

# MANAGEMENT REPORT

for Q1 of 2016



## SOPHARMA GROUP

30 May 2016

## General information

Sopharma Group (the Group) is a leading Bulgarian producer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and South-eastern Europe, offering a wide range of prescription medicines and OTC products.

The Group operates in the following areas:

- production of pharmaceutical products including medicines, primarily generics, herbal-based substances and food supplements, which is primarily done by Sopharma AD (the Company) and to a lesser extent by its production subsidiaries including Unipharm AD and Medika AD in Bulgaria, and OAO Vitamins in Ukraine;
- distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements and cosmetics, which is mainly performed by Sopharma Trading in Bulgaria, Briz SIA in the Baltic region, and Brititrade SOOO in Belarus;
- production and distribution of non-pharmaceutical products, primarily medical supplies such as syringes and other disposables used in medicine, which is mainly performed by Momina Krepost AD, and other complementary activities to the production of pharmaceutical products and distribution of pharmaceutical products.

Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko Shose Street No 16.

Sopharma AD was established in 1933 with a court registration of the company from 15.11.1991, decision No 1 / 1991 of Sofia City Court. Sopharma AD is a public company under the Public Offering of Securities Act (POSA).

The Company performs the production and marketing of medicinal substances and finished dosage forms; research and development, engineering and implementation activities in the field of phytochemistry, chemistry and pharmacy. Sopharma AD performs services as a production function and related ancillary and service activity.

## Controlled companies

Sopharma Group consists of Sopharma AD and 48 legal entities, including 39 subsidiaries, directly or indirectly controlled by the Company, 7 joint ventures, and 2 associated companies.

Company	Interest as at 31.03.2016 in %
Sopharma Trading AD, Sofia, Bulgaria	72.15
Biopharm Engineering AD, Sliven, Bulgaria	97.15
Pharmalogistica AD, Sofia, Bulgaria	80.80
Elektroncommerce EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	40.75
Momina Krepost AD, Veliko Tarnovo, Bulgaria*	93.28

Company	Interest as at 31.03.2016 in %
Unipharm AD, Sofia, Bulgaria	52.21
Phyto Palauzovo AD, Kazanluk, Bulgaria**	95.00
Sopharmasi EOOD, Sofia, Bulgaria**	72.15
Sopharmasi 2 EOOD, Sofia, Bulgaria**	72.15
Sopharmasi 3 EOOD, Sofia, Bulgaria**	72.15
Sopharmasi 4 EOOD, Sofia, Bulgaria**	72.15
Sopharmasi 5 EOOD, Sofia, Bulgaria**	72.15
Pharma Online EOOD, Sofia, Bulgaria**	72.15
Medika AD, Sofia, Bulgaria	97.77
Medika-Zdrave EOOD, Sofia, Bulgaria**	97.77
PAO Vitamini, Uman, Ukraine	99.56
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Ivanchich and Sinovi DOO., Belgrade, Serbia	51.00
Sopharma Warsaw Sp. z. o. o, Warsaw, Poland	100.00
Sopharma Trading d.o.o. Belgrade	72.15
BRIZ ZAO, Riga, Latvia	66.13
Brititrade SOOO, Minsk, Belarus**	51.91
Tabina SOOO, Minsk, Belarus **	58.86
Brizpharm SOOO, Minsk, Belarus**	46.26
Alean ODO, Minsk, Belarus**	64.81
Sopharma Ukraine, Kiev, Ukraine	100.00
Vivaton OOO, Grodno, Belarus***	50.00
OOO Med-dent, Bobruisk, Belarus***	50.00
OOO Pharmacist Plus, Minsk, Belarus**	42.98
Vestpharm ODO, Grodno, Belarus **	62.82
NPK Biotest OOO, Grodno, Belarus **	46.29
BelAgroMed ODO, Grodno, Belarus **	50.26
B000 SpetzApharmacia, Bobruisk, Belarus***	50.00
ZAO TBS Pharma, Vilnius, Lithuania**	33.73
OOO Bellerofon, Minsk, Belarus***	50.00
TOO Sopharma Kazakhstan, Almaty, Kazakhstan	100.00
ZAO Interpharm, Vitebsk, Belarus***	50.00
OOO Ivem and K, Minsk, Belarus***	50.00
OOO Ariens, Polotzk, Belarus***	50.00
OOO Danapharm, Brest, Belarus**	48.14
OOO Galenapharm, Pinsk, Belarus**	48.14
ODO Medjel, Minsk, Belarus**	48.14
ODO Alenpharm-Plus, Belarus**	48.14
OOO Pharmatea, Minsk, Belarus***	22.39

Company	Interest as at 31.03.2016 in %
OOO Mobil Line, Borisov, Belarus**	48.14

\*effective interest in percent

\*\*indirect interest

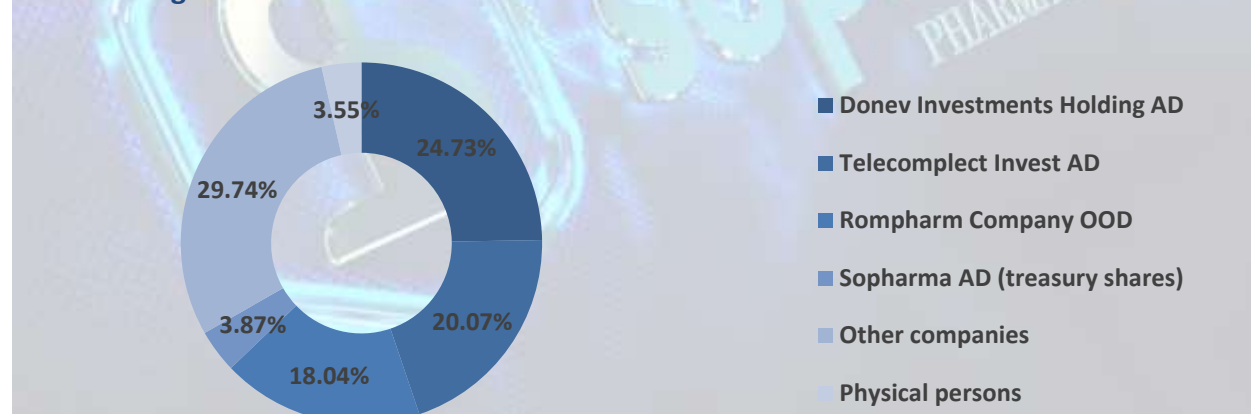
\*\*\*joint venture

## Management Board

Sopharma AD has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD - Chairman and members Vessela Stoeva, Alexander Tchaushev, Andrey Breshkov and Ognian Palaveev. The Company is represented and managed by the Executive Director Ognian Donev, PhD.

