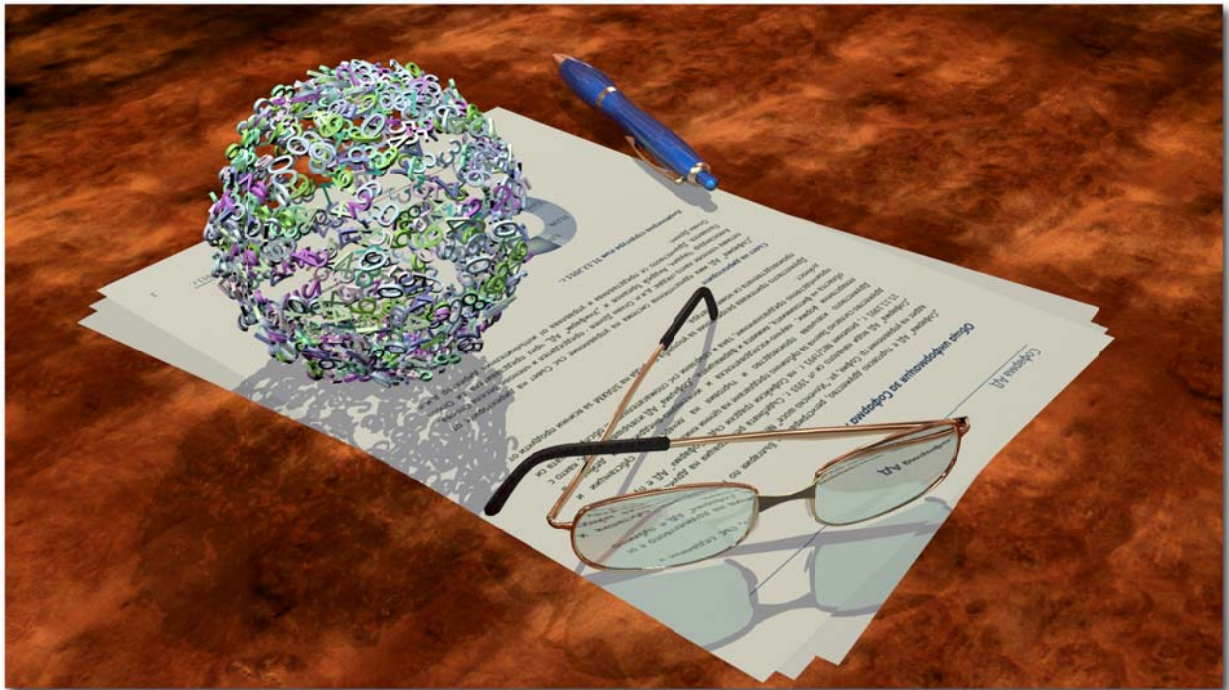


MANAGEMENT REPORT

Q2 2012




SOPHARMA GROUP



General information about the Group

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

The Group operates in the following areas:

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

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

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

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

Subsidiaries

Sopharma Group consists of Sopharma AD and 21 entities, including 19 subsidiaries, directly or indirectly controlled by the Company and a jointly controlled company (Sopharma - Zdrovit JSC, Poland, now in Liquidation).

Sopharma Group

Company	Share as at 30.06.2012 in %
Sopharma Trading AD	81.31
Bulgarian Rose Sevtopolis AD, Kazanlak, Bulgaria	52.77**
Biofarm Engineering AD, Sliven, Bulgaria	69.43
Farmalogistika AD, Sofia, Bulgaria	76.54
Elektronkomers EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	42.64
Momina Krepost AD, Veliko Tarnovo, Bulgaria	51.30**
Unipharm AD, Sofia, Bulgaria	52.21**
OAo Vitaminy, Uman, Ukraine	99.56
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Ivanchich and Sinovi DOO., Belgrade, Serbia	51.00
Sofarma Warsaw Sp. z o.o., Warsaw, Poland	100.00
Sopharma USA Corp., Los Angeles, USA	100.00
Extab Corporation USA, Wilmington, USA	80.00
Extab Pharma Limited, Henley on Thames, Great Britain*	80.00
BRIZ ZAO, Riga, Latvia	51.00
Brititreyd SOOO, Minsk, Belarus*	49.73
Tabina SOOO, Minsk, Belarus *	50.49
Interpharm Company ZAO, Vitebsk, Belarus	49.27
Sopharma Zdrovit JSC Warsaw, Poland in Liquidation ***	50.01

