



**MANAGEMENT REPORT**

**SOPHARMA AD**

**Q3 2012**

**30.10.2012**

## General information about Sopharma AD

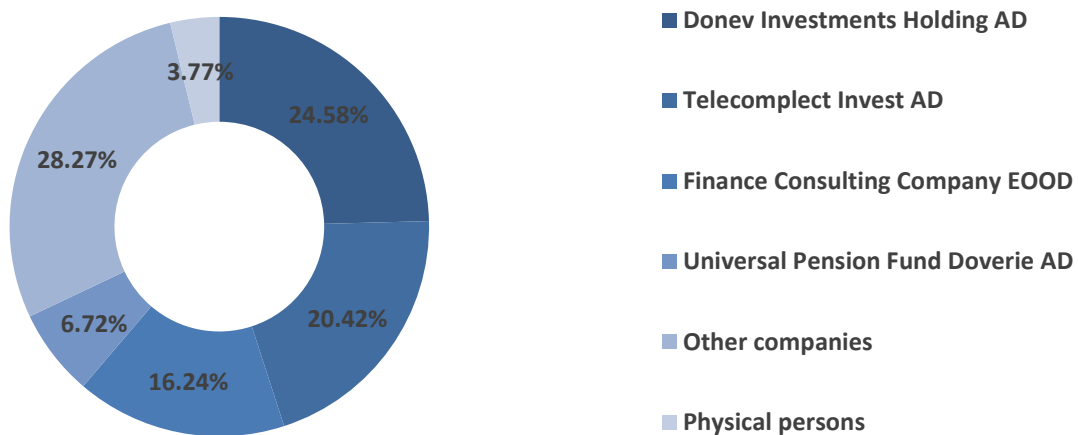
Sopharma AD is a trade company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko shoes street No 16.

Sopharma AD was established in 1933 with a court registration of the company from 15.11.1991, the 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.

The Company has marketing authorizations under the Law on Medicines and Pharmacies in Human Medicine for all products of its manufacturing nomenclature.

### Shareholder structure as at 30.09.2012



### 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, Ognian Palaveev, Alexander Tchaushev, Andrey Breshkov. The company is represented and managed by the Executive Director Ognian Donev, PhD.

## Industrial activity

Sopharma AD manufacturing facilities are compliant with EU regulations and are located in Bulgaria. In 2012 the company expects to complete the construction of a new production plant with annual capacity of 4 billion tablets in Sofia, which is currently under construction. Sopharma AD is the only Bulgarian producer of ampoules and suppositories.

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

- + Substances and preparations based on vegetable raw materials (phytochemical production);
- + Finished dosage forms including
  - ✓ Solid tablets, coated tablets, coated tablets, capsules;
  - ✓ Galenical - suppositories, drops, syrups, unguents;
  - ✓ Parenteral - injectables, powders for injections lyophilic

The company has more than 210 products in its portfolio: mainly generics and 15 original products, 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, among which is 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 (bolkouspokyavashto);
- + 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 product, used for stimulation of the reproductive system

### **Intellectual property**

Although oriented towards generic pharmaceuticals, Sopharma AD is known for many years with 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) products in order to adapt them to current market needs. 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

As of 30 September 2012 the average number of employees of Sopharma AD is 1864 (30.06.2011: 1848). The table below shows the detailed information on the staff of the company.

	30 September 2012	Share %
Number of employees 30 September 2012	1893	100%
Higher education	827	44%
Special education	57	3%
High school education	989	53%
Up to 30 years of age	255	13%
Between 31 - 40 years of age	468	25%
Between 41 - 50 years of age	568	30%
Between 51 - 60 years of age	531	26%
Over 60 years of age	107	6%
Women	1197	63%
Men	696	37%

Training programs offered to employees of the company, aim at increasing their competence levels. 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 the second quarter of 2012 or as at the date of publication of the management report***

As of 31 January 2012, Mr. Ognyan Donev has closed his personal position as a shareholder of Sopharma. Mr. Donev remains a shareholder in the Company through its indirect participations.

