

# MANAGEMENT REPORT

for the three months of 2015



**SOPHARMA GROUP**

30 May 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 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 40 legal entities, including 31 subsidiaries, directly or indirectly controlled by the Company, and four joint ventures.

## Sopharma Group

Company	Interest as at 31.03.2015 in %
Sopharma Trading AD, Sofia, Bulgaria	71.83
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*	53.33
Unipharm AD, Sofia, Bulgaria	51.78
Phyto Palauzovo AD, Kazanluk, Bulgaria**	95.00
Sopharmasi EOOD, Sofia, Bulgaria	71.83
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
Brititrade SOOO, Minsk, Belarus**	51.91
Tabina SOOO, Minsk, Belarus **	58.86
Brizpharm SOOO, Minsk, Belarus**	39.02
Alean ODO, Minsk, Belarus**	46.95
Sopharma Ukraine, Kiev, Ukraine	100.00
Vivaton OOO, Grodno, Belarus***	50.00
OOO Med-dent, Bobruisk, Belarus***	50.00
OOO Pharmacist Plus, Minsk, Belarus**	33.73
Vestpharm ODO **	62.82
NPK Biotest OOO **	46.29
BelAgroMed ODO **	50.26
B000 SpetzApharmacia, Bobruisk, Belarus***	50.00
ZAO TBS Pharma, Vilnius, Lithuania**	33.73
OOO Bellerofon, Minsk, Belarus***	50.00
TOO Sopharma Kazakhstan, Almaty, Kazakhstan	100.00
ZAO Interpharm, Vitebsk, Belarus***	50.00
OOO Danapharm, Brest, Belarus**	48.14
OOO Galenapharm, Pinsk, Belarus**	48.14
ODO Medjel, Minsk, Belarus**	48.14

\*effective interest in percent

\*\*indirect interest

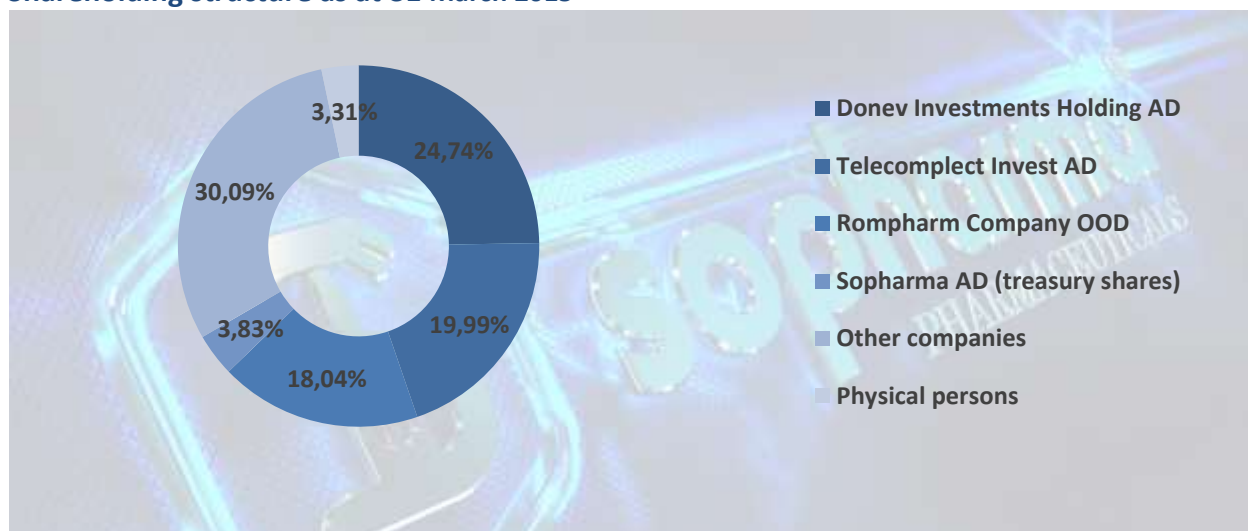
\*\*\*joint venture

## Management Board

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

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

## Shareholding structure as at 31 March 2015



## Industrial activity

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

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

- ✚ Production of pharmaceutical products;
- ✚ Substances and preparations based on vegetable raw materials (phytochemical production);
- ✚ Veterinary vaccines;
- ✚ Infusion solutions;
- ✚ Concentrates for hemodialysis;
- ✚ Medical disposable products for human and veterinary medicine;

- ✚ Injection molded products for the industry, agriculture and households.

