of the valuation being a pro rata part relating to the years of service.

### *(e) provisions for compensated personnel leave*

International Accounting Standard (IAS) 19 – Employee income treats this requirement as a long-term liability of the employer for the payment of defined benefits when using paid leave and requires the application of accurate, appropriate methods to calculate the employer's liability. The standard requires that the present value of the employer's future payroll obligations be defined.

The calculations are made individually for all employees hired under an employment contract with the employer on the basis of the unused days of compensated leave and the actual value of the amount of remuneration and insurance for the employer. The insurance is formed on the basis of the state's adopted regulations for the following year.

## **19 Reporting by segments**

Segment operating information is required under IFRS 8.

The enterprise is public and falls within the scope of disclosure requirements for segment information.

An operating segment is a component of the enterprise:

(a) undertaking business activities from which it may generate revenue and incur costs (including revenue and expenses relating to transactions with other components of the same enterprise);

(b) the operating results of which are regularly reviewed by the chief operating decision maker when deciding on the resources to be allocated to the segment and evaluating the results of its operations;

(c) for which separate financial information is available.

An operating segment may engage in business activities which are not yet revenue-generating, for example, business creation operations can be an operating segment before earning revenue.

The enterprise separately reports information about each operating segment which: has been identified or results from the aggregation of two or more of these segments and exceeds the quantitative thresholds in paragraph 13 of IFRS 8.

Operating segments often show similar long-term performance if they have similar economic features. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics are similar. Two or more operating segments may be grouped into one operating segment if the consolidation is consistent with the basic principle of this IFRS, the segments have similar economic features and are similar in each of the following respects:

(a) the nature of the products and services;

(b) the nature of the production processes;

(c) the type or class of customers for their products and services;

(d) the methods used to distribute their products or to provide their services.

The business activities of the company from which it receives revenue and incurs costs should be treated as a single operating segment – production and marketing of pharmaceutical forms. The operational results are regularly reviewed by the enterprise's chief operating decision maker in deciding about the resources to be allocated to the segment and evaluating its



performance. There is separate financial information for pharmaceutical forms.

In this respect, the revenues, expenses, financial result, assets and liabilities presented in the financial report refer to a single operating segment – production and marketing of pharmaceutical forms in Bulgaria. There is no possibility and need to distinguish other operating segments.

### III. EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Property, plant and equipment

	<b>Land and buildings</b>	<b>Plant and equipment</b>	<b>Fixtures, fittings and motor vehicles</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>At 1 January 2021</b>				
Book (revaluated) value	24 872	33 484	835	59 191
Accumulated depreciation	(887)	(23 981)	(563)	(25 431)
<b>Carrying amount</b>	<b>23 985</b>	<b>9 503</b>	<b>272</b>	<b>33 760</b>
<b>At 30 September 2021</b>				
Carrying amount at the beginning of the period	23 985	9 503	272	33 760
Newly acquired		3 162	91	3 253
Written off on Carrying amount				
Revaluation				
Depreciation cost	(345)	(2 084)	(56)	(2 485)
Depreciation written off				
<b>Carrying amount at the end of the period</b>	<b>23 640</b>	<b>10 581</b>	<b>305</b>	<b>34 526</b>
<b>At 30 September 2021</b>				
Book (revaluated) value	24 872	36 647	926	62 445
Accumulated depreciation	(1 232)	(26 066)	(621)	(27 919)
<b>Carrying amount</b>	<b>23 640</b>	<b>10 581</b>	<b>305</b>	<b>34 526</b>

The amount does not indicate the amounts representing costs of acquisition of tangible fixed assets. The specified assets are 3,363 thousand BGN as at 31.12.2020 and 2,491 thousand BGN as at 30.09.2021.

As at 30<sup>th</sup> September of the current year, the property, machines and equipment include, on Carrying amount, land for 13,359 thousand BGN and buildings for 10,280 thousand BGN. As at the end of the previous year the indicators are 13,359 thousand BGN and 10,626 thousand BGN respectively.

The land and buildings are valued at the end of the year at fair value based on reports of licensed valuers. The remaining assets in the Property, Plant and Equipment group are valued at an annual estimate – cost less accumulated depreciation. According to the company management, the carrying amount of all the stated assets is not less than their recoverable amount and therefore there is no need for impairment.