* indirect participation

** effective share

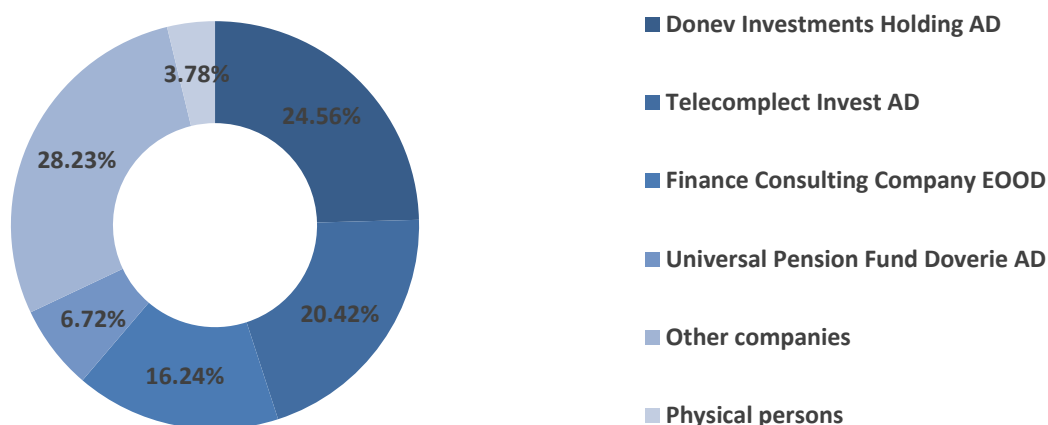
*** joint stock company

As at 30 June 2012 the GROUP has an interest through its subsidiary Briz OOD, Latvia in the associated company Vivaton OOD, Belarus.

Management Board

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

Shareholder structure as at 30.06.2012



Industrial activity

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

The production of the company is carried out and developed in the following areas:

- + Production of pharmaceutical products;
- + Substances and preparations based on vegetable raw materials (phytochemical production);
- + Veterinary vaccines;
- + Infusion solutions;
- + Concentrates for hemodialysis;
- + Medical disposable products for human and veterinary medicine;
- + Injection molded products for the industry, agriculture and households.
- + Finished dosage forms including
- + Solid tablets, coated tablets, coated tablets, capsules;

Sopharma Group

- ✚ Galenical - suppositories, drops, syrups, unguents;
- ✚ Parenteral - injectables, powders for injections lyophilic

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

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

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

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

Distribution

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

The company offers more than 7000 products (particularly drugs, medical equipment and devices, accessories, cosmetics, vitamins and supplements) in its portfolio, including the brands of Sopharma, and holds exclusive rights for Bulgaria over brands of strategic partners such as Aboca , Colief, Jamieson, Planter's, Premax, Skincode, SVR Laboratories, US Pharmacia and

Wyeth, specialized services (such as software solutions for pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and 3,870 customers.

Intellectual property

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

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

In all the years of its existence, Sopharma AD generates and protects its intellectual property. As a result, the company owns a large number of intellectual property, most of which - registered rights (trademarks, patents, designs) and unregistered items - mainly technology.

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

Research and development

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

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

Employees

For 2012 the average number of employees in the Sopharma Group is 3,881 (3,889 in 2011). The average number of employees in Sopharma AD for 2011 is 1,864 (1,848 in 2011), and in Sopharma Trading AD it is 689 (698 in 2011).

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

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

Changes in Q2 2012 and as at the date of publishing this report

As of 31 January 2012, Mr. Ognian Donev exited his personal position as a shareholder of Sopharma. Mr. Donev remains the main shareholder in the Company through indirect holdings.

On 31 January 2012 the subsidiary Briz Ltd - Latvia acquired 18% of OOO Vivaton plus in Belarus. The remaining 57% will be acquired according to the contract during the period 2012 – 2013.

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

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

As at 31. March 2012 the total number of treasury shares of Sopharma AD amounted to 2,571,066. or 1.95% of the capital.

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

On 18 April 2012 Sopharma AD received notifications of disclosure of shareholdings under Art. 145 of POSA: **Gramercy Select Master Fund**, USA, Georgetown sold 8,587,285 shares, representing 6.51% of the capital of Sopharma, thereby closing its position in the capital of "Sopharma" AD, and **Gramercy Emerging Markets Fund**, USA, Georgetown sold 7,980,192 shares, representing 6.05% of the capital of Sopharma, thereby closing its position in the capital of "Sopharma" AD. The date of registration of the two transactions with the Central Depository is 09 April 2012.

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

On 02 May 2012 the Board of Directors of the Company decided to convene an Annual General Meeting of Shareholders, which will take place on 19.06.2012.

Sopharma Group

On 18 May 2012 Sopharma AD conducted a regular Annual Meeting with Investors, which took place in the Conference Center of Sopharma Business Towers.

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

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

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

On 14 June 2012 Sopharma AD bought 6149 shares of the capital of Maritsateks AD, thus the total share of Sopharma reached 6.01% of the capital of Maritsateks AD.

As at 30 June 2012 the treasury shares of Sopharma AD amount to 3,143,782 shares or 2.38% of the capital, according to a decision by the General Meeting of Shareholders from 23 June 2010.

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

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

The Annual General Meeting of Shareholders of "Sopharma Trading" AD, held on 26 June 2012, decided to distribute the profit for 2011 as follows: 641 590.73 BGN shall be allocated to the Reserve Fund, 5 593 851.53 BGN shall be distributed as dividends to shareholders – gross

Sopharma Group

dividend per share is 0.17 BGN; 180 465.03 BGN shall be allocated to the additional reserves of the company.

