

MANAGEMENT REPORT

FOR 2014



SOPHARMA GROUP

29 April 2015

General information

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

The Group operates in the following areas:

- + production of pharmaceutical products including medicines, primarily generics, herbal-based substances and food supplements, which is primarily done by Sopharma AD (the Company) and to a lesser extent by its production subsidiaries including Bulgarian Rose - Sevtopolis AD and Unipharm AD in Bulgaria, OAO Vitamins in Ukraine 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 used in medicine, which is mainly performed by Momina Krepost AD, and other complementary activities to the production of pharmaceutical products and distribution of pharmaceutical products.

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

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

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

Controlled companies

Sopharma Group consists of Sopharma AD and 34 legal entities, including 30 subsidiaries, directly or indirectly controlled by the Company, and four joint ventures.

Sopharma Group

Company	Interest as at 31.12.2014 in %
Sopharma Trading AD, Sofia, Bulgaria	71.89
Bulgarian Rose Sevtopolis AD, Kazanluk, Bulgaria*	49.99
Biopharm Engineering AD, Sliven, Bulgaria	97.15
Pharmalogistica AD, Sofia, Bulgaria	76.54
Elektroncommerce EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	40.75
Momina Krepost AD, Veliko Tarnovo, Bulgaria*	53.28
Unipharm AD, Sofia, Bulgaria	51.78
Phyto Palauzovo AD, Kazanluk, Bulgaria**	47.49
PAO Vitamini, Uman, Ukraine	99.56
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Ivanchich and Sinovi DOO., Belgrade, Serbia	51.00
Sopharma Warsaw Sp. z. o. o, Warsaw, Poland	100.00
Sopharma 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	66.13
SOOO Brititrade, Minsk, Belarus**	65.14
SOOO Tabina, Minsk, Belarus **	58.86
SOOO Brizpharm, Minsk, Belarus**	39.02
ZAO Interpharm, Vitebsk, Belarus***	50.00
ODO Alean, Minsk, Belarus**	46.95
Sopharma Ukraine, Kiev, Ukraine	100.00
OOO Vivaton, Grodno, Belarus***	50.00
OOO Med-dent, Bobruisk, Belarus***	50.00
OOO Pharmacist Plus, Minsk, Belarus**	33.73
ODO Vestpharm **	59.52
OOO NPK Biotest **	46.29
ODO BelAgroMed **	46.95
B000 SpetzApharmacia, Bobruisk, Belarus***	50.00
ZAO TBS Pharma, Vilnius, Lithuania**	33.73
OOO Bellerofon, Minsk, Belarus***	50.00
TOO Sopharma Kazakhstan, Almaty, Kazakhstan	100.00
	71.89
	49.99

*effective interest in percent

**indirect interest

***joint venture

Management Board

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

Remuneration received by the members of the Board of Directors of Sopharma AD as at 31 December 2014 amounts to BGN 979 thousand BGN (Art.247a of CA).

Company shares, owned by members of the Board of Directors of the Company as at 31 December 2014 are as follows:

Ognian Palaveev – 102,320 shares;

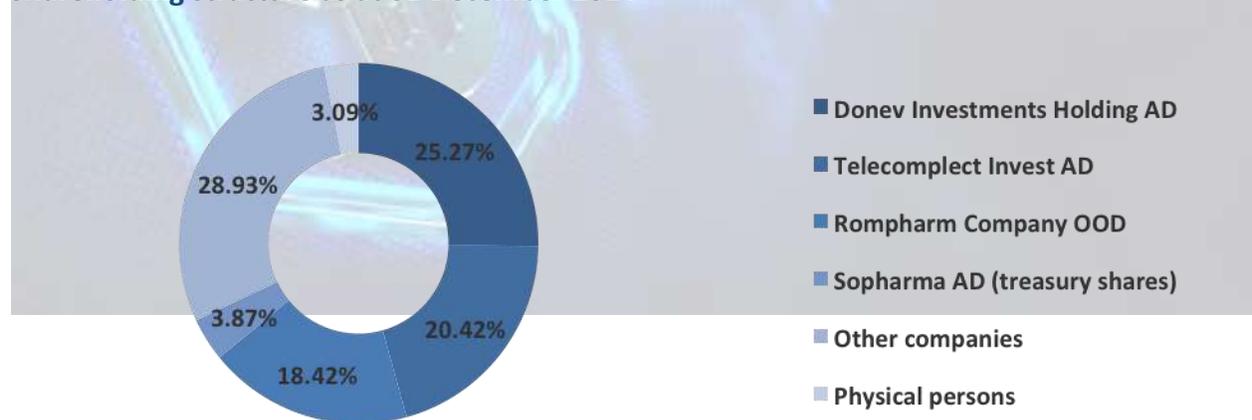
Alexandar Tchaushev - 87,414 shares.

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

Members of the key management personnel of the Group include the disclosed in Note №1 Executive Director and members of the Board of Directors of the parent company. Additionally, it includes the executive directors, the board of directors and the managers of subsidiaries of the Group. Remuneration and other short-term benefits of the key management personnel amounts to BGN 4,508 thousand (2013: BGN 4,561 thousand).

Shareholding structure as at 31 December 2014



Industrial activity

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

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

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

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

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

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

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

Distribution

Sopharma Trading is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 22% (according to IMS). Sopharma Trading is

the only distributor on the Bulgarian market of particular pharmaceutical products for several leading international pharmaceutical and other companies the field of healthcare such as Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk.

The company offers more than 7000 products (particularly pharmaceutical products, medical equipment and devices, accessories, cosmetics, vitamins and food supplements) in its portfolio, including the brands of Sopharma, and holds exclusive rights for Bulgaria over brands of strategic partners such as Aboca, Colief, Jamieson, Planter's, Premax, Skincode, SVR Laboratories, US Pharmacia and Wyeth, specialized services (such as software solutions for pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and 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. In addition to trademark, these products are protected also by patents or corporate know-how.

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

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

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

Research and development

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

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

Employees

As at 31 December 2014 the average number of employees in the Sopharma Group is 4,188 (4,122 in 2013). The average number of employees in Sopharma AD as at 31 December 2014 is 1,825 (1,793 in 2013), and in Sopharma Trading AD it is 707 (668 in 2013).

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

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

Significant events in 2014

On 14 January 2014 Sopharma AD made the final payment for the capital increase of Briz Ltd, Latvia. The interest in the capital of the company, held by Sopharma AD, reached 66.13% after the increase (previously 53.14%). The expansion of the presence on the market of the Republic of Belarus includes acquisition of a warehouse complex, implementation of an integrated information system, as well as acquisition of new pharmacies in the region.

In 2013 Briz Ltd. increased the total number of owned pharmacies to 91 through the acquisition of three pharmacy chains in the Republic of Belarus. Additionally, the acquisition of a company for wholesale of pharmaceutical products was completed.

On 20 January 2014 the Group has completed the purchase of 12% of the shares of BOOO SpetzApharmacia (via Briz, Latvia), the status of the company changed from an associate of the Group to a joint venture.

On 28 January 2014 and on 26 February 2014 the Group has completed the purchase and sale of shares of OOO NPK Biotest-Belarus (via Briz, Latvia), resulting in a net increase of its share by 6.91%.

On 04 February 2014 and on 27 February 2014 the Group has completed the purchase and sale of shares of ODO Vestpharm-Belarus (via Briz, Latvia), resulting in a net increase of its share by 7.44%.