2. Intangible assets

	Rights on industrial property BGN'000	Software BGN'000	Others BGN'000	Total BGN'000
<b>At 1 January 2021</b>				
Book (revaluated) value	5 489	785	630	6 905
Accumulated depreciation	(3 829)	(773)	(420)	(5 023)
<b>Carrying amount</b>	<b>1 660</b>	<b>12</b>	<b>210</b>	<b>1 882</b>
<b>At 30 September 2021</b>				
Carrying amount at the beginning of the period	1 660	12	210	1 882
Newly acquired	232	11	34	243
Written off on Carrying amount			(34)	(34)
Revaluation				
Depreciation cost	(307)	(10)	(105)	(472)
Depreciation written off			30	30
<b>Carrying amount at the end of the period</b>	<b>1 585</b>	<b>13</b>	<b>84</b>	<b>1 682</b>
<b>At 30 September 2021</b>				
Book (revaluated) value	5 721	796	630	7 148
Accumulated depreciation	(4 136)	(783)	(546)	(5 466)
<b>Carrying amount</b>	<b>1 585</b>	<b>13</b>	<b>84</b>	<b>1 682</b>

The value does not indicate the amounts representing the cost of long-term intangible assets acquisition. The stated assets are 2,144 thousand BGN as at 31 December 2020 and 2,239 thousand BGN as at 30<sup>th</sup> September 2021.

Intangible assets are valued at an annual estimate – cost less accumulated depreciation. According to the company's management, the carrying amount of the assets is not less than their recoverable amount and therefore there is no need for impairment.

3. Investments with minority interest

The Company has no holds a minority interest.

4. Non-current loans granted and non-current trade receivables

	30.09.2021 BGN'000	31.12.2020 BGN'000
The long-term receivables' maturity is as follows:		
Up to one year		
Between and three years	5 157	5 157
Over three years		
<b>Total</b>	<b>5 157</b>	<b>5 157</b>

The balance value of long-term receivables and loans has been denominated in the following currencies:

30.09.2021 BGN'000	31.12.2020 BGN'000
-----------------------	-----------------------

Romanian Lei		
Bulgarian lev	5 157	5 157
<b>Total</b>	<b>5 157</b>	<b>5 157</b>

The Company management considers that the fair value of long-term receivables and loans granted is approximately equal to their Carrying amount.

The receivables in BGN are valued at the cost of their occurrence. An impairment review is made by the company management at the end of each year and, if there is any indication of such impairment, losses are recognized in the statement of comprehensive income.

The company management considers that the receivables presented are collectible and there is no need to charge for impairment of receivables from previous years amounting to 5,157 thousand BGN, for which an agreement has been concluded until the end of 2022.

4A. Financial assets and financial liabilities

*Categories in BGN'000:*

30.09.2021 31.12.2020

*Financial assets, reported at fair value through profit or loss, showing separately:*

- i) those designated as such on initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9
- ii) those evaluated at fair value through profit or loss in accordance with IFRS 9

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- 1

*Financial liabilities reported at fair value through profit or loss, showing separately*

- i) those designated as such on initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9
- ii) those meeting the definition of 'held for trading' in IFRS 9

- -  
- -

*Financial assets evaluated at depreciated cost:*

- Receivables from counterparties
- Impairment of receivables from counterparties
- Receivables on loans granted
- Impairment of receivables on loans granted

62 348 60 122  
(92) (92)  
- -  
- -

**Total**

**62 256 60 030**

*Financial liabilities evaluated at depreciated cost:*

- Payables to suppliers
- Financial leasing obligations
- Operating leasing obligations
- Loans from banks

3 433 5 855  
2 199 2 058  
85 214  
9 782 9 783

**Total**

**153499 17 910**

*Financial assets evaluated at fair value through other comprehensive income, showing separately*

- i) financial assets evaluated at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9
- ii) investments in equity instruments designated as such on initial recognition in accordance with paragraph 5.7.5 of IFRS 9

- -  
- -

5. Inventories, trade and other receivables

30.09.2021 31.12.2020  
BGN'000 BGN'000

- Trade receivables
- Impairment for credit risk
- Advances from suppliers
- Loans granted
- Litigation and administered receivables

60 546 59 650  
(92) (92)  
1 802 236  
10 9

Taxes for recovery		14
Other receivables	8	213
Deferred expenses	83	68
<b>Total of trade and other receivables</b>	<b>62 357</b>	<b>60 098</b>