Members of the key management personnel of the Group include the disclosed in Note №1 Executive Director and members of the Board of Directors of the Company. Additionally, it includes the executive directors, the board of directors and the managers of subsidiaries of the Group.

## Shareholding structure as at 31 March 2016



## Industrial activity

Sopharma AD and its production subsidiaries have 15 pharmaceutical plants in Bulgaria, compliant with EU requirements - GMP, one plant in Ukraine, certified by the local authorities with a certificate recognized in all CIS Member States, and two in Serbia. With the exception of the plant in Ukraine, all production facilities have undergone procedures for certification to the European GMP.

The production activities of the Group are carried out and developed in the following areas:

- ✚ Production of pharmaceutical products;

- ✦ Substances and preparations based on vegetable raw materials (phytochemical production);
- ✦ Veterinary vaccines;
- ✦ Infusion solutions;
- ✦ Concentrates for hemodialysis;
- ✦ Medical disposable products for human and veterinary medicine;
- ✦ Injection molded products for the industry, agriculture and households.

The Company has a portfolio of more than 210 products: mainly generics and 15 original products, of which 12 products are phyto-based. The original products of the Company (and in particular Carsil and Tempalgin) are key contributors to its revenue from export markets, while for the domestic sales the most important products are generics, of which the leading drug is Analgin.

The product portfolio of Sopharma AD is focused on the following therapeutic areas: cardiology, gastroenterology, pain management, cough and cold, immunology and dermatology, respiratory and asthma, neurology and psychiatry, urology and gynecology.

The most important pharmaceutical products in terms of their contribution to revenue are:

- ✦ Carsil - original plant-based product , used to treat gastroenterological disorders (liver disease);
- ✦ Tempalgin – original analgesic (painkiller);
- ✦ Tabex – original plant-based drug used for smoking secession;
- ✦ Tribestan – original plant-based drug used for stimulation of the male reproductive system;
- ✦ Broncholytin - original plant-based product used to suppress cough;
- ✦ Analgin – generic analgesic (painkiller);
- ✦ Nivalin – original plant-based product used for diseases of the peripheral nervous system;
- ✦ Methylprednisolone - generic medicine for cases of severe allergies and certain life-threatening conditions;

### **Distribution**

Sopharma Trading is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 22% (according to IMS). Sopharma Trading is the only distributor on the Bulgarian market of particular pharmaceutical products for several leading international pharmaceutical and other companies the field of healthcare such as

Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk.

The company offers more than 10 000 products (particularly pharmaceutical products, medical equipment and devices, accessories, cosmetics, vitamins and food supplements) in its portfolio, including the brands of Sopharma, and holds exclusive rights for Bulgaria over brands of strategic partners such as Aboca, Colief, Jamieson, Planter's, Premax, Skincode, SVR Laboratories, US Pharmacia and Wyeth, specialized services (such as software solutions for pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and over 3 000 clients.

### **Intellectual property**

Although oriented towards generic pharmaceuticals, Sopharma AD is known for many years for its traditional production of several unique products based on plant extracts obtained by self-developed extraction technologies. In addition to trademark, these products are protected also by patents or corporate know-how.

For the purpose of market distinguishing of the manufactured generic products, Sopharma AD relies on brand names, all of which are registered trademarks of the Company.

For all the years of its existence, Sopharma AD has been generating and protecting its intellectual property. As a result, the Company owns a large number of intellectual property, most of which - registered rights (trademarks, patents, designs) and unregistered items - mainly technology.

These assets are the result of Company's policy for product and technological improvement, and innovation in particular.

### **Research and development**

Sopharma AD focuses its R & D mainly on generics. R & D projects are concentrated on finding and developing new formulas and composition or physical properties (such as formulation or tablets) of products in order to adapt them to current market needs. A strategic goal of Sopharma AD in the future is to achieve a stable result in the development of eight to ten new products per year.

The Company mainly submits applications for marketing authorizations of new products, including new forms of products in Bulgarian and / or export markets, and for existing products into new markets.

### **Employees**

As at 31 March 2016 the average number of employees in the Sopharma Group is 4,381 (4,258 in 2015). The average number of employees in Sopharma AD as at 31 March 2016 is 1 881 (1 889 in 2015), and in Sopharma Trading AD it is 732 (730 in 2015).

Training programs offered to employees of the company aim at increasing their competences. The training policy is specifically aimed at providing high professional knowledge and improving awareness related to health and safety issues.

Employees are entitled to higher remuneration, required by applicable law for overtime, night shifts and working weekends and during holidays. Employees who work in specific, harmful or dangerous conditions receive personal protective equipment and allowances.

### ***Significant events in the first quarter of 2016***

On 15 January 2016 Sopharma AD made a tender offering to acquire all shares of the remaining shareholders in Medica AD until 12 February 2016. The period of the offering started on 18 January, after the offering was published in two daily newspapers. The Company currently owns 6 717 544 shares, representing 66.72% of the capital and voting rights in the General Meeting of Shareholders of Medica AD. Sopharma AD offers a price of 3.50 BGN per share to the shareholders of Medica AD, which is the highest price, paid by the offeror, their related parties or by parties under art. 149, par. 2 of POSA in the last six months. The investment firm that serves the tender offer is ELANA Trading. Shareholders of Medica AD may submit a written statement of acceptance of the tender offer to any investment intermediary until 15 February. The offeror shall pay the price of the shares within 7 working days after the date of acceptance of the tender offer.

On 21 January 2016 Sopharma AD submitted to the Financial Supervision Commission an agreement for termination by mutual agreement of the contract for transformation through merger between Sopharma AD and Momina Krepost AD. The decision to end the procedure was taken in the interest of both companies in order to safeguard their good market positions.

On 16 February 2015 the Group through its subsidiary SOOO Brititrade has increased its participation in the capital of the associated company OOO Mobil Line to 80%, as a result of which the latter has acquired the status of a subsidiary.

