

MANAGEMENT REPORT

2012



SOPHARMA GROUP
2012

29 April 2013

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 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 Bulgarian Rose - Sevtopolis AD and Unipharm AD Bulgaria, Ukraine PAO 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.

Controlled companies

Sopharma Group consists of Sopharma AD and 24 entities, including 22 subsidiaries, directly or indirectly controlled by the Company, and two joint ventures (Sopharma Zdrovit, Poland, currently in liquidation and Vivaton plus, Belarus).

Sopharma Group

Company	Share as at 31.12.2012 in %
Sopharma Trading AD	81.01
Bulgarian Rose Sevtopolis AD, Kazanlak, Bulgaria*	52.77**
Biofarm Engineering AD, Sliven, Bulgaria	97.15
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*	51.30**
Unipharm AD, Sofia, Bulgaria	52.21**
Phyto Palauzovo AD**	50.13*
OAD Vitaminy, Uman, Ukraine	99.56
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Ivanchich and Sinovi DOO., Belgrade, Serbia	51.00
Sofarma Warsaw Cn.3.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 SIA, Riga, Latvia	51.00
Brititreyd SOOO, Minsk, Belarus**	50.24
Tabina SOOO, Minsk, Belarus **	47.94*
Brizpharm SOOO, Belarus**	26.01*
Interpharm Company ZAO, Vitebsk, Belarus**	36.31
Sopharma Ukraine EOOD	100
Vivaton OOO plus, Belarus***	50.00
Sopharma Zdrovit JSC Warsaw, Poland in Liquidation ***	50.01

*effective share in percent

**indirect share

***joint stock company

As at 31 December 2012 the GROUP has an interest through its subsidiary Briz SIA , Latvia in the associated company Vestpharm ODO, Belarus and Alean ODO, Belarus.

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

Sopharma Group

Executive Director Ognian Donev, PhD.

Remuneration received by the members of the Board of Directors of Sopharma AD as at 31 December 2012 amounts to 1,013 thousand BGN (Art.247a of CA).

Company shares, owned by members of the Board of Directors of the Company as at 31 December 2012 are as follows:

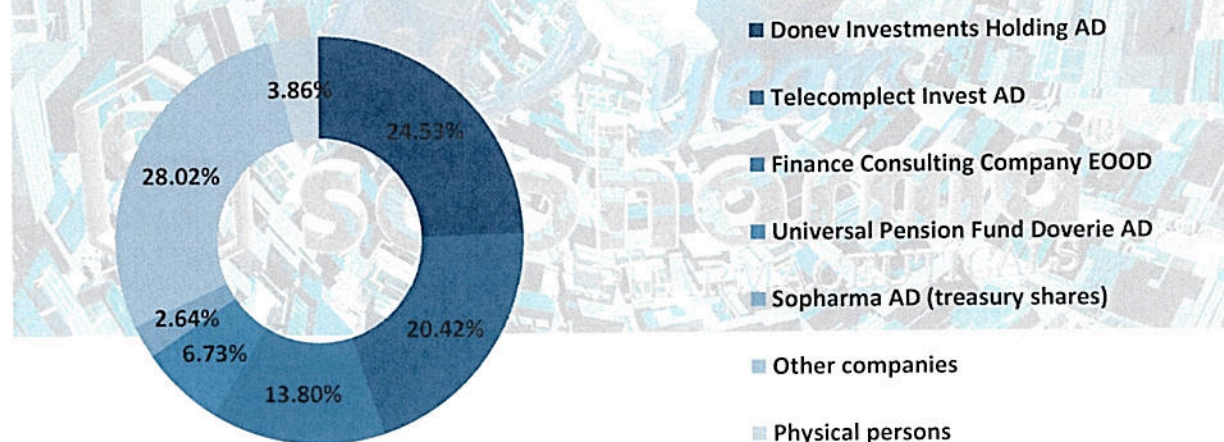
Ognian Palaveev – 54,320 shares;
Alexandar Tchaouchev - 86,514 shares.

The Articles of association of Sopharma AD do not provision any restrictions on the right of the members of the Board of Directors to acquire shares or bonds of the Company.

Investor Relations Director of is Pelagia Viatcheva, tel. 8134 523, Sofia, 5 "Lachezar Stanchev" Str., Building A, Floor 11.

Remuneration and other short-term payments to the key management personnel of the Group amount to 3,886 thousand BGN (2011: 3,637 thousand BGN).

Shareholder structure as at 31 December 2012



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 haemodialysis;
- ✚ 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, , 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 gynaecology.

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 analgesic (painkiller);
- ✚ Tempalgin - original analgesic (painkiller);
- ✚ Analgin - generic analgesic (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 21.6% (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 Group

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

For 2012 the average number of employees in the Sopharma Group is 3,945 (3,889 in 2011). The average number of employees in Sopharma AD for 2011 is 1,859 (1,848 in 2011), and in Sopharma Trading AD it is 680 (698 in 2011).

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 2012

On 15 February 2012 the subsidiary Briz SIA - Latvia sold its interest in its subsidiary OOO Superlats.

On 19 March 2012 the mother company opened a kindergarten for children of employees. 25 children will receive professional care in a building that is fully aligned with the requirements for childcare and has a total area of 253 m² interior. The building complies with modern European standards, and the food is prepared consistent with the age of children and requirements for proper nutrition. The investment amounted to 300,000 BGN.

On 10 April 2012 the Board of Directors of Sopharma decided to sell 51 % of the capital of ZAO Rostbalkanpharm, city of Azov, Rostov Region, Russian Federation.

