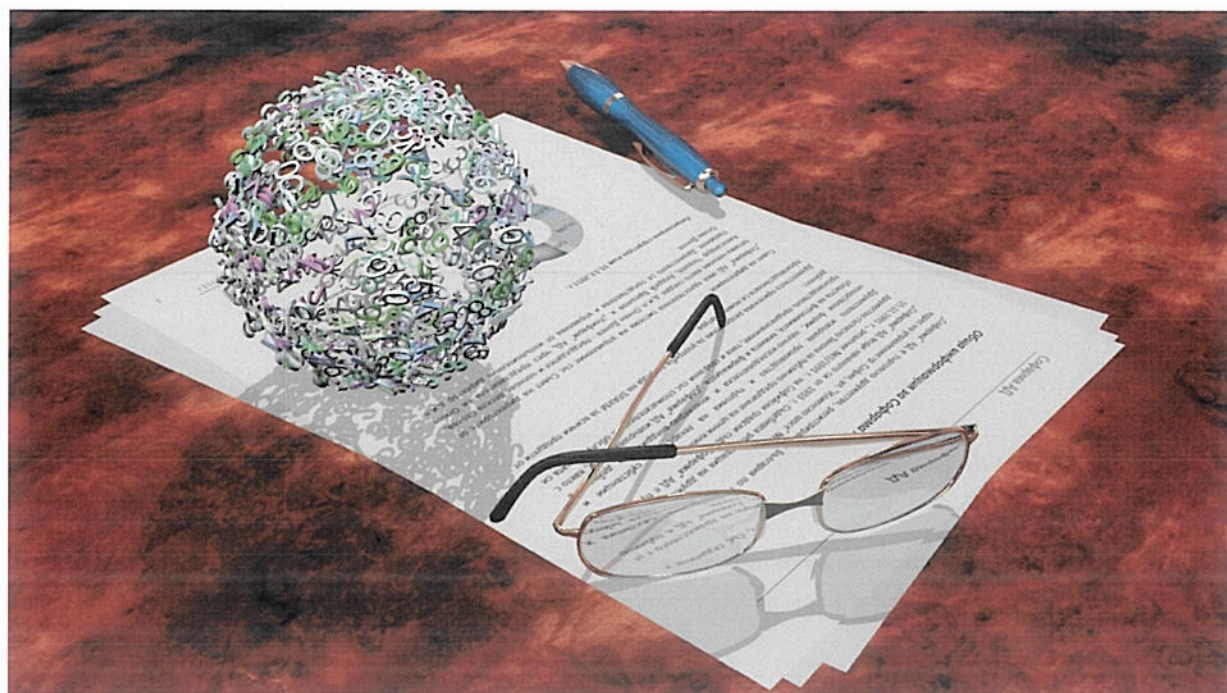




MANAGEMENT REPORT 2011 SOPHARMA GROUP




11.05.2012



General information about the Group

Sopharma Group (the Group) is a leading Bulgarian producer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and Southeastern 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 Bulgarian Rose - Sevtopolis AD and Unipharm AD Bulgaria, Ukraine OAO Vitamins and Ivanchich and Sons D.O.O. in Serbia;
-  distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements and cosmetics, which is mainly performed by Sopharma Trading in Bulgaria and Briz SIA in Latvia;
-  production and distribution of non-pharmaceutical products, primarily medical supplies such as syringes and other disposables 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 Law on Public Offering of Securities.

The company performs the production and marketing of medicinal substances and dosage forms; research, 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.

Subsidiaries

Sopharma Group consists of Sopharma AD and 22 entities, including 21 subsidiaries, directly or indirectly controlled by the Company and a jointly controlled company (Sopharma - Zdovit JSC, Poland, now in Liquidation).

Sopharma Group

Company	Share as at 31.12.2011 in %
Sopharma Trading AD	81.33
Bulgarian Rose Sevtopolis AD, Kazanlak, Bulgaria	52.77**
Biofarm Engineering AD, Sliven, Bulgaria	69.43
Farmalogistika AD, Sofia, Bulgaria	76.54
Elektronkomers EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	42.64
Momina Krepost AD, Veliko Tarnovo, Bulgaria	51.10**
Unipharm AD, Sofia, Bulgaria	52.05**
OAO Vitaminy, Uman, Ukraine	99.56
Rostbalkanpharm ZAO, Azov, Russia	51.00
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Ivanchich and Sinovi DOO., Belgrade, Serbia	51.00
Sofarma Warsaw Sp. z o.o., Warsaw, Poland	100.00
Sopharma USA Corp., Los Angeles, USA	100.00
Extab Corporation USA, Wilmington, USA	80.00
Extab Pharma Limited, Henley on Thames, Great Britain*	80.00
BRIZ ZAO, Riga, Latvia	51.00
Brititreyd SOOO, Minsk, Belarus*	49.73
Tabina SOOO, Minsk, Belarus *	50.49
Superlats OOO, Riga, Latvia *	31.24
Interpharm Company ZAO, Vitebsk, Belarus	49.27
Sopharma Zdrovit JSC Warsaw, Poland in Liquidation ***	50.01

* indirect participation;

** effective share;

*** joint stock company.

ZAO Company Interpharm was an associated company registered in Belarus until 31.12.2011.

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,

Sopharma Group

Andrey Breshkov and Unipharm AD, represented by Ognian Palaveev. The company is represented and managed by the Executive Director Ognian Donev, PhD.

The remuneration of the Board of Directors of Sopharma AD amounted to BGN 1,010 thousand as at 31 December 2011 (Art. 247 of CA). Sopharma AD

Management report of Sopharma AD for 2011 2

The shares held by the members of the Board of Directors as at 31 December 2011 are as follows:

Ognian Donev – 57,116 shares,

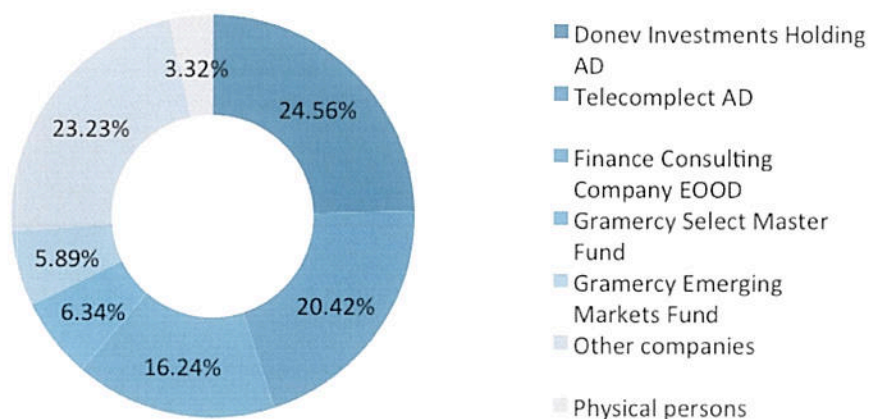
Andrey Breshkov – 11,000 shares,

Unipharm AD – 221,166 shares,

Alexander Chaushev – 85,514 shares.