On 18 February 2016 the Company acquired 3,099,701 shares of Medika AD, as a result of which the share of Sopharma in the capital of Medika AD increased by 30.78% to 97.57%.

On 19 February 2016 Sopharma AD *informs* of the results of conducted tender offer:

**Company, subject to the offer:** Medica AD, with management address in Sofia 1504, Oborishte district, 82 Knyaz Alexander Dondukov Blvd;

**Tender offeror:** Sopharma AD, with address: Sofia, Nadezhda district, 16 Iliensko shose Str..

**Authorized investment intermediary:** Elana Trading AD, with management address: Sofia, Sredetz district, 4 Kuzman Shapkarov Str. and FSC-issued license for investment intermediary operation based on Decision № 171-IP/08.03.2006.

Offered price per share: **3.50 BGN** (three leva and fifty stotinki). Number of shareholders, who accepted the tender offer: **68** shareholders with a total amount of shares: **3 099 701** representing **30.79%** of the capital of Medika AD. As a result of the conducted tender offer and after completion of the transactions with the shareholders who have accepted it, **Sopharma AD will hold directly 97.50%** of the shares with voting rights of Medika AD. **Sopharma AD has the right** within three months from the closing date of the tender offer, after receiving an approval by the FSC to make an offer to buy the shares of the remaining shareholders of Medika AD on the basis of art. 157a of POSA. Furthermore, according to art 157b of POSA **every shareholder has the right** to make a request to Sopharma to sell their shares with voting rights until 16 May 2016. The request must be submitted in writing and must contain information about the shareholder and their shares. The request must be submitted to the authorized investment intermediary Elana Trading AD. The price for one share of Medika AD under the offer under art. 157a and upon executing of the rights of the shareholders under art. 157b in accordance with the regulations of art. 157a, par. 3 is equal to the share price of the conducted tender offer of **3.50 BGN** per share. The results of the tender offer have been published by the tender offeror in the daily newspapers Capital Daily and Sega on 18 February 2016.

On 21 April 2016 the Board of Directors of Sopharma decided to convene a General Meeting of Shareholders to be held on 17 June 2016 at 11:00 AM in Sofia, 5 Lachezar Stanchev Str., Sopharma Business Towers, Tower B, floor 3.

With resolution №60638 /23.03.2016 of the Ministry of Justice of Romania Medika Balkans EOOD, a subsidiary of Medika AD, has been removed from the commercial register in Romania as of 24 March 2016.

The management board of Medika AD convenes a General Meeting of Shareholders on 8 June 2016 at 11:00 am in Sofia, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 9.

The board of Directors of Momina Krepost AD convenes a regular General Meeting of Shareholders, which shall take place on 15 June 2016 at 11:00 at the headquarters of the company in Veliko Tarnovo, 3 Magistralna Str..

The management board of Unipharm AD convenes an Annual General Meeting of Shareholders on 16 June 2016 at 11:00, which shall take place at the headquarters of the company in Sofia, 3 Traiko Stanoev Str..

The board of directors of Sopharma Buildings AD convenes an Annual General Meeting of Shareholders on 16 June 2016 at 15:00 in Sofia, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, level 3.

The Board of Directors of Sopharma authorized the Executive Director of the Company to negotiate the sale of the shareholding of Sopharma AD in the capital of Ivanchich and Sons,



Serbia, guided by the legal regulations and the interest of the company. The deal for the sale was concluded on 9 May 2016 in Belgrade, Serbia. The parameters of the transaction are subject to confidentiality clauses in the interest of all parties. Sopharma AD will continue to be present on the market in the Republic of Serbia through its subsidiary Sopharma Trading AD.

On 16 May 2016, pursuant to art. 100t., par. 3 of POSA expired the three-month period under art. 157b of the POSA after the completion of the tender offer, in which each shareholder who did not participate in the tender offer may request from Sopharma to redeem their shares with voting rights. The price per share of Medica AD on the offer under art. 157a and through the exercising of the rights of the shareholders under art. 157b under the provisions of art. 157a par. 3 was equal to the price in a tender offer of 3.50 BGN per share.

As a result of a tender offer and after the completion of transactions with the shareholders in the period under art. 157b, Sopharma has bought a total of 3,135,006 shares and directly owns 97.94% of shares with voting rights of Medica AD.

### New developments and products

✚ New products with marketing authorizations for the period January – March 2016

Marketing authorizations for 6 markets for the new product Desloratidin film tablets have been received. The product Videral drops has been implemented.

✚ Expected in 2016

Three to five new products are expected to be introduced by the end of 2016.

✚ Developments

Over ten production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 20 new products for the Company.

### Key financial indicators

Indicators	1-3/2016 BGN '000	1-3/2015 BGN '000	change %
Sales revenue	215 812	221 611	-2,6%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	22 237	24 241	-8,3%
Operating profit	15 437	17 635	-12,5%
Net profit	10 364	10 214	1,5%
Capital expenditures	5 362	3 760	42,6%

	31.03.2016	31.12.2015	
	BGN '000	BGN '000	
Non-current assets	388 604	401 484	-3,2%
Current assets	443 647	434 143	2,2%
Equity	456 196	457 640	-0,3%
Non-current liabilities	57 619	62 492	-7,8%
Current liabilities	318 436	315 495	0,9%

Ratios	1-3/2016	1-3/2015
EBITDA / Sales revenue	10,3%	10,9%
Operating profit/ Sales revenue	7,2%	8,0%
Net profit/ Sales revenue	4,8%	4,6%
Borrowed capital/ Equity	0,82	0,83
Net debt/ EBITDA, annualized	3,5x	4,1x

## Review of risk factors

### Risks relating to Group's business and the industry the Group operates in

- ✚ The Group faces significant competition.
- ✚ Part of Sopharma Trading's revenue in Bulgaria is generated by sales to hospitals, which involve a higher degree of business risk.
- ✚ Reputation of the Group may be adversely affected by untrue or misleading information, including such available on website [www.sopharma.com](http://www.sopharma.com), which has not been authorized by the Company.
- ✚ The Group is dependent on regulatory approvals.
- ✚ Government regulations affecting the Group's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- ✚ Part of the Group's revenue, in particular in Bulgaria, depends on the inclusion of the Company's medicines on reimbursement lists.
- ✚ The production facilities and processes of the Company and the Group companies are subject to strict requirements and regulatory approvals that may delay or disrupt the Group's operations.
- ✚ Company's ability to pay dividends depends on a number of factors and there can be no assurance that the Company will be able to pay dividends in accordance with its dividend policy or in any given year.