On 5 February 2014 and on 26 February 2014 the Group has completed the purchase and sale of shares of ODLO BelAgroMed-Belarus (via Briz, Latvia), resulting in a net increase of its share by 5.31%.

On 6 February 2014 the Company sold 616 015 ordinary registered shares with voting rights of the capital of Sopharma Trading AD. After this transaction, the share of Sopharma AD in the capital of Sopharma Trading AD decreased to 73.99%.

On 7 February 2014 the Company received a notification for the acquisition of 4,230,000 shares, representing 3.20 % of its capital, by Rompharm Company OOD. After the transaction the interest of Rompharm Company OOD in the capital of Sopharma AD reached 17.60%. The registration date of the transaction in the Central Depository AD, Sofia is 6 February 2014.

On 7 February 2014, Bulgarian Rose Sevtopolis AD received a notification for disclosure of participation per art. 145 of POSA from Rompharm Company ODD for the purchase of 1,689,440 shares, representing 14.00%. After the transaction the interest of Rompharm Company OOD in the capital of Bulgarian Rose Sevtopolis AD reached 20.22%. The registration date of the transaction in the Central Depository is 6 February 2014.

On 11 February 2014 the Company received a notification for the sale of 3,424,005 shares by UPF Doverie. After the transaction the interest of UPF Doverie in the capital of Sopharma AD decreased to 4.155 %. The registration date of the transaction in the Central Depository AD, Sofia is 6 February 2014.

On 12 February 2014, Bulgarian Rose Sevtopolis received a notification for disclosure of participation per art. 145 of POSA from UPF Doverie for the selling of 794,317 shares, representing 6.58%. After the transaction the interest of UPF Doverie in the capital of Bulgarian Rose Sevtopolis AD reached 0.00%. The registration date of the transaction in the Central Depository is 6 February 2014.

On 17 June 2014 was conducted the Annual General Meeting of Shareholders of Bulgarian Rose Sevtopolis in Kazanluk, 110 23rd Shipchenski Polk Blvd, where the following decisions were taken:

- ✚ The AGM approves the proposal of the Board of Directors for the distribution of the net profit of the company for 2013, namely: BGN 1 134 000 /one million, one hundred thirty-four thousand leva/ shall be transferred to the additional reserve of the company. No divided for the shareholders shall be distributed.
- ✚ The AGM appoints the auditing company AFA OOD, with seat in Sofia, 38 Oborishte Str. as a registered auditor for the audit and verification of the annual financial statement of the company for 2014.
- ✚ The AGM continues the term of the audit committee of the company for a period of 3 /three/ years, effective as of the date of the AGM.
- ✚ The AGM approves the annual financial statement of the company for 2013 and discharges from liability the members of the Board of Directors for their work in 2013.

On the Annual General Meeting of Shareholders of Unipharm AD, conducted on 18 June 2014 in Sofia, 3 Traiko Stanoev Str. were taken the following decisions:

- ✚ Approval of the decision by the Board of Directors for the distribution of the net profit of the company for 2013, namely: the net profit for 2013 at the amount of BGN 728 009,58 /seven hundred twenty-eight thousand and nine leva and fifty-eight stotinki/, after the allocation of 10% to the statutory reserve – BGN 72 801 /seventy-two thousand eight hundred and one leva/, shall be distributed as follows: BGN 540 000 /five hundred forty thousand leva/ - for divided for the shareholders of 0.09 BGN per share. The rest of the net profit amounting to BGN 115 208,58 /one hundred fifteen thousand two hundred and eight leva and fifty-eight stotinki/ shall be allocated to the additional reserves. In accordance to the provisions of the Central Depository AD the dividend shall be paid out as follows: shareholders with client accounts at an investment intermediary – through the investment intermediary, for shareholders without client accounts at an investment intermediary – through the branches of DSK EAD in the country. The payment of the dividend shall commence within three months from the date of the AGM, on which the decision for the payment of the dividend was taken.
- ✚ Appointment of “Company for auditing and consulting” OOD for the audit and verification of the annual financial statement of the company for 2014.
- ✚ Approval of the annual financial statement of the company for 2013 and discharges from liability the members of the Board of Directors for their work in 2013.

- ✚ The AGM discharges from liabilities the members of the Supervisory Board for their work in 2013 and approves a decision for continuation of the term of the Supervisory Board for a new period of 5 years, effective from 1 July 2014.
- ✚ Continuation of the term of the Audit committee of the company for a period of 3 /three/ years, effective as of the date of the GMS.

On 19 June 2014 Sopharma AD and Bulgarian Rose – Sevtopolis AD signed a Contract for transformation through merger in accordance with the requirements of art. 262d and following of the Commercial Act (CA), as a result of which all assets of Bulgarian Rose – Sevtopolis AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Bulgarian Rose – Sevtopolis shall be terminated without liquidation. According to the signed contract, in connection with the implementation of the merger shall be carried out a capital increase of the receiving company Sopharma AD through issuing of new shares to be distributed among the shareholders of the transferring company Bulgarian Rose - Sevtopolis AD (except the shareholder Sopharma AD).

On the Annual General Meeting of Shareholders of Momina Krepost AD, conducted on 19 June 2014 in Veliko Tarnovo, 3 Magistralna Str. were taken the following decisions:

- ✚ The AGM approves the proposal of the Board of Directors for the distribution of the net profit of the company for 2013, namely: BGN 170 000 /one hundred seventy thousand leva/ shall be transferred to the additional reserve of the company. No dividend for the shareholders shall be distributed.
- ✚ The AGM appoints the auditing company AFA OOD, with seat in Sofia, 38 Oborishte Str. as a registered auditor for the audit and verification of the annual financial statement of the company for 2014.
- ✚ The AGM continues the term of the audit committee of the company for a period of 3 /three/ years, effective as of the date of the AGM.
- ✚ The AGM approves the annual financial statement of the company for 2013 and discharges from liability the members of the Board of Directors for their work in 2013.

On the Annual General Meeting of Shareholders of Sopharma AD, conducted on 20 June 2014 in Sofia, 5 Lachezar Stanchev Str., were taken the following decisions:

- ✚ Approval of the proposal of the Board of Directors for the distribution of the net profit for 2013 and the undistributed profit from past periods as follows: net profit for 2013 amounts to BGN 33 660 187.31 /thirty-three million, six hundred and sixty thousand, one hundred and eighty-seven leva and thirty-one stotinki/. The undistributed profit from past periods amounts to BGN 1 383 460.18 /one million, three hundred and eighty-three thousand, four hundred and sixty leva and eighteen stotinki/. The total amount of the profit, subject to distribution, is BGN 35 043 647.49 /thirty-five million, forty-three thousand, six hundred and forty-seven leva and forty-nine stotinki/. After the allocation of 10% to the statutory reserve, amounting to BGN 3 504 364.75 /three million, five hundred and four thousand, three hundred and sixty-four leva and seventy-five stotinki/, from the remaining sum, amounting to BGN 31 539 282.74 /thirty-one million, five hundred and thirty-nine thousand, two hundred and eighty-two leva and seventy-four

stotinki/ shall be paid a gross dividend of BGN 0.07 /seven stotinki/ per share with dividend right.

- + Appointment of the auditing company AFA OOD with seat in Sofia, 38 Oborishte Str. as a registered auditor for auditing and verification of the Annual financial statements of the Company for 2014, according to a proposal by the Audit Committee.
- + Approval of decision for continuation of the term of the Audit Committee of the Company for a period of 3 /three/ years as of the date of the AGM.