	<b>30.09.2021</b>	<b>31.12.2020</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Delivery	-	317
Materials	9 013	9 592
Production	540	639
Goods	98	294
<b>Total of inventories</b>	<b>9 651</b>	<b>10 842</b>

**6. Cash and cash equivalents**

	<b>30.09.2021</b>	<b>31.12.2020</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Cash in hand in BGN and foreign currency	1	2
Bank accounts in BGN and foreign currency	54	62
Blocked cash		
<b>Total</b>	<b>55</b>	<b>64</b>

The carrying amounts of cash and cash equivalents of the Company are denominated in the following currencies:

	<b>30.09.2021</b>	<b>31.12.2020</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Bulgarian lev	22	43
Foreign Currency	24	21
<b>Total</b>	<b>46</b>	<b>64</b>

Cash funds in BGN are evaluated at their nominal value and cash in foreign currency – at the closing exchange rate of BNB at 30<sup>th</sup> September of the current year and the preceding year. For the purposes of the cash flow statement preparation, cash and cash equivalents include all available cash in hand and banks.

**7. Share capital**

	<b>Shares in thousand pcs.</b>	<b>Ordinary Shares BGN'000</b>
At 31 December 2020 г.	82 200	82 200
At 30 September 2021 г.	84 500	84 500

The registered ordinary shares are 84 500 000 pieces (in 2020 – 82 200 000 pcs) with a nominal value of BGN 1 (one) per share (2021: 1 (one) BGN per share). The issued shares are fully paid. All shares give equal rights to shareholders.

**8. Revaluation and other reserves, retained profit**

<b>Reserve of revaluation of IMG</b>	<b>Legal and additional reserve</b>	<b>Reserve from revaluation of pension</b>	<b>Total</b>
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## TCHAIKAPHARMA HIGH QUALITY MEDICINES INC

	funds			
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Balance at 1 January 2020</b>	<b>4 149</b>	<b>7 676</b>	<b>(50)</b>	<b>11 775</b>
Changes from revaluation			(4)	(4)
Deferred taxes	(7)			(7)
<b>Other comprehensive income</b>	<b>(7)</b>		<b>(4)</b>	<b>(11)</b>
Profit distribution		268		268
<b>Balance at 31 December 2020</b>	<b>4 142</b>	<b>7 944</b>	<b>(54)</b>	<b>12 032</b>
<b>Balance at 1 January 2021</b>	<b>4 142</b>	<b>7 944</b>	<b>(54)</b>	<b>12 032</b>
Changes from revaluation				
Deferred taxes				
<b>Other comprehensive income</b>				
Profit distribution		62		62
<b>Balance at 30 September 2021</b>	<b>4 142</b>	<b>8 006</b>	<b>(54)</b>	<b>12 094</b>

There were no revaluations of land and buildings in 2021 because their carrying values are consistent with fair values.

Land and building revaluation reserves are not distributable as dividends.

The legal reserve is formed according to the requirements of the Commercial Act and is not subject to distribution under the current legislation. Additional reserves are formed by decision of the General Assembly of Shareholders with a source from the accumulated earnings.

Pension revaluation reserves are formed as a result of the effects of subsequent estimates of liabilities which, in essence, are actuarial profits and losses as reported by a licensed actuary's report. The report is by Angel Terziev, license №03-AO/19.04.2007, dated 11.02.2021.

Reserves from actuarial revaluations are not subject to distribution in the form of dividends.

As at 30.09.2021 no revaluation of pension funds has been done.

Retained earnings formed from current operating results in previous years.

### 9. Loans

	30.09.2021	31.12.2020
	BGN'000	BGN'000
Non-current finance lease liabilities	1 850	1 731
Non-current operating lease liabilities	73	-
Current finance lease liabilities	349	327
Current operating lease liabilities	12	214
Short-term loan	9 782	9 783
<b>Total</b>	<b>12 066</b>	<b>12 055</b>

The conditions of short-term bank loans as at 30.09.2021 are as follows:

Creditor bank:	UNITED BULGARIAN BANK AD
Contractual amount of the loan:	7,826 thousand BGN (4 000 thousand EUR)
Annual interest:	3-months EURIBOR+margin of 2 points
Maturity:	20.12.2021
Collateral:	Mortgages and pledges
Purpose of the loan	Refinancing of an existing loan and for working capital
Liability as at the end of the current year:	7,822 thousand BGN principal and BGN 4 thousand

