

**TCHAIKAPHARMA HIGH QUALITY MEDICINES INC**

**Accounting Policy and Explanatory notes**

**To the Interim Financial Statements**

**At 30 September 2022**

## **NOTES TO THE INTERIM FINANCIAL STATEMENT**

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## **I. CORPORATE INFORMATION**

### **1. Corporate name**

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.

### **2. Country of establishment, head office and registered address, telephone number, fax number, e-mail address and website:**

Country:	Bulgaria
Head office:	Sofia, 1 G. M. Dimitrov Blvd.
Correspondence address:	Sofia, 1 G. M. Dimitrov Blvd.
Telephone number:	02 / 402 64 82
Fax number:	02 / 962 50 59
E-mail address:	tchaika@tchaikapharma.com
Website:	<a href="http://tchaikapharma.com">http://tchaikapharma.com</a>

### **3. Scope of activity**

The scope of activity of the company is the production and sale of medicinal products in finished or processed form.

### **4. Capital**

The capital of the company amounts to BGN 84,500,000 (eighty four million five hundred thousand), split into 84,500,000 ordinary registered shares with nominal value of BGN 1 each.

## **II. SIGNIFICANT ACCOUNTING POLICIES OF COMPANY**

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

### **1. Basis of preparation of the financial statements**

#### **Operating enterprise**

These 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 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 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 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 financial statements involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the 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 financial statements. In preparing the interim financial statements for the current year, management has complied with the following standards and interpretations:

#### **Comparative data**

The Company presents comparative information in this financial report for one prior year. Where necessary, comparatives are reclassified and/or restated to achieve comparability to changes in current year presentation or identified errors.

The financial statements have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise: financial reporting standards and IFRS Interpretations Committee Interpretations (IFRIC) approved by the International Accounting Standards Board (IASB) and International Accounting Standards and Standing Interpretations Committee (IASC) interpretations approved by the International Accounting Standards Board (IASB), which are effective 1 January 2021 and which have been adopted by the Commission of the European Union. IFRS as adopted by the EU is the common name for the general-purpose-accounting framework equivalent to the framework introduced by the definition under § 1, item 8 of the Additional Provisions of the Accounting Act under the name "International Accounting Standards" (IAS).

For the current financial year, all new and/or revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRSIC), as appropriate, have been adopted.

Since the adoption of these standards and/or interpretations that are practicable for annual reporting periods beginning no earlier than January 1, 2021, management has examined their possible effect and determined that they would not have a material effect on accounting policies, or assets, liabilities, operations and results:

- Amendments to IFRS 16 Leases (effective for annual periods beginning on or after June 1, 2020 as adopted by the EC). These amendments introduce a practical expedient on the basis of which a lessee may choose not to assess whether a lease discount (allowance) that arose only as a direct consequence of the COVID-19 pandemic is an amendment to the lease. This remedy is also eligible for application when the following conditions are simultaneously met: a) the change in lease payments changes the consideration for the lease, and the changed consideration does not materially exceed the consideration for the lease immediately preceding the change; b) any reduction in lease payments affects only payments originally due on or before June 30, 2021; and c) the other terms of the lease do not materially change. A lessee that

applies the practical expedient shall account for any change in lease payments in the same way as it would account for it in applying IFRS 16 if it were not an amendment to the lease. It does not apply to lessors. Earlier application is permitted.

- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Disclosure, IFRS 7 Financial Instruments: Disclosure, IFRS 4 Insurance Contracts and IFRS 16 Leases related to Phase 2 of the base rate reform (effective for annual periods beginning on 1 January 2021, as adopted by the EC). The changes to the standards related to Phase 2 of the base rate reform mainly provide two practical expedients: (a) in determining and measuring changes in the contractual cash flows of financial assets and liabilities and lease liabilities - by accounting for changes in the base rates by updating the effective interest rate; and (b) in accounting for hedging relationships - by allowing a change (revision) in the designation of the hedging relationship and the measurement of the hedged item on a cash flow basis due to and as a result of the The amendments shall be applied retrospectively. Earlier application is permitted.

- Amendments to IFRS 4 Insurance Contracts (effective for annual periods beginning on 1 January 2021, as adopted by the EC). The amendments allow entities predominantly engaged in insurance business to defer the effective date of IFRS 9 Financial Instruments from 1 January 2021 to 1 January 2023, instead these entities may continue to apply IAS 39 Financial Instruments: Recognition and Measurement. The purpose of the amendment is to align the effective date of IFRS 9 with the new IFRS 17 to address the temporary accounting implications of the different effective dates of the two standards. The amendment also introduces a temporary exemption from specific requirements of IAS 28 Investments in associates and joint ventures with respect to the application of a single policy for entities using the equity method under IAS 28. Such entities for annual periods beginning before 1 January 2023 are permitted, but not required, to retain the relevant accounting policy applied by the associate or joint venture when using the equity method.

Additionally, for the following new standards, amended standards and adopted interpretations that have been issued but are not yet effective for annual periods beginning on or after 1 January 2021.

Management has assessed that the following would have no potential effect on changes in accounting policies and financial statements :

**- IFRS 17 Insurance Contracts (effective for annual periods beginning January 1, 2023, not adopted by the EC).** This standard is an entirely new accounting standard for all types of insurance contracts, including certain guarantees and financial instruments, covering principles for their recognition, measurement, presentation and disclosure. The standard will replace the current standard for insurance contracts, IFRS 4. It establishes a new comprehensive model for accounting for insurance contracts covering all relevant accounting aspects. It is not applicable to the Company's operations.