Salaries and other short-term benefits of key managing personnel amount to BGN 3,637 thousand (2010: BGN 2,218 thousand)

Shareholder structure as at 31.12.2011














*Telekomplekt AD is a formal owner of the shares according to the register of the Central Depository until Telekomplekt Invest AD is registered with the Central Depository as owner

Industrial activity

Sopharma AD and its production subsidiaries have 14 pharmaceutical plants in Bulgaria, compliant with EU regulations (another plant is under construction), one plant in Ukraine, certified by the local authorities with a certificate recognized in all CIS Member States, two in Serbia, one of which is certified by the local authorities (and another newly opened factory in Serbia for solid forms, compliant with EU regulations). With the exception of the plant in Ukraine, all production facilities have undergone procedures for certification to the European GMP.

The production of the company is 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.
-  Finished dosage forms including
-  Solid tablets, coated tablets, coated tablets, capsules;
-  Galenical - suppositories, drops, syrups, unguents;
-  Parenteral - injectables, powders for injections lyophilic

The company has more than 210 products in its portfolio: 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 revenues 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 revenues are:

- ✚ Carsil - original product plant-based, used to treat gastroenterological disorders (liver disease);
- ✚ Sedal M - generic analgetic (painkiller);
- ✚ Tempalgin - original analgetic (painkiller);
- ✚ Analgin - generic analgetic (painkiller);
- ✚ Broncholytin - original plant-based product used to suppress cough;
- ✚ Methylprednisolone - generic drugs for cases of severe allergies and certain life-threatening conditions;
- ✚ Tabex – original plant-based drug used for smoking secession
- ✚ Tribestan – original plant-based drug used for stimulation of the male reproductive system

Distribution

Sopharma Trading is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 22% in 2011 (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 7000 products (particularly drugs, medical equipment and devices, accessories, cosmetics, vitamins and 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 3,870 customers.

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. These products are protected in addition to trademark and patent or corporate know-how.

For the manufactured generic products Sopharma AD relies on brand names to distinguish, all of which are registered trademarks of the company.

In all the years of its existence, Sopharma AD generates and protects 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 the policy of the company 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 focused 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 development of eight to ten new products per year.

The company mainly submitted applications for marketing authorizations of new products, including new forms of products in Bulgaria and / or export markets and for existing products into new markets.

Employees

As of 31.12.2011 the average number of employees in the Sopharma Group is 3,889 (3,654 in 2010). The average number of employees in Sopharma AD for 2011 is 1,848 (1,775 in 2010), and in Sopharma Trading AD it is 699 (698 in 2010).

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.

Changes in 2011

CPC allowed concentrations without conditions requested by Sopharma AD in connection with the acquisition of shares of Unipharm AD through the Bulgarian Stock Exchange - Sofia AD.

Briz SIA signed contract for the acquisition of the Belarusian chain of pharmacies Interpharm Company ZAO, with the first stage of the procedure (acquisition of 44.07%) being completed by January 27, 2011. The remaining 52.54% are projected to be acquired under a contract from January 18, 2011 in the period 2012 - 2013

On February 28, 2011 Sopharma AD signed a contract for the project under OP Competitiveness of around 8 million BGN.

In January 2011 the Central Laboratory of the factory for production of drugs of OAO Vitaminy obtained a quality certificate from the Ukrainian authorities. The certification ensures that the analysis of production conducted in the laboratory are a quality indicator which is recognized by the Ukrainian authorities. This finalizes the first stage of the overall modernization and certification of the production facilities of the Company.

In April 2011 Sopharma AD launched a new project - socially oriented and named "We for the society." In four pharmacies in Sofia everyone has the opportunity to measure their blood pressure, pulse and weight, and for smokers - the volume of their lungs with breathing apparatus including a special Smoke check. Social services will be offered later in other pharmacies in the capital and throughout the country. Public projects include long-term social activities in small cities and are aimed at those most affected by the crisis in our society.

On April 8, 2011 Briz SIA - Latvia acquired 99% of the capital of Tabina SOOO, which owns 14 pharmacies, united under the DoktorDo brand.

On April 18 2011, Sopharma AD held an annual meeting with investors in Sredets Hall, Sheraton Hotel.

In early May, the process of four new registrations from the company's portfolio was completed - Tribestan tablets in Turkey and in Poland - Tribestan Vita, Tribestan Plus tablets and Ambroxol syrup.

On June 29, 2011 at 11:00 am in the company's headquarters in Sofia, Iliensko Road street 16 the General Meeting of Shareholders was held. The following decisions were taken:

- ✚ 11,220,000 BGN dividend for shareholders or 0.085 BGN (eight and a half stotinki) per share;
- ✚ The member of the Board of Directors Alexander Dimitrov Todorov was dismissed upon his request and Alexander Viktorov Tchaushev was elected member of the Board of Directors;
- ✚ The General Meeting of Shareholders adopted amendments to the Statute of the company.

On September 15, 2011 through the purchase of 22,300 new shares of the capital of Medica AD, the participation of Sopharma AD in the capital of Medica AD reached 10.06%.

On September 28, 2011 in Stara Banovci, 25 km north of Belgrade, Serbia, Sopharma AD together with its Serbian partner Ivanchich and Sons opened a new plant for solid dosage forms. The investment amounts to € 8,000,000. The annual capacity is 5 million packages.

With decision № 648-F of October 20, 2011 the Financial Supervision Commission approved the prospectus for admission to trading on the Warsaw Stock Exchange of shares issued by Sopharma amounting to 132 million BGN – the total existing capital of the company registered in court, divided into 132,000,000 ordinary, dematerialized, registered, freely transferable shares with nominal value of 1 BGN each, ISIN code BG 11SOSOBT18.