On the Annual General Meeting of Shareholders of Sopharma Trading AD, conducted on 20 June 2014 in Sofia, 5 Lachezar Stanchev Str., were taken the following decisions:

- + The net financial result of Sopharma Trading AD for 2013 amounting to BGN 9 488 933,36 /nine million four hundred eighty-eight thousand nine hundred thirty-three leva and thirty-six stotinki/ shall be distributed as follows: BGN 948 893,34 /nine hundred forty-eight thousand eight hundred ninety-three leva and thirty-four stotinki/ shall be allocated to the Reserve fund as 10% additional reserves, BGN 971 887,95 /nine hundred seventy-one thousand eight hundred eighty-seven leva and ninety-five stotinki/ shall be allocated to the additional reserve of the company, BGN 7 568 152,07 /seven million five hundred sixty-eight thousand one hundred fifty-two leva and seven stotinki/ shall be distributed as divided to the shareholders at a gross amount of BGN 0,23 /twenty-three stotinki/ per share with dividend right.
- + Appointment of the auditing company AFA OOD with seat in Sofia, 38 Oborishte Str. as a registered auditor for auditing and verification of the Annual financial statements of the Company for 2014.
- + Approval of the annual financial statement of the company for 2013 and discharges from liability the members of the Board of Directors for their work in 2013.

On 11 September 2014 Sopharma AD commenced the payment of dividends for 2013 in accordance with a list of the entitled persons as at 4 July 2014, prepared by the Central Depository AD. The gross dividend, voted on the General Meeting of Shareholders, is 0.07 BGN /seven stotinki/ per share. The net amount of the dividend per share (only for shareholders - physical persons) is 0.0665 BGN.

On 4 November 2014 Sopharma AD bought 400 010 shares from the capital of Medica AD. After this transaction, the share of Sopharma AD in the capital of Medica AD increased to 23.20%.

On 7 November 2014 the Financial Supervision Commission approved the Contract for transformation through merger in accordance with the requirements of art. 262d and following of the Commercial Act (CA). As a result the assets of Bulgarian Rose – Sevtopolis AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Bulgarian Rose – Sevtopolis AD will be terminated without liquidation. According to the signed contract, in connection with the implementation of the merger shall be carried out a capital increase of the Acquirer Sopharma AD through issuing of new shares, which shall be distributed among the

shareholders of the Acquiree Bulgarian Rose - Sevtopolis AD (except the shareholder Sopharma AD). The capital of the Acquirer Sopharma AD shall be increased from 132,000,000 BGN to up to 134,798,527 through the issuing of up to 2,798,527 new ordinary registered shares. As a result of the merger, all shareholders of the Acquiree Bulgarian Rose – Sevtopolis AD, with the exception of the Acquirer Sopharma AD, which is also a shareholder of the Acquiree, will receive shares of Sopharma AD and become shareholders of it. Against one share of Bulgarian Rose – Sevtopolis AD each shareholder pursuant to art. 261b, art. 1 of the CA shall receive 0.463768 shares of the capital of Sopharma AD.

On 19 December 2014 was held an Extraordinary General Meeting of Shareholders of Sopharma AD, which took the following decisions:

- ✚ due to lack of the necessary majority, required by the Articles of association and the law, the decisions under item 1 to 7 of the agenda, concerning the transformation of Sopharma AD through the merger of Bulgarian Rose – Sevtopolis AD, with seat in Kazanluk, UID 123007916, were not approved;
- ✚ approval of a Substantiated report on the terms and appropriateness of transactions under art. 114, par. 1 of the Public Offering of Securities Act (POSA), in which Sopharma AD is a party;
- ✚ authorization of the Board of Directors for executing a transaction, which falls within the scope of art. 114, par. 1 of the POSA – a contract, by the force of which Sopharma AD shall issue a corporate guarantee for the securing of a claim of DSK Bank EAD under credit contract with borrower Sopharma Properties REIT;
- ✚ authorization of the Board of Directors for executing a transaction, which falls within the scope of art. 114, par. 1 of the POSA – a contract, by the force of which Sopharma AD shall rent a property, owned by Sopharma Properties REIT;
- ✚ authorization of the Board of Directors for executing a transaction, which falls within the scope of art. 114, par. 1 of the POSA – a contract, by the force of which Sopharma AD shall become a co-debtor and will establish a pledge on assets, owned by it, for the securing of the claims of Raiffeisen Bank Bulgaria EAD, resulting from a credit contract with the borrower Sopharma Trading AD.

Significant events after the date of preparation of the annual financial statements

On 9 January 2015 was held an Extraordinary General Meeting of Shareholders of Sopharma AD, which approved a decision for transformation of Sopharma AD through the merger of Bulgarian Rose – Sevtopolis AD into Sopharma AD, as well as for the capital increase of Sopharma AD from 132 000 000 BGN to 134 798 527 BGN through the issuance of 2 798 527 new shares with a nominal value of 1 BGN and an emission value of 4.14 BGN, equal to the fair value of one share of Sopharma AD in relation to the merger of Bulgarian Rose – Sevtopolis AD. The entry in the Commercial Register was conducted on 26 February 2015. As at 6 March 2015 the new capital of 134 797 899 BGN was registered in the Central Depository AD. With decision 216-

E/25.03.2015 of the FSC the new emission has been entered in the register of public companies and started trading on 9 April 2015 on the Premium segment of the main market of the BSE.

On 19 January 2014 the established at the end of 2014 subsidiary of Sopharma Trading AD – Sopharmasi EOOD was registered in the Commercial Register.

During the period 26 January – 19 March 2015 were partially paid the installments of the share capital of the established at the end of 2014 subsidiary Sopharma Kazakhstan at the amount of 258 thousand BGN (132 thousand EUR). The final payment of the capital of the newly established company is due on 31 May 2015.

On 28 January 2015 was held a hearing before the court in Poland in a lawsuit, filed by Sopharma AD, for recognition and enforcement of a decision of the Arbitration Court in Paris. The defendant in the case has submitted a refusal to recognize and comply with the decision. By decision from 25 February 2015 the court in Poland has ruled that the arbitration decision is subject to enforcement. This court ruling has not entered into force because of an appeal procedure.

On 17 March 2015 was concluded an extrajudicial agreement between Sopharma AD (as guarantor under a supply contract and universal successor of Bulgarian Rose – Sevtopolis AD, terminated due to its merger into Sopharma AD) and a company supplier of the merged subsidiary. The agreement settles all disputes between the parties, including the related collateral court cases. On the same date (17 March 2015), according to the agreements between the parties, Sopharma AD has paid the company supplier of Bulgarian Rose – Sevtopolis AD the amount of 1,246 thousand BGN (673 thousand USD and 4 thousand EUR), representing the residue after a netting made between the parties. On 19 March 2015, each of the parties withdrew their appeals against court decisions on the cases and requested revocation of the collaterals imposed on them as well as repayment of guarantees given in connection with the collaterals.

On 23 March 2015 the Board of Directors of Sopharma AD took a decision for the conducting of the procedure, required by POSA, for a tender offer under Art. 149, para. 6 of POSA for the purchasing all shares of the other shareholders Momina Krepost AD, Veliko Tarnovo, UIC 104055543 by the majority shareholder Sopharma AD. The application for the tender offer was submitted to the Financial Supervision Commission on 24 March 2015. On 23 April 2015 the Financial Supervision Commission issued a temporary ban on the issuing of the tender offer.

On 26 February 2015 the transformation of Bulgarian Rose – Sevtopolis AD was registered in the Commercial Register under № 20150226134200. The registered capital of Sopharma AD amounts to 134 797 899 BGN. Sopharma AD is now undertaking all necessary actions for registration of the new issuance of 2 797 899 shares, with nominal value of 1.00 BGN with the Central Depository AD.