**- IFRS 10 (amended) - Consolidated financial statements and IAS 28 (amended)**

- Investments in associates and joint ventures - relating to sales or in-kind transfers of assets between an investor and its associates or joint ventures (with a delayed effective date to be determined by the IASB). These amendments address the accounting treatment of sales or contributions of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether or not the assets sold, or the non-monetary assets contributed, constitute substantially

'business' within the meaning of IFRS 3. If those assets in the aggregate do not meet the definition of a 'business', the investor recognises a gain or loss up to the percentage corresponding to the interest of the other unrelated investors in the associate or joint venture. When assets are sold or non-monetary assets that, in the aggregate, are a 'business' are disposed

of, the investor recognises the full gain or loss on the transaction. These changes will be applied prospectively. The IASB has deferred the effective date of application of these changes indefinitely.

**- Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2023, not adopted by the EC).** These changes address the criteria for classifying liabilities as current and non-current. According to them, an entity classifies its liabilities as current or non-current depending on the rights that exist at the end of the reporting period and is not affected by the likelihood that it will exercise its right to defer settlement of the liabilities. The amendments clarify that 'settlement' of liabilities refers to the transfer to a third party of cash, equity instruments, other assets or services. The classification does not apply to derivatives in convertible liabilities, which are themselves equity instruments. The changes are applied retrospectively.

**- Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2022, not adopted by the EC).** These amendments update IFRS 3 by replacing a reference to an old version of the Conceptual Framework for Financial Reporting with its latest updated version from 2018. They also add an exception to the recognition principle for liabilities and contingent liabilities that fall within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRIC 21 Tax Liabilities and make explicit that contingent assets are not recognised at the acquisition date. The amendments are applied prospectively.

**- Amendments to IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2022, not adopted by the EC).** These amendments prohibit entities from deducting from the cost of 'testing whether the asset is functioning properly', which is part of the direct costs of bringing the asset to the location and condition necessary to operate it in the manner intended by management, the net proceeds from sales of the items produced during the actual bringing of the asset to that location and condition. Instead, the entity recognises those sales proceeds for such items and the related costs in profit or loss for the period in accordance with the rules of other applicable standards. The amendments specify that testing whether an asset is functioning properly is, in effect, an assessment of whether the technical and physical condition and demonstrated performance capabilities of the asset are such that it is capable of being used for its intended purpose in the production, delivery of goods or services, rental or administrative purposes. In addition, entities shall disclose separately the amounts of revenue and expenses associated with manufactured items that are not the result of the entity's ordinary activities. The amendments shall be applied retrospectively, but only to property, plant and equipment that is brought to the location and condition necessary for its operation on or after the beginning of the earliest period presented in the financial statements when the entity first applies the amendment.

**- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (effective for annual periods beginning after 1 January 2022, not adopted by the EC).** The amendments specifically clarify that the costs of performing the obligations under an onerous contract are the costs that are directly attributable to the contract, including (a) direct labour and direct material costs; and (b) incremental costs that are directly attributable to the performance of the contract by way of allocation - for example, an allocation of depreciation expense for property, plant and equipment used to perform that contract. Administrative and other overhead costs shall not be included unless they are specifically billable to the contract contractor. The amendments also make a minor adjustment to the clarification on the recognition of asset impairment charges before a separate provision is created for an onerous contract, emphasising that these are assets used in the performance of the contract and not assets dedicated to the

contract, which was the requirement before the change took effect. The changes apply to amendments to contracts for which the entity has not yet met all of its obligations at the beginning of the annual period in which it first applies them.

**- Annual Improvements to IFRSs 2018-2020 in IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, Illustrative Example 13 to IFRS 16 Leases and IAS 41 Agriculture (effective for annual periods beginning January 1, 2022, not adopted by the EC).**

These improvements make partial changes to the following standards:

- (a) IFRS 1 provides relief for a subsidiary applying IFRSs for the first time at a later date than the parent. It shall measure in its separate financial statements the assets and liabilities at the carrying amounts that would have been included in the parent's consolidated financial statements under which the parent acquired the subsidiary. It may, in its financial statements, measure the cumulative translation difference for all foreign operations at the carrying amount that would have been included in the parent's consolidated financial statements based on the parent's date of transition to IFRSs if no adjustments had been made for consolidation procedures and for the effects of the business combination. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption. An entity shall apply this amendment for annual periods beginning on or after 1 January 2022. Earlier application is permitted;

(b) IFRS 9 clarifies the charges that are included in the '10 per cent test' for determining whether, in a modification of a financial liability, the terms of the new or modified financial liability differ significantly from those of the liability as originally recognised. Under the changes, in determining these fees, an entity includes only those paid or received between a borrower and a lender, including fees paid or received by the borrower and the lender on behalf of the other. An entity shall apply the changes to financial liabilities that change at or after the beginning of the annual reporting period in which the entity initially applies them;

(c) in Illustrative Example 13 to IFRS 16, the illustrative accounting for lessor-reimbursed leasehold improvement costs is removed to eliminate any confusion about the treatment of lease incentives. Because the amendment relates to an illustrative example that accompanies the standard and is not part of the standard, no effective date is provided;

(d) IAS 41 removes the requirement for entities to exclude cash flows to pay taxes in determining the fair value of biological assets and agricultural production.

## **2. 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

### **3. 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 non-consolidated financial statement of an enterprise quoting financial instruments on the stock exchange.

### **4. Foreign currency transactions**

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

The separate components of the Company's financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The 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 2022</b>
	<b>BGN</b>
USD 1 is equal to	2.00639
EUR 1 is equal to	1.95583
GBP 1 is equal to	2.21498
CHF 1 is equal to	2.04563

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 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**

Financial assets and financial liabilities have been reclassified on initial application of IFRS 9 from 01.01.2019.

The classification of financial assets is based on the following two conditions:

- (a) the entity's business model for managing financial assets;
- (b) the contractual cash flow characteristics of the financial asset.

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

- (a) the financial asset is held within a business model whose objective is to hold the assets to collect contractual cash flows; and
- (b) under the contractual terms of the financial asset, cash flows that are solely payments of principal and interest on the outstanding principal amount arise on specific dates.