On 18 April 2012 Sopharma AD received notifications of disclosure of shareholdings under Art. 145 of POSA: **Gramercy Select Master Fund**, USA, Georgetown sold 8,587,285 shares, representing 6.51% of the capital of Sopharma, thereby closing its position in the capital of Sopharma AD, and **Gramercy Emerging Markets Fund**, USA, Georgetown sold 7,980,192 shares, representing 6.05% of the capital of Sopharma, thereby closing its position in the capital of

Sopharma Group

Sopharma AD. The date of registration of the two transactions with the Central Depository is 09 April 2012.

In May the Board of Directors of Sopharma AD (the "Company") took the decision to establish the Sopharma Ukraine OOD company with headquarters in Kiev, Ukraine and with share capital of 1,000,000 / one million / UAH. The aim of the company is to optimize the trading business in Ukraine.

Sopharma received in June in Belgrade the prestigious international award "Business Partner of 2012" for the opening of a second production plant for medicines near Belgrade in September 2011.

On 14 June 2012 Sopharma AD purchased 6,149 shares of the capital of Maritzatex AD, increasing its share in the capital of Maritzatex AD to 6,20%.

On 14 June 2012 was conducted the Annual General Meeting of Shareholders of "Molina Krepost" AD, which took the following decisions: retaining of profits for 2011 as additional reserve of the company; re-election as auditor company of AFA OOD Sofia, "Oborishte" Str. № 38 to audit and certify the annual financial statements of the Company for 2012.

The Annual General Meeting of shareholders of Sopharma AD, held on 19 June 2012 in Sofia, 16 Iliensko shousee, took the following decisions:

- ✚ net profit for 2011, amounting to 40 790 563.74 BGN, after the allocation of 10% for the statutory reserve, shall be distributed as follows: 0.07 BGN (seven stotinki) shall be distributed as dividend to shareholders, the remainder shall be allocated to the additional reserves of the Company.
- ✚ AGM dismissed Unipharm AD as a member of the Board of Directors at the request of the company and elected Mr Ognian Kirilov Palaveev as a member of the Board of Directors.
- ✚ AGM elected the registered auditor company AFA ODD, Sofia, 38 Oborishte Str. to audit and certify the annual financial statements for 2012.

On 20 June 2012 was held an Annual General Meeting of Shareholders of Unipharm AD. The AGM decided to distribute the profit achieved in 2011 as follows: after the allocation of 10% of the profit to the legal reserves a / 1 500 000 BGN shall be distributed as dividends to shareholders or 0.25 BGN per share and b/ the remaining 583 289.74 BGN shall be allocated to the additional reserves.

The Annual General Meeting of Shareholders of Sopharma Trading AD, held on 26 June 2012, decided to distribute the profit for 2011 as follows: 641 590.73 BGN shall be allocated to the

Reserve Fund, 5 593 851.53 BGN shall be distributed as dividends to shareholders – gross dividend per share is 0.17 BGN; 180 465.03 BGN shall be allocated to the additional reserves of the company.

On 28 June 2012 an Annual General Meeting of Shareholders of Sopharma Buildings REIT was held. The AGM decided to distribute the profit achieved in 2011 as follows: a/ 151 242.89 BGN shall be distributed as dividends to shareholders and b/ the remaining 17 514.17 BGN shall be allocated to the Reserve Fund. The gross dividend per share is 0.23268 BGN.

On 17 July 2012 Sopharma increased its interest in the capital of Doverie United Holding AD from 14.97% to 18.70% as a result of a capital increase of Doverie United Holding AD.

Sopharma AD increased its share in the capital of Biopharm Engineering AD from 69,43% to 97,15% after a capital increase by the company.

On 29 October 2012, pursuant to Article 262d of the Commercial Act, was signed a merger agreement between Bulgarian Rose – Sevtopolis AD (merging company) and Sopharma AD (acquiring company). The agreement settles both the technical process of the merger of Bulgarian Rose – Sevtopolis AD into Sopharma AD, as well as the ensuing consequences for the two companies. The fair price of the shares of the companies involved in the transformation is determined based on generally accepted valuation methods. Based on the fair price of the shares of the companies involved in the transformation an exchange ratio of 0.554192 has been formed, which means that one share of the merging company Bulgarian Rose – Sevtopolis AD shall be exchanged for 0.554192 shares of the acquiring company Sopharma AD. As of the present moment the Deputy Chairman of the Financial Supervision Commission, Head of the "Investment Supervision" Department, has not yet granted an approval under art. 124 of the POSA of the merger contract, of the reports of the governing bodies under art. 262i of the Commercial Act and of the report of the examiner under art. 262 m of the Commercial Act.

On 01 November 2012 an Extraordinary Meeting of Shareholders of Sopharma was held, which took the following decision: "EGM amends the conditions for share repurchase, determined by the decision taken on item 14 of the agenda of the regular AGM, held on 23 June 2010, and amended by the decision of the Extraordinary General Meeting of Shareholders from 30 November 2011, as follows: the repurchase of own shares representing the company's capital, subject to the specific requirements of CA and POSA, shall be carried out under the following conditions: volume of treasury shares - up to 10% of the total number of shares issued by the company, but not more than 3% for one calendar year; period of execution of the repurchase – not longer than 5 (five) years; minimum repurchase price– 2.10 BGN; the maximum repurchase price of 5,50 BGN per share, determined by a decision of the regular AGM from 23 June 2010, shall not be amended."

New developments and products

✚ New products in 2012

Three new products for the Company have been implemented - Vitamin C ampoules of 2 ml. and 5 ml. for oral ingestion, Sopral ampoules and Neurelaks tablets.