The Board of Directors of Momina Krepost AD convenes a regular General Meeting of Shareholders, which shall take place on 4 June 2015 in Veliko Tarnovo, 3 Magistralna Str. with the announced agenda.

The Management Board of Medika AD convenes a regular General Meeting of Shareholders, which shall take place on 21 May 2015 in Sofia, 5 Lachezar Stanchev Str., Building A, floor 9.

The Board of Directors of Sopharma Buildings REIT convenes a regular General Meeting of Shareholders, which shall take place on 14 May 2015 in Sofia, 5 Lachezar Stanchev Str., Building A, floor 3.

On 19 March 2015, a contract was concluded between Sopharma AD and PAO Vitamini based on which the trade receivables of Sopharma AD, amounting to EUR 12,774 thousand, were transformed to their equivalent in Hryvnia - UAH 316,532 thousand. This right of receivable, in accordance with a Decision of the Board of Directors of Sopharma AD, dated 20 March 2015, was used as an additional contribution to the increase in the share capital of Sopharma Ukraine OOD, which as at the end of March after the registration of the increase amounts to UAH 317,531,502.

New developments and products

✚ New with marketing authorizations in 2014

Authorizations were received for the bringing to market of 6 new products for the Company – Otofix drops, Softenzif tablets with delayed release, Promerol injection solution, Fentoril injection solution, Ivadron injection solution, Tuspan syrup 100 ml., and one new product Glicerax suppository was brought to market.

✚ Expected in 2015

Three to five new products are expected to be introduced by the end of 2015.

✚ Developments

Around twenty-four production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 17 new products for the Company.

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.

Key financial indicators

Indicators	1-12/2014 BGN '000	1-12/2013 BGN '000	change %
Sales revenue	840 517	761 136	10.4 %
Earnings before interest, taxes, depreciation and amortization (EBITDA)	67 826	79 163	-14.3%
Operating profit	40 024	55 891	-28.4 %
Net profit	24 117	32 779	-26.4 %
Capital expenditures	29 706	42 062	-29.4 %
	31.12.2014	31.12.2013	
	BGN '000	BGN '000	
Non-current assets	390 538	384 592	1.5 %
Current assets	426 825	399 371	6,9%
Equity	431 637	414 272	4.2%
Non-current liabilities	65 030	72 289	-10,0%
Current liabilities	320 696	297 402	7,8%

Ratios	1-12/2014	1-12/2013
EBITDA / Sales revenue	8,1%	10,4%
Operating profit/ Sales revenue	4,8%	7,3%
Net profit/ Sales revenue	2.9 %	4,3%
Borrowed capital/ Equity	0.89	0,89
Net debt/ EBITDA, annualized	3.71 x	3.14 x

Review of risk factors

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

- ✦ The Group faces significant competition.
- ✦ Part of Sopharma Trading's revenue in Bulgaria is generated by sales to public hospitals, which involves high degree of business risk.
- ✦ The reputation of the Group may be adversely affected by untrue or misleading information, including such available on website www.sopharma.com, which has not been authorized by the Company.
- ✦ The Group is dependent on regulatory approvals.
- ✦ Government regulations affecting the Group's business might change, which possibly might increase the compliance costs or otherwise affect its operations.
- ✦ Part of the Group's revenue, in particular in Bulgaria, depends on the inclusion of the Company's medicines on reimbursement lists.
- ✦ The production facilities and processes of the Company and the Group companies are subject to strict requirements and regulatory approvals that might delay or disrupt the Group's operations.
- ✦ Company's ability to pay dividends depends on a number of factors and there is no assurance that the Company will be able to pay dividends in accordance with its dividend policy or in any given year.
- ✦ The Group is subject to operational risk which is inherent in its business activities.
- ✦ The Group is subject to numerous environmental and health and safety laws and regulations. From the other side it is exposed to potential environmental liabilities.
- ✦ Litigation or other out-of-court proceedings or actions may adversely affect the Group's business, financial position and performance.

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

- ✦ The macroeconomic environment, particularly in Bulgaria, Russia, Belarus and Ukraine, has a significant effect on the Group's operations and position.
- ✦ The political environment in Bulgaria has a significant effect on the Group's operations and financial position.
- ✦ The political environment in the Group's export markets, especially in Russia, Belarus and Ukraine, has a significant effect on the Group's operations and financial position.
- ✦ Risks related to the Bulgarian legal system.
- ✦ The development in the legislation of some of the countries in which the Company sells its products, in particular Russia, Belarus and Ukraine, could adversely affect the Group's operations in these countries.

- ✚ Risks relating to exchange rates and the Bulgarian Currency Board.
- ✚ The interpretation of tax regulations may be unclear and tax laws and regulations applicable to the Group may be changed.

Currency risk

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

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

There is a currency risk control system implemented throughout the whole Group for the planning of imports, the sale in foreign currencies, as well as procedures for daily monitoring of USD exchange rate movements and control over pending payments. The exposure of the subsidiaries in Bulgaria to currency risk is insignificant, because almost all sales are conducted on the local market in BGN. The import of goods is entirely performed in EUR. The loans in foreign currencies are denominated mainly in EUR.

Credit risk

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

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

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

Liquidity risk

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

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

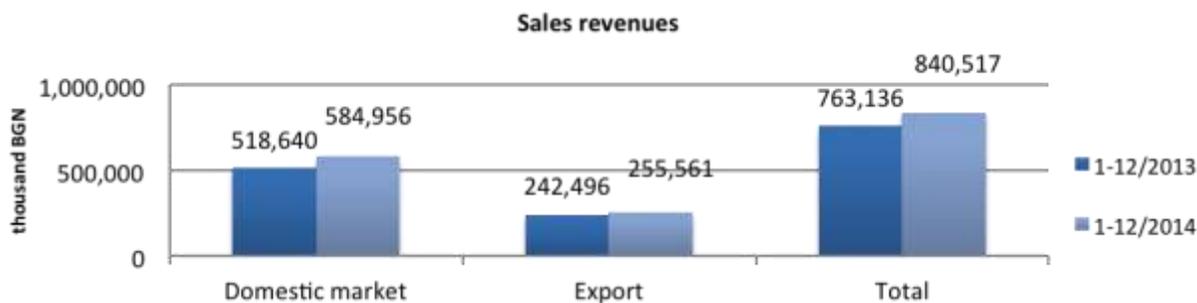
- (a) optimization of sources and structure of credit resources for achieving relatively lower price of attracted funds; and
- (b) combined structure of interest rates on loans comprising two components – a fixed one and a variable one, the correlation between which, as well as their absolute value, can be achieved and maintained in a proportion favorable for the Group companies. The fixed component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavorable change of cash flows is reduced to a minimum.

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

Financial results in 2014

Sales revenue

Revenue from sales of the Group increased by BGN 79,3 million or 10%, reaching BGN 841 million in 2014 compared to BGN 761,1 million in 2013. The increase is due to an increase in sales of goods by BGN 87.7 million or 18%, reaching BGN 581.1million in 2014 compared to BGN 493,5 million in 2013. Sales of finished products decreased by 8,3 million BGN, or 3%, to BGN 259,4 million in 2014 compared to BGN 267.7 million in 2013.



The contribution of sales in Bulgaria to the consolidated sales revenue in 2014 amounted to 68%, increasing with BGN 66,3 million or 13%, to BGN 585 million, compared to BGN 518,6 million in 2013.