New developments and products

🚧 New products in the second quarter of 2012

The new products for the company have been implemented - Vitamin C ampoules of 2 ml. and 5 ml. for drinking and Neurelaks tablets.

🚧 Expected in 2012

The implementation of 3-5 new products is expected by the end of 2012.

🚧 Developments

Around 48 production processes and technologies are in a process of transfer and optimization. Around 27 new products for the company are currently under pharmaceutical development.

Key financial indicators

Indicators	1-6/2012 BGN '000	1-6/2011 BGN '000	change %
Sales revenue	345 554	315 714	9.5%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	41 599	33 278	25.0%
Operating profit	32 227	24 673	30.6%
Net profit	25 444	21 386	19.0%
Capital expenditures	33 319	22 014	51.4%
	30.06.2012	30.06.2012	
	BGN '000	BGN '000	
Non-current assets	321 435	294 130	9.3%
Current assets	408 835	382 458	6.9%
Equity	380 078	365 812	3.9%
Non-current liabilities	70 709	35 102	101.4%
Current liabilities	279 483	275 674	1.4%

Ratios	1-6/2012	1-6/2011
EBITDA / Sales revenue	12,0%	10,5%
Operating profit/ Sales revenue	9,3%	7,8%
Net profit/ Sales revenue	7,4%	6,8%
Borrowed capital/ Equity	0,92	0,85
Net debt/ EBITDA, annualised	3,1x	2,8x

Review of risk factors

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

- ✚ The Group faces significant competition.
- ✚ Part of Sopharma Trading's revenues in Bulgaria are generated by sales to hospitals, which involve a higher degree of business risk.
- ✚ Reputation of the Group may be adversely affected by untrue or misleading information available on websites (www.sopharma.com) containing the name "Sopharma" which have not been authorized by the Company.
- ✚ The Group is dependent on regulatory approvals.
- ✚ Government regulations affecting the Group's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- ✚ Part of the Group's revenues, in particular in Bulgaria, depend on the inclusion of the Company's medicines on reimbursement lists.
- ✚ The Company's and Group Companies' production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Group's operations.
- ✚ The Company's ability to pay dividends depends on a number of factors and there can be no assurance that the Company will be able to pay dividends in accordance with its dividend policy or at all in any given year.
- ✚ The Group is subject to operational risk which is inherent to its business activities.
- ✚ The Group is subject to numerous environmental and health and safety laws and regulations and is exposed to potential environmental liabilities.
- ✚ Litigation or other out-of-court proceedings or actions may adversely affect the Group's business, financial condition and results of operations.

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

- ✚ The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Group's operations and position.
- ✚ The political environment in Bulgaria has a significant effect on the Group's operations and financial condition.
- ✚ The political environment in the Group's export markets, especially in Russia and Ukraine, has a significant effect on the Group's operations and financial condition.
- ✚ Risks related to the Bulgarian legal system.
- ✚ Risks relating to exchange rates and the Bulgarian Currency Board
- ✚ Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change

Currency risk

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

A significant volume of the Group's revenue is gained mainly through the parent company from export of finished products contracted as payable in USD. At the same time, the Group again through the parent company supplies part of its basic raw materials and consumables also in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The companies abroad perform sales mainly to the local markets, which leads to currency risk to their currencies as well – Ukrainian Grivna (UAH), Serbian Dinar (RSD), Russian Ruble (RUB), Latvian Lat (LVL), Belarus Ruble (BYR).

The remaining part of Group companies' operations are usually denominated in Bulgarian BGN (BGN) or euro (EUR).

Credit risk

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

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

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

Liquidity risk

Liquidity risk is an adverse situation where the Group encounters difficulty in unconditionally meeting its obligations within their maturity.

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

Risk of interest-bearing cash flows

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

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

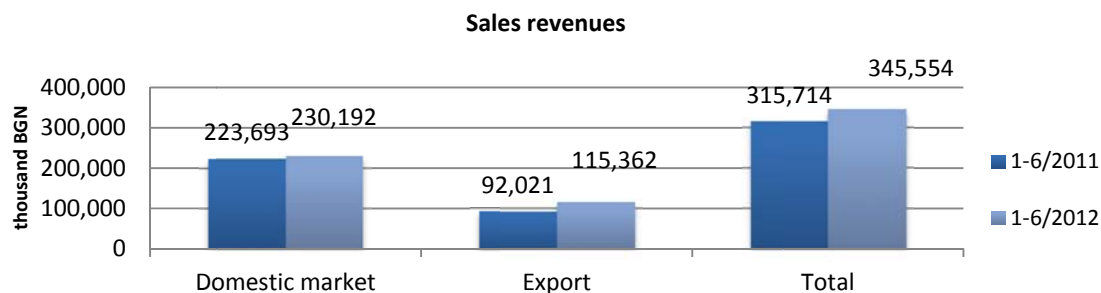
The management of the Group companies together with that of the parent company currently monitor and analyse the exposure of the respective company to the changes in interest BGNels. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative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