The amortised cost of a financial asset or financial liability is a defined term for the amount at which financial assets or financial liabilities are measured at initial recognition, less any repayments of principal, plus or minus the accumulated amortisation of the difference between that initial amount and the maturity amount, calculated using the effective interest method and, for financial assets, adjusted for any allowance for losses. At amortised cost, the Group elects to measure trade receivables, trade payables, other receivables, other payables, loans granted, loans received, government securities and other assets and liabilities.

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 whose objective is both the collection of contractual cash flows and sales of financial assets;

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

The fair value of the financial asset at initial recognition is taken as the principal amount. Interest comprises the remuneration for the time value of money, for the credit risk associated with the amount of principal outstanding over a period of time and for other principal risks and credit costs, as well as a profit margin. At fair value through other comprehensive income, the Group elects to measure shares in equity of companies, other financial instruments in equity, government securities, financial instruments-liabilities, other assets and liabilities.

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or fair value through other comprehensive income. However, on initial recognition, an entity may make an irrevocable election for specific investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. At fair value through profit or loss, an election is made to measure shares in equity of companies, other financial instruments in equity, financial instruments-liabilities, other assets and liabilities.

An entity may, on initial recognition, irrevocably designate a financial asset as at fair value through profit or loss if doing so would eliminate or reduce significantly the measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from the measurement of assets or liabilities or the recognition of gains and losses from them on different bases.

For a financial asset to be measured at amortised cost, the key condition is that the assets must be held for collection in order to collect the contractual cash flows. For a financial asset to be measured at fair value through other comprehensive income, the key condition is that the assets are held both to collect the contractual cash flows and for sale. To measure a financial asset at fair value through profit or loss, the primary condition is that the assets are not measured under one of the other two business models, i.e. held for sale as the primary objective.

In order to properly measure financial assets, management has developed a business model. The business model identifies the different types of financial assets and their membership of the classification groups according to the designated purpose under IFRS 9. The entity determines the specific composition of financial asset groups according to the objectives set out in the business model. Assets with a stated objective of receiving contractual cash flows are assigned to the group 'Financial assets carried at amortised cost'. Assets with a contractual cash flow objective and a disposal objective are included in the group 'Financial assets at fair value through other comprehensive income'. Assets held for sale (and any other assets outside the previous two groups, if any) are included in the group 'Financial assets at fair value through profit or loss'.

The entity classifies all financial liabilities as subsequently measured at amortised cost, except:

- (a) financial liabilities at fair value through profit or loss. These liabilities, including derivatives that are liabilities, are subsequently measured at fair value;
- (b) financial liabilities that arise from the transfer of a financial asset that does not qualify for derecognition or where the continuing involvement approach is applied;
- (c) financial guarantee contracts. After initial recognition, the issuer of such a contract subsequently measures it at the higher of:
  - (i) the loss allowance determined in accordance with Section 5.5; and
  - (ii) the amount initially recognised less, where appropriate, the cumulative amount of revenue recognised in accordance with this Standard;
- (d) commitments to lend at below-market interest rates. The issuer of such a commitment subsequently measures it at the higher of:
  - (i) the value of the loss allowance determined in accordance with Section 5.5; and

(ii) the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with IFRS 15;

(e) contingent consideration recognised by the acquirer in a business combination to which IFRS 3 applies. Such contingent consideration is subsequently measured at fair value, with changes recognised in profit or loss.

Subsequent measurement of financial assets and financial liabilities is performed by the entity in accordance with the standard under review. After initial recognition, an entity shall measure a financial asset at:

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

An entity applies the impairment requirements to financial assets measured at amortised cost and to financial assets measured at fair value through other comprehensive income.

The final impairment allowances under IAS 39 are reconciled to the initial impairment allowances under IFRS 9, classified by measurement category. There was no material change in the current year's results compared to the prior year financial year.

The accounting for impairment differs for groups of financial assets. Where there is an impairment of financial assets in the 'Financial assets carried at amortised cost' group, the difference to the carrying amount is recognised in profit or loss. If there is an impairment of financial assets in the 'Financial assets at fair value through other comprehensive income' group, the difference to carrying amount is recognised in other comprehensive income (revaluation reserve).

At each reporting date, an entity assesses a loss allowance for a financial instrument equal to the expected credit losses over the life of the instrument if the credit risk of that financial instrument has increased significantly since initial recognition. The objective of the impairment requirements is to recognise expected credit losses over the life of all financial instruments whose credit risk has increased significantly since initial recognition, whether individually or collectively, taking into account all reasonable and supportable information, including that for future periods.

A credit-impaired financial asset is a defined term for a financial asset when one or more events have occurred that adversely affect the estimated future cash flows of that financial asset. Observable evidence of the following events may serve as evidence of credit impairment of a financial asset:

- (a) significant financial distress of the issuer/issuer or obligor;
- (b) a breach of contract such as default or delinquency;
- (c) the lender(s), for economic or contractual reasons related to the financial distress of the borrower, makes a concession to the borrower that the lender(s) would not otherwise have made;
- (d) it becomes likely that the borrower will be declared bankrupt or otherwise subject to financial reorganisation;
- (e) an active market for that financial asset disappears because of financial difficulties; or
- (f) the purchase or initial origination of a financial asset at a large discount that reflects incurred credit losses.

If, at the reporting date, the credit risk of a financial instrument has not increased significantly since initial recognition, an entity shall measure an allowance for losses on that financial instrument equal to the expected credit losses for 12 months. If, in the previous reporting period, it measured a loss allowance for a financial instrument equal to the expected credit losses over the life of the instrument but, at the current reporting date, the entity determines that the conditions in paragraph 5.5.3 are no longer met, it measures a loss allowance equal to the expected credit losses for 12 months at the current reporting date.

12-month expected credit losses is a defined term for the portion of the expected credit losses over the life of the instrument that represents the expected credit losses that result from defaults on a financial instrument that are likely to occur within 12 months after the reporting date.