✚ Expected in 2013

The implementation of 3-5 new products is expected by the end of 2013.

✚ Developments

More than 50 production processes and technologies are in a process of transfer and optimization. Twenty-three new products for the company are currently under pharmaceutical development.

Future development

- ✚ Sopharma AD will continue its development as a company producing high-quality medicines 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 national market.
- ✚ With regard to foreign markets, the efforts are focused on retaining and increasing the share of the Company on the main markets (Russia, Ukraine and Poland) as well as establishing and extending of 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.

Significant events after the end of the reporting period

On 14 February 2013 Sopharma sold 1,105,000 shares in the capital of Sopharma Trading AD, resulting in a decrease in its share in the capital of the company to 77,65%.

On 25 February 2013 completed the liquidation of the joint venture Sopharma Zdrovit – in liquidation, Poland, and the company was erased from the National Court Register of Poland.

The Extraordinary General Meeting of Shareholders of Sopharma AD, which was held on 28 February 2013 took the following decision: "Amendment of the conditions for acquisition of treasury shares of the Company. Draft decision: AGM shall amend the conditions for share repurchase, determined by the decision on the regular AGM, held on 23 June 2010, and amended by decisions of the Extraordinary General Meeting of Shareholders from 30 November 2011 and the EGM from 1 November 2012, as follows: the repurchase of own shares representing the company's capital, subject to the specific requirements of CA and POSA, shall be carried out at a minimal repurchase price not lower than the nominal value of one share of the capital of the Company."

Sopharma AD acquired additional 770 shares of the capital of Momina krepost AD. After this transaction the share of Sopharma AD in the capital of Momina krepost AD increased to 50.01%.

As at 25 April 2013 Financial Consulting Company EOOD owns 12,699,038 shares, which represent 9,62% of the capital of the Company.

As at 25 April 2013 Donev Investment Holding AD owns 34,731,663 shares, which represent 26,31% of the capital of the Company.

The Group performed the following transactions with shares of Group companies (through Briz, Latvia):

- sale of 5% of the shares of OOO Tabina (remains a subsidiary company);
- sale of 15.3% of the shares ZAO Interpharm (remains a subsidiary company);
- purchase of 13% of the shares SOOO Brizpharm (remains a subsidiary company);
- purchase of 5% of the shares ODO Vestpharm (remains an associated company);
- purchase of 19% of the shares of ODO Alean (changed from an associate to a subsidiary company).

The Group performed the following transactions with shares of companies classified as available-for-sale investment as at 31 December 2012 (through Briz, Latvia):

- purchase of 19% of the shares of OOO NPK Biotest (changed from an available-for-sale investment to an associated company);
- purchase of 19% of the shares of OOO BelAgroMed (changed from an available-for-sale investment to an associated company).

As per a share sale-purchase agreement from 24 April 2013 the Group sold the entire share capital holding in PAT "Krimgas" - 1,335,175 shares for BGN 2,734 thousand.

Key financial indicators

Indicators	1-12/2012 BGN '000	1-12/2011 BGN '000	change %
Sales revenue	688 579	644 731	6,8%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	67 463	65 757	2,6%
Operating profit	45 468	46 025	-1,2%
Net profit	37 960	40 336	-5,9%
Capital expenditures	78 541	47 425	65,6%
	31.12.2012	31.12.2011	
	BGN '000	BGN '000	
Non-current assets	354 751	294 130	20,6%
Current assets	390 667	382 458	2,1%
Equity	391 353	365 812	7,0%
Non-current liabilities	70 088	35 102	99,7%
Current liabilities	283 977	275 674	3,0%
	1-12/2012	1-12/2011	
Ratios			
EBITDA / Sales revenue	9,8%	10,2%	
Operating profit/ Sales revenue	6,6%	7,1%	
Net profit/ Sales revenue	5,5%	6,3%	
Borrowed capital/ Equity	0,95	0,85	
Net debt/ EBITDA, annualised	3,8x	2,8x	

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 formed mainly through the parent company from export of finished products contracted as payable in EUR. At the same time, the Group again through the parent company supplies a small part of its basic raw materials and consumables in

USD. The currency risk is related to 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 conduct 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 Lev (BGN) or euro (EUR).

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 for procedures for daily monitoring of the movement of the USD exchange rate and control of pending payments. The exposition 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 fully conducted 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 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, 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 its main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. Another significant source of risk is the net position in BYR and the hyperinflation on that market.

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 BGNels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

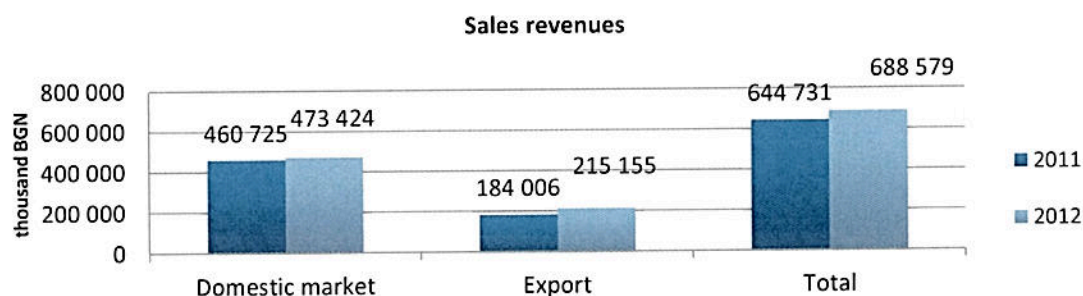
The management of the Group companies together with that of the parent company currently monitor and analyse the exposure of the respective company to the changes in interest BGNels. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative 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 for 2012

Sales revenues

Revenues from sales of the Group have increased by 43,8 million BGN or 6,8%, reaching 688,6 million BGN in 2012 compared to 644,7 million BGN in 2011. The increase is due to an increase in sales of goods by 25,1 million BGN, reaching 422,3 million BGN in 2012 compared to 397,2 million BGN in 2011 and growth of 18,8 million BGN in sales of finished products, which reach 266,3 million BGN in 2012 compared to 247,5 million BGN in 2011 .