Financial results for Q1 2012

Sales revenues

Revenues from sales of the Group have increased by 29,8 million BGN or 9,5%, reaching 345,6 million BGN in the second quarter of 2012 compared to 315,7 million BGN in the same period 2011. The increase is due to an increase in sales of goods by 11,9 million BGN, reaching 208,8 million BGN in the second quarter 2012 compared to 196,9 million BGN in the second quarter of 2011 and growth of 17,9 million BGN in sales of finished products, which reach 136,7 million BGN in the second quarter of 2012 compared to 118,8 million BGN for the same period in 2011 .

Sales by types of markets



The contribution of sales in Bulgaria to the consolidated sales revenue in the second quarter of 2012 amounted to 67%, increasing by 6,5 million BGN, or 2.9 %, to 230,2 million in the current quarter, compared to 223,7 million BGN in the second quarter of 2011.

Sopharma has a 5% share of the Bulgarian pharmaceutical market in terms of value and a 13% share in terms of sales. The positions of the main competitors of the company in the country are as follows: Novartis - 7% (5% in units.), Roche-6% (1% in units.), Actavis - 6% (14% in units.), Glaxosmithkline - 5% (2% in units), Sanofi-Aventis-Zentiva - 5% (3% in units.), Servier - 4% (2% in units), Astra Zeneca - 4% (1 % in units), Bayer -3% (3% in units), Pfizer - 3% (2% in units). Among

Sopharma Group

the distributors of medicines Sopharma Trading AD has a share of 22% and along with Phoenix / Libra (21% share) and Sting (20,2%) has a leading position in the national pharmaceutical market.

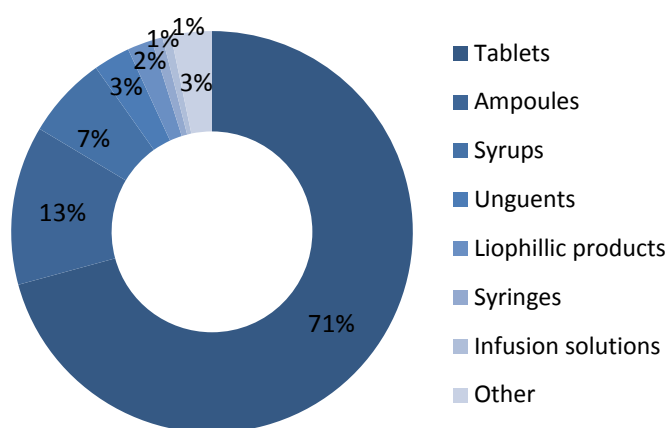
The Group products with the highest share in sales in the country are Analgin, Vicetin, Vitamin C., Methylprednisolone, Flixotid.

Revenue by groups of products

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

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

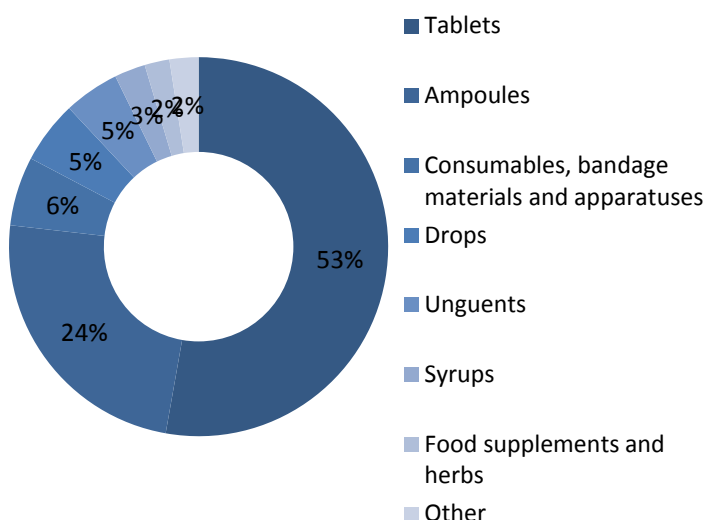
Revenues of finished products by type	1-6/2012 BGN '000	1-6/2011 BGN '000	change %
Tablets	96 736	86 070	12%
Ampoules	17 518	13 228	32%
Syrups	9 065	7 526	20%
Unguents	4 038	3 151	28%
Lyophilic products	2 722	2 284	19%
Syringes	1 221	1 238	-1%
Infusion solutions	932	910	2%
Other	4 488	4 379	2%
Total	136 720	118 786	15%



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

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Revenues of goods by type	1-6/2012 BGN '000	1-6/2011 BGN '000	change %
Tablets	110 213	105 850	4.1%
Ampoules	50 185	43 577	15%
Consumables, bandage materials and apparatuses	12 314	5 814	112%
Drops	11 144	12 713	-12%
Unguents	9 881	13 288	-26%
Syrups	5 521	4 821	15%
Food supplements and herbs	4 427	2 749	61%
Other	5 149	8 113	-37%
Total	208 834	196 925	6%