Credit loss is a defined term for the difference between all contractual cash flows due to an entity under a contract and all cash flows that the entity expects to receive (ie the entire cash shortfall), discounted at the original effective interest rate (or the credit loss-adjusted effective interest rate for purchased or originated financial assets with credit impairment). An entity shall estimate cash flows taking into account all contractual terms of the financial instrument (eg early repayment options, extension options, call options and similar options) for the expected life of that financial instrument. The cash flows considered include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. It is assumed that the expected life of the financial instrument can be estimated reliably. However, in the rare case that the expected life of a financial instrument cannot be estimated reliably, an entity uses the remaining contractual life of the financial instrument.

Expected credit losses is a defined term for the weighted average of credit losses, with the respective risks of default serving as weights. Expected credit losses over the life of the instrument are the expected credit losses that result from all possible events of default over the expected life of the financial instrument. The allowance for losses is the allowance for expected credit losses on financial assets measured in accordance with the requirements of the standard, lease receivables and contract assets, accumulated impairment for financial assets and the allowance for expected credit losses on loan commitments and financial guarantee contracts.

An entity shall recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or recoveries) necessary to bring the allowance for losses to the reporting date of the amount to be recognised in accordance with this Standard.

At each reporting date, an entity shall assess whether the credit risk of a financial instrument has increased significantly since initial recognition. In making its assessment, an entity considers the change in the risk of default over the expected life of the financial instrument, not the change in the amount of expected credit losses. To make this assessment, an entity compares the risk of default of the financial instrument at the reporting date and at the date of initial recognition and considers reasonable and supportable information, available without undue cost or effort, that evidences a significant increase in credit risk after initial recognition.

If there is reasonable and supportable forward-looking information available without undue cost or effort, an entity shall not rely solely on past-due information in determining whether credit risk has increased significantly since initial recognition. However, when it is not possible to provide information that relates to future developments rather than the status of defaults (on an individual or collective basis) without incurring undue cost or effort, an entity may use default information to determine whether there has been a significant increase in credit risk since initial recognition. Regardless of how an entity assesses a significant increase in credit risk, there is a rebuttable presumption that the credit risk of a financial asset has increased significantly after initial recognition when contractual payments are more than 30 days past due. An entity may rebut that presumption if it has reasonable and supportable information, available without undue cost or effort, that demonstrates that credit risk has not increased significantly since initial recognition even though contractual payments are more than 30 days past due. If an entity determines that there is a significant increase in credit risk before contractual payments are more than 30 days past due, 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 derecognised, the entity assesses whether there has been a significant increase in the credit risk of the financial instrument by comparing:

- (a) the risk of default at the reporting date (based on the modified contractual terms); and

(b) the risk of default at the date of initial recognition (based on the original, unmodified contractual terms).

(c) Adjusted for credit losses, the effective interest rate is a defined term for the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument to the amortised cost of the financial asset that is purchased or initially originated with a credit impairment. In calculating the credit-loss-adjusted effective interest rate, an entity estimates the expected cash flows, taking into account any contractual terms of the financial asset (for example, prepayment options, extension options, call options and similar options) and the expected credit losses. The calculation includes all fees and other consideration paid to or received from counterparties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums and discounts. It is assumed that the cash flows and expected life of the Group from such financial instruments can be estimated reliably. However, in the rare case that the cash flows or remaining life of a financial instrument (or group of financial instruments) cannot be estimated reliably, an entity uses the contractual cash flows over the full contractual life of the financial instrument (or group of financial instruments).

(d) At each reporting date, the entity recognises in profit or loss the amount of the change in expected credit losses over the life of the instrument as an impairment gain or loss. An entity shall recognise favourable changes in expected credit losses over the life of the instrument as an impairment gain even if the expected credit losses over the life of the instrument are less than the amount of expected credit losses that were included in the estimated cash flows at initial recognition.

(e) An entity always measures an allowance for losses equal to the expected credit losses over the life of the instrument for:

(f) (a) trade receivables or contract assets that arise from transactions within the scope of IFRS 15 and that:

(g) (i) do not contain a significant financing component (or, where the entity applies a practicable measure for contracts with a term of one year or less) in accordance with IFRS 15 ;

(h) (ii) contain a significant financing component in accordance with IFRS 15 if the entity has elected as its accounting policy to measure an allowance for losses equal to the expected credit losses over the life of the instrument.

(i) This accounting policy shall be applied to all such trade receivables or contract assets, but may also be applied separately to trade receivables and contract assets;

(j) (b) lease receivables that arise from transactions within the scope of IFRS 17 if the entity has elected as its accounting policy to measure an allowance for losses equal to the expected credit losses over the life of the instrument. This accounting policy shall be applied to all lease receivables, but may be applied separately to finance lease receivables and operating lease receivables.

(k) An entity shall estimate the expected credit losses on a financial instrument so that it is taken into account:

(l) (a) the amount determined on an unbiased and probability-weighted basis by assessing the range of possible outcomes;

(m) (b) the time value of money; and

(n) (c) reasonable and supportable information, available without undue cost or effort at the reporting date, about past events, current conditions and projected future economic conditions.

The maximum term that is considered in estimating expected credit losses is the maximum term of the contracts (including extension options) to which the entity is exposed to credit risk, not a longer term, even if it is consistent with business practice. However, some financial instruments include both a loan and an unused loan commitment, and the entity's contractual rights to require repayment and cancellation of the unused loan commitment do not limit the entity's exposure to credit losses to the contractual notice period. It is only for such

financial instruments that an entity estimates expected credit losses for the period that the entity is exposed to credit risk, and expected credit losses cannot be reduced by credit risk management measures even if that period exceeds the maximum contractual term.

Impairment of financial assets under IFRS 9 is linked to expected credit losses. If, at the reporting date, the credit risk of a financial instrument has not increased significantly since initial recognition, an entity shall measure an allowance for losses on that financial instrument equal to the expected credit losses for 12 months. An entity shall recognise changes in expected credit losses over the life of the instrument once there has been a significant increase in credit risk.