Under the plan for acquisition of Telecomplex AD in accordance with Art. 262a, para. 2 of the CA through separation by formation of Telecomplex Invest AD and registration in the Trade Registry under number 164905 from July 29, 2011, the right of ownership of 26,948,052 shares of the capital of Sopharma was transferred to the newly formed company. At the date of preparation of the financial statements the change in the ownership of shares is not registered with the Central Depository.

On November 24, 2011 Sopharma AD received formal decision from the Warsaw Stock Exchange (№ 1422/20.11.2011) whereby the entire registered capital of 132 million shares with a nominal value of 1 / one / BGN was adopted for trade. The first day of trading of the shares was on November 28, 2011.

At an Extraordinary General Meeting of Shareholders of Sopharma AD held on November 30, 2011, at the company's headquarters the following decisions were taken:

- ✚ Amendment of the decision taken under item seven from the agenda of the regular General Meeting of Shareholders held on June 29, 2011 as follows: the amount determined for a dividend to shareholders instead of 11,220,000 / eleven million two hundred and twenty thousand / shall read: 11 082 388.48 BGN / eleven million eighty-two thousand three hundred eighty-eight BGN and 48 stotinki/. The difference between the two amounts to 137 611.52 BGN / one hundred thirty-seven thousand six hundred and eleven BGN and 52 stotinki / shall be referred for additional reserves of the company. The remainder of the decision under section seven of the agenda of the regular General Meeting of Shareholders held on June 29, 2011 shall not be changed.
- ✚ Pursuant to Article 24, paragraph 3, letter "B" of the Statutes, the Executive Director of the company shall be paid extra remuneration amounting to 1% / one percent / of the profit realized in 2010 according to the adopted annual financial statements; pursuant to Article 28, paragraph 4, letter "D" of the Statute, the Executive Director can allocate at their discretion, 2% / two percent / of the company's profit realized in 2010 between members of the senior management team of the company.
- ✚ The term for buy-back of own shares shall be extended from 2 /two / to 3 /three/ years.

As at 31.12.2011 were purchased 2,568,609 own shares or 1.946% of the capital, according to the decision of the General Meeting of Shareholders of the company on June 23, 2010.

Bulgarian rose Sevtopolis SA signed a contract with the Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA) under the Operational Program "Competitiveness 2007-2013" for the purchase of a new tablet-press and a blister machine and the repair of an existing building for technological modernization of the tablet production. At the date of preparation of the current report the company has completed construction works for the technological modernization of the tablet production and brought into operation the blister

machine, the tablet press and the ancillary equipment. The necessary final technical and financial reports are presented to the contracting authority for review and approval.

Sopharma Trading AD introduced a new service - Automatic notification via email (automated mailing) on financial matters, which started in July 2011.

An Extraordinary General Meeting of Shareholders of Sopharma Trading was held on May 5, 2011 at 16.00 at the headquarters of the company. On the meeting the members of the Board of Directors were dismissed due to expiration of their term and a new Board of Directors with a three-year term was elected, composed of: PhD, Ognyan Donev - Chairman and members - Dimitar Dimitrov and Alexander Raichev.

Unipharm AD continues the process of reconstruction and modernization of the "Tablet-1 Workshop" in accordance with GMP program "Technological modernization in big enterprises," of BSMEPA of the Ministry of Economy and Energy.

New developments and products

New in 2011

Seven company's new products have been implemented (Siafen oral suspension, Siafen gel, Dehidrazid tablets, tablets Thaler, Thaler syrup and food additives - Bodunoff tablets, Neurelaks syrup).

Expected in 2012

By the end of 2012 we expect to have introduced 3-5 new products.

Developments

Twenty nine new and improved technologies are in the process of transfer. The technological documentations for 6 food supplements, 6 cosmetic products, and 5 new licenses for the production of generic medicines have been registered. Another 26 new products are currently in development, such as: Doxazosin tablets, Methadone solution and others.

Planned development

-  Sopharma AD will continue its development as a company producing high quality medicinal products that comply with international standards.
-  Through upgrading scales, aggressive marketing policy and competitive prices, the Company aims at expanding the market share of its products on the territory of the country.
-  With regard to foreign markets, the efforts are focused on retaining and increasing the share of the Company in the main markets (Russia, Ukraine and Poland) as well as to strengthen and extend its market position in other countries (USA, Central and East

European countries, and the Caucasian region).

- ✚ Continuing the policy of active partnership with recognized international pharmaceutical companies, with new companies as well as broadening the product range of already established collaborations.
- ✚ Capital investments are intended for to the construction of the new plant for solid drug forms in Sofia and the expectations are that in 2012 about BGN 40 million will be invested.

Significant events occurred after the end of the reporting period

As at 31.01.2012, Mr Ognian Donev closed his personal position as a shareholder of Sopharma AD. Mr Donev remains a shareholder in the Company through his indirect participation.

On 31.01.2012 the subsidiary Briz Ltd - Latvia acquired 18% of the share capital of OOO Vivaton plus in Belarus. The remaining 57% are projected to be acquired under the contract during the period 2012-2013.

On 15.02.2012 the Group through its subsidiary Briz SIA - Latvia sold its shares in its subsidiary OOO "Superlats".

On 10.04.2012 the Board of Directors of Sopharma decided to sell all its shares of the capital of ZAO Rostbalkanpharm in Russia.

On 18.04.2012 notifications for disclosure of shareholdings under Art. 145 of POSA were received regarding the selling of 6.51% of the capital of Sopharma by Gramarcy Select Master Fund, USA, Georgetown and the selling of 6.05% of the capital of Sopharma by Gramarcy Emerging Markets Fund, USA, Georgetown, both funds effectively closing their positions in the Company. Both transactions were registered with the Central Depository on 09 April 2012.

On 08.05.2012 the Board of Directors of Sopharma decided to establish the "Sopharma Ukraine OOD" company with headquarters in Kiev, Ukraine and with share capital of 1,000,000 /one million/ UAH (approx. 200 thousand BGN).