- ✦ The Group is subject to operational risk which is inherent to its business activities.
- ✦ The Group is subject to numerous environmental and health and safety laws and regulations and is exposed to potential environmental liabilities.
- ✦ Litigation or other out-of-court proceedings or actions may adversely affect the Group's business, financial position and performance.

### Risks relating to Bulgaria and other markets in which the Group operates

- ✦ The macroeconomic environment, particularly in Bulgaria, Russia, Belarus and Ukraine, has a significant effect on the Group's operations and position.
- ✦ The political environment in Bulgaria has a significant effect on the Group's operations and financial position.
- ✦ The political environment in the Group's export markets, especially in Russia, Belarus and Ukraine, has a significant effect on the Group's operations and financial position.
- ✦ Risks related to the Bulgarian legal system.
- ✦ The development in the legislation of some of the countries in which the Company sells its products, in particular Russia, Belarus and Ukraine, could adversely affect the Group's operations in these countries.
- ✦ Risks relating to exchange rates and the Bulgarian Currency Board.
- ✦ Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change.

### Currency risk

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

Through its subsidiaries in Belarus and Ukraine the Group operates on these markets and has substantial expositions in Belarusian Ruble and Ukrainian Hryvnia. The currency risk is related to the adverse floating of the exchange rate of these currencies against BGN in future business transactions as to the recognized assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The remaining companies abroad conduct sales mainly to the local markets, which leads to currency risk to their currencies as well – Serbian Dinar, Polish Zloty, and Latvian Lat.

There is a currency risk control system implemented throughout the whole Group for the planning of imports, the sale in foreign currencies, as well as procedures for daily monitoring of USD exchange rate movements and control over pending payments. The exposure of the

subsidiaries in Bulgaria to currency risk is insignificant, because almost all sales are conducted on the local market in BGN. The import of goods is entirely performed in EUR. The loans in foreign currencies are denominated mainly in EUR.

### **Credit risk**

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

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

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

### **Liquidity risk**

Liquidity risk is an adverse situation where the Group encounters difficulty in unconditionally meeting its obligations within their maturity, including in the case of hyperinflation and recalculation of trade estimates for companies operating in such environment.

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is the main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding.

### **Risk of interest-bearing cash flows**

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

- (a) optimization of sources and structure of credit resources for achieving relatively lower price of attracted funds; and
- (b) combined structure of interest rates on loans comprising two components – a fixed one and a variable one, the correlation between which, as well as their absolute value, can be achieved and maintained in a proportion favorable for the

Group companies. The fixed component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavorable change of cash flows is reduced to a minimum.

The management of the Group companies together with that of the parent company currently monitor and analyze the exposure of the respective company to the changes in interest levels. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or %age, on the financial result and equity is calculated. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

### **Financial results in the first quarter of 2016**

#### **Sales revenue**

Revenue from sales of the Group decreased by BGN 5.8 million or 3%, reaching BGN 215,8 million in the first quarter of 2016 compared to BGN 221,6 million in the first quarter of 2015. Sales of goods increased by BGN 2,3 million or 1%, reaching BGN 157,7 million in the first quarter of 2016 compared to BGN 155,4 million in the first quarter of 2015. Sales of finished products decreased by 8,1 million BGN, or 12%, to BGN 58,1 million in the first quarter of 2016 compared to BGN 66,2 million in the first quarter of 2015.

**Distribution of sales revenues by geographic region**



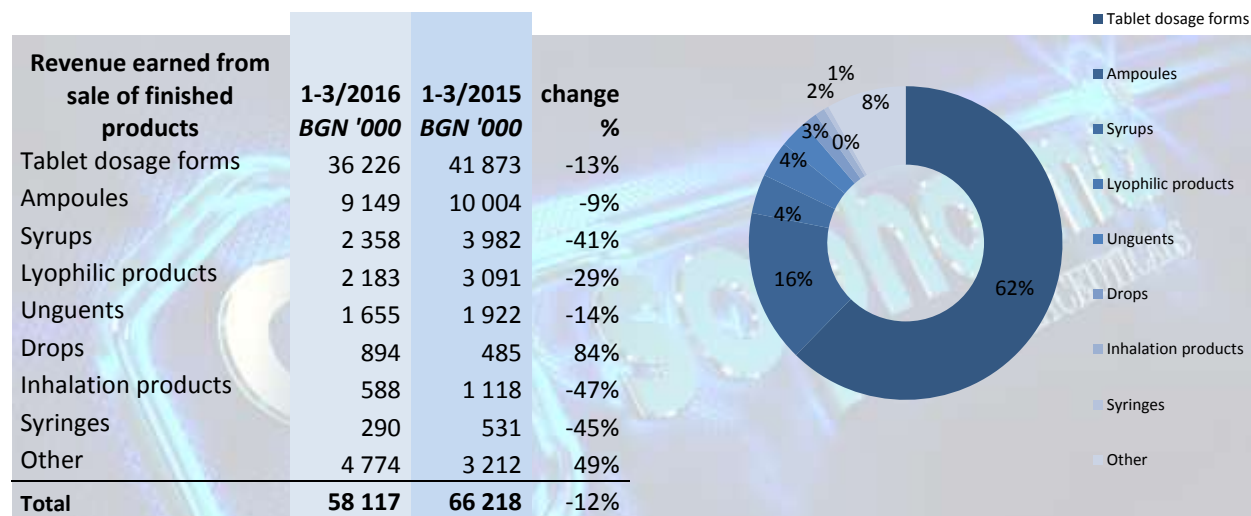
The contribution of sales in Bulgaria to the consolidated sales revenue in the first quarter of 2016 amounted to 73%, increasing by 1% compared to the same period of 2015. Sopharma has a 4% share of the Bulgarian pharmaceutical market in terms of value and a 14% share in terms of sold quantity (units). The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0.3% in units), GlaxoSmithKline – 6% (3% in units), Actavis – 4.8% (12% in units), Sanofi-Aventis – 4.3% (3% in units), Astra Zeneca – 3.3% (0.9% in units), Bayer – 2% (1.9% in units).