Creditor bank:	interest UNITED BULGARIAN BANK AD
Contractual amount of the loan:	1,956 thousand BGN(1 000 thousand EUR)
Annual interest:	3-months EURIBOR+margin of 2 points
Maturity:	20.12.2021
Collateral:	Mortgages and pledges
Purpose of the loan	Working capital
Liability as at the end of the current year:	1,955 thousand BGN principal and BGN 1 thousand interest

Mortgages include landed property with a material interest of 3,575 thousand BGN.  
Pledges include machines and equipment with material interest of 4,609 thousand BGN.  
Liabilities under finance lease contracts are denominated in euro. The gross amount to be repaid includes the principal of 2,058 thousand BGN and the interest payable under the repayment schedule.

## 10. Deferred taxes

Deferred income taxes are reported for all temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at a tax rate of 10% (for the previous year: 10%) applicable to the year in which they are expected to occur retroactively.

Movement in deferred taxes:

	<b>30.09.2021</b>	<b>31.12.2020</b>
	<b>BGN'000</b>	<b>BGN'000</b>
At the beginning of the year	(1 308)	(1 308)
(Income)/expenses in the statement of comprehensive income	185	185
(Income)/expenses in the equity statement	(16)	(16)
<b>At the end of the year</b>	<b>(1 139)</b>	<b>(1 139)</b>

<b>Deferred tax liabilities</b>	<b>Land and buildings revaluation</b>	<b>Depreciation of assets</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>At 1 January 2020</b>	<b>(416)</b>	<b>(942)</b>	<b>(1 358)</b>
Debit/(credit) in equity due to changes in temporary differences	(7)		(7)
Expenses/(income) in the statement of comprehensive income due to changes in temporary differences		181	181
<b>At 31 December 2020</b>	<b>(423)</b>	<b>(761)</b>	<b>(1 184)</b>
Debit/(credit) in equity due to changes in temporary differences			
Expenses/(income) in the statement of comprehensive income due to changes in temporary differences			
<b>At 30 September 2021</b>	<b>(423)</b>	<b>(761)</b>	<b>(1 184)</b>

<b>Deferred tax assets</b>	<b>Leave and pension compensations</b>	<b>Income and impairment</b>	<b>Total</b>
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<b>At 1 January 2020</b>	<b>43</b>	<b>7</b>	<b>50</b>
(Cost)/revenue in the comprehensive income statement	(3)	(1)	(4)
<b>At 31 December 2020</b>	<b>40</b>	<b>6</b>	<b>46</b>
(Cost)/revenue in the comprehensive income statement			
<b>At 30 September 2021</b>	<b>40</b>	<b>6</b>	<b>46</b>

The total amount of deferred tax assets and liabilities is a liability of BGN 1,139 thousand (2020: a liability of BGN 1,139 thousand).

The deferred tax assets and liabilities are offset as they relate to the same tax authority.

**Payables to personnel Long-term retirement benefits**

	<b>30.09.2021</b>	<b>31.12.2020</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables to personnel long-term retirement benefits	194	194
<b>Total</b>	<b>194</b>	<b>194</b>

The Company appointed certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For the purpose, they apply the projected unit credit method. The present value of the defined benefit obligation is calculated by discounting the future cash flows expected to be paid within the maturity of that liability using the interest rates on long-term government bonds with similar duration quoted in Bulgaria, where the company itself is operating payables to personnel.

**11. Trade and other payables**

	<b>30.09.2021</b>	<b>31.12.2020</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables to suppliers	3 433	5 855
Payables to personnel	377	492
Taxes and social insurance contributions	265	344
Current corporate income tax	-	-
Other liabilities	30	97
Outstanding dividends	-	-
Provisions	-	-
<b>Total</b>	<b>4 105</b>	<b>6 787</b>
Trade and other liabilities are denominated in:		
Bulgarian lev	1 069	3 174
Euro	2 830	2 990
US Dollars	206	623
	<b>4 105</b>	<b>6 787</b>

The BGN liabilities are measured at the value of their occurrence, and those denominated in foreign currency are measured at the closing exchange rate of BNB on 30 September 2021.

Trade liabilities are carried at original cost, at the nominal value of the Bulgarian lev and the equivalent of the foreign currency at the exchange rate of BNB.