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

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

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

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

### Distribution

Sopharma Trading is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 22% (according to IMS). Sopharma Trading is the only distributor on the Bulgarian market of particular pharmaceutical products for several leading international pharmaceutical and other companies the field of healthcare such as Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk.

The company offers more than 10 000 products (particularly pharmaceutical products, medical equipment and devices, accessories, cosmetics, vitamins and food supplements) in its portfolio, including the brands of Sopharma, and holds exclusive rights for Bulgaria over brands of strategic partners such as Aboca, Colief, Jamieson, Planter's, Premax, Skincode, SVR Laboratories, US Pharmacia and Wyeth, specialized services (such as software solutions for pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and 3 850 clients.

### **Intellectual property**

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

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

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

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

### **Research and development**

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

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

### **Employees**

As at 31 March 2015 the average number of employees in the Sopharma Group is 4,188 (4,188 in 2014). The average number of employees in Sopharma AD as at 31 March 2015 is 2 084 (1 825 in 2014), and in Sopharma Trading AD it is 722 (690 in 2014).

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

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

## ***Significant events in the three months of 2015***

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). On 14 May 2015 the capital of the subsidiary Sopharma Kazakhstan, established in the end of 2014, in the amount of BGN 502 thousand (EUR 257 thousand) was fully paid.

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 20 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 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 million, were transformed to their equivalent in Hryvnia - UAH 316,532 million. 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 at the end of March after the registration of the capital increase amounts to UAH 317 531 502.

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 the Annual General Meeting of Shareholders of Sopharma Buildings REIT, conducted on 14 May 2015, were taken the following decisions:

- ✚ Approval of the proposal of the Board of Directors for non-distribution of dividend for 2014;
- ✚ Appointment of the auditing company Ajour TDM OOD with seat in Sofia, 3 Murphy Str. as a registered auditor for auditing and verification of the Annual financial statements of the company for 2015 according to a proposal by the Audit Committee;
- ✚ Continuation of the term of the Audit Committee of the Company for a new period of 5 /five/ years, effective as at the date of conduction of the AGM and reelects Ivan Kralev as its chairperson;
- ✚ The AGM relieves from office Radosvet Radev as a member of the Board of Directors and appoints Irina Mincheva at this place.

On 14 May 2015 the Group, through its subsidiary Briz SIA, increased its share in the capital of ODO Alean by 11%.

On 19 May 2015 Sopharma AD finalized the sale of 75% of the capital of its subsidiary Extab Corporation. After closing of the transaction Sopharma AD retains a 5% share in the capital of the company.

On the Annual General Meeting of Shareholders of Medika AD, conducted on 21 May 2015, were taken the following decisions:

- ✚ Approval of the proposal of the Board of Directors for non-distribution of dividend for 2014;
- ✚ 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 2015;
- ✚ Election of a new Audit Committee of the company for a term of 3 /three/ years, effective as at the date of conduction of the AGM.

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 board of directors of Sopharma Trading AD convenes an Annual General Meeting of Shareholders on 19 June 2015 in Sofia, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building B, level 3.

The management board of Unipharm AD convenes an Annual General Meeting of Shareholders on 18 June 2015 in Sofia, 3 Traiko Stanoev Str..

The board of directors of Sopharma AD convenes an Annual General Meeting of Shareholders on 19 June 2015 in Sofia, 5 Lachezar Stanchev Str., Building B.

### New developments and products

#### Expected in 2015

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

#### Developments

Over eighteen production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 22 new products for the Company.

### Key financial indicators

Indicators	1-3/2015 BGN '000	1-3/2014 BGN '000	change %
Sales revenue	221 611	213 634	3,7%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	24 241	28 720	-15,6%
Operating profit	17 635	21 127	-16,5%
Net profit	10 214	12 931	-21,0%
Capital expenditures	3 760	8 363	-55,0%

	31.03.2015	31.12.2014	
	BGN '000	BGN '000	
Non-current assets	395 096	390 538	1,2%
Current assets	448 123	426 825	5,0%
Equity	442 681	431 637	2,6%
Non-current liabilities	66 943	65 030	2,9%
Current liabilities	333 595	320 696	4,0%

Ratios	1-3/2015	1-3/2014
EBITDA / Sales revenue	10,9%	13,4%
Operating profit/ Sales revenue	8,0%	9,9%
Net profit/ Sales revenue	4,6%	6,1%
Borrowed capital/ Equity	0,90	0,86
Net debt/ EBITDA, annualized	4,1x	3,1x