Key financial indicators

Indicators	2011 BGN '000	2010 BGN '000	промяна %
Sales revenue	644 731	600 334	7,4%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	65 757	72 243	-9.0%
Operating profit	46 025	55 683	-17.3%

Sopharma Group

Net profit	40 336	42 462	-5.0%
Capital expenditures	34 608	16 183	113.9%
	31.12.2011	31.12.2010	
	BGN '000	BGN '000	
Non-current assets	294 130	264 451	11,2%
Current assets	382 458	360 739	6,0%
Equity	365 812	347 279	5,3%
Non-current liabilities	35 102	41 438	-15,3%
Current liabilities	275 674	236 473	16,6%

Ratios	2011	2010
EBITDA / Sales revenue	10,2%	12,0%
Operating profit/ Sales revenue	7,1%	9,3%
Net profit/ Sales revenue	6,3%	7,1%
Borrowed capital/ Equity	0,85	0,80
Net debt/ EBITDA	2,8x	2,1x

Review of risk factors

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

- ✚ The Group faces significant competition.
- ✚ Part of Sopharma Trading's revenues in Bulgaria are 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 available on websites (www.sopharma.com) containing the name "Sopharma" which have 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 revenues, in particular in Bulgaria, depend on the inclusion of the Company's medicines on reimbursement lists.

- ✚ The Company's and Group Companies' production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Group's operations.
- ✚ The 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 at all 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 condition and results of operations.

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

- ✚ The macroeconomic environment, particularly in Bulgaria, Russia 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 condition.
- ✚ The political environment in the Group's export markets, especially in Russia and Ukraine, has a significant effect on the Group's operations and financial condition.
- ✚ Risks related to the Bulgarian legal system.
- ✚ 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.

A significant volume of the Group's revenue is gained mainly through the parent company from export of finished products contracted as payable in USD. At the same time, the Group again through the parent company supplies part of its basic raw materials and consumables also in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The companies abroad

perform sales mainly to the local markets, which leads to currency risk to their currencies as well – Ukrainian Grivna (UAH), Serbian Dinar (RSD), Russian Ruble (RUB), Latvian Lat (LVL), Belarus Ruble (BYR).

The remaining part of Group companies' operations are usually denominated in bulgarian leva (BGN) or euro (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 audit.

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.

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is its main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. The Group's liquidity may be significantly affected by USD exchange rate fluctuations with regard to the Group's US dollar positions on the Russian market and market dynamics, if the rate deviates from the Group's forecasts. To mitigate any possible liquidity risk, the Group has implemented a system of alternative mechanisms of actions and prognoses, the final aim being to maintain good liquidity and the ability to finance its economic activities. This is supplemented by current monitoring of the maturities of assets and liabilities, control over cash outflows and ensuring their current balancing with inflows, including the renegotiation of maturities and optimization of debt structure as well as increasing and internal restructuring of self-generated funds and their investment.

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) optimisation of resources and structure of credit resources for achieving relatively lower price of attracted funds; and
- (b) combined structure of interest rates on loans comprising two components – a fixed one and a variable one, the correlation between which, as well as their absolute value, can be achieved and maintained in a proportion favourable 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 unfavourable change of cash flows is reduced to a minimum.

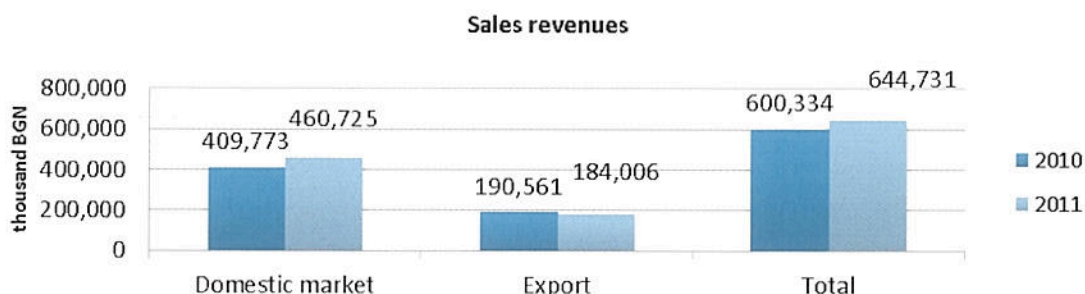
The management of the Group companies together with that of the parent company currently monitor and analyse the exposure of the respective company to the changes in interest levels. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative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

Financial results for 2011

Sales revenues

Sales revenue of the Group grew by 44,4 million BGN, or 7.4%, reaching 644.7 million BGN in 2011 compared to 600.3 million BGN in 2010. The increase is due to the rise in sales of goods with 30.7 million BGN, reaching 397.2 million BGN in 2011, compared to 366.5 million BGN in 2010, as well as an increase of 13.7 million BGN in sales of finished products, reaching 247.5 million BGN in 2011, compared to 233.9 million BGN in 2010.

Sales by types of markets



The contribution of sales in Bulgaria to the consolidated revenues from sales in 2011 amounted to 71%, increasing by 50.9 million BGN or 12% to 460 million BGN in 2011 compared to 409.8 million BGN in 2010. According to IMS Health data for January-November 2011 the Bulgarian pharmaceutical market reached 1,895 million BGN, of which 1,650 million BGN is the pharmacy market. Sopharma AD has a share of 5% of the market in terms of value and 13% in terms of sales volume. The positions of the main competitors of the company in the country are as follows: Actavis - a share of 8% (17% in volume), Glaxosmithkline - 7% (3% in volume), Novartis – 6% (6% in volume), Sanofi-Aventis-Zentiva - 5% (4% in volume), Roche – 5% (1% in volume), Servier - 5% (3% in volume), Astra Zeneca – 4% (1% in volume), Pfizer - 3% (2% in volume), Bayer -3% (3% in volume). Among the distributors of medicines Sopharma Trading AD has a share of 22%, and together with Phoenix/Libra (21.6%) and Sting (20,9%) has a leading position in the national pharmaceutical market.

The highest proportion of sales in the country within the products produced by companies in the Group are Analgin, Vitsetin, Methylprednisolone, Vitamin C, Fliksofid.