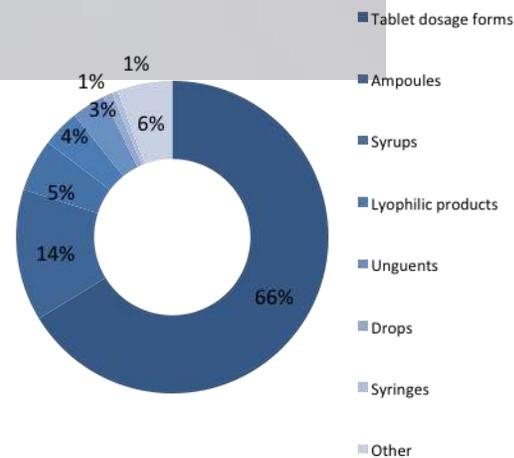
Sopharma has a 4% share of the Bulgarian pharmaceutical market in terms of value and a 12% share in terms of sold quantity (units). The positions of the main competitors of the Company in the country are as follows: Novartis – 6.6% (4.3% in units), Roche – 6% (0.4% in units), GlaxoSmithKline – 5.6% (2.5% in units), Actavis – 5.4% (14% in units), Sanofi-Aventis-Zentiva – 4.1% (3.2% in units), Astra Zeneca – 3.6% (1 % in units), Pfizer – 3.3% (1.3% in units), Servier – 3% (1.7% in units), Bayer – 2.9% (1.7% in units). Export sales increased by BGN 13.1 million or 6% reaching BGN 255.6 million in 2014 compared to BGN 242,5 million in 2013.

Revenue by group of products

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

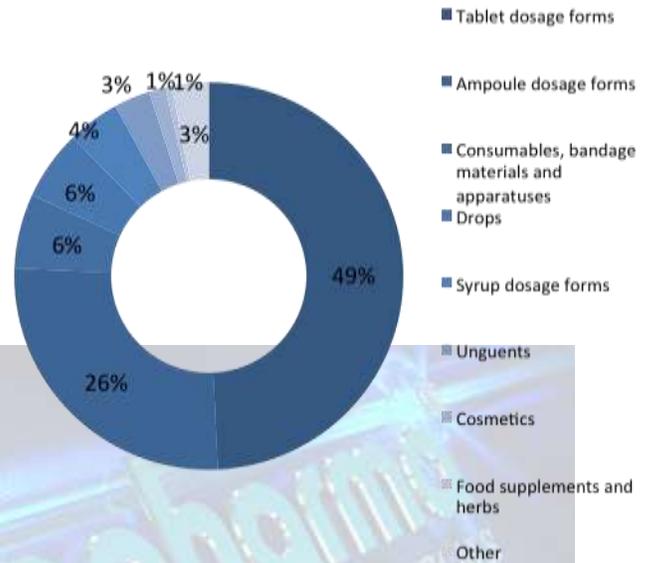
Revenues from the sale of finished products include revenue from the sale of products manufactured by the Company and the Group companies.

Revenue earned from sale of finished products	2014 BGN '000	2013 BGN '000	change %
Tablet dosage forms	171 963	180 601	-5%
Ampoules	35 430	35 119	1%
Syrups	13 881	14 951	-7%
Lyophilic products	11 028	9 198	20%
Unguents	8 988	7 725	16%
Drops	4 843	4 552	6%
Syringes	1 653	3 319	-50%
Other	11 587	12 189	-5%
Total	259 373	267 654	-3%



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

Revenue earned from sale of goods	2014	2013	change	
	BGN '000	BGN '000		%
Tablet dosage forms	286 188	230 277	24%	
Ampoule dosage forms	153 311	135 074	14%	
Consumables, bandage materials and apparatuses	36 250	36 639	-1%	
Drops	33 760	24 755	36%	
Syrup dosage forms	25 339	13 203	92%	
Unguents	17 511	11 094	58%	
Cosmetics	7 916	12 318	-36%	
Food supplements and herbs	3 139	9 954	-68%	
Other	17 730	20 168	-12%	
Total	581 144	493 482	18%	



Other operating income

Other revenues from operations	2014	2013	change	relative share
	BGN '000	BGN '000	%	2014
Services rendered	10 549	5 333	98%	-193%
Rents	798	776	3%	-15%
Services for social activities and events	761	168	353%	-14%
Government financing	749	573	31%	-14%
Income from penalties	389	131	197%	-7%
Gain on sale of non-current assets	337	23	1365%	-6%
Received insurance indemnities	75	6	1150%	-1%
Loss/(gain) from sale of materials	66	(268)	-125%	-1%
Net losses from exchange rate differences under trade receivables and payables and current accounts	(8 686)	(2 775)	213%	159%
Other	427	926	-54%	-8%
Total	5 465	4 893	12%	100%

Other operating income increased by BGN 0,6 million reaching BGN 5,5 million in 2014, compared to BGN 4,9 million in 2013. The most significant influence is result of the increase in net losses from exchange rate differences under trade receivables and payables and current accounts by BGN 6 million, mainly due to the depreciation of the Ukrainian Hryvnia. There is an increase in services rendered by BGN 5,2 million and in services for social activities and events by BGN 0,6 million.

Operating expenses

Operating expenses	2014	2013	change	relative share of expenses for 2014
	BGN '000	BGN '000		
Changes in inventories of finished goods and work in progress	(12 279)	3 307	-471%	-2%
Materials	96 334	87 148	11%	12%
Hired services	67 207	58 682	14%	8%
Personnel	80 880	74 763	8%	10%
Depreciation and amortization	27 924	23 727	18%	3%
Carrying amount of goods sold	530 842	448 854	18%	66%
Other operating expenses	15 172	14 112	12%	2%
Total	805 958	710 138	13%	100%

The operating expenses in 2014 increased by BGN 95.8 million or 13% from BGN 710.1 million in 2013 to BGN 806 million in 2014. The change is due to growth in sales and therefore the carrying amount of goods sold to the internal market, the increase in materials, hired services, personnel, and depreciation and amortization.

Expenses on materials	2014	2013	change	relative share of expenses for 2014
	BGN '000	BGN '000		
Basic materials	70 225	62 401	13%	73%
Spare parts, laboratory and technical materials	7 387	6 427	15%	8%
Electricity	5 370	5 597	-4%	6%
Water	856	889	-4%	1%
Heating	4 472	4 364	2%	5%
Fuels and lubricating materials	3 574	3 931	-9%	4%
Other	3 136	3 184	-2 %	3 %
Impairment of materials	880	226	289%	0%
Written-off materials	434	129	236%	1%
Total	96 334	87 148	11%	100%

Cost of materials (12% share) increased by BGN 9,2 million or 11% to BGN 96,3 million in 2014 compared to BGN 87,1 million in 2013. The cost of basic materials increased by BGN 7,8 million, or 13%, with the most significant impact coming from the cost of substances, packaging materials, and liquid and solid chemicals which increased respectively by BGN 3,5 million, BGN 2,8 million and BGN 2 million. The cost of spare parts, and laboratory and technical materials

increased by BGN 1 million. There is a decrease in the cost of electricity and fuels and lubricating materials.