Sales by types of markets



The contribution of sales in Bulgaria to the consolidated sales revenue in 2012 amounted to 69%, increasing by 12,7 million BGN, or 2,8%, to 473,4 million in 2012, compared to 460,8 million BGN in 2011.

Sopharma has a 5% share of the Bulgarian pharmaceutical market in terms of value and a 13% share in terms of sales. The positions of the main competitors of the company in the country are as follows: Novartis - 7% (5% in units.), Actavis - 6% (14% in units.), Roche-6% (1% in units.), Glaxosmithkline - 6% (3% in units), Sanofi-Aventis-Zentiva - 5% (3% in units.), Servier - 4% (2% in units), Astra Zeneca - 3% (1 % in units), Pfizer - 3% (2% in units). Bayer -3% (2% in units), among the distributors of medicines Sopharma Trading AD has a relative share of 21,6% and along with Phoenix / Libra (20,4% share) and Sting (20,6%) has a leading position in the national pharmaceutical market.

The Group products with the highest share in sales in the country are Analgin, Vicetin, Methylprednisolone, Flixotid, Vitamin C.

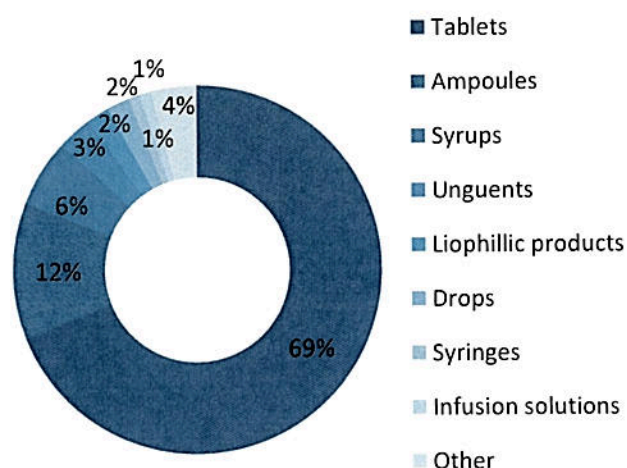
Export sales grew by 31,1 million BGN or 16,9%, reaching 215,2 million BGN in 2012 compared to 184 million BGN in 2011.

Revenue by groups 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.

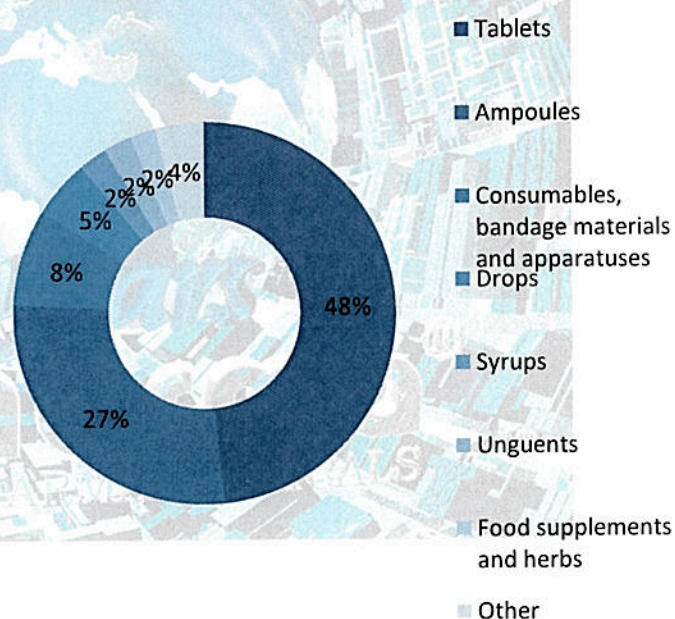
Revenues from the sale of finished products include revenue from the sale of products manufactured by the Company and the Group companies.

Revenues of finished products by type	1-12/2012 BGN '000	1-12/2011 BGN '000	change %
Tablets	185 081	176 134	5%
Ampoules	33 434	28 477	17%
Syrups	15 163	17 001	-11%
Unguents	8 138	4 941	65%
Lyophilic products	5 164	5 943	-13%
Drops	5 007	3 709	35%
Syringes	2 375	2 191	8%
Infusion solutions	1 763	1 986	-11%
Other	10 137	7 153	42%
Total	266 262	247 535	8%



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.

