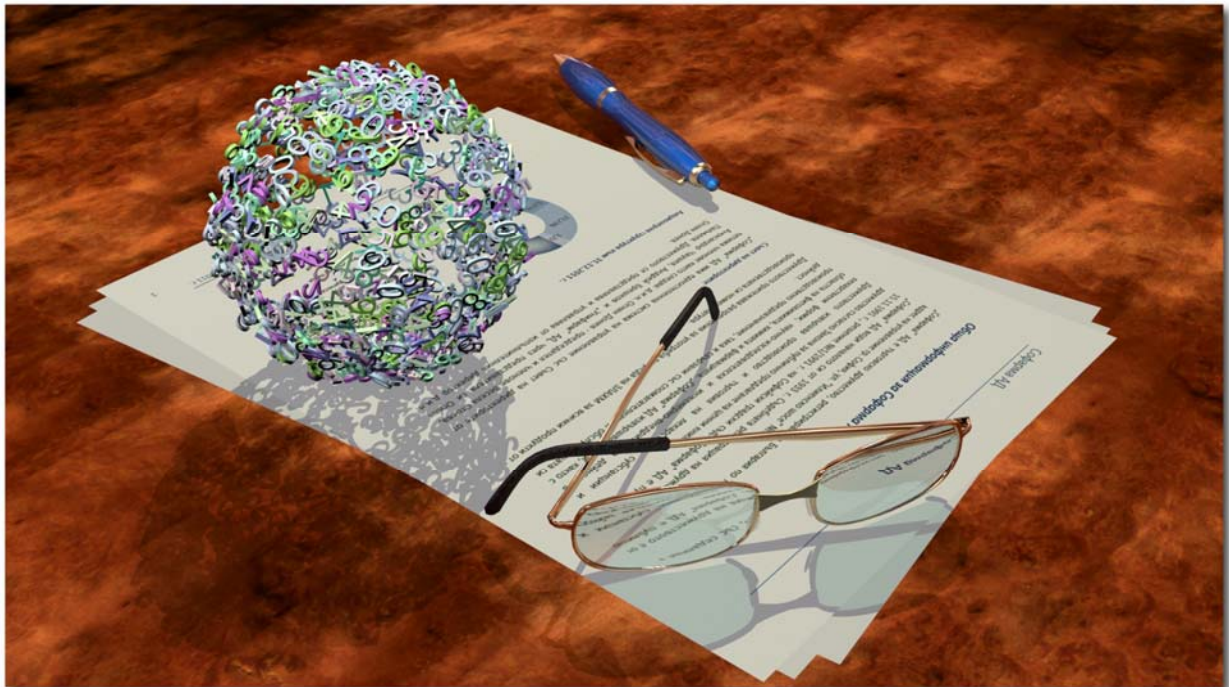


# MANAGEMENT REPORT

## Q3 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 20 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

<b>Company</b>	<b>Share as at 30.09.2012 in %</b>
Sopharma Trading AD	81.25
Bulgarian Rose Sevtopolis AD, Kazanlak, Bulgaria	52.76**
Biofarm Engineering AD, Sliven, Bulgaria	97.15
Farmalogistika AD, Sofia, Bulgaria	76.54
Elektronkomers EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	42.64
Momina Krepost AD, Veliko Tarnovo, Bulgaria	51.30**
Unipharm AD, Sofia, Bulgaria	52.21**
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*	50.24
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

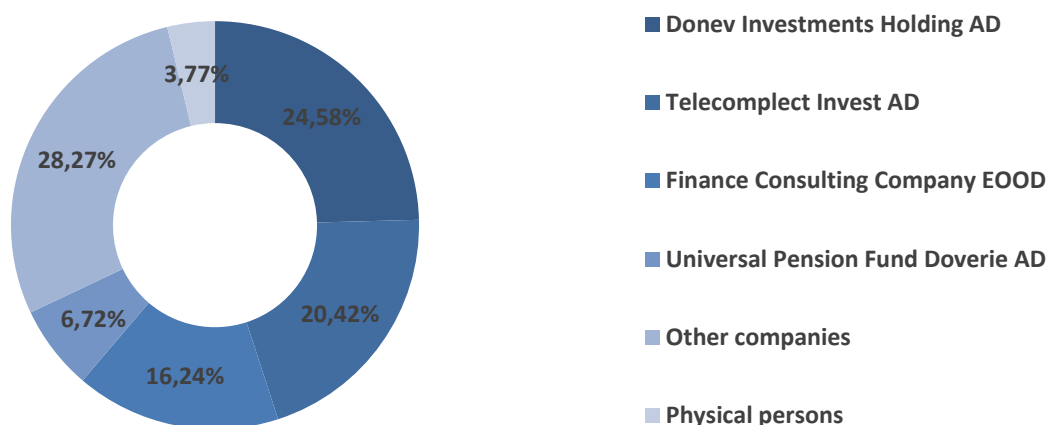
\*\*\* joint stock company

As at 30 September 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 September 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