	2014	2013	change	relative share of expenses for 2014
	BGN '000	BGN '000	%	%
Hired services expense				
Advertising	18 952	17 660	7 %	28 %
Consulting services	9561	7 537	27%	14%
Rentals and insurance	7 550	6 991	8%	11%
Production of medicines	3 688	2 970	24 %	5 %
Forwarding and transportation services	5 293	3363	57 %	8%
Buildings and equipment maintenance	4042	3 062	32 %	6%
Local taxes and fees	1 734	1 400	24 %	3 %
Services related to the registration of medicines	1 962	1 282	53%	3%
Subscription fees	1 812	1 555	17%	3%
Services under civil contracts	1 478	1 518	-3%	2%
Security	1 253	1 266	-1%	2%
Taxes on expenses	1 159	704	65%	2%
Communications	1 022	951	7%	2%
Bank and regulatory charges	1 577	1 748	-10 %	2 %
Car repairs	896	835	7%	1%
Other	5 228	5 840	-10 %	8%
Total	67 207	58 682	14%	100%

Hired services have an 8% share of operating expenses and increased by BGN 8.5 million or 15 %, reaching BGN 67.2 million in 2014 compared to BGN 58,7 million in 2013. The most significant increase comes from consulting services by BGN 2.0 million, forwarding and transportation services by BGN 1.9 million,, advertising by BGN 1.3 million

There is a decrease is noted in services under civil contracts , bank and regulatory charges and other.

	2014	2013	change	relative share of expenses for 2014
	BGN '000	BGN '000	%	%
Personnel costs				
Current wages and salaries	61 084	56 017	9%	76%
Other remuneration	756	428	77%	1%
Social security/health insurance contributions	12 828	11 492	12%	16%
Social benefits and payments	3 807	3 804	0%	5%
Profit-based bonuses	979	1 105	-11%	1%
Other	1 426	1 917	-26 %	2%
Total	80 880	74 763	8%	100%

Personnel costs (with an 10% share) grew by BGN 6,1 million, or 8%, reaching BGN 80,9 million in 2014 compared to BGN 74,8 million in 2013. The general growth of these costs is due to both the increase of salaries of the personnel, as well as to the growth of the number of employees in the Group as a result of the consolidation of new companies.

	2014	2013	change	relative share of expenses for 2014
	BGN '000	BGN '000	%	%
Other operating expenses				
Entertainment event allowances	3 506	3 296	6%	23 %
Charged/(reversed) impairment of current assets, net	3 217	3 794	-15%	21 %
Unrecognized tax credit for VAT	2 446	213	1048%	16%
Business trips	1 905	1 596	19%	13 %
Scrapping and loss of goods	817	1 215	-33%	5%
Written-off receivables	470	623	-25%	3%
Trainings	454	382	19%	3%
Scrapping of long-term assets	418	377	11%	3%
Donations	394	541	-27%	3%
Scrapping of finished goods and semi-finished products	377	649	-42%	2%
Other	1 168	1 426	-18 %	8 %
Total	15 172	14 112	8 %	100%

Other operating expenses (with a share of 2%) increased by BGN 1.0 million or 8 % from BGN 14,1 million in 2013 to BGN 15,8 million in 2014. The most significant part in the increase results from unrecognized tax credit with BGN 2,2 million, business trips with BGN 0,3 million, and entertainment event allowances with BGN 0,2 million. There is a decrease in charged impairment of current assets, net of BGN 0,6 million.

Depreciation and amortization expense (with a share of 3%) increased by BGN 4,2 million or 18% from BGN 23,7 million in 2013 to BGN 27,9 million in 2014.

Finance income and costs

	2014	2013	change	relative share of income for 2014
	BGN '000	BGN '000	%	%
Finance income				
Interest income on granted loans	2 723	3 700	-26%	49%
Interest income on overdue commercial receivables	2 484	2 452	1%	46 %
Net gain from operations with investments in securities	47			3%
Income from equity investments (dividends)	59	393	-85%	1%
Interest income on bank deposits	79	8	888%	1%
Total	5 392	6 553	-18 %	100%
			change	relative share of costs for 2013
Finance costs				
Interest expenses on loans	8 800	8 404	5%	50 %
Impairment of available-for-sale investments	88	6 769	-99%	1 %
Net loss from operations with investments in securities		5 068	-100%	0 %
Net loss on exchange rate differences on loans in foreign currencies	7 646	1 197	539 %	43 %
Bank fees on loans and guarantees	720	684	5%	4 %
Interest expense on finance lease	340	367	-7%	2%
Total	17 594	22 489	-22%	100%

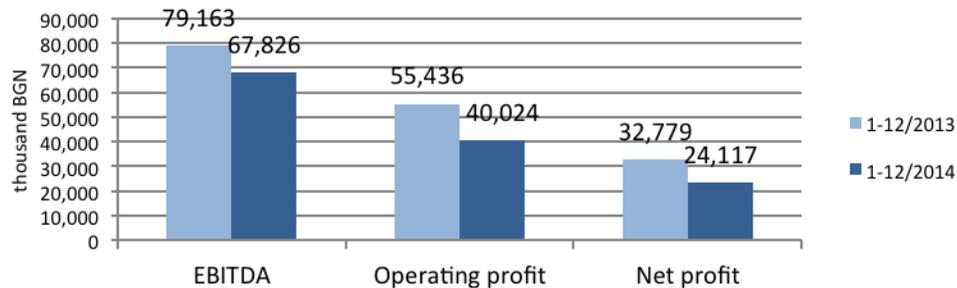
Finance income decreased by BGN 1 million or 18%, to BGN 5,4 million in 2014 compared to BGN 6,6 million in 2013. The decrease is mainly in interest income on granted loans by BGN 1 million and in income from equity investments by BGN 0,3 million.

Finance costs decreased by BGN 4,9 million from BGN 22,5 million in 2013 to BGN 17,6 million in 2014. The most decrease is in impairment of available-for-sale investments with BGN 6,7 million and net loss from operations with investments in securities with BGN 5,0 million.

Net loss on exchange rate differences on loans in foreign currencies increased by BGN 6,5 million. This is result of the revaluation of a bank loan of Vitamini, Ukraine at the amount of EUR 7 million as result of the depreciation of the Ukrainian currency since the beginning of the year.

Net financial costs decreased by BGN 3.7 million, reaching BGN (12.2) million as at 31 December 2014 compared to BGN (15,9) million as at 31 December 2013.

Financial performance



Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by BGN 11.3million or 14%, amounting to BGN 67.8 million as at 31 December 2014, compared to BGN 79.2 million as at 31 December 2013.

Operating profit decreased by BGN 16 million or 28 %, to BGN 40 million as at 31 December 2014, compared to BGN 55.9 million as at 31 December 2013.

Net profit decreased by BGN 8.7 million, or 26 %, reaching BGN 23.7 million as at 31 December 2014, compared to BGN 32.8 million as at 31 December 2013.

Assets

	31.12.2014	31.12.2013	change	relative share
	BGN '000	BGN '000	%	2014
				%
Non-current assets				
Property, plant and equipment	299 037	306 728	-3%	77%
Intangible assets	13 270	15 504	-14%	3 %
Goodwill	10 918	12 843	-15%	3%
Investment property	10 606	10 526	1%	3%
Investments in associated companies and joint ventures	12 387	1 640	655 %	3%
Available-for-sale investments	6 968	8 187	-15%	2%
Long-term receivables from related parties	33 150	25 649	29%	8 %
Other long-term receivables	353	488	-28%	0%
Deferred taxes	3 849	3 027	27 %	1%
	390 538	384 592	1%	48%
Current assets				
Inventories	155 910	140 352	11%	37%
Trade receivables	196 330	191 127	3%	46%
Receivables from related parties	25 318	29 149	-13%	6%
Other receivables and prepayments	22 445	11 609	93%	5%
Cash and cash equivalents	26 822	27 134	-1%	6%
	426 825	399 371	7%	52%
TOTAL ASSETS	817 363	783 963	4%	100%

Total assets increased by BGN 33.4 million, or 4%, reaching BGN 817.4 million as at 31 December 2014, compared to BGN 784 million as at 31 December 2013 as a result of the increase in both current and non-current assets.