Revenues of goods by type	1-12/2012 BGN '000	1-12/2011 BGN '000	change %
Tablets	204 399	209 367	-2%
Ampoules	115 617	100 634	15%
Consumables, bandage materials and apparatuses	34 549	23 665	46%
Drops	21 064	22 151	-5%
Syrups	10 220	9 482	8%
Unguents	10 077	9 418	7%
Food supplements and herbs	8 916	4 703	90%
Other	17 475	17 776	-2%
Total	422 317	397 196	6%



Other revenues from operations

Other revenues from operations	2012 BGN '000	2011 BGN '000	change %	share 2012 %
Services rendered	2 394	1 854	29%	103%
Rents	735	405	81%	32%
Income from forfeits	705	782	-10%	30%
Services of social activities and events	598	559	7%	26%
Financing from public institutions	563	433	30%	24%
Income from sale of building rights	416	-		18%
Net gains/(losses) from changes in the fair value of investment properties	116	(109)	206%	5%
Net losses from exchange rate differences on commercial receivables and payables and current accounts	(3 683)	(3 789)	3%	-158%
Other	484	1 640	-70%	21%
Total	2 328	1 775	31%	100%

Other operating income increased by 0,5 million BGN reaching 2,3 million BGN in 2012, compared to 1,8 million in 2011. The most significant influence have the increase of services rendered, which grew by 0,5 million BGN. Net gains from changes in the fair value of investment properties, rents and income from financing increased. Written-off receivables and net gain from sales of materials decreased.

Expenses

Operating expenses	2012 BGN '000	2011 BGN '000	change %	share 2012 %
Changes in inventories of finished goods and work in progress	-2 678	-10 414	-74%	0%
Book value of goods sold	400 535	370 991	8%	62%
Materials	89 575	86 524	4%	14%
Personnel	68 972	64 582	7%	11%
Hired services	55 492	59 336	-6%	9%
Amortization	21 995	19 732	11%	3%
Other operating expenses	11 548	9 730	19%	2%
Total	645 439	600 481	7%	100%

The operating expenses in 2012 increased by 44,9 million BGN or 7% from 600,5 million BGN in 2011 to 645,4 million BGN in 2012 due to growth in sales and therefore the carrying value of sold products in the internal market, increased cost of materials, personnel, amortization and other operating expenses.

	2012	2011	change	share
	BGN '000	BGN '000	%	2012
Expenses on materials				
Basic materials	64 725	64 194	1%	72%
Spare parts, laboratory and technical materials	6 985	5 858	19%	8%
Heat power	4 994	4 501	11%	6%
Electric energy	4 866	4 262	14%	5%
Fuels and lubricating materials	3 737	3 246	15%	4%
Water	947	909	4%	1%
Security services	138	729	-81%	0%
Other	3 183	2 825	13%	4%
Total	89 575	86 524	4%	100%

Cost of materials (14% share) increased by 3,1 million BGN or 4% to 89,6 million BGN in 2012 compared to 86,5 million BGN in 2011. The cost of basic materials grew by 0,5 million BGN, or 1%, the most significant contributor being the cost of liquid and solid chemicals and packaging materials which increased accordingly by 0,8 million BGN and 0,1 million BGN. The cost of heat, spare parts, laboratory and technical materials and electricity increased. This increase in cost of materials is mainly due to increased volume of production.

	2012	2011	change	share
	BGN '000	BGN '000	%	2012
Hired services expenses				
Advertising	16 698	14 696	14%	30%
Rentals and insurance	5 841	3 022	93%	11%
Consulting services	4 969	2 643	88%	9%
Manufacture	4 773	13 830	-65%	9%
Forwarding and transportation services	4 287	4 318	-1%	8%
Buildings and equipment maintenance	3 712	3 735	-1%	7%
Bank and regulatory taxes	1 638	2 003	-18%	3%
Services under civil contracts with physical persons	1 794	1 732	4%	3%
Subscription fees	1 497	1 213	23%	3%
Registration of medicines	1 241	958	30%	2%
Local taxes and charges	1 171	912	28%	2%
Security	1 118	883	27%	2%
Communications	1 102	824	34%	2%
Commissions	344	3 081	-89%	1%
Other	5 307	5 486	-3%	10%
Total	55 492	59 336	-6%	100%

Hired services have a 9% share of operating expenses and decreased by 3,8 million BGN or 6%, reaching 55,5 million BGN in 2012 compared to 59,3 million BGN in 2011. The most significant influence comes from manufacture, which decrease by 9,1 million BGN, as well as a decrease of 2,7 million BGN in commission fees. The expenses which increased were rents by 2,8 million BGN, consulting services – by 2,3 million BGN and advertising - by 2 million BGN.

	2012	2011	change	share
	BGN '000	BGN '000	%	2012
Personnel costs				
Current wages and salaries	51 964	49 190	6%	75%
Social security/health insurance contributions	10 785	9 981	8%	16%
Social benefits and payments	3 631	3 196	14%	5%
Bonuses	1 288	1 280	1%	2%
Other	1 304	935	39%	2%
Total	68 972	64 582	7%	100%

Personnel costs (with an 11% share) grew by 4,4 million, or 7%, reaching 69 million in 2012 compared to 64,6 million BGN in 2011. Total growth of these costs is mainly due to the increase of salaries of the personnel and the social security contributions.

	2012	2011	change	share
	BGN '000	BGN '000	%	2012
Other operating expenses				
Accrued/(recovered) impairment of current assets, net	3 080	2 683	15%	27%
Entertainment allowances	2 778	2 541	9%	24%
Business trips	1 741	1 446	20%	15%
Scrap and loss of finished products and long-term assets	1 341	783	71%	12%
Awards on litigations	766	50	1 432%	7%
Donations	519	470	10%	4%
Trainings	318	356	-11%	3%
Payments to the budget	225	567	-60%	2%
Other	780	834	-6%	7%
Total	11 548	9 730	19%	100%

Other operating expenses (with a share of 2%) increased by 1,8 million BGN or 19% from 9,7 million BGN in 2011 to 11,5 million BGN as at the end of 2012. The most significant impact has net accrued impairment of current assets, which increased by 0,4 million BGN. There is an increase in scrap and loss of finished products and long-term assets by 0,6 million BGN, awards on litigations by 0,7 million BGN and entertainment allowances by 0,2 million BGN.