On 31 January 2012 the subsidiary Breeze Ltd - Latvia acquired 18% of the share capital of OOO Vivaton plus in Belarus. The remaining 57% are projected to be acquired under the agreed contract during the period 2012 – 2013

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

On 19 March 2012 the new corporate kindergarten of Sopharma AD was opened, which is intended for children of employees. 25 children will receive professional day care in a building that is fully aligned with the requirements for child care and has a total area of 253 m<sup>2</sup>. The interior is designed according to modern European standards, and the food menu is prepared with the age of the children and the requirements for proper nutrition in mind. The investment amounted to 300,000 Levs

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

On 18 April 2012 notifications for disclosure of shareholdings under Art. 145 of the LPOS were received regarding the selling of 6.51% of the capital of Sopharma by Gramarcy Select Master Fund, USA, Georgetown and the selling of 6.05% of the capital of Sopharma by Gramarcy Emerging Markets Fund, USA, Georgetown, both funds effectively closing their positions in the Company. Both transactions were registered with the Central Depository on 09 April 2012.

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

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

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

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.

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

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.

The Board of Directors of Sopharma on its meeting on 17 September 2012, adopted a decision to convene an Extraordinary General Meeting of Shareholders, which shall be held on 1 November 2012 at 11:00, and in the absence of a quorum – on 15. November 2012 . at 11.00 in Sofia, 16 "Iliensko shousse". The invitation to the Extraordinary General Meeting of Shareholders shall be entered in the Commercial Register under number 20120925101646.

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.

### **New developments and products**

#### New in the second quarter of 2012

The Company implemented 3 new products into its portfolio – Vitamin C ampoules of 2 ml. and 5 ml. for drinking and Neurelaks tablets.

#### Expected in 2012

Two to three new products are expected to be introduced by the end of 2012.

#### Developments

Fifty production processes and technologies are in the process of transfer and optimization. Pharmaceutical development is carried out of 26 new products for the company.

## Key financial indicators

Indicators	01.-09.2012 BGN '000	01.-09.2011 BGN '000	Change %
Sales revenues	159 047	155 671	2.2%
EBITDA	39 676	42 088	-5.7%
Operating profit	33 150	35 739	-7.2%
Net profit	35 192	36 166	-2.7%
CAPEX	45 697	29 974	52.5%
Non-current assets	311 394	279 199	11.5%
Current assets	270 746	243 744	11.1%
Owners' equity	345 373	320 668	7.7%
Non-current liabilities	50 705	24 174	109.8%
Current liabilities	186 062	178 131	4.5%

Ratios	01.-09.2012	01.-09.2011
EBITDA / Sales revenues	24.9%	27.0%
Operating profit/ Sales revenues	20.9%	23.0%
Net profit/ Sales revenues	22.1%	23.2%
Borrowed capital/Owners' equity	0,69	0,62
Net debt/ EBITDA	4,0x	2,5x

## Review of risk factors

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

- ✚ The Company faces significant competition.
- ✚ Reputation of the Company may be adversely affected by untrue or misleading information available on websites containing the name "Sopharma", including [www.sopharma.com](http://www.sopharma.com), which have not been authorized by the Company.
- ✚ The Company is dependent on regulatory approvals.
- ✚ Government regulations affecting the Company's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- ✚ Part of the Company's revenues, in particular in Bulgaria, depend on the inclusion of the Company's medicines on reimbursement lists.
- ✚ The Company's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Company'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 Company is subject to operational risk which is inherent to its business activities.



- ✚ The Company 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 Company'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.
- ✚ Developing legal frameworks in some countries in which the Group sells its products, in particular Russia and Ukraine, may negatively impact the Group's operations in such countries.
- ✚ Risks relating to exchange rates and the Bulgarian Currency Board.
- ✚ Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change.

### **Currency risk**

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. Part of Company's revenue is earned from export of finished products contracted as payable in USD. At the same time, the Company supplies part of its raw and other materials in USD as well. 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 remaining part of company operations are usually denominated in BGN and/or EUR. To control foreign currency risk, the Company has introduced a system for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

### **Credit risk**

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

In the years of its trade experience, the Company has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions,

using various ways of payment as well as relevant trade discounts. The Company works on its main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the National Health Insurance Fund and the state hospitals also require the implementation of deferred payments policy. In this sense, regardless of credit risk concentration, it is controlled through the choice of trade counterparts, current monitoring of their liquidity and financial stability as well as direct communication with them and search of prompt measures on first indications for existing problems.

### **Liquidity risk**

Liquidity risk is the adverse situation when the Company encounters difficulty in meeting unconditionally its obligations within their maturity.