The Group's income from sales in Europe amounts to 25% of the total consolidated sales in the first quarter of 2016 and marks a decrease of 12% compared to the first quarter of 2015.

## Revenue by group of products

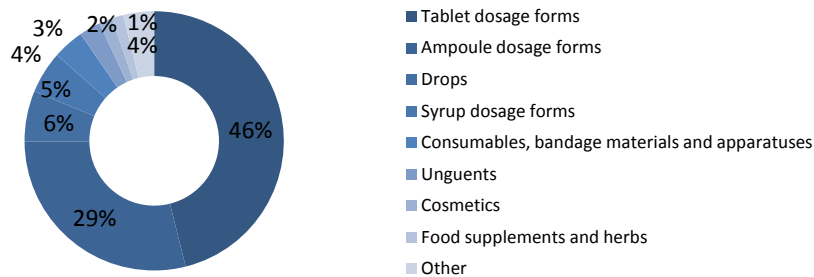
Reported revenue of the Group includes the following items: revenue from the sale of finished products and revenue from the sale of goods.

Revenues from the sale of finished products include revenue from the sale of products manufactured by the Company and the Group companies.



Revenue from the sale of goods include revenue from the sale of goods to third parties, which are distributed primarily by Sopharma Trading AD and Briz SIA.

Revenue earned from sale of goods	2015 BGN '000	2014 BGN '000	Change %
Tablet dosage forms	72 678	73 415	-1%
Ampoule dosage forms	45 414	42 151	8%
Syrup dosage forms	10 008	8 584	17%
Drops	8 310	8 819	-6%
Consumables, bandage materials and apparatuses	6 152	6 880	-11%
Unguents	4 200	4 284	-2%
Food supplements and herbs	2 596	828	214%
Cosmetics	2 281	2 089	9%
Other	6 056	8 343	-27%
<b>Total</b>	<b>157 695</b>	<b>155 393</b>	<b>1%</b>



## Other operating income

Other revenues from operations	1-3/2016	1-3/2015	change	relative share
	BGN '000	BGN '000	%	2016
Services rendered	881	1 213	-27%	-255%
Financing from public institutions	282	244	16%	-82%
Rents	216	148	46%	-63%
Services for social activities and events	148	137	8%	-43%
Income from forfeits	0	204	-100%	0%
Net profits(losses) from exchange rate differences under trade receivables and payables and current accounts	(2 593)	(225)	1052%	752%
Other	721	493	46%	-209%
<b>Total other operating income</b>	<b>(345)</b>	<b>2 214</b>	<b>116%</b>	<b>100%</b>

*Other operating income* decreased by BGN 2,5 million, reaching BGN (0,3) million in the first quarter of 2016, compared to BGN (2,2) million in the first quarter of 2015 due to an increase in net losses from exchange rate differences under trade receivables and payables and current accounts by BGN 2,4 million and a decrease in services rendered by BGN 0,3 million. There is an increase in other revenues by BGN 0,2 million.

Operating expenses

Operating expenses	1-3/2016	1-3/2015	change	relative share of expenses in 2016
	BGN '000	BGN '000	%	%
Changes in inventories of finished goods and work in progress	(6 694)	(3 070)	118%	-3%
Materials	23 342	20 871	12%	12%
Hired services	12 443	15 725	-21%	6%
Personnel	20 915	20 041	4%	10%
Depreciation and amortization	6 800	6 606	3%	3%
Carrying amount of goods sold	141 564	144 489	-2%	71%
Other operating expenses	1 660	1 528	9%	1%
<b>Total</b>	<b>200 030</b>	<b>206 190</b>	<b>-3%</b>	<b>100%</b>

The operating expenses in the first quarter of 2016 decreased by BGN 6,2 million or 3% from BGN 206,2 million in the first quarter of 2015 to BGN 200 million in the first quarter of 2016. The change is due to decline in sales and therefore the carrying amount of goods sold, the decrease in hired services expenses, and changes in inventories of finished goods and work in progress.

Expenses on materials	1-3/2016	1-3/2015	change	relative share of expenses in 2016
	BGN '000	BGN '000	%	%
Basic materials	17 471	14 865	18%	75%
Electricity	1 458	1 298	12%	6%
Spare parts, laboratory and technical materials	1 170	1 191	-2%	5%
Heating	1 139	1 330	-14%	5%
Auxiliary materials	623	466	34%	3%
Fuels and lubricating materials	602	918	-34%	3%
Other	879	803	9%	4%
<b>Total</b>	<b>23 342</b>	<b>20 871</b>	<b>12%</b>	<b>100%</b>

Cost of materials (11% share) increased by BGN 2,5 million or 12% to BGN 23,3 million in the first quarter of 2016 compared to BGN 20,9 million in the first quarter of 2015. The cost of basic materials increased by BGN 2,6 million, or 18%, with the most significant impact coming from the cost of substances, herbs, and other materials, which increased respectively by BGN 2,4 million, BGN 0,5 million and BGN 0,8 million. There is a decrease in the cost of heating, spare parts, laboratory and technical materials and fuels and lubricating materials.



	1-3/2016	1-3/2015	change	relative share of expenses in 2016
	BGN '000	BGN '000	%	%
<b>Hired services expense</b>				
Advertising	3 006	5 503	-45%	24%
Rents	1 829	1 757	4%	15%
Forwarding and transportation services	921	979	-6%	7%
Consulting services	779	1 112	-30%	6%
Buildings and equipment maintenance	709	721	-2%	6%
Subscription fees	526	491	7%	4%
Local taxes and fees	488	667	-27%	4%
Security	407	241	69%	3%
Insurance	319	329	-3%	3%
Services under civil contracts	241	296	-19%	2%
Bank and regulatory charges	431	398	8%	3%
Communications	230	230	0%	2%
Car repairs	211	205	3%	2%
Medical services	206	181	14%	2%
Production of medicines	202	549	-63%	2%
Services related to the registration of medicines	119	168	-29%	1%
Tax on expenses	106	142	-25%	1%
Other	1 713	1 756	-2%	14%
<b>Total</b>	<b>12 443</b>	<b>15 725</b>	<b>-21%</b>	<b>100%</b>

*Hired services* have a 6% share of operating expenses and decreased by BGN 3,3 million or 21%, reaching BGN 12,4 million in the first quarter of 2016 compared to BGN 15,7 million in the first quarter of 2015. A decrease comes from production of medicines by BGN 0,3 million, consulting services by BGN 0,3 million, and advertising expenses by BGN 2,5 million. There is an increase in advertising and marketing services by BGN 1,4 million, as well as in logistic services, local taxes and fees, and bank and regulatory charges.