Revenue by groups of products

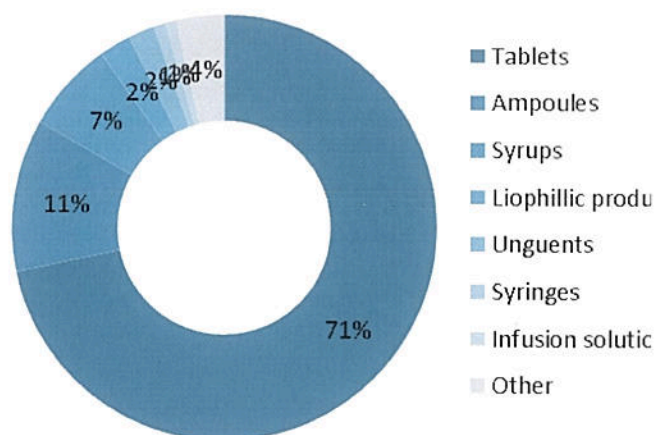
Reported revenue of the Group includes the following items: revenue from the sale of finished goods and revenue from the sale of goods.

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

Revenues of finished	2011	2010	change
----------------------	------	------	--------

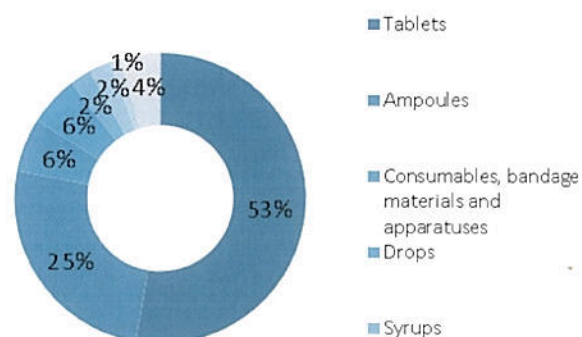
Sopharma Group

products by type	BGN '000	BGN '000	%
Tablets	176 173	159 241	11%
Ampoules	28 447	28 832	-1%
Syrups	17 001	18 982	-10%
Liophilic products	5 943	10 486	-43%
Unguent	4 941	6 186	-20%
Syringes	2 191	1 987	10%
Infusion solutions	1 986	1 654	20%
Blow-molded articles	1 015	973	4%
Veterinary vaccines	806	896	-10%
Other	9 041	4 634	95%
Total	247 536	233 871	6%



Revenues 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.

Revenues of goods by type	2011 BGN '000	2010 BGN '000	change %
Tablets	209 367	208 351	0,5%
Ampoules	100 634	70 781	42%
Consumables, bandage materials and apparatuses	23 665	33 910	-30%
Drops	22 151	19 674	13%
Syrups	9 482	4 980	90%
Unguent	9 418	8 754	8%
Food supplements and herbs	4 703	4 620	2%
Other	17 776	15 393	15%
Total	397 196	366 463	8%



Other revenues from operations

Other revenues from operations	2011 BGN '000	2010 BGN '000	change %	Share %
Services rendered	1 854	1 270	46%	104%
Income from fines and forfeits	782			44%
Written-off payables	764	570	34%	43%
Services of social activities and events	559	367	52%	32%
Income from financing	433	561	23%	24%
Rents	405	971	58%	23%
Profit/ (loss) from sale of long-term assets	173	(241)	172%	10%
Net profit/ (loss) from exchange rate differences on commercial receivables and payables and current accounts	(3 789)	(1 304)	191%	-213%
Other	594	454	31%	33%
Total	1 775	2 648	-33%	100%

Other revenues from operations are reduced by 0.9 million BGN, or 33% compared to 2010, reaching 1.8 million BGN, in 2011. compared to 2.7 million BGN, in 2010. The most significant influence downwards have net losses from exchange rate differences on commercial receivables and payables and current accounts.

Expenses

Operating expenses	31.12.2011 BGN '000	31.12.2010 BGN '000	Change %	Share %
Changes in inventories of finished goods and work in progress	(10 414)	(654)	1492%	-2%
Book value of goods sold	370 991	337 094	10%	62%
Materials	86 524	70 986	22%	14%
Hired services	59 336	61 147	-3%	10%
Personnel	64 582	53 400	21%	11%
Amortisation	19 732	16 560	19%	3%
Other operating expenses	9 730	8 766	11%	2%
Total operating expenses	600 481	547 299	10%	100%

Sopharma Group

The operating expenses in 2011. rose by 53.2 million BGN, or 10% from 547.3 million BGN, in 2010 to 600.5 million BGN, in 2011, under the influence of growth in sales and corresponding book value of sold products in the internal market, the increase in stocks and unfinished production and growth in costs of materials and personnel.

Expenses on materials	2011 BGN '000	2010 BGN '000	change %	share %
Basic materials	64 194	54 240	18%	74%
Spare parts, laboratory and technical materials	5 858	4 058	44%	7%
Fuels and lubricating materials	3 246	3 107	4%	4%
Heat power	4 501	3 062	47%	5%
Electric energy	4 262	3 428	24%	5%
Depreciation of materials	446	106	321%	0%
Water	909	855	6%	1%
Labour safety measures	729	578	26%	1%
Other	2 379	1 552	53%	3%
Total	86 524	70 986	22%	100%

Cost of materials (14% share) increased by 22% or 15.5 million from 71.0 million BGN in 2010 to 86.5 million BGN at the end of 2011. Costs for basic materials increased by 10.0 million BGN, or 18%, with the most significant effect reported in costs for substances, which increased by 5.3 million BGN. There was an increase in the cost of heat, spare parts, laboratory and technical materials, electricity, fuels, and lubricants. This increase in cost of materials is mainly due to increased volume of output, which reflects changes in stocks of finished goods at year end.

Hired services expenses	2011 BGN '000	2010 BGN '000	change %	Share of expenses for 2011 %
Advertising	14 696	12 993	13%	25%
Toll processing	13 830	20 774	-33%	23%
Forwarding and transportation services	4 318	4 412	-2%	7%
Buildings and equipment maintenance	3 735	2 500	49%	6%
Commission fees	3 081	3 413	-10%	5%
Consulting services	2 643	2 273	16%	4%
Rentals and insurance	3 022	2 713	11%	5%
Services under civil contracts with physical persons	1 732	1 035	67%	3%
Bank and regulatory taxes	2 003	1 940	3%	3%

Subscription fees	1 213	977	24%	2%
Registration of medicines	958	571	68%	2%
Local taxes and charges	912	1 051	-13%	2%
Other	7 193	6 495	11%	12%
Total	59 336	61 147	-3%	100%

Hired services expenses have a 10% share of operating expenses and decreased by 1.8 million BGN, or 3%, reaching 59.3 million BGN, in 2011 compared to 61.1 million BGN for 2010. The most significant influence in this direction has the toll processing, which decreased by 6.9 million mostly caused by the elimination of these costs after the consolidation of Unipharm AD.