No changes in accounting policies are necessary or have been made to modify, discontinue or derecognise financial assets. The entity's financial assets are mainly trade receivables and trade payables. An impairment model policy has been established for trade receivables.

Interest income for financial assets is calculated using the effective interest method. Interest income is presented separately for assets measured at amortised cost and for assets measured at fair value through other comprehensive income.

The measurement at amortised cost of financial assets is carried out as required by 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, except for:

(a) purchased or originated financial assets with credit impairment. For those financial assets, an entity shall apply the effective interest rate adjusted for credit losses to the amortised cost of the financial asset at initial recognition;

(b) financial assets that are not purchased or originally originated financial assets with credit impairment but subsequently become financial assets with credit impairment. For those financial assets, an entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

(c) The effective interest method is a defined term for the method used in calculating the amortised cost of a financial asset or financial liability and in allocating and recognising interest income or interest expense in profit or loss during the period. Effective interest rate is a defined term for the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. In calculating the effective interest rate, an entity estimates the expected cash flows by taking into account any contractual terms of the financial instrument (for example, prepayment options, extension options, call options and similar options) but does not take into account expected credit losses. The calculation includes all fees and other consideration paid or received by the counterparties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts. It is assumed that the cash flows and expected term of a group of such financial instruments can be estimated reliably. However, in the rare case that the cash flows or expected life of a financial instrument (or group of financial instruments) cannot be estimated reliably, an entity uses the contractual cash flows over the full contractual life of the financial instrument (or group of financial instruments).

(d) Impairment losses on financial assets are calculated using a model consistent with the standard's main requirements. These charges are presented in a separate line item in profit or loss. Recoveries of impairment losses are also presented in a separate line item in the statement.

(e) Trade receivables are grouped for impairment purposes. Groups are identified for historical analysis and calculation of specific impairment amounts according to payment terms, periods of delinquency, customer relationship in terms of relatedness and other additional factors.

(f) The entity does not have any transactions that are exposures to hedged item risks. Where such transactions are required, an accounting policy of not applying the hedge accounting requirements of IFRS 9 has been selected.

## **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 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 interim 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. As of 31.12.2021 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 30.09.2022 TCHAIKAPHARMA HIGH QUALITY MEDICINES INC did not set aside any provision for staff retirement benefits.

#### **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 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 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>Others</b>	<b>Total</b>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<b>At 1 January 2021</b>					
Book (revaluated) value	25 465	33 522	761	75	59 823
Accumulated depreciation	(1 283)	(24 006)	(531)	(33)	(25 853)
<b>Carrying amount</b>	<b>24 182</b>	<b>9 516</b>	<b>230</b>	<b>42</b>	<b>33 970</b>
<b>At 31 December 2021</b>					
Carrying amount at the beginning of the period	24 182	9 516	230	42	33 970
Newly acquired	1421	4 634	97	-	6 152
Written off on Carrying amount	(747)	(38)		-	(785)

Revaluation	245				245
Depreciation cost	(658)	(2 700)	(64)	(10)	(3 432)
Depreciation written off	744	38			782
<b>Carrying amount at the end of the period</b>	<b>25 187</b>	<b>11 450</b>	<b>263</b>	<b>32</b>	<b>36 932</b>

**At 31 December 2021**

Book (revaluated) value	26 384	38 118	858	75	65 435
Accumulated depreciation	(1 197)	(26 668)	(595)	(43)	(28 503)
<b>Carrying amount</b>	<b>25 187</b>	<b>11 450</b>	<b>263</b>	<b>32</b>	<b>36 932</b>

**At 1 January 2022**

Book (revaluated) value	26 384	38 118	858	75	65 435
Accumulated depreciation	(1 197)	(26 668)	(595)	(43)	(28 503)
<b>Carrying amount</b>	<b>25 187</b>	<b>11 450</b>	<b>263</b>	<b>32</b>	<b>36 932</b>

**At 30 September 2022**

Carrying amount at the beginning of the period	25 187	11 450	263	32	36 932
Newly acquired		851	5	-	856
Written off on Carrying amount					
Revaluation					
Depreciation cost	(521)	(1 763)	(45)	(8)	(2 337)
Depreciation written off					
<b>Carrying amount at the end of the period</b>	<b>24 666</b>	<b>10 537</b>	<b>223</b>	<b>24</b>	<b>34 980</b>

**At 30 September 2022**

<b>Book (revaluated) value</b>	26 384	38 970	863	75	66 292
<b>Accumulated depreciation</b>	(1 718)	(28 433)	(640)	(51)	(30 842)
<b>Carrying amount</b>	<b>24 666</b>	<b>10 537</b>	<b>223</b>	<b>24</b>	<b>35 450</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, as at 31.12.2021 are 1,139 thousand BGN and 800 thousand BGN as at 30.09.2022.

As at 30 September of the current year, the property, machines and equipment include, on Carrying amount, land for 13,359 thousand BGN and buildings for 11,307 thousand BGN and buildings with right of use 441 thousand. As at the end of the previous year the indicators are 13,359 thousand BGN and 11,828 thousand BGN respectively and buildings with right of use 589 thousand.

Assets with right of use under operating lease contracts are classified into the following groups with values as at 31.12.2021:

Asset group	Carrying amount <i>BGN'000</i>	Depreciatio <i>BGN'000</i>	Carrying amount <i>BGN'000</i>
Buildings	593	4	589
Machinery and equipment	38		38
<b>Total</b>	<b>631</b>	<b>4</b>	<b>627</b>

Assets with right of use under operating lease contracts are classified into the following groups with values as at 30.09.2022:

Asset group	Carrying amount <i>BGN'000</i>	Depreciatio <i>BGN'000</i>	Carrying amount <i>BGN'000</i>
Buildings	589	152	441
Machinery and equipment	38	9	29
<b>Total</b>	<b>627</b>	<b>161</b>	<b>470</b>