## Review of risk factors

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

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

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

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

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

### Currency risk

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

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

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

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

### **Credit risk**

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

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

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

### **Liquidity risk**

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

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

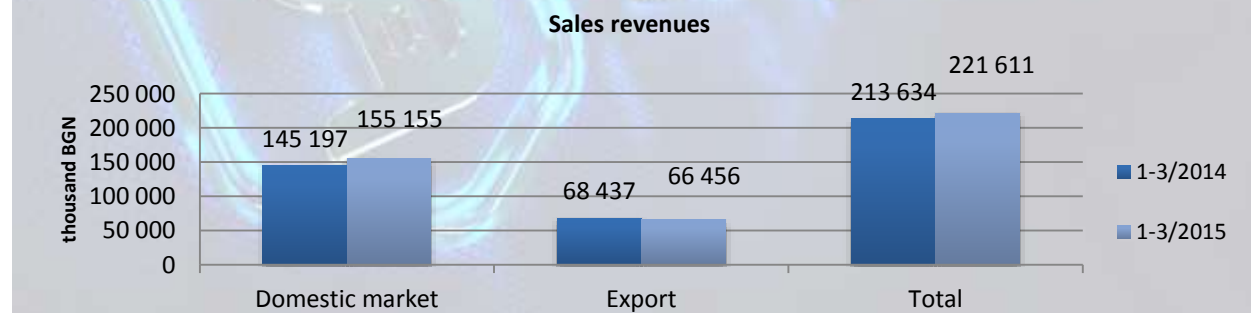
eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavorable change of cash flows is reduced to a minimum.

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 8 million or 4%, reaching BGN 221,6 million in the first quarter of 2015 compared to BGN 213,6 million in the first quarter of 2014. The increase is due to an increase in sales of goods by BGN 23,2 million or 18%, reaching BGN 155,4 million in the first quarter of 2015 compared to BGN 132,2 million in the first quarter of 2014. Sales of finished products decreased by 15,2 million BGN, or 19%, to BGN 66,2 million in the first quarter of 2015 compared to BGN 81,4 million in the first quarter of 2014.



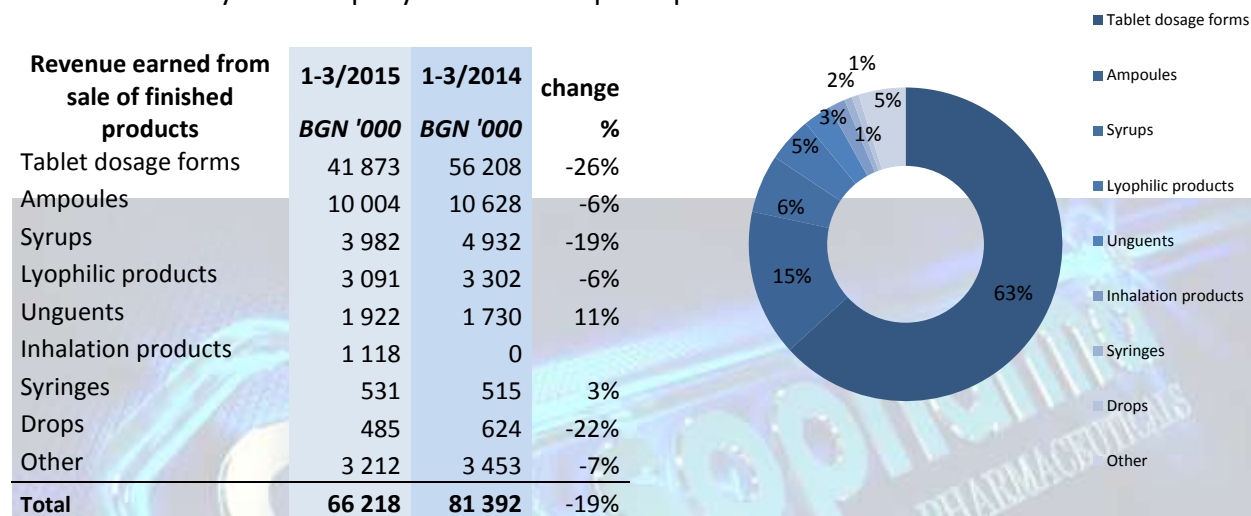
The contribution of sales in Bulgaria to the consolidated sales revenue in the first quarter of 2015 amounted to 70%, increasing with BGN 10 million or 7%, to BGN 155,2 million, compared to BGN 145,2 million in the first quarter of 2014.