Other revenues from operations

Other revenues from operations	1-6/2012 BGN '000	1-6/2011 BGN '000	change %	share 2012 %
Net losses from exchange rate differences on commercial receivables and payables and current accounts	1 260	(1 699)	174%	31%
Income from advertisement	600	125	380%	15%
Profit/ (loss) from sale of long-term assets	519	4	12875%	13%
Services rendered	493	780	-37%	12%
Rents	334	215	55%	8%
Services of social activities and events	286	290	-1%	7%
Income from financing	180	72	150%	4%
Profit/ (loss) from sale of materials	(18)	(55)	-67%	0%
Other	427	425	0%	10%
Total	4 081	157	2499%	100%

Other operating income increased by 3,9 million BGN compared to the second quarter of 2011 reaching 4,1 million BGN in the second quarter 2012, compared to 0,2 million in the second quarter of 2011. The most significant influence on the increase have the net losses from exchange rate differences on commercial receivables and payables and current accounts, which increase by 2,9 million BGN. Income from advertisement, profit/ (loss) from sale of long-term assets, rents and Income from financing increased. Services rendered decreased by 0.3 million BGN.

Expenses

Operating expenses	1-6/2012	1-6/2011	change	share 1-6/2012
	BGN '000	BGN '000	%	%
Changes in inventories of finished goods and work in progress	(207)	(545)	-62%	0%
Book value of goods sold	196 193	181 163	8%	62%
Materials	45 762	39 916	15%	14%
Hired services	27 414	27 163	1%	9%
Personnel	34 699	31 631	10%	11%
Amortisation	9 372	8 605	9%	3%
Other operating expenses	4 175	3 265	28%	1%
Total	317 408	291 198	9%	100%

The operating expenses in the second quarter of 2012 increased by 26,2 million BGN or 9% from 291,2 million BGN in the second quarter of 2011 to 317,4 million BGN in the second quarter of 2012 due to growth in sales and therefore the carrying value of sold products in the internal market, increased cost of materials, personnel, external services and depreciation.

	1-6/2012	1-6/2011	change	share 2012
Expenses on materials	BGN '000	BGN '000	%	%
Basic materials	33 714	29 870	13%	74%
Spare parts, laboratory and technical materials	3 057	2 541	20%	7%
Heat power	2 941	1 962	50%	6%
Electric energy	2 185	1 819	20%	5%
Fuels and lubricating materials	1 757	1 893	-7%	4%
Water	478	467	2%	1%
Special working clothes	401	367	9%	1%
Office materials	368	256	44%	1%
Advertising materials	252	294	-14%	1%
Rejects	26	14	86%	0%
Other	583	433	35%	1%
Total	45 762	39 916	15%	100%

Sopharma Group

Cost of material (14% share) increased by 15% or 5,9 million from 39,9 million BGN in the second quarter 2011 to 45,8 million BGN to the second quarter of 2012. The cost of basic materials rose by 3.8 million BGN, or 13%, the most significant impact is defined as the cost of substances and packaging materials which increased accordingly by 1,1 million BGN and 1 million BGN. The cost of heat, spare parts, laboratory and technical materials and electricity contribute the most to this increase. This increase in cost of materials is mainly due to increased volume of output.

	1-6/2012	1-6/2011	change	share 1-6/2012
	BGN '000	BGN '000	%	%
Hired services expenses				
Advertising	7 345	6 266	17%	27%
Manufacture	3 396	6 115	-44%	12%
Rentals and insurance	2 625	1 444	82%	10%
Forwarding and transportation services	2 298	2 222	3%	8%
Buildings and equipment maintenance	2 038	1 658	23%	7%
Consulting services	1 854	1 119	66%	7%
Bank and regulatory taxes	1 191	1 753	-32%	4%
Services under civil contracts with physical persons	902	619	46%	3%
Subscription fees	781	599	30%	3%
Local taxes and charges	611	623	-2%	2%
Communications	491	343	43%	2%
Security	477	416	15%	2%
Registration of medicines	449	425	6%	2%
Other	2 956	3 561	-17%	11%
Total	27 414	27 163	1%	100%

Hired services have a 9% share of operating expenses and increased by 0.2 million BGN or 1%, reaching 27,4 million BGN for the second quarter 2012 compared to 27,2 million BGN in the second quarter of 2011. The most significant influence comes from ad spending, which rose by 1,1 million, rentals and insurance (increasing by 1,2 million), and consulting services – an increase by 0.7 million and others. Manufacture decreased by 2,7 million BGN.