	1-3/2016	1-3/2015	change	relative share of expenses in 2016
	BGN '000	BGN '000	%	%
<b>Personnel costs</b>				
Current wages and salaries	16 304	15 287	7%	78%
Social security/health insurance contributions	2 980	3 130	-5%	14%
Social benefits and payments	774	821	-6%	4%
Other	857	803	7%	4%
<b>Total</b>	<b>20 915</b>	<b>20 041</b>	<b>4.4%</b>	<b>100%</b>

*Personnel costs* (with a 10% share) grew by BGN 0,9 million, or 4%, reaching BGN 20,9 million in the first quarter of 2016 compared to BGN 20 million in the first quarter of 2015. The general growth of these costs is due to both the increase of salaries of the personnel, as well as to the growth of the number of employees in the Group as a result of the consolidation of new companies.

<b>Other operating expenses</b>	<b>1-3/2016</b>	<b>1-3/2015</b>	<b>change</b>	<b>relative share of expenses in 2016</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
Entertainment event allowances	410	535	-23%	25%
Business trips	292	278	5%	18%
Scrapping and loss of goods	267	208	28%	16%
Trainings	178	195	-9%	11%
Donations	152	181	-16%	9%
Scrapping of long-term assets and unfinished products	130	0		8%
Unrecognized tax credit for VAT	47	76	-38%	3%
Payments for taxes and interest on taxes	12	212	-94%	1%
Scrapping of long-term assets	6	123	-95%	0%
Charged/(reversed) impairment of current assets, net (Note 9)	(62)	(544)	-89%	-4%
Other	228	264	-14%	14%
<b>Total</b>	<b>1 660</b>	<b>1 528</b>	<b>9%</b>	<b>100%</b>

*Other operating expenses* (with a share of 1%) increased by BGN 0,2 million or 9% from BGN 1,5 million in the first quarter of 2015 to BGN 1,6 million in the first quarter of 2016. There is an increase in current assets by BGN 0,5 million. There is a decrease in entertainment event allowances, payments for taxes and interest on taxes, scrapping of long-term assets, other expenses and other.

*Depreciation and amortization expense* (with a share of 3%) increased by BGN 0,2 million or 3% from BGN 6,6 million in the first quarter of 2015 to BGN 6,8 million in the first quarter of 2016.

### Finance income and costs

	<b>1-3/2016</b>	<b>1-3/2015</b>	<b>change</b>	<b>relative share of income in 2016</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>Finance income</b>				
Interest income on overdue commercial receivables	707	748	-5%	54%
Interest income on granted loans	518	680	-24%	40%
Net gain from operations with investments in securities	43	25	72%	3%
Interest on receivables under special contracts	22	37	-41%	2%
Interest income on bank deposits	12	25	-52%	1%
<b>Total</b>	<b>1 302</b>	<b>1 515</b>	<b>-14%</b>	<b>100%</b>

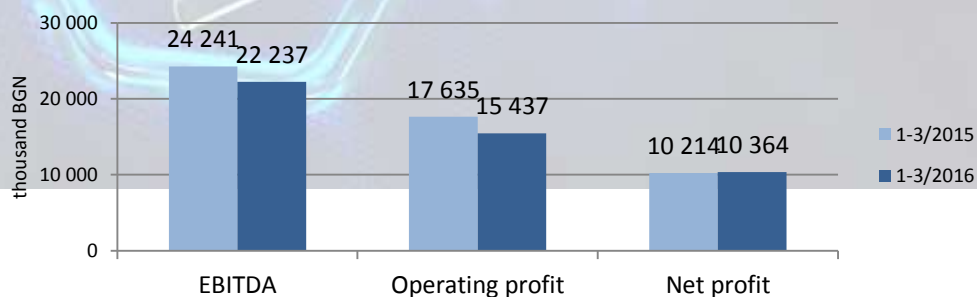
			change	relative share of expenses in 2016
<b>Finance costs</b>				
Interest expenses on loans	2 122	2 018	5%	32%
Net loss on exchange rate differences on loans in foreign currencies	1 530	4 060	-62%	64%
Bank fees on loans and guarantees	192	200	-4%	3%
Interest expense on finance lease	97	106	-8%	2%
Net loss from operations with investments in securities	-	2	-100%	0%
<b>Total</b>	<b>3 941</b>	<b>6 386</b>	<b>-38%</b>	<b>100%</b>

Finance income decreased by BGN 0,2 million to BGN 1,3 million in the first quarter of 2016 compared to BGN 1,5 million in the first quarter of 2015 mainly due to a decrease in income from interest on loans granted by BGN 0,2 million.

Finance costs decreased by BGN 2,4 million from BGN 6,5 million in the first quarter of 2015 to BGN 3,9 million in the first quarter of 2016. The highest decrease is in net loss on exchange rate differences on loans in foreign currencies with BGN 2,5 million.

Net financial gain (cost) decreased by BGN 2,2 million reaching BGN (2,6) million as at 31 March 2016 compared to BGN (4,8) million as at 31 March 2015.

## Financial performance



Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by BGN 2,0 million or 8%, amounting to BGN 22,2 million as at 31 March 2016, compared to BGN 24,2 million as at 31 March 2016.

Operating profit decreased by BGN 2,2 million or 12%, to BGN 15,4 million as at 31 March 2016, compared to BGN 17,6 million as at 31 March 2016.

Net profit increased by BGN 0,2 million, or 1%, reaching BGN 10,4 million as at 31 March 2016, compared to BGN 10,2 million as at 31 March 2015.