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- ✚ 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 21.3% (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 3,898 (3,889 in 2011). The average number of employees in Sopharma AD for 2011 is 1,865 (1,848 in 2011), and in Sopharma Trading AD it is 690 (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 Q3 2012 and as at the date of publishing of 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 m<sup>2</sup> interior. The building complies with modern European standards, and the food is prepared consistent with the age of children and requirements for proper nutrition. The investment amounted to 300,000 BGN.

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

On 18 April 2012 Sopharma AD received notifications of disclosure of shareholdings under Art. 145 of POSA: **Gramercy Select Master Fund**, USA, Georgetown sold 8,587,285 shares, representing 6.51% of the capital of Sopharma, thereby closing its position in the capital of Sopharma AD, and **Gramercy Emerging Markets Fund**, USA, Georgetown sold 7,980,192 shares, representing 6.05% of the capital of Sopharma, thereby closing its position in the capital of Sopharma 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 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 20 June 2012 was held an Annual General Meeting of Shareholders of Unipharm AD. The AGM decided to distribute the profit achieved in 2011 as follows: after the allocation of 10% of the profit to the legal reserves a / 1 500 000 BGN shall be distributed as dividends to shareholders or 0.25 BGN per share and b/ the remaining 583 289.74 BGN shall be allocated to the additional reserves.

The Annual General Meeting of Shareholders of Sopharma Trading AD, held on 26 June 2012, decided to distribute the profit for 2011 as follows: 641 590.73 BGN shall be allocated to the Reserve Fund, 5 593 851.53 BGN shall be distributed as dividends to shareholders – gross dividend per share is 0.17 BGN; 180 465.03 BGN shall be allocated to the additional reserves of the company.

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

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

Sopharma AD commenced the paying of dividends for 2011 on 31 August 2012 in accordance with a List of Entitled Persons as at 13 July 2012, prepared by the Central Depository. Pursuant to the Regulations of the Central Depository AD the dividend will be paid out as follows: to shareholders with client accounts at an investment intermediary – through the investment intermediary, to shareholders without accounts at an investment intermediary - through the branches of Eurobank EFG - Bulgaria AD / Postbank in the country. The gross dividend, voted on the AGM, amounts to 0.07 BGN (seven stotinki) per share.



As at 30 September 2012 the treasury shares of Sopharma AD amount to 3 205 655 shares or 2,43% of the capital, according to a decision by the General Meeting of Shareholders from 23 June 2010.

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

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

### New developments and products

 New products in the third quarter of 2012

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

 Expected in 2012

The implementation of 2-3 new products is expected by the end of 2012.

## Sopharma Group

### Developments

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

### Key financial indicators

Indicators	1-9/2012 BGN '000	1-9/2011 BGN '000	change %
Sales revenue	505 339	466 501	8.3%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	57 309	47 673	20.2%
Operating profit	43 104	34 625	24.5%
Net profit	38 448	29 021	32.5%
Capital expenditures	54 722	32 716	67.3%
	<b>30.09.2012</b>	<b>31.12.2011</b>	
	<b>BGN '000</b>	<b>BGN '000</b>	
Non-current assets	339 616	294 130	15.5%
Current assets	404 447	382 458	5.7%
Equity	391 245	365 812	7.0%
Non-current liabilities	62 904	35 102	79.2%
Current liabilities	289 914	275 674	5.2%

Ratios	1-9/2012	1-9/2011
EBITDA / Sales revenue	11,3%	10,2%
Operating profit/ Sales revenue	8,5%	7,4%
Net profit/ Sales revenue	7,6%	6,2%
Borrowed capital/ Equity	0,90	0,85
Net debt/ EBITDA, annualised	3,2x	2,9x

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

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

- + The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Group's operations and position.
- + The political environment in Bulgaria has a significant effect on the Group's operations and financial condition.
- + The political environment in the Group's export markets, especially in Russia and Ukraine, has a significant effect on the Group's operations and financial condition.