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 – 7.2% (4.7% in units), Roche – 6.2 (0.3% in units), Sanofi-Aventis-Zentiva – 5.9% (3.6% in units), Actavis – 5.2% (13.7% in units), GlaxoSmithKline – 4.7% (2.6% in units), Pfizer – 3.0% (1.2% in units), Servier – 2.9% (1.8% in units), Astra Zeneca – 2.8% (0.8% in units). Export sales decreased by BGN 2 million or 3% reaching BGN 66,4 million in the first quarter of 2015 compared to BGN 68,4 million in the first quarter of 2014.

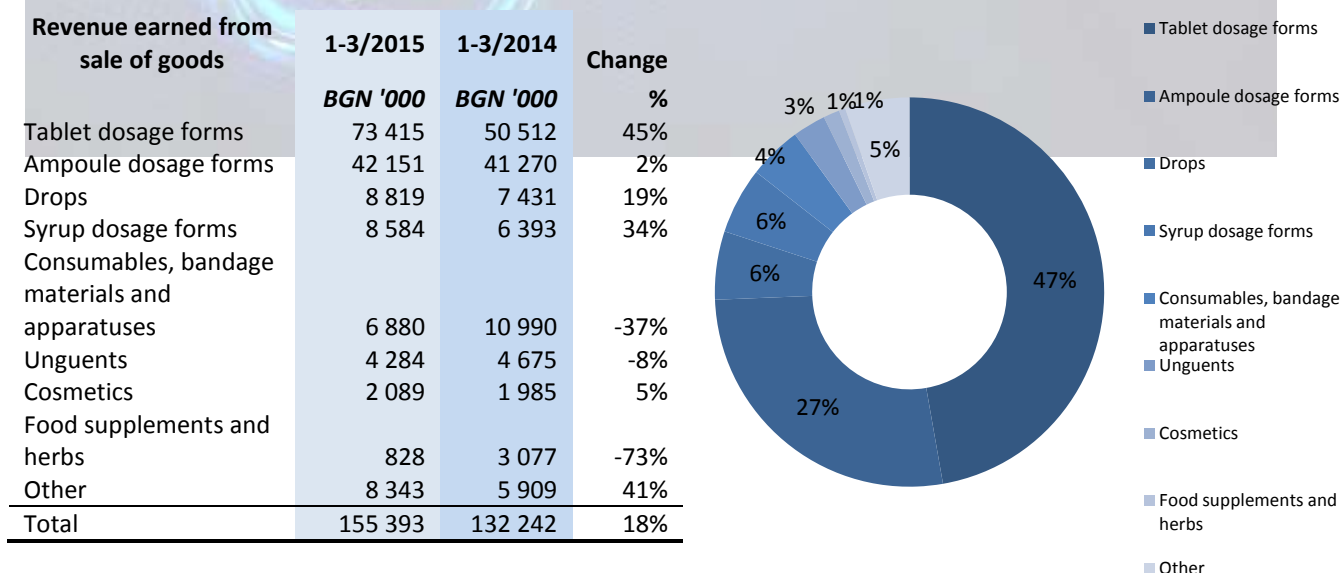
## Revenue by group of products

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

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



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



## Other operating income

Other revenues from operations	1-3/2015	1-3/2014	change	relative share
	BGN '000	BGN '000	%	2014
Services rendered	1 213	1 080	12%	55%
Government financing	244	137	78%	11%
Income from penalties	204	248	-18%	9%
Rents	148	264	-44%	7%
Services for social activities and events	137	125	10%	6%
Gain on sale of non-current assets	51	33	55%	2%
Loss/(gain) from sale of materials	(2)	(22)	-91%	0%
Net losses from exchange rate differences under trade receivables and payables and current accounts	(225)	907	-125%	-10%
Other	444	351	26%	20%
<b>Total</b>	<b>2 214</b>	<b>3 123</b>	<b>-29%</b>	<b>100%</b>

Other operating income decreased by BGN 0,9 million reaching BGN 2,2 million in the first quarter of 2015, compared to BGN 3,1 million in the first quarter of 2014. 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 1,1 million. There is an increase in services rendered by BGN 0,1 million and in government financing by BGN 0,1 million.

## Operating expenses

Operating expenses	1-3/2015	1-3/2014	change	relative share of expenses for
	BGN '000	BGN '000	%	2015
Changes in inventories of finished goods and work in progress	(3 070)	311	-1087%	-1%
Materials	20 871	23 728	-12%	10%
Hired services	15 725	18 119	-13%	8%
Personnel	20 041	19 210	4%	10%
Depreciation and amortization	6 606	7 593	-13%	3%
Carrying amount of goods sold	144 489	125 712	15%	70%
Other operating expenses	1 528	957	60%	1%
<b>Total</b>	<b>206 190</b>	<b>195 630</b>	<b>5%</b>	<b>100%</b>

The operating expenses in the first quarter of 2015 increased by BGN 10,6 million or 5% from BGN 195,6 million in the first quarter of 2014 to BGN 206,2 million in the first quarter of 2015. The change is due to growth in sales and therefore the carrying amount of goods sold to the internal market, the increase in personnel expenses and other operating expenses.