**Assets**

	31.03.2016	31.12.2015	change	relative share 2016
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	312 217	315 005	-1%	80%
Intangible assets	24 286	24 127	1%	6%
Goodwill	11 067	11 375	-3%	3%
Investment property	10 562	10 562	0%	3%
Investments in associated companies and joint ventures	4 090	5 224	-22%	1%
Available-for-sale investments	7 369	7 424	-1%	2%
Long-term receivables from related parties	11 019	20 505	-46%	3%
Other long-term receivables	3 439	3 546	-3%	1%
Deferred taxes	4 555	3 716	23%	1%
	<b>388 604</b>	<b>401 484</b>	-3%	47%
<b>Current assets</b>				
Inventories	166 719	163 129	2%	38%
Trade receivables	210 824	205 589	3%	48%
Receivables from related parties	25 953	27 434	-5%	6%
Other receivables and prepayments	14 983	14 505	3%	3%
Cash and cash equivalents	25 168	23 486	7%	6%
	<b>443 647</b>	<b>434 143</b>	2.2%	53%
<b>TOTAL ASSETS</b>	<b>832 251</b>	<b>835 627</b>	0%	100%

*Total assets* decreased by BGN 3,4 million, or 0,4%, reaching BGN 832,2 million as at 31 March 2016, compared to BGN 835,6 million as at 31 December 2015 as a result of the increase in current assets.

*Non-current assets* decreased by BGN 12,9 million, or 3%, mainly due to the decrease in property, plant and equipment by BGN 2,8 million, investments in associated companies and joint ventures by BGN 1,1 million, and long-term receivables from related parties by BGN 9,5 million. Property, plant and equipment decreased by BGN 2,8 million mainly in land and buildings by BGN 1,6 million, transit assets by BGN 1 million, and other assets by BGN 0,6 million.

Intangible assets increased by BGN 0,2, in the portion of transit assets – by BGN 0,8 million.

Investments in associated companies and joint ventures decreased by BGN 1,1 million compared to 31 December 2015. The available-for-sale investments decreased by BGN 0,05 million.

Long-term receivables from related parties decreased by BGN 9,5 million, or 46%, to BGN 11 million.

Other long-term receivables decreased by BGN 0,1 million.

The increase in other long-term receivables comes from receivables from transactions with securities in connection with the sale of shares of the Extab Corporation USA.

*Current assets* increased by BGN 9,5 million or 2%, reaching BGN 443,6 million as at 31 March 2016 compared to BGN 434,1 million as at 31 December 2015.

Inventories comprise 38% of current assets and increased by BGN 3,6 million compared to 31 December 2015 in the portion of finished products by BGN 4,1 million and semi-finished products by BGN 1,5 million. Goods decreased by BGN 1,6 million and unfinished products inventories by BGN 1,5 million.

Commercial receivables, which have a relative share of 47% of current assets, increased by BGN 5,2 million, in the portion of advance payments, net decreased by BGN 5,7 million. Receivables from clients, net decreased by BGN 0,4 million.

Receivables from related parties have a relative share of 6% in current assets and decreased by BGN 1,5 million mainly in the sale of products and materials by BGN 1,2 million, while provided commercial loans decreased BGN 0,3 million.

Other receivables and prepayments comprise 3% of current assets and increased by BGN 0,5 million, as a result of a decrease in refundable taxes by BGN 0,7 million, loans granted to third parties by BGN 0,2 million, and other receivables by BGN 0,3 million. Cash and cash equivalents increased by BGN 1,7 million compared to 31 December 2015. As at the end of the current period there are deposits amounting to BGN 2,9 million.

Equity and liabilities

EQUITY	31.03.2016	31.12.2015	change	relative share of equity 2016
	BGN '000	BGN '000		%
<b>Equity attributable to owners of the parent</b>				
Share capital	134 798	134 798	0%	30%
Reserves	48 349	48 855	-1%	11%
Retained earnings	232 132	222 238	4%	51%
	<b>415 279</b>	<b>405 891</b>	2%	91%
<b>NON-CONTROLLING INTEREST</b>	40 917	51 749	-21%	9%
<b>TOTAL EQUITY</b>	<b>456 196</b>	<b>457 640</b>	0%	100%
LIABILITIES	31.03.2016	31.12.2015	change	relative share of total liabilities 2016
	BGN '000	BGN '000		%
<b>Non-current liabilities</b>				
Long-term bank loans	33 386	38 876	-14%	9%
Deferred tax liabilities	8 827	7 952	11%	2%
Long-term liabilities to personnel	4 167	4 199	-1%	1%
Finance lease liabilities	1 948	1 957	0%	1%
Government grants	9 131	9 343	-2%	2%
Other non-current liabilities	160	165	-3%	0%
	<b>57 619</b>	<b>62 492</b>	-8%	15%
<b>Current liabilities</b>				
Short-term bank loans	177 500	190 785	-7%	47%
Current portion of long-term bank loans	14 628	14 784	-1%	4%
Trade payables	89 137	87 440	2%	24%
Payables to related parties	544	2 366	-77%	0%
Payables on contract for factoring	16 065	-	-	4%
Payables to the personnel and for social security	9 903	8 894	11%	3%
Tax payables	6 112	6 368	-4%	2%
Other current liabilities	4 547	4 858	-6%	1%
	<b>318 436</b>	<b>315 495</b>	1%	85%
<b>TOTAL LIABILITIES</b>	<b>376 055</b>	<b>377 987</b>	-1%	100%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>832 251</b>	<b>835 627</b>	-0.4%	

The equity of Sopharma Group decreased by BGN 1,4 million compared to 31 December 2015 mainly due to a decrease in non-controlling interest by BGN 10,8 million. Equity attributable to

owners of the parent comprise 49% of total equity and liabilities, with certain improvement of the financial autonomy of the Group. It increased by BGN 9,4 million mainly due to undistributed profit.

*Non-current liabilities* decreased by BGN 4,9 million or 8%, from BGN 62,5 million at the end of 2015 to BGN 57,6 million at the end of the first quarter of 2016 mainly due to a decrease in long-term bank loans by BGN 5,5 million. There is an increase in deferred taxes liabilities by BGN 0,9 million.

*Current liabilities* increased by BGN 2,9 million or 1% compared to 2015, mainly due to an increase in liabilities on a contract for factoring by BGN 16 million. The highest decrease is in short-term bank loans by BGN 13,3 million. Liabilities to related parties decreased by BGN 1,8 million. There is an increase in commercial payables by BGN 1,7 million, payables to personnel and for social security by BGN 1 million.

The Group's total liabilities under bank loans and leases decreased by BGN 18,9 million compared to the end of 2015. The net debt, after subtracting of cash and cash equivalents, decreased by BGN 20,6 million.