	1-6/2012	1-6/2011	change	share 2012
	BGN '000	BGN '000	%	%
Personnel costs				
Current wages and salaries	25 353	24 083	5%	73%
Social security/health insurance contributions	5 234	4 959	6%	15%
Profit-based bonuses	1 224			4%
Social benefits and payments	1 599	1 274	26%	5%
Other	1 289	1 315	-2%	4%
Total	34 699	31 631	10%	100%

Personnel costs (with a 11% share) grew by 3.1 million, or 10%, reaching 34,7 million in the second quarter 2012 compared to 31,6 million BGN in the second quarter of 2011. Total growth of these costs is due to the increase of salaries of the personnel, as well as the profit-based bonuses of the management of the Company, amounting to 1,2 million BGN.

	1-6/2012	1-6/2011	change	share 1-6/2012
	BGN '000	BGN '000	%	%
Other operating expenses				
Entertainment allowances	1 162	1 201	-3%	27.8%
Scrap and loss of finished products and long-term assets	1 060	237	347%	25.4%
Business trips	826	634	30%	19.8%
Accrued/(recovered) impairment of current assets, net	401	537	-25%	9.6%
Donations	220	167	32%	5.3%
Trainings	164	134	22%	3.9%
Payments to the budget	76	83	-8%	1.8%
Other	266	263	1%	6.4%
Total	4 175	3 256	28%	100.0%

Other operating expenses (with a share of 1%) increased by 0,9 million BGN or 28% from 3,3 million BGN in the second quarter of 2011 to 4,2 million BGN as at the end of the second quarter of 2012. The increase is mainly due to an increase in scrap and loss of finished products and long-term assets by 0,8 million BGN, as well as business trips – by 0,2 million BGN.

Depreciation expenses (with a share of 3 %) increased by 0,8 million BGN or 9% from 8,6 million BGN in the second quarter of 2011 to 9,4 million BGN in the second quarter of 2012 due to the increased amount of depreciable assets after the acquisition of new companies in the group.

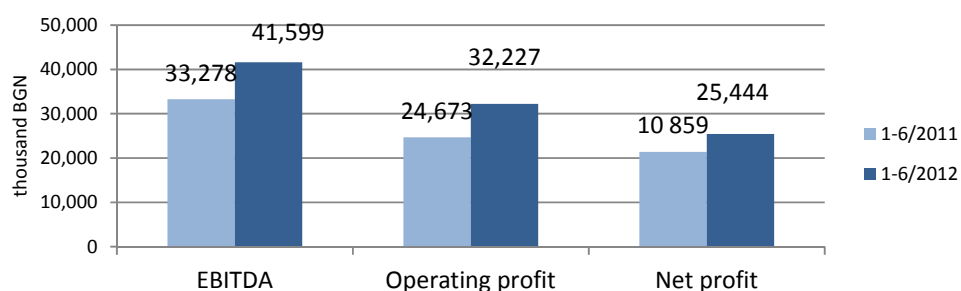
	1-6/2012	1-6/2011	change	share 2012
	BGN '000	BGN '000	%	%
Financial income				
Income from interest on loans granted	2 017	2 455	-17.8%	72%
Income from interest on overdue payments	361	778	-53.6%	13%
Net gain on exchange rate differences on loans	199			7%
Income from equity investments	162	342	-53%	6%
Income from interest on deposits	35	45	-22%	1%
Interest on special contracts	9			0%
Total	2 783	3 620	-23%	100%

			change	share 1-6/2012
Financial expenses				
Interest expenses on loans	3 422	4 140	-17%	84%
Bank fees on loans and guarantees	318	294	8%	6%
Financial leasing interest	159	113	41%	2%
Investment operations expenses	7	9	-22%	0%
Net loss from exchange rate differences on loans		398	-100%	8%
Total	3 906	4 954	-21%	100%

Financial income is reduced by 0.8 million BGN or 23%, reaching 2,8 million BGN in the second quarter of 2012 compared to 3,6 million BGN in the second quarter of 2011. Financial expenses decreased by 1 million BGN or 21%, from 4,9 million BGN in second quarter 2011 to 3,9 million BGN in the second quarter 2012. This decrease is mainly due to the reduction of interest expense on borrowings by 0,7 million BGN and the net loss from exchange rate differences on loans – 0,4 million BGN.

Net financial income (expenses) decreased by 0,2 million BGN, reaching (1,1) million BGN in the second quarter of 2012 compared to (1,3) million BGN in the second quarter of 2011 .

Financial income and expenses



Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 8,3 million BGN or 25%, amounting to 41,6 million BGN the second quarter of 2012, compared to 33,3 million BGN in the second quarter of 2011.

Operating profit increased by 7,5 million BGN or 31%, to 32,2 million BGN in the second quarter of 2012 compared to 24,7 million BGN in the second quarter of 2011

Net profit for the second quarter of 2012 increased by 4 million BGN, or 19%, reaching 25,4 million BGN in the second quarter of 2012 compared to 21,4 million BGN in the second quarter 2011.