An increase has occurred in the expenses for advertising, which rose by 1.7 million BGN; maintenance of buildings and equipment, increasing to 1.2 million BGN,, civil contracts with increase of 0.7 million BGN, and in the expenses for subscriptions, rents and insurance and consulting services.

<i>Personnel costs</i>	2011 BGN '000	2010 BGN '000	change %	share %
Current wages and salaries	50 470	41 206	22%	78%
Social security/health insurance contributions	9 981	8 349	20%	15%
Social benefits and payments	3 196	2 207	45%	5%
Other	935	1 638	-43%	1%
Total	64582	53 400	21%	100%

Personnel costs (with 11% share) grew by 11.2 million, or 21%, reaching 64.6 million BGN in 2011. compared to 53.4 million BGN, in 2010. The overall growth in these costs is due to the increased number of employees (mainly due to the consolidation of Unipharm AD), increase in the salaries of the staff, additional compensations for the management team of the Company approved on the EGMS at the end of the year, as well as the additional incentive for the company staff in the form of vouchers for food, due to a contract with a licensed operator.

Other operating expenses	2011 BGN '000	2010 BGN '000	change %	share %
Entertainment allowances	2 541	2 324	9%	26%
Accrued (recovered) impairment of current assets	2 683	2 406	12%	28%
Business trips	1 446	793	82%	15%
Donations	470	619	-24%	5%
Payments to the budget	567	151	275%	6%
Scrap and loss of finished products, goods, work in progress and other assets	783	906	-14%	8%
Trainings	356	274	30%	3%
Other	884	1293	-32%	9%
Total	9 730	8 766	11%	100%

Other operating expenses (with a share of 2%) increased by 1 million or 11% from 8.7 million BGN at the end of 2010 to 9.7 million BGN at the end of 2011. The increase was mainly due to business trips, accrued impairments of current assets, payments to the budget, entertainment allowances.

Amortization expenses (with a share of 3%) increased by 3.2 million BGN or 19% from 16.6 million BGN at the end of 2010 to 19.7 million BGN at the end of 2011 due to the increased amount of depreciable assets after the acquisition of new companies in the group.

Financial income and expenses

Financial income	31.12.2011 BGN '000	31.12.2010 BGN '000	change %	share %
Income from interest on loans granted	4 638	2 646	75%	66%
Income from interest on overdue payments	1 467	1 926	-24%	21%
Income from private equity	80	106	-25%	1%
Income from interest on deposits	440	392	12%	6%
Profit from the evaluation of shares to fair value previously booked at acquisition price of a subsidiary	-	490	-100%	0%
Interest on special contracts	-	109	-100%	0%
Net profit from exchange rate differences on loans granted	388	577	-33%	6%
Total	7 013	6 246	12%	100%

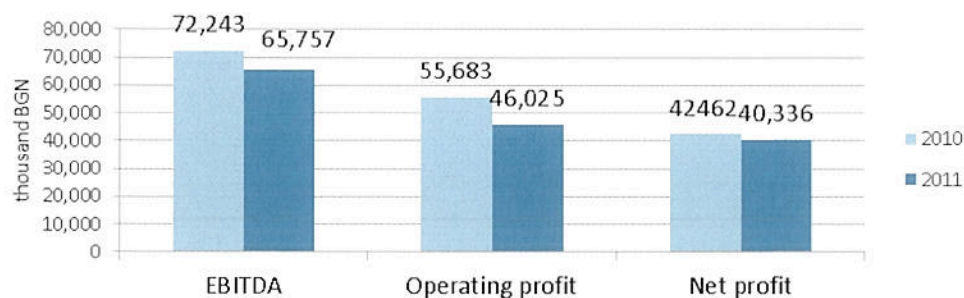
Financial expenses				
Bank fees on loans and guarantees	529	551	-4%	5%
Depreciation of available-for-sale investments	2 624	4 299	39%	22%
Interest on discounted liabilities	-	291	-100%	0%
Interest expenses on loans	8 298	8 417	-1%	71%
Financial leasing interest	256	226	13%	2%
Investment operations expenses	6	399	-98%	0%
Total	11 713	14 183	17%	100%

Financial income rose by 0.8 million BGN or 12%, reaching 7 million BGN at the end of 2011 compared to 6.2 million BGN at the end of 2010. This increase is mainly due to income from interest on loans granted, which increased by 2 million BGN as a result of the increased value of loans provided by the Company to associates and third parties.

Financial expenses decreased by 2.5 million BGN or 17%, from 14.2 in 2010 to 11.7 million BGN in 2011. This decrease is mainly due to the smaller size of the impairments of the available-for-sale investments, which decreased by 1.7 million BGN. Costs of investment operations also decreased by 0.4 million BGN. Despite the increased amount of obligations the interest costs on borrowings maintain the same level as previous year.

Net financial income (expense) decreased by 3.2 million BGN, reaching (4.7) million BGN at the end of 2011, compared to (7.9) million BGN at the end of 2010.

Operating result



Profit before interest, taxes, depreciation and amortization (EBITDA) fell by 6.5 million BGN or 9%, amounting to 65.8 million BGN in 2011, compared to 72.2 million BGN in 2010.

The operating profit decreased by 9.7 million BGN or 17% to 46 million BGN in 2011, compared to 55.7 million BGN in 2010.

Net profit for 2011 decreased by 2.1 million BGN or 5%, reaching 40.3 million BGN in 2011, compared to 42.5 million BGN in 2010.