Depreciation costs (with a share of 3 %) increased by 2,3 million BGN or 11% from 19,7 million BGN in 2011 to 22 million BGN in 2012.

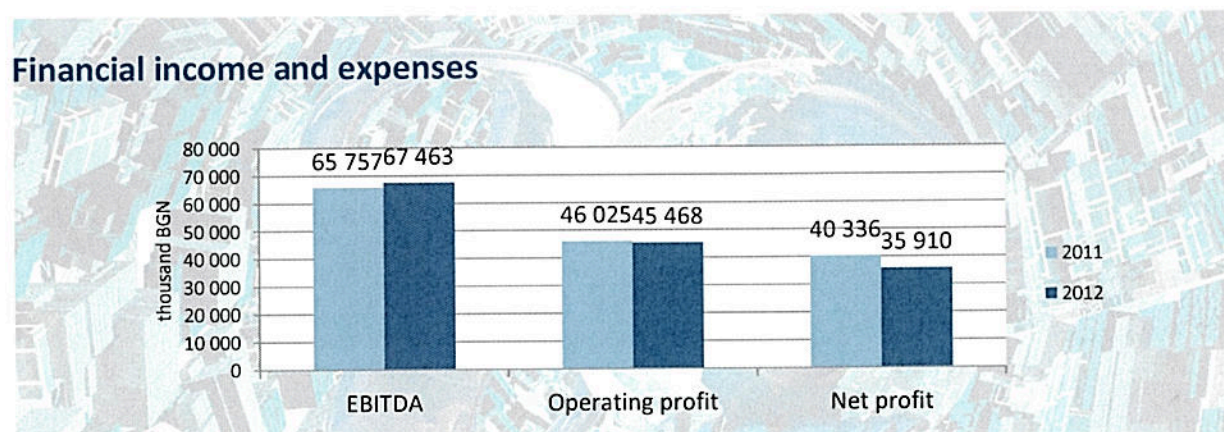
Financial income and expenses

	2012	2011	change	share
	BGN '000	BGN '000	%	2012
Financial income				
Income from interest on loans granted	4 109	4 638	-11%	68%
Income from interest on overdue payments	1 246	1 467	-15%	21%
Net gain on exchange rate differences on loans	433	388	12%	7%
Income from shares	184	80	130%	3%
Income from interest on deposits	71	440	-84%	1%
Total	6 043	7 013	-14%	100%
Financial expenses				
Interest expenses on loans	7 338	8 298	-12%	79%
Impairment of available-for-sale investments	1 071	2 624	-59%	11%
Bank fees on loans and guarantees	520	529	-2%	6%
Financial leasing interest	381	256	49%	4%
Expenses on investments in securities	31	6	417%	0%
Total	9 341	11 713	-20%	100%

Financial income is reduced by 1 million BGN or 14% to 6,0 million BGN in 2012 compared to 7,0 million BGN in 2011. This is due to a decrease in income from interest on loans granted by 0,5 million BGN, in income from interest on overdue payments by 0,2 million BGN and in income from interest on deposits by 0,4 million BGN.

Financial expenses decreased by 2,4 million BGN or 20% from 11,7 million BGN in 2011 to 9,3 million BGN in 2012. This decrease is mainly due to the reduction of impairment of available-for-sale investments by 1,6 million BGN and decrease of interest expense on borrowings by 1 million BGN.

Net financial income (expenses) decreased by 1,4 million BGN, reaching (3,3) million BGN in 2012 compared to (4,7) million BGN in 2011.



Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 1,7 million BGN or 3%, amounting to 67,5 million BGN in 2012, compared to 65,8 million BGN in 2011.

Operating profit decreased by 0,5 million BGN or 1%, to 45,4 million BGN in 2012, compared to 46 million BGN in 2011.

Net profit decreased by 2,4 million BGN, or 6%, reaching 37,9 million BGN in 2012 compared to 40,3 million BGN in 2011.

Assets

	31.12.2012	31.12.2011	change	share
	BGN '000	BGN '000	%	2012
Non-current assets				
Property, plant and equipment	292 074	236 338	24%	82%
Intangible assets	26 380	27 979	-6%	8%
Investment property	7 110	6 555	8%	2%
Investments in associated companies	582	-		0%
Available-for-sale investments	23 425	19 972	17%	7%
Long-term receivables from related parties	1 183	1 001	18%	0%
Other long-term receivables	1 460	576	153%	0%
Differed taxes	2 537	1 709	48%	1%
	354 751	294 130	21%	48%
Current assets				
Inventories	130 950	126 022	4%	34%
Trade receivables	160 558	136 756	17%	41%
Receivables from related parties	60 871	63 113	-4%	16%
Other receivables and advance payments	22 521	24 332	-7%	6%
Cash and cash equivalents	15 767	32 235	-51%	4%
	390 667	382 458	2%	52%
TOTAL ASSETS	742 684	676 588	10%	100%

Total assets increased by 68,8 million BGN, or 10%, reaching 745,4 million BGN, compared to 676,6 as at 31 December 2011 as a result of the increase in both current and non-current assets.

Non-current assets increased by 60,6 million BGN, or 21%, mainly due to the increase in property, plant and equipment by 55,7 million BGN. The most significant impact on the increase in property, plant and equipment have assets in the process of acquisition mostly due the investment in the new solid forms factory, which for 2012 is 48,9 million BGN, while the total funds invested since the beginning of the project amounted to 76,4 million BGN. Additional funds were invested on acquisition of laboratory and production equipment.