Assets

	30.03.2012	31.12.2011	change	share
	BGN '000	BGN '000	%	1-6/2012
				%
Non-currents assets				
Property, plant and equipment	258 727	236 338	9%	80%
Intangible assets	28 657	27 979	2%	9%
Investment property	6 559	6 555	0%	2%
Available-for-sale investments	22 534	19 972	13%	7%
Investments in associated companies	283			0%
Loans granted to related parties	743	729	2%	0%
Differed taxes	2 936	1 709		1%
Other non-current assets	996	848	17%	0%
	321 435	294 130	9%	44%
Currents assets				
Inventories	116 693	126 022	-7%	29%
Trade receivables	163 763	136 756	20%	40%
Receivables from related parties	72 814	63 113	15%	18%
Other receivables and prepayments	24 142	24 332	-1%	6%
Cash and cash equivalents	31 423	32 235	-3%	8%
	408 835	382 458	7%	56%
TOTAL ASSETS	730 270	676 588	7.9%	100%

Total assets increased by 53,7 million BGN, or 8%, reaching 730,3 million BGN, compared to 676.6 as at 31 December 2011. as a result of the increase in both current and non-current assets.

Non-current assets increased by 27,3 million BGN, or 9%, mainly due to the increase in property, plant and equipment by 22,4 million BGN and the growth of the available-for-sale investments by 2,6 million BGN. The most significant impact on this process have assets in the process of acquisition which increased by 24,1 million BGN mostly as a result of the investment in the new solid forms factory, which for the second quarter of 2012 is 22,8 million BGN, while the total funds invested since the beginning of the project amounted to 48,3 million BGN. Additional funds were spent on advances for acquisition of laboratory and production equipment.

Intangible assets also grow from 0.7 million BGN, the most significant investment is the

implementation of an integrated information system, which should be completed in 2012.

Available-for-sale investments increased by 2,6 million BGN due to a paid but not registered increase in the capital of Doverie United Holding AD. Deferred tax assets increased by 1,2 million BGN, compared to 31 December 2011.

Current assets increased by 26,4 million BGN or 7%, reaching 408,8 million BGN as at 30 June 2012 compared to 382.4 million BGN as at 31 December 2011.

Inventories comprise 29% of current assets and decreased by 9,3 million BGN compared to 31 December 2011, mainly in the portion of goods (by 9,3 million BGN), finished products (by 1.4 million BGN), and semi-finished products (by 0,1 million BGN). There is an increase in materials by 0,6 million BGN and in unfinished products by 1,1 million BGN. Trade receivables, which have a relative share of 40% of current assets, increased by 27,0 million BGN, most significantly in the portion of receivables from customers (21,0 million BGN) and advance payments, which increased by 6,0 million.

Receivables from related parties have a 18% share of current assets and increased by 9,7 million BGN. The greatest impact on this increase have commercial loans, which increased 8,6 million BGN.

Other receivables and prepaid expenses comprise 6% of current assets and decreased by 0,2 million BGN.

Cash and cash equivalents decreased by 0,8 million BGN compared to 31 December 2011. As at the end of the current period there are deposits amounting to 2,8 million BGN.

Liabilities and owners equity

	30.03.2012	31.12.2011	change	share 2012
	BGN '000	BGN '000		
OWNERS' EQUITY			%	%
Share capital	132 000	132 000	0%	35%
Reserves	36 785	33 534	10%	10%
Retained earnings	165 945	154 465	7%	44%
	334 730	319 999	5%	88%
NON-CONTROLLING INTEREST	45 348	45 813	-1%	12%
TOTAL OWNERS' EQUITY	380 078	365 812	4%	100%

	30.06.2012	31.12.2011	change	share 2012
	BGN '000	BGN '000	%	%
LIABILITIES				
Non-current liabilities				
Long-term bank loans	56 812	23 280	144%	16%
Liabilities on deferred taxes	6 945	6 531	6%	2%
Liabilities to the personnel upon retirement	2 418	2 389	1%	1%
Financial leasing liabilities	1 655	1 534	8%	0%
Other non-current liabilities	2 879	1 368	110%	1%
	70 709	35 102	101%	20%
Current liabilities				
Short-term loans from banks and third parties	164 108	151 765	8%	47%
Short-term part of long-term bank loans	35 672	42 650	-16%	10%
Commercial liabilities	50 248	66 134	-24%	14%
Liabilities to related parties	7 358	3 360	119%	2%
Liabilities to the personnel and for social insurance	7 764	5 487	41%	2%
Liabilities for taxes	4 488	3 046	47%	1%
Other current liabilities	9 845	3 232	205%	3%
	279 483	275 674	1%	80%
TOTAL LIABILITIES	350 192	310 776	13%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	730 270	676 588	7.9%	

The owner's equity of the Sopharma Group increased by 14,3 million BGN compared to 31 December 2011 mainly through the achieved net profit for the current period. Equity relating to equity holders of the Company comprise 46% of total equity and liabilities, with a certain improvement of the financial autonomy of the Group.