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. Company's liquidity could be significantly affected by USD exchange rate fluctuations with regard to our US dollar positions on the Russian market and market dynamics, if this rate deviates from our forecasts. To isolate any possible liquidity risk, the Company implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

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

Interest-bearing assets are presented in the structure of Company's assets by cash, bank deposits and loans granted, which are with fixed interest rate. On the other hand, Company'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 Company partially dependent on interest risk. This risk is covered in two ways:

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

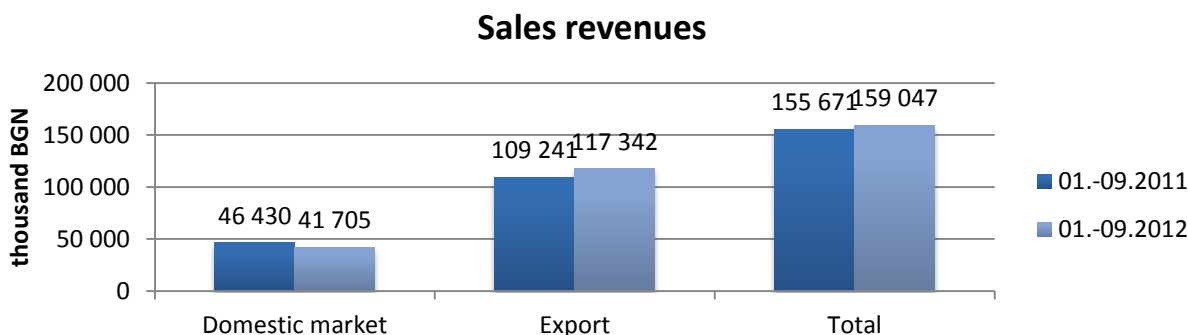
The Company's management currently monitors and analyzes its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is

calculated. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

## Financial results in the third quarter of 2012

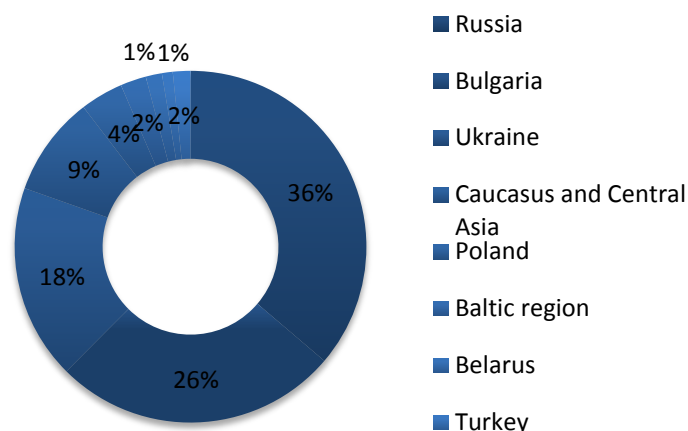
### Sales revenues

Sales revenues of production increase by 3,4 million BGN or 2%, reaching 159,1 million BGN as at the end of the thrid quarter of 2012, compared to 155,7 million BGN at the end of the third quarter of 2011.



### Main markets

Revenues by market	01.-09.2012 BGN '000	01.-09.2011 BGN '000	Change %
Russia	57 641	59 092	-2%
Bulgaria	41 705	46 430	-10%
Ukraine	28 519	25 853	10%
Caucasus and Central Asia	14 613	12 270	19%
Poland	6 276	1 614	289%
Baltic region	3 771	3 732	1%
Belarus	2 367	2 667	-11%
Turkey	1 584	1 904	-17%
Other	2 571	2 109	22%
<b>Total</b>	<b>159 047</b>	<b>155 671</b>	<b>2%</b>



Russia

The sold production in Russia fell by 1.5 million BGN, or 2% to 57,6 million BGN in the third quarter of 2012 compared to 59,1 million BGN in the third quarter of 2011. The main products that are sold on the Russian market are Carsil, Tempalgin, Sedal M, Tabex, and Broncholytin.

### Bulgaria

The sales of Sopharma AD on the domestic market decreased by 4,7 million BGN, or 10% and reached 41,7 million BGN in the third quarter of 2012 compared to 46,4 million BGN in the third quarter of 2011. The products with largest share of sales in the country are Analgin, Vicetin, Vitamin C, Methylprednizolon, Flixotide. Sopharma AD has a 5% share of total Bulgarian pharmaceutical market in value and 12 % of sales in volume. 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 - by value 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).