Intangible assets fell by 1,6 million BGN, with the most significant expense being the implementation of an integrated information system.

Available-for-sale investments increased by 3,5 million BGN mainly due to a capital increase of Doverie United Holding AD by 2,1 million BGN and change in the fair value of the investment in Krimgas by 0,6 million BGN.

Investments in associated companies increased by 0,6 million BGN, compared to 31 December 2011.

Long-term loans to related parties as at 31 December 2012 are to companies under common control through key management personnel:

- ✚ Contracted amount: 1,100 thousand BGN, interest rate — 8.08% , maturity — 31 December 2014, purpose – working capita, balance as at 31 December 2012 — 748 thousand BGN, no collateral.

Current assets increased by 8,2 million BGN or 2%, reaching 390,7 million BGN as at 31 December 2012 compared to 382,5 million BGN as at 31 December 2011.

Inventories comprise 34% of current assets and increased by 4,9 million BGN compared to 31 December 2011, mainly in the portion of goods (by 1, 7 million BGN), materials (by 3, 1 million BGN), finished products (by 0,5 million BGN) and unfinished products (by 0,2 million BGN). Semi-finished products decreased by 0,6 million BGN.

Trade receivables, which have a relative share of 41% of current assets, increased by 23,8 million BGN, most significantly in the portion of receivables from customers (23,3 million BGN) and advance payments, which increased by 0,5 million.

Receivables from related parties have a relative share of 16% in current assets and decreased by 2,2 million BGN. The most significant contribution to this decrease have receivables on commercial loans granted with 5,5 million BGN.

Current commercial loans granted to related companies:

To companies – main shareholder:

- ✚ Contractual amount: 4 035 thousand EUR; interest rate – 4,8%; maturity – 31 December 2013, balance as at 31 December 2012 – 8 170 thousand BGN (4 177 thousand EUR);
- ✚ Contractual amount: 300 thousand BGN; interest rate – 8.08%, maturity – 31 December 2013, balance as at 31 December 2012 – 361 thousand BGN.

To companies under common indirect control:

- ✚ Contractual amount: 7 556 thousand EUR; interest rate – 4,5%; maturity – 31 December 2013; balance as at 31 December 2012 – 10 010 thousand BGN (5 118 thousand EUR);
- ✚ Contractual amount: 1 330 thousand BGN; interest rate – 8,08%; maturity – 31 December 2013; balance as at 31 December 2012 – 710 thousand BGN.
- ✚ Contractual amount: 120 thousand BGN; interest rate – 8,08%; maturity – 31 December 2013; balance as at 31 December 2012 – 146 thousand BGN.

To companies under common control through key management personnel:

- ✚ Contractual amount: 18 478 thousand BGN; interest rate – 8,3%; maturity – 31 December 2013; balance as at 31 December 2012 – 14 932 thousand BGN.

- ✚ Contractual amount: 8 630, interest rate – 4,50%; maturity – 31 December 2013; balance as at 31 December 2012 – 12 257 thousand BGN (6 267 thousand EUR);
- ✚ Contractual amount: 25 550 thousand BGN, interest rate – 8,08%; maturity – 31 August 2013; balance as at 31 December 2012 – 9 230 thousand BGN;
- ✚ Contractual amount: 190 thousand BGN; interest rate – 8,08%; maturity – 31 December 2013; balance as at 31 December 2012 – 227 thousand BGN.
- ✚ Contractual amount: 1 300 thousand BGN; interest rate – 8,08%; maturity – 31 December 2013; balance as at 31 December 2012 – 510 thousand BGN.

Other receivables and prepaid expenses comprise 6% of current assets and decreased by 1,8 million BGN, mainly due to a decrease in awards on litigations by 4,2 million BGN. Cash and cash equivalents decreased by 16,5 million BGN compared to 31 December 2011. As at the end of the current period there are deposits amounting to 2,7 million BGN.

Liabilities and owner's equity

	31.12.2012	31.12.2011	change	share 2012
	BGN '000	BGN '000		
OWNERS' EQUITY			%	%
Share capital	132 000	132 000	0%	34%
Reserves	35 979	33 534	7%	9%
Retained earnings	177 900	154 465	15%	45%
	345 879	319 999	8%	88%
NON-CONTROLLING INTEREST	45 474	45 813	-1%	12%
TOTAL OWNERS' EQUITY	391 353	365 812	7%	100%
	31.12.2012	31.12.2011	change	share 2012
	BGN '000	BGN '000	%	%
LIABILITIES				
Non-current liabilities				
Long-term bank loans	56 844	23 280	144%	16%
Liabilities on deferred taxes	5 792	6 531	-11%	2%
Liabilities to the personnel upon retirement	2 331	2 389	-2%	1%
Financial leasing liabilities	2 509	1 534	64%	1%
Other non-current liabilities	2 612	1 368	91%	1%
	70 088	35 102	100%	20%

Current liabilities				
Short-term loans from banks	203 994	169 880	20%	58%
Short-term part of long-term bank loans	9 559	24 535	-61%	3%
Commercial liabilities	55 242	65 536	-16%	16%
Liabilities to related parties	1 560	3 360	-54%	0%
Liabilities to the personnel and for social insurance	6 624	5 487	21%	2%
Liabilities for taxes	2 408	3 046	-21%	1%
Other current liabilities	4 590	3 830	20%	1%
	283 977	275 674	3%	80%
TOTAL LIABILITIES	354 065	310 776	14%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	745 418	676 588	10%	

The owner's equity of the Sopharma Group increased by 25,9 million BGN compared to 31 December 2011 mainly through the achieved net profit for the current period. Equity relating to equity holders of the Company comprise 46% of total equity and liabilities, with a certain improvement of the financial autonomy of the Group.