## 2. Intangible assets

	Rights on industrial property <i>BGN'000</i>	Software <i>BGN'000</i>	Total <i>BGN'000</i>
<b>At 1 January 2021</b>			
Book (revaluated) value	5 489	785	6 274
Accumulated depreciation	(3 829)	(773)	(4 602)
<b>Carrying amount</b>	<b>1 660</b>	<b>12</b>	<b>1 672</b>

### At 31 December 2021 г.

Carrying amount at the beginning of the period	1 660	12	1 672
Newly acquired	442	48	490
Written off on Carrying amount	(3 829)		(356)
Revaluation			
Depreciation cost	(413)	(32)	(445)
<b>Carrying amount at the end of the period</b>	<b>349</b>		<b>349</b>
	<b>1 682</b>	<b>28</b>	<b>1 710</b>

### At 31 December 2021

Book (revaluated) value	5 575	833	6 408
Accumulated depreciation	(3 893)	(805)	(4 698)
<b>Carrying amount</b>	<b>1 682</b>	<b>28</b>	<b>1 710</b>

### At 1 January 2022

Book (revaluated) value	5 575	833	6 408
Accumulated depreciation	(3 893)	(805)	(4 698)
<b>Carrying amount</b>	<b>1 682</b>	<b>28</b>	<b>1 710</b>

**At 30 September 2022**

Carrying amount at the beginning of the period	1 682	28	1 710
Newly acquired	306		306
Written off on Carrying amount			
Revaluation			
Depreciation cost	(332)	(21)	(353)
Depreciation written off			
<b>Carrying amount at the end of the period</b>	<b>1 656</b>	<b>7</b>	<b>1 663</b>

**At 30 September 2022**

Book (revaluated) value	5 881	833	6 715
Accumulated depreciation	(4 225)	(826)	(4 930)
<b>Carrying amount</b>	<b>1 656</b>	<b>7</b>	<b>1 663</b>

The value does not include amounts that represent acquisition costs for intangible fixed assets. The assets shown are 2,144 thousand as at 31.12.2020, 1,741 thousand as at 31.12.2021 and 1,694 thousand as at 30.09.2022. Expenses for acquisition of intangible fixed assets include expenses for acquisition of intellectual property rights which are expected to be used in future operations.

Intangible assets are valued with annual valuation - acquisition cost less accumulated amortization. In the opinion of the Company's management, the carrying amount of the assets is not less than their recoverable amount and therefore no impairment is required.

**3. Investments with minority interest**

The Company holds a minority interest in the following companies:

	<b>30.09.2022</b>	<b>31.12.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
SWYSSI S.R.L. Romania	19	19
<b>Total</b>	<b>19</b>	<b>19</b>

**Own shares purchased**

The Company does not own any treasury shares . Treasury shares are valued at annualised fair value based on a stock exchange quotation as assessed by an investment firm.

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

The long-term receivables' maturity is as follows:

<b>30.09.2022</b>	<b>31.12.2021</b>
-------------------	-------------------

	<b>BGN'000</b>	<b>BGN'000</b>
Up to one year	0	0
Between and three years	5 276	5 276
Over three years		
<b>Total</b>	<b>5 276</b>	<b>5 276</b>

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

	<b>30.09.2022</b>	<b>31.12.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Euro		
Bulgarian lev	5 276	5 276
<b>Total</b>	<b>5 276</b>	<b>5 276</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 5,276 thousand BGN, for which an agreement has been concluded until the end of 2023.

## **5. Financial assets and financial liabilities**

<i>Categories in BGN'000:</i>	<b>30 September 2022</b>	<b>31 December 2021</b>
<i>Financial assets, reported at fair value through profit or loss, showing separately:</i>		
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	-	-
<i>Financial liabilities reported at fair value through profit or loss, showing separately</i>		
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	-	-
<i>Financial assets evaluated at depreciated cost:</i>		
Receivables from counterparties	70,754	64,473
Impairment of receivables from counterparties	(62)	(62)
Receivables on loans granted	-	-
Impairment of receivables on loans granted	-	-
<b>Total</b>	<b>70,692</b>	<b>64,411</b>

***Financial liabilities evaluated at depreciated cost:***

Payables to suppliers	4,325	3,959
Loans from enterprises	2,192	2,707
Loans from banks	9,783	9,781
<b>Total</b>	<b>16,300</b>	<b>16,447</b>

***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

- -

**6. Inventories, trade and other receivables**

	<b>30.09.2022</b>	<b>31.12.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Trade receivables	62 856	57 028
Impairment for credit risk	(62)	(62)
Advances from suppliers	2 622	2 169
Loans granted	13	11
Other receivables	-	8
Taxes for recovery	-	40
Deferred expenses	92	66
<b>Total of trade and other receivables</b>	<b>65 521</b>	<b>59 260</b>

	<b>30.09.2022</b>	<b>31.12.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Materials	-	569
Production	9 305	10 480
Goods	786	162
Work in progress	82	131
<b>Total of inventories</b>	<b>10 173</b>	<b>11 342</b>

*Indicators on contracts with customers in BGN'000*

	<b>30.09.2022</b>	<b>31.12.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Receivables under contracts with customers at book value	68 132	62 304
Impairment of assets under contracts	(62)	(62)
<b>Carrying amount of receivables</b>	<b>68 070</b>	<b>62 246</b>

The age structure of trade receivables is shown for the non-mature (regular) trade receivables. There are no overdue trade receivables for which an age structure has been provided.

The Company applies IFRS 9's simplified approach to measuring expected credit losses on trade receivables by recognising expected losses over the life of the instrument for all trade receivables. The allowance for impairment of receivables is determined on this basis.

In determining the transaction price, the entity adjusts the promised amount of consideration for the time value of money effect if the timing of payment agreed (directly or indirectly) by the parties to the contract gives rise to a significant benefit to the customer or the entity from financing the transfer of the goods or services to the customer. In these circumstances, the contract contains a significant financing component. Interest income on financial assets is calculated using the effective interest method.