Assets

	31.12.2011 BGN '000	31.12.2010 BGN '000	change %	share %
Non-current assets				
Property, plant and equipment	236 338	208 550	13%	80%
Intangible assets	27 979	24 357	15%	10%
Investment property	6 555	6 821	-4%	2%
Available-for-sale investments	19 973	20 927	--5%	7%
Loans granted to related parties	729	3 195	-77%	0%
Differed taxes	1 709	-		1%
Other non-current assets	848	601	41%	0%
	294 130	264 451	11%	43%
Current assets				
Inventories	126 022	111 685	13%	33%
Trade receivables	136 756	145 523	-6%	36%
Receivables from related parties	63 113	45 822	38%	17%
Other receivables and prepayments	24 332	12 640	93%	6%
Cash and cash equivalents	32 235	45 069	-28%	8%
	382 458	360 739	6%	57%
TOTAL ASSETS	676 588	625 190	8%	100%

Total assets increased by 51.4 million BGN, or 8%, reaching 675 million BGN, compared to 625 as at December 31, 2010. This is a consequence of the increase in non-current as well as current assets.

Non-current assets increased by 29.7 million BGN, or 11%, mainly due to the increase in property, plant and equipment by 27.8 million BGN and the growth of intangible assets by 3.6 million BGN. Most significant contribution have assets in the process of acquisition with a net increase of 18.5 million BGN, mostly due to the investment in a new plant for tablet forms, which in 2011 amounted to 17.9 million BGN and since the beginning of the project - 26.4 million BGN. Additional funds were spent on advances for acquisition of laboratory and production equipment.

Intangible assets also increased by 3.6 million BGN, with the most significant investment being the implementation of an integrated information system, which should be completed in 2012.

Available-for-sale investments decrease by 0.9 million BGN, loans granted to related parties – by 2.5 million BGN, and investment property – by 0.3 million BGN, compared to December 31, 2010.

Long-term loans granted to related companies at 31.12.2011:

- ✚ „ZOF Medico 21“ – contractual amount 1 100 thousand BGN; interest rate – 8,08%; maturity – 31.12.2014; purpose of the loan – working capital; balance at 31.12.2011 – 729 thousand BGN.

Current assets increase by 21.7 million BGN, or 6% reaching 382.4 million BGN in 2011, compared to 360.7 million BGN as at December 31, 2010.

Inventories are 33% of current assets and increase by 14.3 million BGN compared to December 31, 2010, mainly in finished products (by 12.3 million BGN), goods (by 2 million BGN), and materials (by 1.9 million BGN). Work-in-progress decreases by 0.7 million BGN, and semi-finished products – by 1.1 million BGN.

Trade receivables have a share of 36% of current assets and decreased by 8.8 million BGN, most significantly in the receivables from clients (9.5 million BGN).

Receivables from related parties take up a 17% share of current assets and grew by 17.3 million BGN. The most significant increase have trade loans, which rose by 17.9 million BGN.

Current trade loans granted to related companies:

To companies – main shareholder:

- ✚ „Donev Investments Holding“ AD – contractual amount 4 035 thousand EUR; interest rate – 4,8%; maturity – 30.09.2012; purpose of the loan – working capital; balance at 31.12.2011 – 7 991 thousand BGN (4 086 thousand EUR); no collateral.
- ✚ „Telecomplex“ AD – contractual amount 18 495 thousand BGN; interest rate – 8,08%; maturity – 31.08.2012; purpose of the loan – working capital; balance at 31.12.2011 – 6 467 thousand BGN.

To companies under joint indirect control:

- ✚ „Elpharma“ AD – contractual amount 7 000 thousand EUR; interest rate – 4,5%; maturity – 28.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 10 604 thousand BGN (5 422 thousand EUR); no collateral.
- ✚ „Mineralcommerce“ AD – contractual amount 570 thousand BGN; interest rate – 8,08%; maturity – 15.03.2012; purpose of the loan – working capital; balance at 31.12.2011 – 350 thousand BGN.

To companies under common control through key management personnel:

- ✚ „Doverie United Holding“ AD – contractual amount 14 287 thousand BGN; interest rate – 8,3%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 14 492 thousand BGN.
- ✚ „Doverie United Holding“ AD – contractual amount 945 thousand BGN; interest rate – 8,08%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 1 011 thousand BGN.
- ✚ „Doverie United Holding“ AD – contractual amount 2 477 thousand BGN; interest rate – 8,08%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011– 2 669 thousand BGN.
- ✚ „TELCO“ AD – contractual amount 7 200 thousand EUR; interest rate – 4,50%; maturity – 25.10.2012; purpose of the loan – working capital; balance at 31.12.2011– 14 164 thousand BGN.
- ✚ „TELCO“ AD – contractual amount 1 581 thousand EUR; interest rate – 5,50%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011– 3 387 thousand BGN.
- ✚ „BG Vino“ AD – contractual amount 190 thousand BGN; interest rate – 8,08%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 211 thousand BGN.
- ✚ „Hydroizomat“ AD – contractual amount 500 thousand BGN; interest rate – 8,08%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 53 thousand BGN.
- ✚ „Riton P“ AD – contractual amount 120 thousand BGN; interest rate – 8,08%; maturity – 10.07.2012; purpose of the loan – working capital; balance at 31.12.2011 – 101 thousand BGN.

Other receivables and prepayments take up 6% of current assets and increased by 11.7 million BGN.

Cash and cash equivalents decreased by 12.8 million BGN compared to December 31, 2010, with deposits placed as guarantees amounting to 13 million BGN.

Liabilities and owners' equity

OWNERS' EQUITY	31.12.2011 BGN '000	31.12.2010 BGN '000	Change %	Share %
Share capital	132 000	132 000	0%	36%
Reserves	33 534	34 631	-3%	9%
Retained earnings	154 465	131 601	17%	42%
	319 999	298 232	7%	87%
NON-CONTROLLING INTEREST	45 813	49 047	-7%	13%
TOTAL OWNERS' EQUITY	365 812	347 279	5%	100%
LIABILITIES				
Non-current liabilities				
Long-term bank loans	23 280	31 182	-25%	8%
Liabilities on deferred taxes	6 531	6 433	2%	2%
Liabilities to the personnel upon retirement	2 389	2 610	-8%	1%
Financial leasing liabilities	1 534	415	270%	0%
Other non-current liabilities	1 368	798	71%	0%
	35 102	41 438	-15%	11%
Current liabilities				
Short-term loans from banks and third parties	151 765	114 465	33%	49%
Short-term part of long-term bank loans	42 650	50 795	-16%	14%
Commercial liabilities	66 134	59 326	11%	21%
Liabilities to related parties	3 360	2 605	29%	1%
Liabilities for taxes	5 487	3 950	39%	2%
Liabilities for taxes	3 046	3 200	-5%	1%
Other current liabilities	3 232	2 132	52%	1%
	275 674	236 473	17%	89%
TOTAL LIABILITIES	310 776	277 911	12%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	676 588	625 190	8%	

Equity of the Sopharma Group increased by 18.5 million BGN compared to December 31, 2010, primarily through the net financial result for the current period. Equity related to equity holders of the Company is 47% of total equity and liabilities, with some improvement of the financial autonomy of the group.