- ✚ Risks related to the Bulgarian legal system.
- ✚ Risks relating to exchange rates and the Bulgarian Currency Board
- ✚ Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change

### Currency risk

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

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

The companies abroad conduct sales mainly to the local markets, which leads to currency risk to their currencies as well – Ukrainian Grivna (UAH), Serbian Dinar (RSD), Russian Ruble (RUB), Latvian Lat (LVL), Belarus Ruble (BYR). The remaining part of Group companies' operations are usually denominated in Bulgarian Lev (BGN) or euro (EUR).

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

### Credit risk

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

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

The financial resources of the Group as well as the settlement operations are concentrated in different first-class banks. When distributing the cash flows among them, the management of the

parent company and the subsidiaries take into consideration a variety of factors, as the amount of capital, reliability, liquidity, the credit potential and rating of the bank etc.

### **Liquidity risk**

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

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is its main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. Another significant source of risk is the net position in BYR and the hyperinflation on that market.

### **Risk of interest-bearing cash flows**

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

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

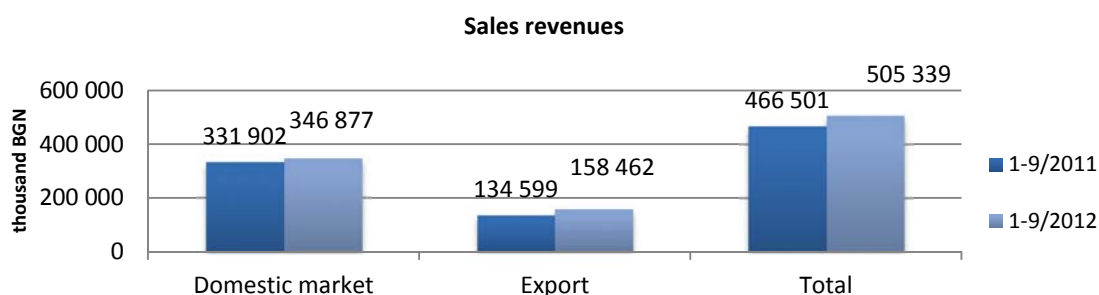
The management of the Group companies together with that of the parent company currently monitor and analyse the exposure of the respective company to the changes in interest BGNs. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. 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 Q3 2012**

#### **Sales revenues**

Revenues from sales of the Group have increased by 38,8 million BGN or 8,3%, reaching 505,3 million BGN in the third quarter of 2012 compared to 466,5 million BGN in the same period 2011. The increase is due to an increase in sales of goods by 22,4 million BGN, reaching 313,2 million BGN in the third quarter 2012 compared to 290,8 million BGN in the third quarter of 2011 and growth of 16,4 million BGN in sales of finished products, which reach 192,1 million BGN in the third quarter of 2012 compared to 175,7 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 third quarter of 2012 amounted to 69%, increasing by 14,9 million BGN, or 4,5%, to 346,9 million in the current quarter, compared to 331,9 million BGN in the third quarter of 2011.

Sopharma has a 5% share of the Bulgarian pharmaceutical market in terms of value and a 12% share in terms of sales. The positions of the main competitors of the company in the country are as follows: Novartis - 7% (4% 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 - 3% (1 % in units), Bayer -3% (2% in units), Pfizer - 3% (2% in units). Among the distributors of medicines Sopharma Trading AD has a relative share of 21,3% and along with Phoenix / Libra (20,28% share) and Sting (20, 09%) has a leading position in the national pharmaceutical market.

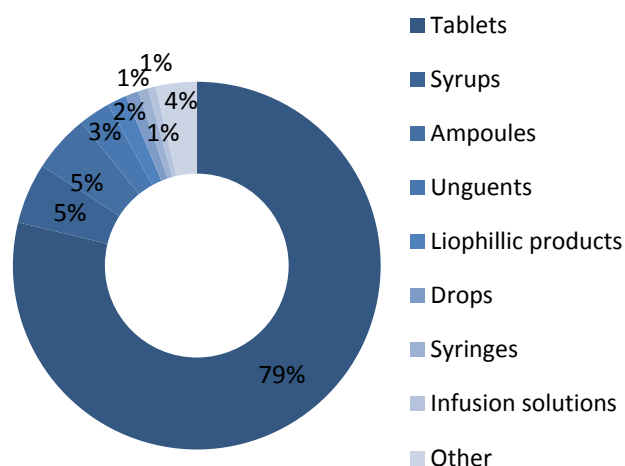
The Group products with the highest share in sales in the country are Analgin, Vicetin, Vitamin C., Methylprednisolone, Flixotid.