### Ukraine

Sales in the Ukraine in the third quarter of 2012 increase by 2,7 million BGN or 10% to 28,5 million BGN for the current period from 25,8 million BGN for the same period in 2011. The main products exported to the Ukrainian market are Carsil, Tempalgin, Tabex, Sydnopharm.

### Caucasus and Central Asia

Sales in the Caucasus and Central Asia (including Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan, Georgia, Azerbaijan and Armenia) rose by 2,3 million BGN or 19%, reaching 14,6 million BGN in the third quarter of 2012, compared to 12,3 million BGN in the third quarter of 2011. The largest share of revenues in this region have sales in Kazakhstan (46%), with an increase of 46% over the previous year, reaching 6,8 million BGN. The main products Sopharma AD exported to this region were Tempalgin, Carsil, Broncholytin, Tribestan, Vitamin B Complex.

### Poland

Sopharma AD increased its sales in Poland by 4,7 million BGN from 1,6 million BGN in the third quarter of 2011 to 6,3 million BGN in the second quarter of 2012. The main products on this market are Tabex, Nivalin, Buscolysin, Spasmalgon, Tribestan plus.

### Baltic region

Sales to the Baltic region have increased by 0,1 million BGN or 1%, from 3,7 million BGN in the third quarter of 2011 to 3,8 million BGN in the third quarter of 2012. The main products are Carsil, Tabex and ampoules.

### Belarus

Sales in Belarus in the third quarter of 2012 amounted to 2,4 million BGN, compared to 2,7 million BGN in the third quarter of 2011. The main products sold on this market are Carsil, Sydnopharm, Tabex, Tempalgin, Indometacin.

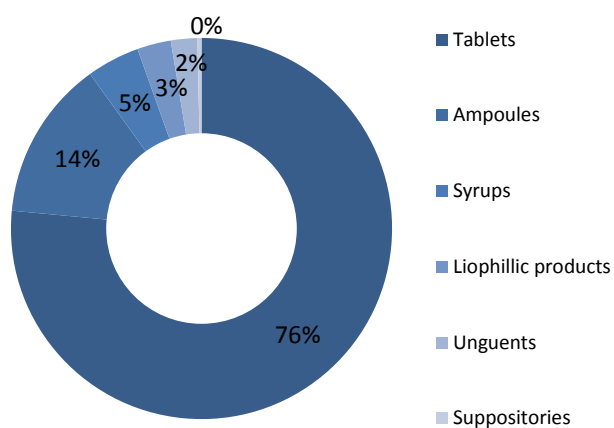
## Turkey

In Turkey sales decreased by 0.3 million BGN from 1,9 million BGN in the third quarter of 2011 to 1.6 million BGN in in the third quarter of 2011. The main product, which is sold on this market is Methylprednisolone.

### Sales by type of formulation

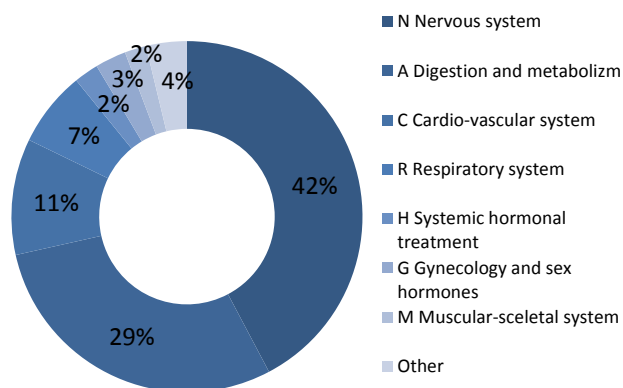
The highest share in the volume of sales have tablet formulations, followed by ampoules, syrups, unguents and lyophilic products and unguents.