Non-current liabilities decreased by 6.3 million BGN, or 15%, from 41.4 million BGN at the end of 2010 to 35.1 million BGN at the end of 2011 mainly due to the reduction of long-term bank loans by 7.9 million BGN due to restructuring of bank loans of the company.

Current liabilities increased by 39 million BGN or 17% compared to 2010. The main reason for this is the increase in short-term bank loans by 37.3 million BGN, as a result of maturing working capital loans that are in the process of renegotiating. In the period new contracts with banks, incl. contract for an investment credit of 32 million EUR to finance the construction of a new tablet plant of Sopharma AD in Sofia and annexes for extension of working capital loans, have been signed. Total liabilities on bank loans of the group increased by 21.3 million BGN. The increase in commercial payables is due to a great extent of its obligations to suppliers, which increased by 6.8 million BGN compared to December 31, 2010. Liabilities to associated companies increased, mainly as a result of service obligations for the construction of the new tablet plant, which at the end of the year amounted to 4 million BGN.

Cash flow

	31.12.2011 BGN '000	31.12.2010 BGN '000
Net cash flow from operations	52 377	70 770
Net cash flow from investment activities	(64 506)	(51 996)
Net cash flow used in financial operations	155	9 452
Net increase/(decrease) of cash and cash equivalents	(12 834)	28 226
Cash and cash equivalents on January 1	45 069	16 843
Cash and cash equivalents on December 31	32 235	45 069

Net cash flows as at December 31, 2011 generated from operating activities amounted to 52.4 million BGN, net cash from investing activities (64.4) million BGN and from financing activities 0.2 million BGN. As a result of these activities cash and cash equivalents decreased by 12.8 million BGN and the end of 2011 amounted to 32.2 million BGN, compared to 45.1 million at the end of 2010.

Financial ratios

	2011	2010
ROE ¹	12.5%	15.0%
ROA ²	6.0%	7.4%
Asset turnover ³	1.00	1.06
Current liquidity ⁴	1.39	1.53
Quick ratio ⁵	0.93	1.05
Cash/current liabilities ⁶	0.12	0.19
Owners' equity/liabilities ⁷	1.18	1.25

¹ Net profit belonging to the equity holders of the Company / arithmetic mean of the equity for the last five quarters

² Net profit belonging to the equity holders of the Company / arithmetic mean of total assets for the last five quarters

³ Revenues from sales / arithmetic mean of total assets for the last five quarters

⁴ Current assets / current liabilities

⁵ Receivables+cash/current liabilities

⁶ Cash/current liabilities

⁷ Equity/Liabilities

* In 2011, the financial indicators reflecting the ROE, ROA and Asset turnover ratio are calculated according to the methodology for calculating the financial ratios of BSE.

Information on shares of Sopharma AD

The total number of outstanding shares at December 31, 2011 of Sopharma AD is 132 million with a nominal value of 1 BGN per share. All issued shares are nominal, dematerialized, registered and indivisible in accordance with the Statute of the Company. All issued shares are of one class. Each share gives equal rights to its owner, proportionate to the nominal share value.

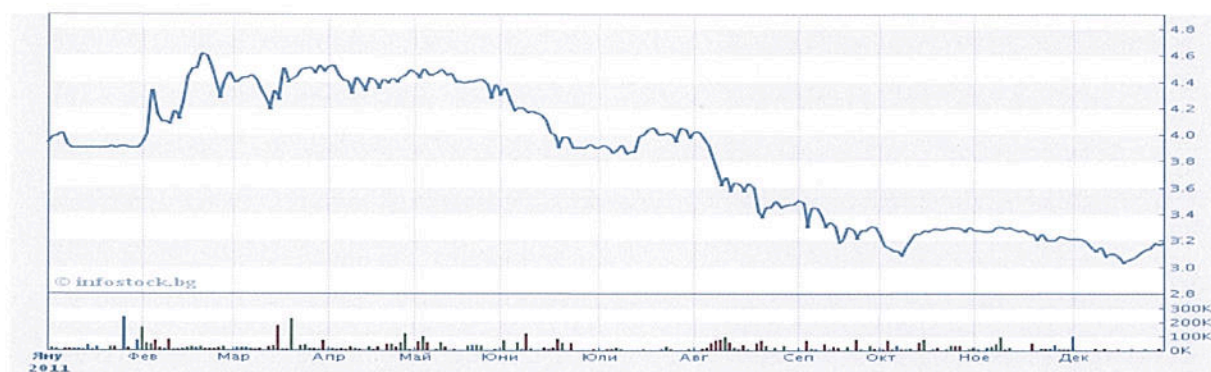
Shares of Sopharma AD are listed on the official market of the Bulgarian Stock Exchange - Sofia and the official market of the Warsaw Stock Exchange. The shares participate in the formation of the indices SOFIX, BG40 and BGTR30 of the Bulgarian Stock Exchange - Sofia.

The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index with a 0.11% weight, with the greatest weight (40%) in the Erste Bank Bulgaria Basket, CECE MID on the Vienna Stock Exchange, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds and the certificate ABN AMRO SOFIX - Open-end-certificate and the new blue-chip index Dow Jones STOXX Balkan 50 Equal Weighted Index.

Important information for the shares of Sopharma AD

	2011	2010
Total number of issued shares	132 000 000	132 000 000
Average outstanding number of shares	129 935 685	131 661 124
Number of shares outstanding at the end of the period	129 065 837	130 819 385
Earnings per share in BGN	0,30	0,32
Price per share at the end of the period in BGN	3,175	3,912
Price/Earnings ratio (P/E)	10,58	12,23
Book value per share in BGN	2,480	2,280
Price/Book value ratio (P/B)	1,280	1,716
Market capitalization in BGN	419 760 000	516 384 000

Trade with shared of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01.01-31.12.2011



Signature:

Ognian Donev, PhD
Executive Director, Sopharma AD