All trade and other payables are denominated and measured at the BGN nominal value. The Company's management is of the opinion that there is no need to charge provisions in relation to claims or commitments to interest, penalties and other payment obligations.



**12. Revenue**

	<b>30.09.2021</b>
	<b>BGN'000</b>
Sales of finished products	32 282
Sales of goods	2 599
Sales of services	20
Changes in stock of finished products and work in progress	-
Other revenue	<u>22</u>
<b>Total</b>	<b><u>34 923</u></b>

The sales of finished products and goods are related to dosage forms. They take place throughout the country.

Revenue is measured at the fair value of the payment or consideration received or receivable, and are stated at the BGN nominal value.

Revenue categories of production and goods in BGN'000	<b>30.09.2021</b>
a) type of production and goods	<b>BGN'000</b>
Medicinal products	34 881
Other production and goods	-
<b>Total revenue</b>	<b><u>34 881</u></b>

b) geographic region	
Bulgaria	34 386
European Union	
Export to third countries	188
c) market or customer type	
Wholesalers	307
<b>Total revenue</b>	<b><u>34 881</u></b>

**13. Operating expenses**

	<b>30.09.2021</b>
	<b>BGN'000</b>
Carrying amount of goods sold	(912)
Changes in stock of finished products and work in progress	135
Materials	(11 614)
Hired services	(11 181)
Salary expenses	(3 448)
Social insurance expenses	(611)
Depreciation / amortisation expenses (Appendix 5,6)	(2 960)
Other expenses	<u>(360)</u>
<b>Total</b>	<b><u>(31 086)</u></b>

Operating expenses are related to production and sales of dosage forms.

Expenses are measured at the fair value of the consideration paid or payable, and are stated at the BGN nominal value or at the BGN equivalent of the foreign currency, by applying the exchange rate of BNB on the date of the transaction.

**14 Finance income and costs**

**14.1 Finance income**

	<b>30.09.2021</b>
	<b>BGN'000</b>
Interest income	-
Revenue from exchange rate differences	14
Revenue from operations with financial instruments	-
<b>Total</b>	<u><b>14</b></u>

Income generated from the use by other persons of interest-bearing assets of the Company, and from other financial transactions, has been recognised when it is probable that future economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably.

**14.2 Finance costs**

	<b>30.09.2021</b>
	<b>BGN'000</b>
Interest expenses	(206)
Foreign currency losses	(63)
Other finance costs	(20)
<b>Total</b>	<u><b>(289)</b></u>

Expenses arising out of the use by the Company of interest-bearing assets of other persons, and of other financial transactions, have been recognised when it is probable that the Company will be able to reduce the economic benefits associated with the transaction and the amount of expense can be measured reliably.

**15. Tax expense and other comprehensive income for the period**

	<b>30.09.2021</b>
	<b>BGN'000</b>
Current income tax expense	(180)
Deferred taxes	-
<b>Total</b>	<u><b>(180)</b></u>

For 2021 the tax rate remains unchanged at 10% (2020 - 10%) according to the requirements of the Corporate Income Tax Act.

The Company's corporate income tax differs from the theoretical amount that would have been calculated had the applicable tax rate been applied to the accounting result before tax, as follows:

	<b>30.09.2021</b>
	<b>BGN'000</b>
Profit before taxes	3 697
Profit before taxes 10%	(180)
(2021: 10% )	
Correction due to unrecognised income and expense	-
Correction of deferred tax assets and liabilities	-
<b>Tax expense in the income statement</b>	<u><b>(180)</b></u>

**16. Earnings per share**

### *Basic earnings per share*

Basic earnings per share are calculated by dividing net profit distributable to majority shareholders by the weighted average number of ordinary shares issued during the year, of which the average number of ordinary shares redeemed by the Company is subtracted.

### *Diluted earnings per share*

For the purposes of calculating diluted earnings per share, the weighted average number of issued ordinary shares is adjusted by all securities potentially convertible into ordinary shares. As at 30<sup>th</sup> September of the current year and as at the end of the previous year, the Company had no convertible securities in issue, which explains the equality of the two ratios.

## **17. Dividends per share**

Dividends to be paid are accounted for only after they have been voted at the annual general meeting of shareholders. By Decision of the General Meeting of 22.06.2020 the capital was increased from BGN 82 200 000 to BGN 84 500 000, by issuing 2 300 000 (two million and three hundred) new ordinary shares with a nominal value of BGN 1 (one). The increase of the capital has not yet been entered in the Commercial Register, and therefore is not reflected in current reports.