	1-3/2015	1-3/2014	change	relative share of expenses for 2014
	BGN '000	BGN '000	%	%
<b>Expenses on materials</b>				
Basic materials	14 865	17 242	-14%	71%
Spare parts, laboratory and technical materials	1 657	1 625	2%	8%
Heating	1 330	1 609	-17%	6%
Electricity	1 298	1 314	-1%	6%
Fuels and lubricating materials	918	922	0%	4%
Water	142	281	-49%	1%
Other	661	735	-10%	3%
<b>Total</b>	<b>20 871</b>	<b>23 728</b>	<b>-12%</b>	<b>100%</b>

Cost of materials (10% share) decreased by BGN 2,8 million or 12% to BGN 20,9 million in the first quarter of 2015 compared to BGN 23,7 million in the first quarter of 2014. The cost of basic materials decreased by BGN 2,3 million, or 14%, with the most significant impact coming from the cost of substances, aluminum folio, and herbs, which decreased respectively by BGN 2,3 million, BGN 0,6 million and BGN 0,2 million. There is a decrease in the cost of heating, electricity, water and fuels and lubricating materials.

	1-3/2015	1-3/2014	change	relative share of expenses for 2015
	BGN '000	BGN '000	%	%
<b>Hired services expense</b>				
Advertising	5 503	5 988	-8%	35%
Rents	1 757	1 556	13%	11%
Consulting services	1 112	1 434	-22%	7%
Forwarding and transportation services	979	1 109	-12%	6%
Buildings and equipment maintenance	721	756	-5%	5%
Local taxes and fees	667	473	41%	4%
Production of medicines	549	908	-40%	3%
Subscription fees	491	385	28%	3%
Bank and regulatory charges	398	497	-20%	3%
Insurance	329	380	-13%	2%
Services under civil contracts	296	334	-11%	2%
Security	241	328	-27%	2%
Communications	230	218	6%	1%
Car repairs	205	255	-20%	1%
Other	2 247	3 498	-36%	14%
<b>Total</b>	<b>15 725</b>	<b>18 119</b>	<b>-13%</b>	<b>100%</b>

*Hired services* have an 8% share of operating expenses and decreased by BGN 2,4 million or 13%, reaching BGN 15,7 million in the first quarter of 2015 compared to BGN 18,1 million in the first quarter of 2014. The most significant decrease comes from other expenses by BGN 1



million, production of medicines by BGN 0,4 million, advertising expenses by BGN 0,5 million, forwarding and transportation services by BGN 0,1 million, consulting services by BGN 0,3 million and other.

	1-3/2015	1-3/2014	change	relative share of expenses for 2015
	BGN '000	BGN '000	%	%
<b>Personnel costs</b>				
Current wages and salaries	15 287	14 612	5%	76%
Social security/health insurance contributions	3 130	3 193	-2%	16%
Social benefits and payments	821	732	12%	4%
Other	803	673	19%	4%
<b>Total</b>	<b>20 041</b>	<b>19 210</b>	<b>4%</b>	<b>100%</b>

*Personnel costs* (with an 10% share) grew by BGN 0,8 million, or 4%, reaching BGN 20 million in the first quarter of 2015 compared to BGN 19,2 million in the first quarter of 2014. The general growth of these costs is due to both the increase of salaries of the personnel, as well as to the growth of the number of employees in the Group as a result of the consolidation of new companies.

<b>Other operating expenses</b>	1-3/2015	1-3/2014	change	relative share of expenses for 2015
	BGN '000	BGN '000	%	%
Entertainment event allowances	535	574	-7%	35%
Business trips	278	330	-16%	18%
Tax and tax interest payments	212	38	458%	14%
Scrapping and loss of goods	208	22	845%	14%
Trainings	195	73	167%	13%
Donations	181	62	192%	12%
Scrapping of long-term assets	123	0		8%
Unrecognized tax credit for VAT	76	33	130%	5%
Charged/(reversed) impairment of current assets, net	(544)	(243)	124%	-36%
Other	264	68	288%	17%
<b>Total</b>	<b>1 528</b>	<b>957</b>	<b>60%</b>	<b>100%</b>

*Other operating expenses* (with a share of 1%) increased by BGN 0,6 million or 60% from BGN 0,9 million in the first quarter of 2014 to BGN 1,5 million in the first quarter of 2015. The most significant part in the increase results from reversed impairment of current assets with BGN 0,3 million, scrapping and loss of goods with BGN 0,2 million, tax and tax interest payments with BGN 0,2 million, and other expenses with BGN 0,2 million.