Non-current liabilities increased by 35 million BGN or 100%, from 35,1 million BGN at the end of 2011 to 70,1 million BGN at the end of 2012 mainly due to the increase in long-term bank loans by 33,6 million BGN, which is due to the appropriation of funds from an investment loan for the construction of a new solid forms factory.

Deferred taxes liabilities decreased by 0,7 million BGN. The increase in other non-current liabilities is a result of government donations related to contracts for gratuitous financial aid.

Current liabilities increased by 8,3 million BGN or 3% compared to the end of 2011, mainly due to short-term bank loans, which increased by 34 million BGN. Liabilities to the personnel and for social insurance – by 1,1 million BGN, and other current liabilities – by 0,8 million BGN. The opposite effect have commercial liabilities, which decreased by 10,3 million BGN compared to 31 December 2011, mainly due to a decrease in payables to suppliers by 8,3 million BGN. The Group's total liabilities on bank loans increased by 52,7 million BGN compared to the end of 2011, mostly as a result of the investment in the new solid-forms factory.

Cash flow

	31.12.2012 BGN '000	31.12.2011 BGN '000
Net cash flow from operations	5 733	52 377
Net cash flow from investment activities	(59 838)	(64 506)
Net cash flow from financial operations	38 212	155
Net increase/(decrease) of cash and cash equivalents	(16 468)	(12 834)
Cash and cash equivalents on January 1	32 235	45 069
Cash and cash equivalents on 31 December	15 767	32 235

Net cash flow from operations as at 31 December 2012 amount to 5,7 million BGN, from investment activities (59,8) million BGN and from financial operations 38,2 million BGN. As a result of these activities the cash and cash equivalents mark a net decrease by 16,5 million BGN and as at 31 December 2012 amount to 15,8 million BGN, compared to 32,2 million BGN as at the end of 2011.

Financial ratios

	31.12.2012	31.12.2011
ROE ¹	10.8%	12.5%
ROA ²	5.1%	6%
Asset turnover ³	0.97	1.00
Current liquidity ⁴	1.38	1.39
Quick ratio ⁵	0.91	0.93
Cash/current liabilities ⁶	0.06	0.12
Owners' equity/liabilities ⁷	1.11	1.18

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

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

³ Revenues from sales, annualized / 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

Information about the shares of Sopharma AD

The total number of shares issued by Sopharma as at 31 December 2012 is 132 million with a nominal value of 1 BGN per share. All issued shares are 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. Sopharma's shares are traded on the official market of the BSE - Sofia and the official market of the Warsaw Stock Exchange. The shares are part of the indices SOFIX, BG40 and BGTR30 on the BSE - Sofia.

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 and 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 a new index for Central and Eastern Europe (CEE) that WSE started to calculate on 30 May. 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 income from dividends and subscription rights to shares.

Important information for the shares of Sopharma AD

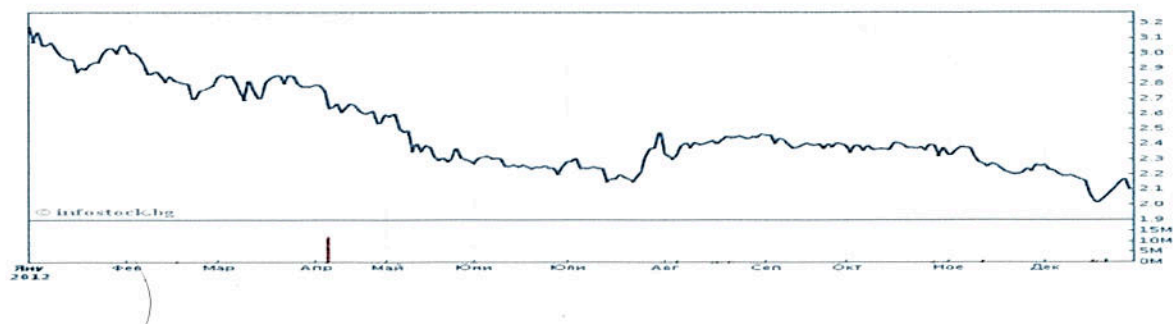
	31.12.2012	31.12.2011
Total number of issued shares	132 000 000	132 000 000
Number of shares outstanding at the end of the period	128 146 265	129 065 837
Weighted average of outstanding shares at the end of the period	128 557 606	129 935 685
Earnings per share in BGN ¹	0,27	0,29
Price per share at the end of the period in BGN	2,139	3,175
Price/Earnings ratio (P/E)	7,90	10,95
Book value per share in BGN ²	2,70	2,479
Price/Book value ratio (P/B)	0,79	1,28
Income from sale of one share in BGN ³	5,37	5.00
Price of one share / Income from sale of one share (P/S)	0,40	0,64
Market capitalization in BGN	282 348 000	419 100 000


¹ Net profit of the company for the last four quarters excluding earnings from non-controlling interest/ average outstanding number of shares

² Common equity of the company as per the last financial report excluding non-controlling interest / number of shares outstanding at the end of the period

³ Income from sales in the last four months / number of outstanding shares as at the end of the period.

**Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period
01 January – 31 December 2012**



Signature: 

Ognian Donev, PhD
Executive Director, Sopharma AD