Non-current assets increased by BGN 5.9 million, or 2%, mainly due to the increase in long-term receivables from related parties by BGN 7,5 million, investments in associated companies and joint ventures by BGN 10.7 million and deferred taxes by BGN 0,8 million. Property, plant and equipment decreased by BGN 7,7 million, mainly in the part of machines and equipment by BGN 3.6 million and land and buildings by BGN 4,9 million. There is an increase in assets in the process of acquisition by BGN 5,1 million.

Intangible assets decreased by BGN 2.2 million mainly due to a decrease in goodwill by BGN 1,9 million as a result of the effect of currency and hyperinflationary revaluations.

Investments in associated companies increased by BGN 6.7 million, investments in joint ventures increased by BGN 4.1 million compared to 31 December 2013 as a result of acquired shares by Briz in Belarusian companies for trade with pharmaceutical products, as well as an

increase in the participation in Medika AD

The available-for-sale investments decreased by BGN 1,2 million.

Long-term receivables from related parties increased by BGN 7,5 million or 29% to BGN 33,2 million.

Provided long-term loans to related parties are from companies related through key management personnel:

- ✚ Contracted amount: EUR 11 831 thousand; interest rate: 5%, maturity: 1 December 2016; balance as at 31 December 2014: BGN 26 038 thousand;
- ✚ Contracted amount: EUR 3 272 thousand; interest rate: 5%, maturity: 1 December 2016; balance as at 31 December 2014: BGN 6 819 thousand;

Current assets increased by BGN 27,5 million or 7%, reaching BGN 426,8 million as at 31 December 2014 compared to BGN 399,4 million as at 31 December 2013.

Inventories comprise 37 % of current assets and increased by BGN 15,6 million compared to 31 December 2013, mainly in the portion of goods by BGN 14,9 million, finished products by BGN 2,4 million, and semi-finished products by BGN 1,4 million. There is a decrease in materials by BGN 3,4 million.

Commercial receivables, which have a relative share of 46% of current assets, increased by BGN 5,2 million, in both the portion of receivables from customers by BGN 4,6 million and in advance payments by BGN 0,6 million.

Receivables from related parties have a relative share of 6% in current assets and decreased by BGN 3,8 million. The most significant contribution to this decrease have receivables from commercial loans with BGN 3,1 million.

Granted current commercial loans to related parties:

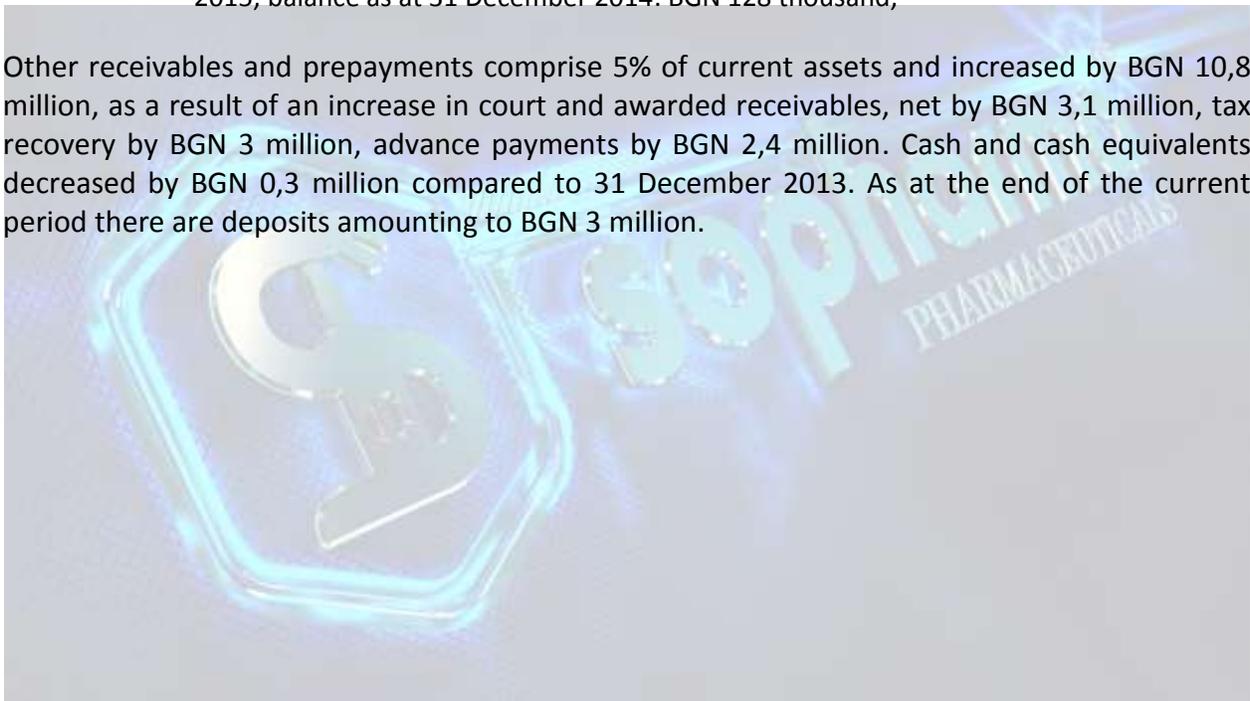
To companies under common indirect control:

- ✚ Contracted amount: EUR 7 661 thousand; interest rate: 4.50%, maturity: 31 December 2015; balance as at 31 December 2014: BGN 7 632 thousand;
- ✚ Contracted amount: BGN 120 thousand; interest rate: 8.6 %, maturity: 31.12.2015; balance as at 31 December 2014: BGN 146 thousand;

To companies related through key management personnel:

- ✚ Contracted amount: EUR 10 824 thousand; interest rate: 4.5%, maturity: 31 December 2015; balance as at 31 December 2014: BGN 9 537 thousand;
- ✚ Contracted amount: BGN 34 020 thousand; interest rate: 5,50%, maturity: 31 December 2015; balance as at 31 December 2014: BGN 3 097 thousand;
- ✚ Contracted amount: BGN 6 000 thousand; interest rate: 5,50%, maturity: 22 July 2015; balance as at 31 December 2014: BGN 1 236 thousand;
- ✚ Contracted amount: BGN 1 300 thousand; interest rate: 5,50%, maturity: 31 December 2015; balance as at 31 December 2014: BGN 477 thousand;
- ✚ Contracted amount: BGN 190 thousand; interest rate: 5,50%, maturity: 31 December 2015; balance as at 31 December 2014: BGN 128 thousand;

Other receivables and prepayments comprise 5% of current assets and increased by BGN 10,8 million, as a result of an increase in court and awarded receivables, net by BGN 3,1 million, tax recovery by BGN 3 million, advance payments by BGN 2,4 million. Cash and cash equivalents decreased by BGN 0,3 million compared to 31 December 2013. As at the end of the current period there are deposits amounting to BGN 3 million.