## 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.

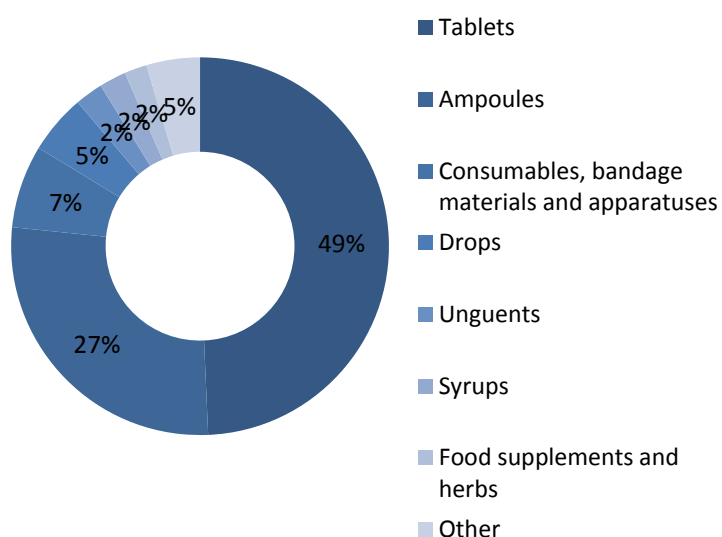
Revenues from the sale of finished products include revenue from the sale of products manufactured by the Company and the Group companies.

Revenues of finished products by type	1-9/2012 BGN '000	1-9/2011 BGN '000	change %
Tablets	151 412	126 408	20%
Syrups	10 233	11 158	-8%
Ampoules	9 763	22 171	-56%
Unguents	5 367	4 194	28%
Lyophilic products	3 299	4 199	-21%
Drops	2 192	376	483%
Syringes	1 687	1 944	-13%
Infusion solutions	1 346	1 253	7%
Other	6 878	4 026	71%
<b>Total</b>	<b>192 177</b>	<b>175 729</b>	<b>9%</b>



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

Revenues of goods by type	1-9/2012 BGN '000	1-9/2011 BGN '000	change %
Tablets	154 445	159 460	-3.1%
Ampoules	85 451	70 539	21%
Consumables, bandage materials and apparatuses	22 237	17 671	26%
Drops	15 922	16 397	-3%
Unguents	7 462	7 212	3%
Syrups	7 283	6 856	6%
Food supplements and herbs	6 025	3 884	55%
Other	14 337	8 753	64%
<b>Total</b>	<b>313 162</b>	<b>290 772</b>	<b>8%</b>





## Other revenues from operations

Other revenues from operations	1-9/2012 BGN '000	1-9/2011 BGN '000	change %	share 2012 %
Income from advertisement	925	188	392%	28%
Services rendered	630	1 036	-39%	19%
Profit/ (loss) from sale of long-term assets	571	218	162%	18%
Rents	508	484	5%	16%
Services of social activities and events	451	483	-7%	14%
Distribution services	274	240	14%	8%
Income from financing	270	92	193%	8%
Profit/ (loss) from sale of materials	(73)	(46)	59%	-2%
Net losses from exchange rate differences on commercial receivables and payables and current accounts	(852)	(2 104)	-60%	-26%
Other	553	867	-36%	17%
<b>Total</b>	<b>3 257</b>	<b>1 458</b>	<b>123%</b>	<b>100%</b>

Other operating income increased by 1.8 million BGN compared to the third quarter of 2011 reaching 3,3 million BGN in the third quarter 2012, compared to 1,5 million in the same period 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 1.3 million BGN. Income from advertisement, profit/ (loss) from sale of long-term assets, rents and Income from financing increased. Services rendered decreased by 0.4 million BGN.

## Expenses

Operating expenses	1-9/2012	1-9/2011	change	share 1-9/2012
	BGN '000	BGN '000	%	%
Changes in inventories of finished goods and work in progress	(3 601)	(3 026)	19%	-1%
Book value of goods sold	293 772	267 621	10%	63%
Materials	66 050	61 451	7%	14%
Hired services	38 940	41 826	-7%	8%
Personnel	50 310	47 175	7%	11%
Amortisation	14 205	13 048	9%	3%
Other operating expenses	5 816	5 239	11%	1%
<b>Total</b>	<b>465 492</b>	<b>433 334</b>	<b>7%</b>	<b>100%</b>

The operating expenses in the third quarter of 2012 increased by 32.2 million BGN or 7% from 433,3 million BGN in the third quarter of 2011 to 465,5 million BGN in the third 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, depreciation and other operating expenses.