## **18. Contingent liabilities**

Currently, there are lawsuits, which are expected to have a positive outcome for the enterprise. The Company has no other contingent liabilities and commitments of a substantial nature under the contracts concluded, the lawsuits and other documents.

### **Taxation**

The tax authorities have carried out a full audit of the Company up to and including 2019. No significant violations or observations were found.

The tax authorities can at any time check the Consolidated financial statements and accounting records for five consecutive years from 1 January of the year following the year in which the respective tax liability should have been paid, and to assess additional tax liabilities or penalties. The Company's management is not aware of any circumstances that might lead to significant liabilities in this area..

## **19. Transactions with related parties**

As of 30<sup>th</sup> September 2021 and 31 December 2020, the Company has no related entities with control.

### *Transactions with related parties*

The final balances of receivables and payables from and to related parties at the end of the year include value added tax. Sales and purchases with affiliated entities are free of value added tax.

During the current year and in the previous year there were no transactions with the members of the Board of Directors and the Executive Director.

## **20. Remuneration to key management staff and audit fee**

Short-term income of the management in third quarter 2021 amounting to 67 thousand BGN

were accrued according to the concluded contracts. Audit expenses of BGN 9 thousand were accrued during the reporting period in accordance with the concluded contract.

### 21. Financial risk management

In carrying out its activities, the Company is exposed to a variety of financial risks. The Company's comprehensive risk management program focuses on the unpredictability of the trading markets and aims to reduce any adverse effects on the financial result of the Company. The Company does not use derivative financial instruments to hedge certain risk exposures.

#### (a) Currency risk

The Company is not exposed to a significant exchange rate risk because its assets, liabilities and transactions are denominated in BGN or EUR, and the BGN is tied to the Euro, according to the Currency board rules. Regular control of balance sheet items is performed to minimize exposure to exchange rate risk.

#### (b) Price risk

The Company is not exposed to the risk of a change in the price of financial instruments, as it does not have such with significant value. The Company is at risk of a change in production and commodity prices. For the purpose of managing the price risk arising from sales of services, the Company systematically monitors the market prices, optimizes its costs and seeks for suitable core customers.

#### (c) Interest rate risk

The interest-bearing assets of the Company may have fixed and floating interest rates. Variable interest rate loans expose the Company to interest rate risk from changes in future cash flows, and fixed rate loans – to an interest rate risk from fair value changes. The policy of the Company is to borrow and provide loans by minimizing the interest rate risk. As at 30<sup>th</sup> September of the current and 31 December

of the previous year, the Company does not have interest-bearing assets and liabilities reported at fair value and is therefore not exposed to the risk of a change in cash flows and fair value.

#### (d) Credit risk

There is no significant concentration of credit risk in the Company. The Company has established policies to ensure that sales to a major customer are promptly paid or payable within a reasonable period of time under agreements. The credit risk arises mainly from cash and cash equivalents in banks and other financial institutions, as well as from loans granted. Only banks and other financial institutions with a high credit rating are accepted. The management does not expect losses as a result of non-performance of their counterparty obligations.

All financial assets are with counterparties which do not have an external credit rating and have no past performance defaults.

#### (e) Liquidity risk

The careful liquidity risk management requires the maintenance of sufficient cash and other liquid assets. Due to the dynamic nature of the underlying types of business, the Financial Department of the Company aims to achieve flexibility in funding by maintaining sufficient cash and trade receivables to be used to liquidate liabilities within a reasonable timeframe.

##### Capital risk management

The Company's objectives in capital management are to protect the ability of the Company to continue as a going concern in order to provide returns to shareholders and maintain an optimal capital structure.

In order to maintain or change the capital structure, the Company may adjust the amount of dividends paid, return capital to shareholders, issue new shares, or sell assets to repay debts. In addition, managing the liquidity and capital structure, the Company can increase equity capital as well as take loans.


**22. Events after the reporting date**

After 30<sup>th</sup> September 2021 there were no significant disclosure events affecting material changes in the financial and property position of the company.

Date of preparation: 25 November 2021

Prepared by:.....

(Petya Moneva)

Executive Director: .....

(Biser Georgiev)