## **7. Cash and cash equivalents**

	<b>30.09.2022</b>	<b>31.12.2021</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	17	38
Blocked cash		
<b>Total</b>	<b>18</b>	<b>40</b>

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

	<b>30.09.2022</b>	<b>31.12.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Bulgarian lev	16	35
Foreign Currency	2	5
<b>Total</b>	<b>18</b>	<b>40</b>

## **8. Share capital**

	<b>Shares in thousand pcs.</b>	<b>Ordinary Shares BGN'000</b>
At 31 December 2020 г.	82,200	82,200
At 31 December 2021 г.	84,500	84,500
At 30 September 2022 г.	84,500	84,500

The registered ordinary shares are 84,500,000 pieces (in 2020 – 82,200,000 pcs, in 2021 – 84,500,000 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.

## **9. 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 funds</b>	<b>Total</b>
--	---	--	--------------

	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</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	246		80	326
Deferred taxes	(31)		(8)	(39)
<b>Other comprehensive income</b>	<b>215</b>		<b>72</b>	<b>287</b>
Profit distribution		63		63
<b>Balance at 31 December 2021</b>	<b>4,357</b>	<b>8,007</b>	<b>18</b>	<b>12,382</b>
<b>Balance at 1 January 2022</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				
<b>Balance at 30 September 2022</b>	<b>4,357</b>	<b>8,007</b>	<b>18</b>	<b>12,382</b>

No revaluation was performed in the third quarter of 2022. The other two properties have not been revalued because their carrying amounts are the same as their 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 11.03.2022.

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

Retained earnings generated from current 2020 results of operations and 2021.

## **10. Loans**

	<b>30.09.2022</b>	<b>31.12.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Non-current lease liabilities	1 390	1 717
Current finance lease liabilities	802	990
Short-term loan	9 783	9 781
<b>Total</b>	<b>11 975</b>	<b>12 488</b>

The conditions of short-term bank loans as at 30.09.2022 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:	20.12.2022
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:	7,823 thousand BGN, principal and BGN 4 thousand interest
Creditor bank:	UNITED BULGARIAN BANK AD
Contractual amount of the loan:	1,955 thousand BGN(1 000 thousand EUR)
Annual interest:	3-months EURIBOR+margin of 2 points
Maturity:	20.12.2022
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

The Company is a co-borrower on a loan to Commercial League - Global Pharmacy Centre AD from UNITED BULGARIAN BANK AD under agreements dated 12.04.2019 and 03.12.2019 with maturities on 30.07.2024 and 30.09.2028,

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.

Obligations under the leases include three building and machinery leases with terms ranging from 2024 to 2026. The applicable interest rates range from 2% to 2.2%.

## 11. 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>30.09.2022</b>	<b>31.12.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
At the beginning of the year	(1 139)	(1 139)
(Income)/expenses in the statement of comprehensive income	148	148
(Income)/expenses in the equity statement	39	39
<b>At the end of the period</b>	<b>(1 030)</b>	<b>(1 030)</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 2021</b>	<b>(423)</b>	<b>(761)</b>	<b>(1,184)</b>
Debit/(credit) in equity due to changes in temporary differences	(31)		(31)

Expenses/(income) in the statement of comprehensive income due to changes in temporary differences

135

135

**At 31 December 2021**

**(454)**

**(626)**

**(1,080)**

Debit/(credit) in equity due to changes in temporary differences

Expenses/(income) in the statement of comprehensive income due to changes in temporary differences

**At 30 September 2022**

**(454)**

**(626)**

**(1,080)**

Deferred tax assets	Leave and pension compensations	Income and impairment	Total
<b>At 1 January 2021</b>	<b>40</b>	<b>6</b>	<b>46</b>
(Cost)/revenue in the comprehensive income statement	4		4
<b>At 31 December 2021</b>	<b>44</b>	<b>6</b>	<b>50</b>
(Cost)/revenue in the comprehensive income statement			
<b>At 30 September 2022</b>	<b>44</b>	<b>6</b>	<b>50</b>

The total amount of deferred tax assets and liabilities is a liability of BGN 1,030 thousand (2021: a liability of BGN 1,030 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>30.09.2022</b>	<b>31.12.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables to personnel long-term retirement benefits	149	151
<b>Total</b>	<b>149</b>	<b>151</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.

#### **12. Trade and other payables**

	<b>30.09.2022</b>	<b>31.12.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Payables to suppliers	4 325	3 959

Payables to personnel	397	545
Taxes and social insurance contributions	756	309
Current corporate income tax	-	125
Other liabilities	32	30
<b>Total</b>	<b>5 510</b>	<b>4 968</b>

Trade and other liabilities are denominated in:

Bulgarian lev	2 692	1 391
Euro	1 864	3 139
US Dollars	954	438
	<b>5 510</b>	<b>4 968</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 2022.

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.

### 13. Revenue

	<b>30.09.2022</b>	<b>30.09.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Sales of finished products	30 456	32 282
Sales of goods	2 067	2 599
Sales of services	49	20
Changes in stock of finished products and work in progress	106	22
Other revenue	470	
<b>Total</b>	<b>33 148</b>	<b>34 923</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>30.09.2022</b>	<b>30.09.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
a) type of production and goods		
Medicinal products	32 523	34 881
Other production and goods	-	-
<b>Total revenue</b>	<b>32 523</b>	<b>34 881</b>

b) geographic region

Bulgaria	31 794	34 386
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Export to third countries	459	188
European Union	270	307
<b>Total revenue</b>	<b>32 523</b>	<b>34 881</b>

#### **14. Operating expenses**

	<b>30.09.2022</b>	<b>30.09.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Carrying amount of goods sold	(614)	(912)
Changes in stock of finished products and work in progress	276	135
Materials	(10 984)	(11 614)
Hired services	(10 942)	(11 181)
Salary expenses	(2 691)	(3 448)
Social insurance expenses	(688)	(611)
Depreciation / amortisation expenses (Appendix 5,6)	(2 691)	(2 960)
Other expenses	(320)	(360)
<b>Total</b>	<b>(29 695)</b>	<b>(31 086)</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.