*Depreciation and amortization expense* (with a share of 3%) decreased by BGN 1 million or 13% from BGN 7,6 million in the first quarter of 2014 to BGN 6,6 million in the first quarter of 2015.

Finance income and costs

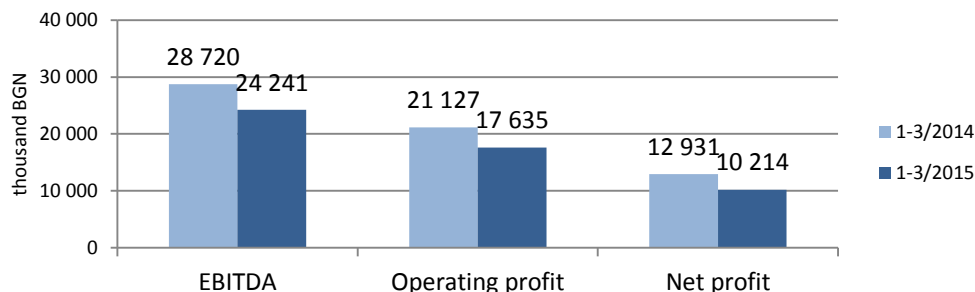
	1-3/2015	1-3/2014	change	relative share of income for 2015
	BGN '000	BGN '000	%	%
<b>Finance income</b>				
Interest income on overdue commercial receivables	748	458	63%	49%
Interest income on granted loans	680	599	14%	45%
Interest on receivables from special contracts	37	48	-23%	2%
Net gain from operations with investments in securities	25	1	2400%	2%
Interest income on bank deposits	25	7	257%	2%
Income from equity investments (dividends)		10	-100%	0%
<b>Total</b>	<b>1 515</b>	<b>1 123</b>	<b>35%</b>	<b>100%</b>
			<b>change</b>	<b>relative share of costs for 2015</b>
<b>Finance costs</b>				
Net loss on exchange rate differences on loans in foreign currencies	4 060	4 650	-13%	66%
Interest expenses on loans	2 018	2 113	-4%	30%
Bank fees on loans and guarantees	200	133	50%	2%
Interest expense on finance lease	106	78	36%	1%
Net loss from operations with investments in securities	2	83	-98%	1%
<b>Total</b>	<b>6 386</b>	<b>7 057</b>	<b>-10%</b>	<b>100%</b>

*Finance income* increased by BGN 0,4 million or 35%, to BGN 1,5 million in the first quarter of 2015 compared to BGN 1,1 million in the first quarter of 2014 mainly due to interest income on overdue commercial receivables, which increased by BGN 0,3 million.

Finance costs decreased by BGN 0,7 million from BGN 7,1 million in the first quarter of 2014 to BGN 6,4 million in the first quarter of 2015. The highest decrease is in net loss on exchange rate differences on loans in foreign currencies with BGN 0,6 million.

*Net financial costs* decreased by BGN 1 million, reaching BGN (4,9) million as at 31 March 2015 compared to BGN 5,9) million as at 31 March 2014.

## Financial performance



*Earnings before interest, taxes, depreciation and amortization (EBITDA)* decreased by BGN 4,5 million or 16%, amounting to BGN 24,2 million as at 31 March 2015, compared to BGN 28,7 million as at 31 March 2014.

*Operating profit* decreased by BGN 3,5 million or 17%, to BGN 17,6 million as at 31 March 2015, compared to BGN 21,1 million as at 31 March 2014.

*Net profit* decreased by BGN 2,7 million, or 21%, reaching BGN 10,2 million as at 31 March 2015, compared to BGN 12,9 million as at 31 December 2014.