Non-current liabilities increased by 35,6 million BGN or 101%, from 35,1 million BGN at the end of 2011 to 70,7 million BGN at the end of the second quarter in 2012 mainly due to the increase in long-term bank loans by 33,5 million BGN, deferred taxes liabilities by 0,4 million BGN, and other non-current liabilities by 1.5 million BGN.

Current liabilities increased by 3,8 million BGN or 1% compared to the end of 2011, mainly due to short-term bank loans, which increased by 12,3 million BGN, liabilities to related parties – by 4 million BGN, liabilities to the personnel and for social insurance – by 2,3 million BGN, and other current liabilities – by 6,6 million BGN. The opposite effect have commercial liabilities, which decreased by 15,9 million BGN compared to 31 December 2011, mainly due to a decrease in payables to suppliers by 14,9 million BGN. The Group's total liabilities on bank loans increased by 38,9 million BGN compared to the end of 2011, mostly as a result of the investment in the new solid-forms factory. Payables to related parties increased due to liabilities related to the

paying of dividends. This is also the reason for the increase in other current liabilities by 6,6 million BGN compared to the end of 2011.

Cash flow

	30.06.2012 BGN '000	30.06.2011 BGN '000
Net cash flow from operations	1 733	33 541
Net cash flow from investment activities	(40 412)	(29 194)
Net cash flow from financial operations	38 103	1 093
Net increase/(decrease) of cash and cash equivalents	(812)	5 440
Cash and cash equivalents on January 1	32 235	45 069
Cash and cash equivalents on June 30	31 423	50 509

Net cash flow from operations as at 30 June 2012 amount to 1,7 million BGN, from investment activities (40,4) million BGN and from financial operations 38,1 million BGN. As a result of these activities the cash and cash equivalents mark a net decrease by 0.8 million BGN and as at 30 June 2012 amount to 31,4 million BGN, compared to 32,2 million BGN as at the end of 2011.

Financial ratios

	30.06.2012	30.06.2011
ROE ¹	12.9%	12.8%
ROA ²	5.7%	6.3%
Asset turnover ³	1.00	1.06
Current liquidity ⁴	1.46	1.52
Quick ratio ⁵	1.05	1.04
Cash/current liabilities ⁶	0.1	0.21
Owners' equity/liabilities ⁷	1.09	1.121

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

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

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

⁴ Current assets / current liabilities

⁵ Receivables+cash/current liabilities

⁶ Cash/current liabilities

⁷ Equity/Liabilities

Information on the shares of Sopharma AD

The total number of shares issued of Sopharma as at 30 June 2012 is 132 million with a nominal value of 1 BGN per share. All issued shares are dematerialized, common and indivisible, under the Articles of Association. All issued shares are of one class. Each share gives equal rights to its holder, in proportion to its nominal value. Sopharma's shares are traded on the official market of the BSE - Sofia and the official market of the Warsaw Stock Exchange. The shares are part of the indices SOFIX, BG40 and BGTR30 on the BSE - Sofia.

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

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

Important information for the shares of Sopharma AD

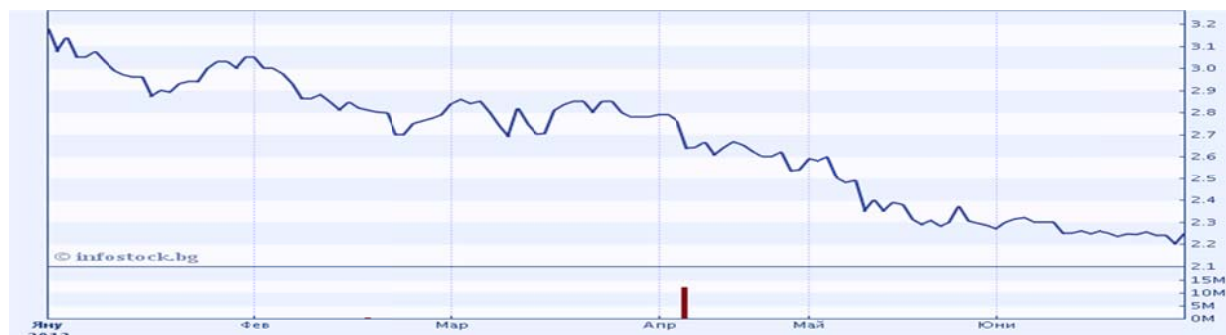
	30.06.2012	30.06.2011
Total number of issued shares	132 000 000	132 000 000
Number of shares outstanding at the end of the period	128 490 664	130 007 216
Earnings per share in BGN ¹	0,32	0,29
Price per share at the end of the period in BGN	2,170	3,914
Price/Earnings ratio (P/E)	6.78	13.50
Book value per share in BGN ²	2,605	2,336
Price/Book value ratio (P/B)	0,833	1,676
Market capitalization in BGN	286 440 000	516 648 000

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

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

Sopharma Group

Trade with share of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01.01-30.06.2012



The management report of Sopharma Group for the second quarter of 2012 has not been audited.

Signature:

Ognian Donev, PhD
Executive Director, Sopharma AD