A significant share of material costs is occupied by tablets (4,276 thousand BGN) and substances (3,970 thousand BGN).

A major share of the costs of external services is attributed to the marketing of goods –8,611 thousand BGN.

The cost of depreciation is mainly formed by the depreciation of machinery and equipment – 1,755 thousand BGN. The remuneration under labour relations is an essential part of the salary costs –3,265 thousand BGN.

#### **15. Finance income and costs**

##### **15.1.Finance income**

	<b>30.09.2022</b>	<b>30.09.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Interest income		
Revenue from exchange rate differences	23	14
Revenue from operations with financial instruments	-	-
<b>Total</b>	<b>23</b>	<b>14</b>

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.

**15.2.Finance costs**

	<b>30.09.2022</b>	<b>30.09.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Interest expenses	(189)	(206)
Foreign currency losses	(149)	(63)
Other finance costs	(16)	(20)
<b>Total</b>	<b>(354)</b>	<b>(289)</b>

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.

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

	<b>30.09.2022</b>	<b>30.09.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Current income tax expense	(270)	(180)
Deferred taxes		
<b>Total</b>	<b>(270)</b>	<b>(180)</b>

	<b>30.09.2022</b>	<b>30.09.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Profit before taxes	3 398	3 697
Profit before taxes 10% (2021:10%)	(270)	(180)
Correction due to unrecognised income and expense		
Correction of deferred tax assets and liabilities		
<b>Tax expense in the income statement</b>	<b>(270)</b>	<b>(180)</b>

	<b>30.09.2022</b>	<b>30.09.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Other comprehensive income from revaluation of FTAs		
Other comprehensive income from deferred tax on revaluation of FTAs		
Other comprehensive income from revaluation of defined benefit pension funds		
Other comprehensive income from deferred tax on revaluation of defined benefit pension funds		
<b>Total other comprehensive income</b>		

## **17. 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. Convertible securities were not issued as of 30 September of the current year and previous year. This explains the equality of both coefficients.

	<b>30.09.2022</b>	<b>30.09.2021</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Profit subject to distribution (in thousands of BGN)		
Weighted average number of shares in circulation (in thousand BGN)	3 128	3 697
Basic earnings per share (in BGN per share)	84 500	84 500
	0.04	0.04

## **18. Dividends per share**

Dividends to be paid are accounted for only after they have been voted at the annual general meeting of shareholders.

At the General Meeting held in April 2019, it was decided that 10,000 BGN from the profit for 2018 shall go for capital increase, 1,199 thousand BGN – for an increase in the reserves. Dividend was not distributed.

At the General Meeting held in June 2020, it was decided that BGN 2,300 of the profit for 2019 would go to increase the capital, BGN 268 thousand to increase the reserves. No dividend was distributed. The capital increase has not been entered in the Commercial Register and therefore it is not reflected in the annual accounts.

At the General Meeting held in June 2021, it was decided that BGN 2,300 of the profit for 2019 would go to capital increase, BGN 63 thousand of the profit for 2020 would go to increase reserves and BGN 541 thousand would go to retained earnings. No dividend was distributed.

At the General Meeting held in June 2022, it was decided that BGN 1,259 of the profit for 2021 should go to the Retained Earnings Fund, BGN 140 thousand to increase reserves. No dividend was distributed.

## **19. 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.

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

The tax authorities may at any time audit the accounts and records within five consecutive years from 1 January of the year following the year in which the tax liability was payable and impose additional tax liabilities or penalties. Management of the Company is not aware of any circumstances that could give rise to a material liability in this area.

## **20. Transactions with related parties**

As of September 30, 2022, the Company has one entity with the existence of control. This is the company SWYSSI S.R.L. registered in Republica Romania.

### *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.

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

Short-term income of the management in 2022 amounting to 76 thousand BGN were accrued according to the concluded contracts. Accrued expenses for auditing in 2022 amounted to 14 thousand BGN under the concluded contract.

## **22. 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 31 December of the current and 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.

**23. Capital risk management**

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

To maintain or amend 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, in managing liquidity and capital structure, the Company may increase share capital as well as borrow.

**24. Events after the reporting date**

Following the onset of the Cov 19 pandemic in early 2020, Tchaikapharma plc began stockpiling larger quantities of materials needed to manufacture its product list. The company has also created a strategy to act in an unprecedented situation, which aims to ensure the continuity of production and provide therapies for chronically ill patients with monthly prescriptions - more than 1.5 million people in the country.

With the start of Russia's aggression in Ukraine on 24.02.2022, many of our suppliers have notified us of upcoming increases in their supply of active substances, packaging and auxiliary materials. We currently have no delivery refusals and no significant delays in lead times for orders placed.

Tchaikapharma High Quality Medicines Inc. has the resources to meet consumer demand for medicines for 4 months ahead, which it hopes will compensate for the delay in supply and that these events will not materially affect the Company's drive to supply the market with vital medicines.

*Actions for climate protection*

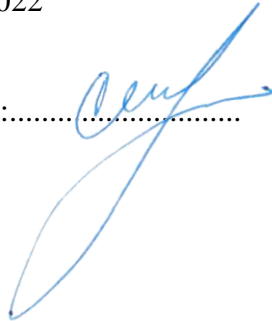
In line with the overall reduction targets for the plant, two steam generators providing hot water and steam switched from diesel to natural gas (methane) in February 2021.

In addition to being a more environmentally friendly source of energy, the changeover also resulted in an increase in the installed capacity of the equipment.

Another measure contributing to the reduction of emissions was the installation of additional inverters to the water cooling towers. The installation of these inverters allows a 50% reduction in electricity consumption at night and on non-working days. Gradually, the fluorescent lighting in all the rooms on the production site is being replaced by LED light sources with significantly lower power consumption, which in turn also results in a reduction in emissions.

Date of preparation: 26 October 2022

Prepared by:.....



Executive Director:.....