Expenses on materials	1-9/2012	1-9/2011	change	share 2012
	BGN '000	BGN '000	%	%
Basic materials	48 749	46 077	6%	74%
Spare parts, laboratory and technical materials	4 657	4 062	15%	7%
Heat power	3 538	2 460	44%	5%
Electric energy	3 549	2 893	23%	5%
Fuels and lubricating materials	2 605	3 087	-16%	4%
Water	685	666	3%	1%
Special working clothes	566	466	21%	1%
Office materials	497	399	25%	1%
Advertising materials	318	498	-36%	0%
Other	886	843	5%	1%
<b>Total</b>	<b>66 050</b>	<b>61 451</b>	<b>7%</b>	<b>100%</b>

Cost of material (14% share) increased by 7% or 4,6 million from 61,5 million BGN in the third quarter 2011 to 66,1 million BGN to the third quarter of 2012. The cost of basic materials rose by 2,7 million BGN, or 6%, the most significant impact is defined as the cost of substances, liquid

## Sopharma Group

and solid chemicals and packaging materials which increased accordingly by 0,8 million BGN and 1.2 million BGN and 0.6 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.

	1-9/2012	1-9/2011	change	share 1-9/2012
	BGN '000	BGN '000	%	%
<b>Hired services expenses</b>				
Advertising	10 854	10 132	7%	28%
Manufacture	4 088	10 267	-60%	10%
Rentals and insurance	4 137	2 288	81%	11%
Forwarding and transportation services	3 742	3 256	15%	10%
Buildings and equipment maintenance	2 727	2 367	15%	7%
Consulting services	2 413	1 537	57%	6%
Bank and regulatory taxes	1 590	1 209	32%	4%
Services under civil contracts with physical persons	1 189	911	31%	3%
Subscription fees	1 235	880	40%	3%
Local taxes and charges	759	824	-8%	2%
Communications	733	560	31%	2%
Security	737	764	-4%	2%
Registration of medicines	643	356	81%	2%
Other	4 093	6 475	-37%	11%
<b>Total</b>	<b>38 940</b>	<b>41 826</b>	<b>-7%</b>	<b>100%</b>

Hired services have a 8% share of operating expenses and decreased by 2,9 million BGN or 7%, reaching 38,9 million BGN for the third quarter 2012 compared to 41,8 million BGN in the third quarter of 2011. The most significant influence comes from manufacture, which decrease by 6.2 million BGN, as well as a decrease of 2 million BGN in commission fees. The expenses which increased were ad spending, which rose by 0.7 million and consulting services – an increase by 0.9 million and others.

	1-9/2012	1-9/2011	change	share 2012
	BGN '000	BGN '000	%	%
<b>Personnel costs</b>				
Current wages and salaries	38 006	37 245	2%	76%
Social security/health insurance contributions	7 550	7 294	4%	15%
Profit-based bonuses	1 224			2%
Social benefits and payments	2 404	1 675	44%	5%
Other	1 126	961	17%	2%
<b>Total</b>	<b>50 310</b>	<b>47 175</b>	<b>7%</b>	<b>100%</b>

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Personnel costs (with a 11% share) grew by 3.1 million, or 7%, reaching 50,3 million in the third quarter 2012 compared to 47,2 million BGN in the third 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.

	1-9/2012	1-9/2011	change	share 1-6/2012
	BGN '000	BGN '000	%	%
<b>Other operating expenses</b>				
Entertainment allowances	1 680	1 691	-1%	28.9%
Scrap and loss of finished products and long-term assets	909	411	121%	15.6%
Business trips	1 193	934	28%	20.5%
Accrued/(recovered) impairment of current assets, net	679	1 036	-34%	11.7%
Donations	338	305	11%	5.8%
Trainings	233	247	-6%	4.0%
Payments to the budget	283	128	121%	4.9%
Awards on litigations	275	5		4.7%
Other	226	482	-53%	3.9%
<b>Total</b>	<b>5 816</b>	<b>5 239</b>	<b>11%</b>	<b>100.0%</b>

Other operating expenses (with a share of 1%) increased by 0,6 million BGN or 11% from 5,2 million BGN in the third quarter of 2011 to 5,8 million BGN as at the end of the third quarter of 2012. The increase is mainly due to an increase in scrap and loss of finished products and long-term assets by 0,5 million BGN, as well as business trips – by 0,3 million BGN.