## Assets

	31.03.2015	31.12.2014	change	relative share
	BGN '000	BGN '000	%	2015
<b>Non-current assets</b>				
Property, plant and equipment	294 171	299 037	-2%	74%
Intangible assets	16 724	13 270	26%	4%
Goodwill	10 050	10 918	-8%	3%
Investment property	11 030	10 606	4%	3%
Investments in associated companies and joint ventures	19 115	12 387	54%	5%
Available-for-sale investments	6 391	6 968	-8%	2%
Long-term receivables from related parties	33 547	33 150	1%	8%
Other long-term receivables	349	353	-1%	0%
Deferred taxes	3 719	3 849	-3%	1%
	<b>395 096</b>	<b>390 538</b>	1%	47%

<b>Current assets</b>				
Inventories	158 488	155 910	2%	35%
Trade receivables	218 235	196 330	11%	49%
Receivables from related parties	30 898	25 318	22%	7%
Other receivables and prepayments	22 176	22 445	-1%	5%
Cash and cash equivalents	18 326	26 822	-32%	4%
	<b>448 123</b>	<b>426 825</b>	5%	53%
<b>TOTAL ASSETS</b>	<b>843 219</b>	<b>817 363</b>	3%	100%

*Total assets* increased by BGN 25,8 million, or 3%, reaching BGN 843,2 million as at 31 March 2015, compared to BGN 817,4 million as at 31 December 2014 as a result of the increase in both current and non-current assets.

*Non-current assets* increased by BGN 4,6 million, or 1%, mainly due to the increase in investments in associated companies and joint ventures by BGN 6,7 million and intangible assets by BGN 3,5 million. Property, plant and equipment decreased by BGN 4,9 million, mainly in the part of machines and equipment by BGN 3,2 million and land and buildings by BGN 2,1 million. There is an increase in assets in the process of acquisition by BGN 1,5 million.

Intangible assets increased by BGN 3,4 million mainly due to a decrease in goodwill by BGN 0,9 million as a result of the effect of currency and hyperinflationary revaluations.

Investments in associated companies increased by BGN 7,1 million, investments in joint ventures decreased by BGN 0,4 million compared to 31 December 2014 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 0,6 million.

Long-term receivables from related parties increased by BGN 0,4 million or 1% to BGN 33,6 million.

*Current assets* increased by BGN 21,3 million or 5%, reaching BGN 448,1 million as at 31 March 2015 compared to BGN 426,8 million as at 31 December 2014.

Inventories comprise 35% of current assets and increased by BGN 2,6 million compared to 31 December 2014 in the portion of finished products by BGN 1,8 million, materials by BGN 1,7 million, unfinished products by BGN 0,7 million, and semi-finished products by BGN 0,4 million. There is a decrease in goods by BGN 2 million.

Commercial receivables, which have a relative share of 49% of current assets, increased by BGN

21,9 million, in both the portion of receivables from clients by BGN 19 million and in advance payments by BGN 2,9 million.

Receivables from related parties have a relative share of 7% in current assets and increased by BGN 5,6 million in both receivables from commercial loans with BGN 3,3 million and receivables from the sale of products and materials with BGN 2,3 million.

Other receivables and prepayments comprise 5% of current assets and decreased by BGN 0,3 million, as a result of a decrease in court and awarded receivables, net by BGN 0,9 million and advance payments by BGN 1,2 million. Cash and cash equivalents decreased by BGN 8,5 million compared to 31 December 2014. As at the end of the current period there are deposits amounting to BGN 3 million.

<b>Equity and liabilities</b>				
<b>EQUITY</b>	<b>31.03.2015</b>	<b>31.12.2014</b>	<b>change</b>	<b>relative share of equity for 2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>Equity attributable to owners of the parent</b>				
Share capital	134 798	132 000	2%	30%
Reserves	47 735	36 069	32%	11%
Retained earnings	213 618	203 260	5%	48%
	<b>396 151</b>	<b>371 329</b>	<b>7%</b>	<b>89%</b>
<b>NON-CONTROLLING INTEREST</b>	46 530	60 308	-23%	11%
<b>TOTAL EQUITY</b>	<b>442 681</b>	<b>431 637</b>	<b>3%</b>	<b>100%</b>
	<b>31.03.2015</b>	<b>31.12.2014</b>	<b>change</b>	<b>relative share of total liabilities for 2015</b>
<b>LIABILITIES</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>Non-current liabilities</b>				
Long-term bank loans	47 042	45 820	3%	12%
Deferred tax liabilities	6 947	5 728	21%	2%
Long-term liabilities to personnel	3 727	3 786	-2%	1%
Finance lease liabilities	1 807	2 103	-14%	0%
Government grants	7 394	7 558	-2%	2%
Other non-current liabilities	26	35	-26%	0%
	<b>66 943</b>	<b>65 030</b>	<b>3%</b>	<b>17%</b>