Equity and liabilities

EQUITY	31.12.2014	31.12.2013	change	relative share of equity for 2014
	BGN '000	BGN '000		%
Equity attributable to owners of the parent				
Share capital	132 000	132 000	0%	31%
Reserves	36 069	32 026	13 %	8%
Retained earnings	203 260	195 896	4%	47%
	371 329	359 922	3%	86 %
NON-CONTROLLING INTEREST	60 308	54 350	11 %	14 %
TOTAL EQUITY	431 637	414 272	4%	100%
	31.12.2014	31.12.2013	change	relative share of total liabilities for 2014
LIABILITIES	BGN '000	BGN '000	%	%
Non-current liabilities				
Long-term bank loans	45 820	55 992	-18%	12%
Deferred tax liabilities	5 728	4 695	22%	1%
Long-term liabilities to personnel	3 786	3 557	6%	1%
Finance lease liabilities	2 103	2 382	-12%	1%
Government grants	7 558	5 612	35%	2%
Other non-current liabilities	35	51	-31%	0%
	65 030	72 289	-10%	17%
Current liabilities				
Short-term bank loans	217 360	208 643	4%	56%
Current portion of long-term bank loans	10 772	7 083	52%	3%
Trade payables	71 752	61 433	17%	19%
Payables to related parties	1 634	3 822	-57%	0%
Payables to the personnel and for social security	7 514	6 731	12%	2%
Tax payables	6 023	4 408	37%	2%
Other current liabilities	5 641	5 282	7%	1%
	320 696	297 402	8%	83%
TOTAL LIABILITIES	385 726	369 691	4%	100%
TOTAL EQUITY AND LIABILITIES	817 363	783 963	4.3 %	

The equity of Sopharma Group increased by BGN 17.4 million compared to 31 December 2013 mainly due to the achieved net profit for the current period. Equity attributable to owners of

the parent comprise 45 % of total equity and liabilities, with certain improvement of the financial autonomy of the Group.

Non-current liabilities decreased by BGN 7,3 million or 10%, from BGN 72,3 million at the end of 2013 to BGN 65 million at the end of 2014 mainly due to a decrease in long-term bank loans.

Deferred tax liabilities increased by BGN 1 million and government financing – by BGN 1.9 million. There is a decrease in finance lease liabilities by BGN 0,3 million and an increase in government financing by BGN 1.9 million.

Current liabilities increased by BGN 23,3 million or 8% compared to 2013, mainly in the portion of short-term bank loans by BGN 8,7 million, the short-term part of long-term bank loans by BGN 3,7 million, tax payables by BGN 1,6 million, commercial payables by BGN 10,3 million, and payables to personnel and for social security by BGN 0,8 million.

The Group's total liabilities under bank loans and leases increased by BGN 2 million compared to the end of 2013, while net debt, after subtracting of cash and cash equivalents, increased by BGN 3.5 million.

Cash flows

	31.12.2014	31.12.2013
	BGN '000	BGN '000
Net cash flows from operating activities	37 653	52 602
Net cash flows used in investing activities	(27 426)	(24 995)
Net cash flows (used in)/from financing activities	(11 535)	(16 274)
Net increase/(decrease) in cash and cash equivalents	(1 308)	10 840
Cash and cash equivalents at 1 January	26 607	15 767
Cash and cash equivalents at 31 December	25 299	26 607

Net cash flows generated from operating activities as at 31 December 2014 amount to BGN 37,7 million, those from investing activities – BGN (27,4) million and from financing activities – BGN (11,5) million. As a result of these activities the cash and cash equivalents mark a net decrease of BGN 1,3 million and as at 31 December 2014 amount to BGN 25,3 million compared to BGN 26,6 million as at 1 January 2014.

Financial ratios

	31.12.2014	31.12.2013
ROE ¹	5.5 %	8.3 %
ROA ²	2,5%	3,8%
Asset turnover ³	1.05	0.99
Current ratio ⁴	1,33	1,34
Quick ratio ⁵	0,84	0,87
Cash ratio ⁶	0,08	0,09
Solvency ratio ⁷	11.12	1,12

¹ Net profit belonging to the equity holders of the Company, annualized / arithmetic mean of the equity less minority

interests for the last four quarters

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

³ Revenue from sales, annualized / arithmetic mean of total assets for the last four 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 AD as at 31 December 2014 is 132 million with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, common and indivisible, under the Articles of Association. All issued shares are of one class. Each share gives equal rights to its holder, in proportion to its nominal value. The shares of Sopharma AD are traded on the official market of Bulgarian Stock Exchange - Sofia AD and the official market of the Warsaw Stock Exchange. The shares are part of the indices SOFIX, BGBX40 and BGTR30 on the BSE – Sofia AD.

The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds 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 an index for Central and Eastern Europe (CEE) that WSE started to calculate as of 30 May 2012. The index is called WIG-CEE and is the third after the WIG-Poland and WIG-Ukraine, which is based on the origin of the companies by country. WIG-CEE is calculated based on total return and includes also dividend income and subscription rights to shares.

Important information for the shares of Sopharma AD

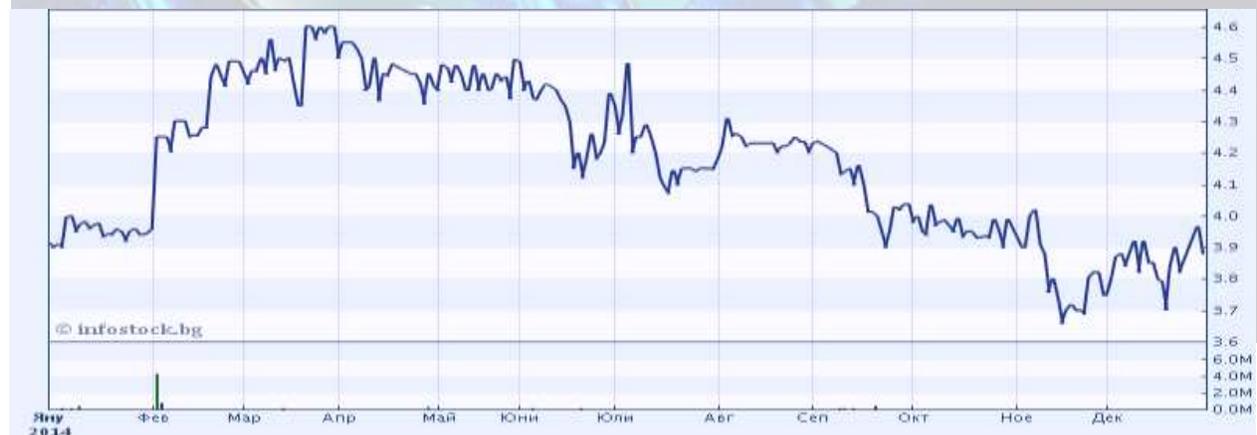
	31.12.2014	31.12.2013
Total number of issued shares	132 000 000	132 000 000
Number of shares outstanding at the end of the period	126 670 847	126 324 658
Average weighted number of outstanding shares for the period	126 700 075	127 148 634
Earnings per share in BGN ¹	0,16	0,23
Price per share at the end of the period in BGN	3,880	3,914
Price/Earnings ratio (P/E)	24,73	17,02
Book value per share in BGN ²	2,93	2,85
Price/Book value ratio (P/B)	1,32	1,38
Income from sale of one share in BGN ³	6,64	6,03
Price of one share / Income from sale of one share (P/S)	0,58	0,65
Market capitalization in BGN based on the number of issues shares	512 160 000	516 648 000

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 in shares of Sopharma AD on the Bulgarian Stock Exchange – Sofia AD for the period 1 January – 31 December 2014



Signature:

Ognian Donev, PhD
Executive Director, Sopharma AD