Depreciation costs (with a share of 3 %) increased by 1,2 million BGN or 9% from 13,0 million BGN in the third quarter of 2011 to 14,2 million BGN in the third quarter of 2012.

## Financial income and expenses

	1-9/2012	1-9/2011	change	share 2012
	BGN '000	BGN '000	%	%
<b>Financial income</b>				
Income from interest on loans granted	3 073	3 504	-12.3%	67%
Income from interest on overdue payments	746	1 116	-33.2%	16%
Net gain on exchange rate differences on loans	372			8%
Income from shares	172	217	-21%	4%
Income from equity investments	171	111	54%	4%
Income from interest on deposits	55	124	-56%	1%
Interest on special contracts	17			0%
<b>Total</b>	<b>4 606</b>	<b>5 072</b>	<b>-9%</b>	<b>100%</b>

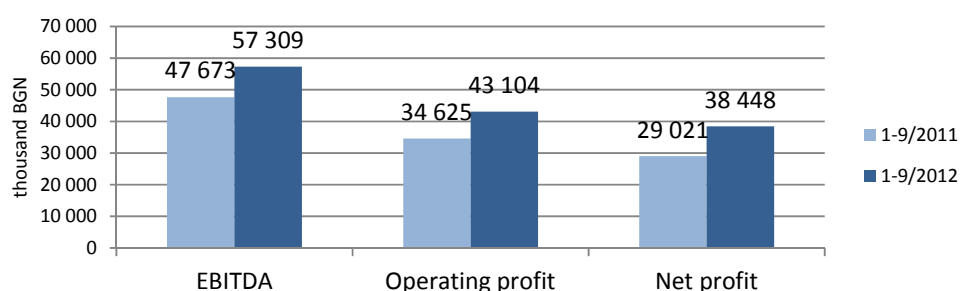
			change	share 2012
<b>Financial expenses</b>				
Interest expenses on loans	5 429	6 058	-10%	88%
Bank fees on loans and guarantees	431	403	7%	6%
Financial leasing interest	246	178	38%	3%
Investment operations expenses	2	18	-89%	0%
Net loss from exchange rate differences on loans		229	-100%	3%
<b>Total</b>	<b>6 108</b>	<b>6 886</b>	<b>-11%</b>	<b>100%</b>

Financial income is reduced by 0.5 million BGN or 9%, reaching 4,6 million BGN in the third quarter of 2012 compared to 5,1 million BGN in the third quarter of 2011.

Financial expenses decreased by 0.8 million BGN or 11%, from 6,9 million BGN in third quarter 2011 to 6,1 million BGN in the third quarter 2012. This decrease is mainly due to the reduction of interest expense on borrowings by 0, 6 million BGN and the net loss from exchange rate differences on loans – 0,2 million BGN.

*Net financial income (expenses)* decreased by 0,3 million BGN, reaching (1.5) million BGN in the third quarter of 2012 compared to (1,8) million BGN in the third quarter of 2011 .

### Financial income and expenses



*Earnings before interest, taxes, depreciation and amortization (EBITDA)* increased by 9,6 million BGN or 20%, amounting to 57,3 million BGN the third quarter of 2012, compared to 47,7 million BGN in the third quarter of 2011.

*Operating profit* increased by 8,5 million BGN or 24%, to 43,1 million BGN in the third quarter of 2012 compared to 34,6 million BGN in the third quarter of 2011. *Net profit* for the third quarter of 2012 increased by 9,4 million BGN, or 32%, reaching 38,4 million BGN in the third quarter of 2012 compared to 29 million BGN in the third quarter 2011.

## Assets

	30.09.2012	31.12.2011	change	share
	BGN '000	BGN '000	%	1-6/2012
				%
<b>Non-current assets</b>				
Property, plant and equipment	275 459	236 338	17%	81%
Intangible assets	28 109	27 979	0%	8%
Investment property	6 560	6 555	0%	2%
Available-for-sale investments	23 687	19 972	19%	7%
Loans granted to related parties	743	729		0%
Differed taxes	3 608	1 709	111%	1%
Non-current assets, retained for sale	287			0%
Other non-current assets	1 163	848	37%	0%
	<b>339 616</b>	<b>294 130</b>	15%	46%
<b>Current assets</b>				
Inventories	115 347	126 022	-8%	29%
Trade receivables	174 485	136 756	28%	43%
Receivables from related parties	63 510	63 113	1%	16%
Other receivables and prepayments	28 723	24 332	18%	7%
Cash and cash equivalents	22 382	32 235	-31%	6%
	<b>404 447</b>	<b>382 458</b>	6%	54%
<b>TOTAL ASSETS</b>	<b>744 063</b>	<b>676 588</b>	10.0%	100%