### Cash flows

	<b>31.03.2016</b>	<b>31.03.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flows from operating activities	(12 904)	4 249
Net cash flows used in investing activities	(5 778)	(15 419)
Net cash flows (used in)/from financing activities	20 357	3 366
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1 675</b>	<b>(7 804)</b>
Cash and cash equivalents at 1 January	23 114	25 299
Cash and cash equivalents at 31 March	24 789	17 495

Net cash flows generated from operating activities as at 31 March 2016 amount to BGN (12,9) million, those from investing activities – BGN (5,8) million and from financing activities – BGN 20,3 million. As a result of these activities the cash and cash equivalents increased by BGN 1,7 million and as at 31 March 2016 amount to BGN 24,8 million compared to BGN 23,1 million as at 1 January 2016.

## Financial ratios

	31.03.2016	31.03.2015
ROE <sup>1</sup>	5,5%	4,5%
ROA <sup>2</sup>	2,7%	2,1%
Asset turnover <sup>3</sup>	1,03	1,04
Current ratio <sup>4</sup>	1,39	1,34
Quick ratio <sup>5</sup>	0,87	0,87
Cash ratio <sup>6</sup>	0,08	0,05
Solvency ratio <sup>7</sup>	1,21	1,11

<sup>1</sup> Net profit belonging to the equity holders of the Company, annualized / arithmetic mean of the equity less minority interests for the last five quarters

<sup>2</sup> Net profit belonging to the equity holders of the Company, annualized / arithmetic mean of total assets for the last five quarters

<sup>3</sup> Revenue from sales, annualized / arithmetic mean of total assets for the last five quarters

<sup>4</sup> Current assets / current liabilities

<sup>5</sup> Receivables + cash/current liabilities

<sup>6</sup> Cash/current liabilities

<sup>7</sup> Equity/Liabilities

## Information about the shares of Sopharma AD

The total number of shares issued by Sopharma AD as at 31 March 2016 is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, common and indivisible, under the Articles of Association. All issued shares are of one class. Each share gives equal rights to its holder, in proportion to its nominal value. The shares of Sopharma AD are traded on the official market of Bulgarian Stock Exchange - Sofia AD and the official market of the Warsaw Stock Exchange. The shares are part of the indices SOFIX, BGBX40 and BGTR30 on the BSE – Sofia AD.

The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds, as well as the certificate ABN AMRO SOFIX – Open-end-certificate and the new blue-chip index Dow Jones STOXX Balkan 50 Equal Weighted Index.

Sopharma AD is one of the three Bulgarian companies included in an index for Central and Eastern Europe (CEE) that WSE started to calculate as of 30 May 2012. The index is called WIG-CEE and is the third after the WIG-Poland and WIG-Ukraine, which is based on the origin of the companies by country. WIG-CEE is calculated based on total return and includes also dividend income and subscription rights to shares.



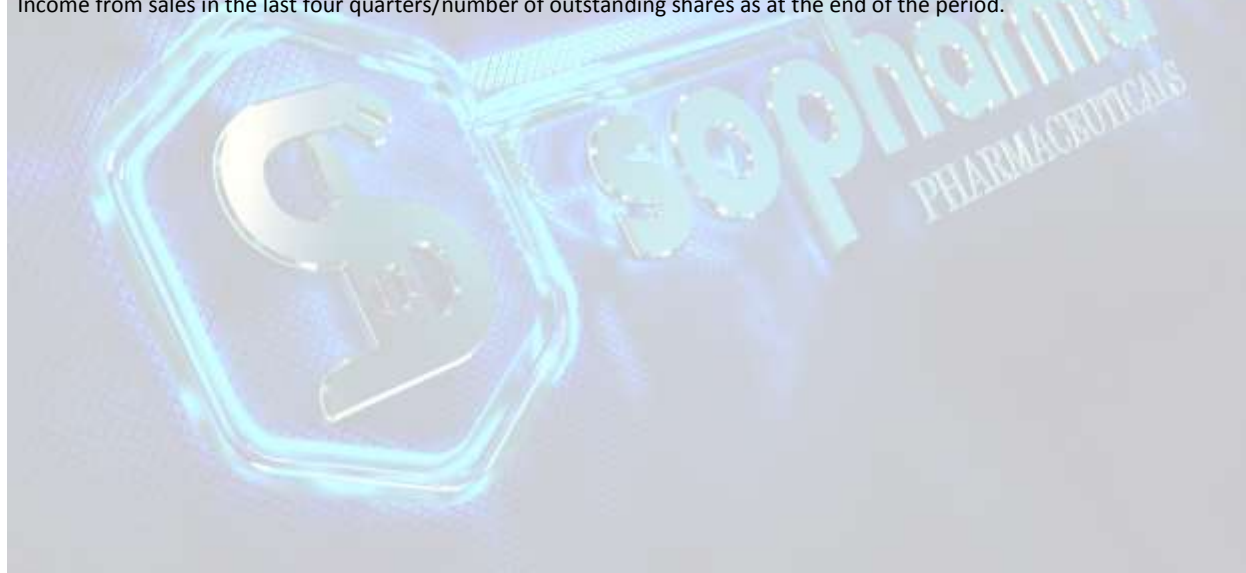
## Key indicators of the shares of Sopharma AD

	31.03.2015	31.03.2015
Total number of issued shares	134 797 899	134 797 899
Average weighted number of outstanding shares for the last four quarters	129 338 967	129 510 170
Number of shares outstanding at the end of the period	129 261 264	129 419 720
Earnings per share in BGN <sup>1</sup>	0,16	0,13
Price per share at the end of the period in BGN	2,687	3,418
Price/Earnings ratio (P/E)	16,79	26,29
Book value per share in BGN <sup>2</sup>	3,21	3,06
Price/Book value ratio (P/B)	0,84	1,12
Income from sale of one share in BGN <sup>3</sup>	6,77	6,56
Price of one share / Income from sale of one share (P/S)	0,40	0,52
Market capitalization in BGN based on the number of issues shares	362 201 955	460 739 219

<sup>1</sup> Net profit of the company for the last four quarters/average weighted number of outstanding shares for the same period

<sup>2</sup> Common equity of the company/number of shares outstanding at the end of the period

<sup>3</sup> Income from sales in the last four quarters/number of outstanding shares as at the end of the period.



## Trade in shares of Sopharma AD on the Bulgarian Stock Exchange – Sofia AD for the period 1 January – 31 March 2016