Revenues by type of formulation	01.-09.2012 BGN '000	01.-09.2011 BGN '000	Change %
Tablets	121 044	116 643	4%
Ampoules	21 442	20 129	7%
Syrups	7 121	9 258	-23%
Unguents	4 532	4 146	9%
Liophilic products	3 542	4 065	-13%
Suppositories	551	683	-19%
Drops	430	611	-30%
Infusions	21	133	-84%
Other	364	3	12033%
<b>Total</b>	<b>159 047</b>	<b>155 671</b>	<b>2%</b>



### Sales by therapeutic group

Revenues by therapeutic group	01.-09.2012 BGN '000	01.-09.2011 BGN '000	Change %
N Nervous system	67 204	69 045	-3%
A Digestion and metabolism	46 495	41 175	13%
C Cardio-vascular system	17 027	12 312	38%
R Respiratory system	11 043	13 112	-16%
G Gynecology and sex hormones	4 555	6 193	-26%
H Systemic hormonal treatment	3 594	4 046	-11%
M Muscular-skeletal system	3 160	3 550	-11%
Other	5 969	6 239	-4%
<b>Total</b>	<b>159 047</b>	<b>155 671</b>	<b>2%</b>



## Other operating revenues

Other operating revenues	01.-09.2012 BGN '000	01.-09.2011 BGN '000	Change %	Share 2012 %
Income from services	1 970	1 919	3%	65%
Income from sale of materials	307	262	17%	10%
Net income from sale of long-term assets	414	26	1492%	14%
Income from sale of products	434	450	-4%	14%
Net loss from exchange rate differences	(235)	(506)	-54%	-8%
Other	156	905	-83%	5%
<b>Other operating income</b>	<b>3 046</b>	<b>3 056</b>	<b>0%</b>	<b>100%</b>

Other operating income remain at 3 million BGN in the third quarter of 2012. An influence in an upward direction has the sale of long-term assets with 0,4 million BGN, the net loss from exchange rate differences on commercial receivables, liabilities and current accounts, which decreased by 0.3 million BGN, and the income from sale of materials – by 0,1 million BGN. An influence in downward direction have income from forfeits.

## Operating expenses

Operating expenses	01.-09.2012 BGN'000	01.-09.2011 BGN'000	Change %	Share 2012 %
Changes in the finished goods and work in progress inventory	(1745)	(521)	235%	-1%
Materials	45148	41456	9%	35%
External services	49409	48287	2%	38%
Personnel	26159	23899	9%	20%
Amortization	6526	6349	3%	5%
Other operating expenses	3446	3518	-2%	3%
<b>Total operating expenses</b>	<b>128943</b>	<b>122988</b>	<b>5%</b>	<b>100%</b>

The operating expenses increased by 6 million BGN, or 5%, from 123 million BGN in the third quarter of 2011 to 129 million BGN in the third quarter of 2012, which is due to the increase in the cost of materials, external services and personnel.

	01.-09.2012	01.-09.2011	Change	share 2012
	BGN '000	BGN '000	%	%
<b>Materials expenses</b>				
Main materials	34 789	32 399	7%	77%
Spare parts, laboratory items and technical materials	3 701	3 313	12%	8%
Heat	2 495	2 086	20%	6%
Electricity	2 012	1 775	13%	4%
Fuels and lubricants	1 030	897	15%	2%
Safety	558	415	34%	1%
Water	560	543	3%	1%
Other	3	28	-89%	0%
<b>Total</b>	<b>45 148</b>	<b>41 456</b>	9%	100%

*Cost of materials* (35% share) increased by 9% or 3,7 million from 41,4 million BGN in the third quarter of 2011 to 45,1 million BGN in the third quarter of 2012. Costs for basic materials increased by 2,4 million BGN, or 7%, the most significant effect is reported in chemical costs, which increased by 1,4 million BGN. There was an increase in the cost of heat, spare parts, laboratory and technical materials, electricity, fuel and lubricants.

	01.-09.2012	01.-09.2011	Change	Share 2012
	BGN '000	BGN '000	%	%
<b>Hired services expenses</b>				
Manufacturing	24 272	25 497	-5%	49%
Advertising	7 062	6 145	15%	14%
Consultancy fees	3 294	1 094	201%	7%
Transportation	2 476	1 941	28%	5%
Logistics	1 674	1 694	-1%	3%
Rents	1 523	423	260%	3%
Maintenance of buildings and equipment	1 513	1 259	20%	3%
State and regulatory taxes and local taxes	1 054	1 976	-47%	2%
Civil contracts	814	689	18%	2%
Insurance	693	682	2%	1%
Security	617	572	8%	1%
Subscription fees	592	350	69%	1%
Local taxes and fees	542	553	-2%	1%
Registration services and clinical trials	441	405	9%	1%
Translations	397	309	28%	1%
Commissions	206	2 271	-91%	0%
Other	2 239	2 427	-8%	5%
<b>Other</b>	<b>49 409</b>	<b>48 287</b>	2%	100%

*Hired services* have a 38% share of operating expenses and increased by 1,1 million BGN or 2%, reaching 49,4 million BGN in the third quarter of 2012 compared to 48,3 million BGN in the third quarter of 2011. The most significant impact on the growth have consultancy fees with an

increase of 2,2 million BGN, advertising cost with an increase of 0,9 million BGN, rents with an increase of 1,1 million BGN, transportation with an increase of 0,5 million BGN, maintenance of buildings and equipment with an increase of 0,3 million BGN, , as well as increased costs of civil contracts, subscription fees and communication.