*Total assets* increased by 67,5 million BGN, or 10%, reaching 744,1 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 45,5 million BGN, or 16%, mainly due to the increase in property, plant and equipment by 39,1 million BGN and the growth of the available-for-sale investments by 3,7 million BGN, as well as an increase in deferred taxes by 1.9 million BGN. The most significant impact on the increase in property, plant and equipment have assets in the process of acquisition mostly as a result of the investment in the new solid forms factory, which for the third quarter of 2012 is 37,1 million BGN, while the total funds invested since the beginning of the project amounted to 62,7 million BGN. Additional funds were spent on acquisition of laboratory and production equipment.

Intangible assets also grow from 0.1 million BGN, the most significant investment is the implementation of an integrated information system.

## Sopharma Group

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Available-for-sale investments increased by 3,7 million BGN due to a capital increase of Doverie United Holding AD.

Deferred tax assets increased by 1,9 million BGN, compared to 31 December 2011.

*Current assets* increased by 22 million BGN or 6%, reaching 404,4 million BGN as at 30 September 2012 compared to 382.4 million BGN as at 31 December 2011.

Inventories comprise 29% of current assets and decreased by 10,7 million BGN compared to 31 December 2011, mainly in the portion of goods (by 14,8 million BGN), , and semi-finished products (by 0,3 million BGN). There is an increase in materials by 0,6 million BGN, finished products by 0.9 million BGN and in unfinished products by 1,7 million BGN.

Trade receivables, which have a relative share of 43% of current assets, increased by 37,7 million BGN, most significantly in the portion of receivables from customers (29,3 million BGN) and advance payments, which increased by 8,4 million.

Other receivables and prepaid expenses comprise 7 % of current assets and increased by 4,4 million BGN, mainly due to provided funds for the payment of dividends amounting to 4.8 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

	30.09.2012	31.12.2011	change	share
	BGN '000	BGN '000		2012
<b>OWNERS' EQUITY</b>				
Share capital	132 000	132 000	0%	34%
Reserves	36 377	33 534	8%	9%
Retained earnings	177 203	154 465	15%	45%
	<b>345 580</b>	<b>319 999</b>	8%	88%
<b>NON-CONTROLLING INTEREST</b>	<b>45 665</b>	<b>45 813</b>	0%	12%
<b>TOTAL OWNERS' EQUITY</b>	<b>391 245</b>	<b>365 812</b>	7%	100%



	30.09.2012	31.12.2011	change	share
	BGN '000	BGN '000	%	2012
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	48 852	23 280	110%	14%
Liabilities on deferred taxes	7 278	6 531	11%	2%
Liabilities to the personnel upon retirement	2 294	2 389	-4%	1%
Financial leasing liabilities	1 692	1 534	10%	0%
Other non-current liabilities	2 788	1 368	104%	1%
	<b>62 904</b>	<b>35 102</b>	<b>79%</b>	<b>18%</b>
<b>Current liabilities</b>				
Short-term loans from banks and third parties	148 629	151 765	-2%	42%
Short-term part of long-term bank loans	67 001	42 650	57%	19%
Commercial liabilities	50 527	66 134	-24%	14%
Liabilities to related parties	4 437	3 360	32%	1%
Liabilities to the personnel and for social insurance	7 051	5 487	29%	2%
Liabilities for taxes	3 992	3 046	31%	1%
Other current liabilities	8 277	3 232	156%	2%
	<b>289 914</b>	<b>275 674</b>	<b>5%</b>	<b>82%</b>
<b>TOTAL LIABILITIES</b>	<b>352 818</b>	<b>310 776</b>	<b>14%</b>	<b>100%</b>
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>744 063</b>	<b>676 588</b>	<b>10.0%</b>	

The owner's equity of the Sopharma Group increased by 25,4 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 27,8 million BGN or 79%, from 35,1 million BGN at the end of 2011 to 62,9 million BGN at the end of the third quarter in 2012 mainly due to the increase in long-term bank loans by 25,6 million BGN, which is due to the appropriation of funds from an investment loan for the construction of a new solid forms factory.