<b>Current liabilities</b>				
Short-term bank loans	222 558	217 360	2%	56%
Current portion of long-term bank loans	10 391	10 772	-4%	3%
Trade payables	78 460	71 752	9%	20%
Payables to related parties	2 562	1 634	57%	1%
Payables to the personnel and for social security	8 358	7 514	11%	2%
Tax payables	6 763	6 023	12%	2%
Other current liabilities	4 503	5 641	-20%	1%
	<b>333 595</b>	<b>320 696</b>	4%	83%
<b>TOTAL LIABILITIES</b>	<b>400 538</b>	<b>385 726</b>	4%	100%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>843 219</b>	<b>817 363</b>	3.2%	

The equity of Sopharma Group increased by BGN 11 million compared to 31 December 2014 mainly due to the achieved net profit for the current period and reserves. Equity attributable to owners of the parent comprise 47% of total equity and liabilities, with certain improvement of the financial autonomy of the Group.

Non-current liabilities increased by BGN 1,9 million or 3%, from BGN 65 million at the end of 2014 to BGN 66,9 million at the end of the first quarter of 2015 mainly due to an increase in long-term bank loans by BGN 1,2 million and deferred tax liabilities by BGN 1,2 million.

Current liabilities increased by BGN 12,9 million or 4% compared to 2014, mainly in the portion of short-term bank loans by BGN 5,2 million, the short-term part of long-term bank loans by BGN 3,7 million, commercial payables by BGN 6,7 million, payables to related parties by BGN 0,9 million, payables to personnel and for social security by BGN 0,8 million, and tax payables by BGN 0,7 million.

The Group's total liabilities under bank loans and leases increased by BGN 5,7 million compared to the end of 2014, while net debt, after subtracting of cash and cash equivalents, increased by BGN 14,2 million.

### Cash flows

	31. 03.2015 BGN '000	31. 03.2014 BGN '000
Net cash flows from operating activities	4 249	6 343
Net cash flows used in investing activities	(15 419)	(5 846)
Net cash flows (used in)/from financing activities	3 366	(1 058)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(7 804)</b>	<b>(561)</b>
Cash and cash equivalents at 1 January	25 299	26 607
Cash and cash equivalents at 31 December	17 495	26 046

Net cash flows generated from operating activities as at 31 March 2015 amount to BGN 4,2 million, those from investing activities – BGN (15,4) million and from financing activities – BGN 3,3 million. As a result of these activities the cash and cash equivalents mark a net decrease of BGN 7,8 million and as at 31 March 2015 amount to BGN 17,5 million compared to BGN 25,3 million as at 1 January 2014.

### Financial ratios

	31.03.2015	31.03.2014
ROE <sup>1</sup>	4,5%	6,6%
ROA <sup>2</sup>	2,1%	3,0%
Asset turnover <sup>3</sup>	1,04	1,00
Current ratio <sup>4</sup>	1,34	1,39
Quick ratio <sup>5</sup>	0,87	0,92
Cash ratio <sup>6</sup>	0,05	0,09
Solvency ratio <sup>7</sup>	1,11	1,17

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

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

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

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

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

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

<sup>7</sup> Equity/Liabilities

### Information about the shares of Sopharma AD

The total number of shares issued by Sopharma AD as at 31 March 2015 is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, common and indivisible, under the Articles of Association. All issued shares are of one class. Each share gives equal rights to its holder, in proportion to its nominal value. The shares of Sopharma AD are traded on the official market of Bulgarian Stock Exchange - Sofia AD and the official market of the Warsaw Stock Exchange. The shares are part of the indices SOFIX, BGBX40 and BGTR30 on the BSE – Sofia AD.

The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds 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.

## Key indicators of the shares of Sopharma AD

	31.03.2015	31.03.2014
Total number of issued shares	134 797 899	132 000 000
Number of shares outstanding at the end of the period	129 419 720	126 786 279
Average weighted number of outstanding shares for the period	129 510 170	126 435 302
Earnings per share in BGN <sup>1</sup>	0,13	0,19
Price per share at the end of the period in BGN	3,418	4,599
Price/Earnings ratio (P/E)	26,29	24,21
Book value per share in BGN <sup>2</sup>	3,06	2,92
Price/Book value ratio (P/B)	1,12	1,58
Income from sale of one share in BGN <sup>3</sup>	6,56	6,23
Price of one share / Income from sale of one share (P/S)	0,52	0,74
Market capitalization in BGN based on the number of issues shares	460 739 219	607 068 000

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

<sup>2</sup> 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

<sup>3</sup> 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 March 2015





Signature:

Ognian Donev, PhD  
Executive Director, Sopharma AD