Deferred taxes liabilities increased by 0,7 million BGN, and other non-current liabilities by 1.4 million BGN as a result of government donations related to contracts for gratuitous financial aid.

Current liabilities increased by 14,2 million BGN or 5% compared to the end of 2011, mainly due to short-term part of long-term bank loans, which increased by 24,4 million BGN. Liabilities to related parties also increase – by 1,1 million BGN, liabilities to the personnel and for social insurance – by 1,6 million BGN, and other current liabilities – by 5,1 million BGN. The opposite effect have commercial liabilities, which decreased by 15,6 million BGN compared to 31 December 2011, mainly due to a decrease in payables to suppliers by 14,1 million BGN. The Group's total liabilities on bank loans increased by 46,8 million BGN compared to the end of

2011, mostly as a result of the investment in the new solid-forms factory. Liabilities to related parties increased due to liabilities related the delivery of services. Other current liabilities increased by 5,1 million BGN compared to the end of 2011, as a result of liabilities related to the paying of dividends.

### Cash flow

	30.09.2012 BGN '000	30.09.2011 BGN '000
Net cash flow from operations	(9 296)	27 380
Net cash flow from investment activities	(45 057)	(45 136)
Net cash flow from financial operations	43 855	4 561
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(10 736)</b>	<b>(13 195)</b>
Cash and cash equivalents on January 1	32 235	45 069
Cash and cash equivalents on June 30	21 499	31 874

Net cash flow from operations as at 30 September 2012 amount to (9,3) million BGN, from investment activities (45,1) million BGN and from financial operations 43,9 million BGN. As a result of these activities the cash and cash equivalents mark a net decrease by 10.7 million BGN and as at 30 September 2012 amount to 21,5 million BGN, compared to 32,2 million BGN as at the end of 2011.

### Financial ratios

	30.09.2012	30.09.2011
ROE <sup>1</sup>	13.7%	11.9%
ROA <sup>2</sup>	6.4%	5.7%
Asset turnover <sup>3</sup>	0.98	1.02
Current liquidity <sup>4</sup>	1.40	1.40
Quick ratio <sup>5</sup>	1.00	0.98
Cash/current liabilities <sup>6</sup>	0.08	0.12
Owners' equity/liabilities <sup>7</sup>	1.11	1.19

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

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

<sup>3</sup> Revenues from sales, annualised / 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 on the shares of Sopharma AD*

The total number of shares issued of Sopharma as at 30 September 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 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

	30.09.2012	30.09.2011
Total number of issued shares	132 000 000	132 000 000
Number of shares outstanding at the end of the period	128 428 791	129 655 365
Earnings per share in BGN <sup>1</sup>	0,348	0,268
Price per share at the end of the period in BGN	2,400	3,301
Price/Earnings ratio (P/E)	6.86	12.32
Book value per share in BGN <sup>2</sup>	2,69	2,468
Price/Book value ratio (P/B)	0,892	1,338
Income from sale of one share in BGN <sup>3</sup>	5,323	4,876
Price of one share / Income from sale of one share (P/S)	0,451	0,677
Market capitalization in BGN	316 800 000	435 732 000

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

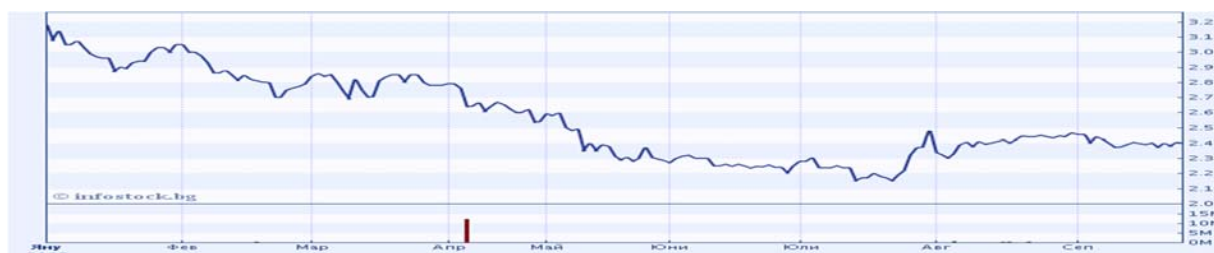
## Sopharma Group

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<sup>2</sup> Common equity of the company as per the last financial report excluding noncontrolling 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 with shared of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01.01-30.09.2012



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

Signature:

Ognian Donev, PhD  
Executive Director, Sopharma AD