The company reported lower costs for manufacturing by 1,2 million BGN, commissions with a decrease of 2,1 million BGN, as well as a decrease in logistics, insurance, state and regulatory taxes, services fees, clinical trials and others.

	01.-09.2012	01.-09.2011	Change	Share 2011
	BGN '000	BGN '000	%	%
<b>Personnel expenses</b>				
Salaries	18 802	18 132	4%	72%
Social insurance	3 720	3 630	2%	14%
Royalties	1 224			5%
Social benefits and payments	1 391	1 169	19%	5%
Other	1 022	968	6%	4%
<b>Total</b>	<b>26 159</b>	<b>23 899</b>	<b>9%</b>	<b>100%</b>

*Personnel costs* (a share of 20%) increased by 2,3 million BGN, or 9% from 24,9 million BGN in the third quarter of 2011 to 26,2 million BGN in the third quarter of 2012. Salaries increased by 0,7 million BGN, social security contributions increased by 0.09 million BGN and social benefits increased by 0.2 million BGN.

	01.-09.2012	01.-09.2011	Change	Share 2011
	BGN '000	BGN '000	%	%
<b>Other expenses</b>				
Entertainment expenses	1 338	1 343	0%	39%
Accrued depreciation	773	950	-19%	22%
Business trips	640	565	13%	19%
Awarded amounts	275			8%
Donations	158	205	-23%	5%
Other	262	455	-42%	8%
<b>Total</b>	<b>3 446</b>	<b>3 518</b>	<b>-2%</b>	<b>100%</b>

*Other operating expenses* (with a share of 3%) decreased by 0,1 million or 2% from 3,5 million BGN in the third quarter of 2011 to 3,4 million BGN in the third quarter of 2012, which is mostly due to a decrease in accrued depreciation by 0,2 million BGN and scrapped finished products and work-in-progress by 0,2 million BGN.. Awarded amounts and business trips increased.

*Costs of amortization* recorded a minimal increase of 3% from 6,3 million BGN for the second quarter of 2011 to 6,5 million BGN for the second quarter of 2012.



## Financial income and expenses

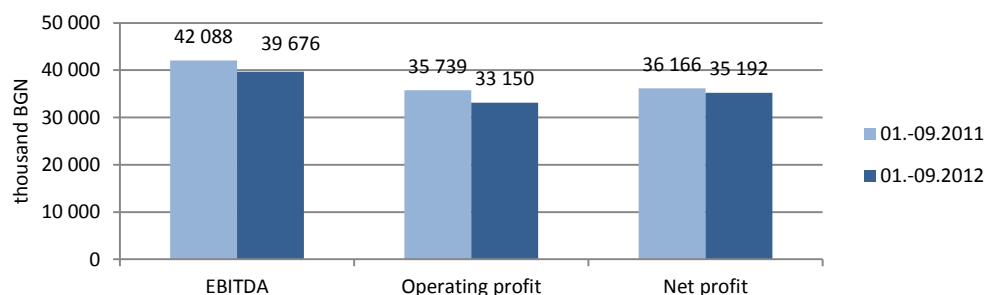
Financial income	01.-09.2012	01.-09.2011	Change	Share 2011
	BGN '000	BGN '000	%	%
Income from interests in other companies	5 461	4 736	15.3%	55%
Income from interest on loans granted	3 961	4 159	-4.8%	40%
Net gain from exchange rate differences on loans	339	86	294.2%	3%
Income from operations with securities	185	306	-39.5%	2%
Income from interest on deposits	3	139	-97.8%	0%
<b>Total</b>	<b>9 949</b>	<b>9 426</b>	6%	100%
<b>Financial expenses</b>				
Expenses for interest on loans received	4 073	4 665	-13%	91%
Bank fees for loans and guarantees	237	306	-23%	6%
Financial leasing expenses	206	169	22%	3%
<b>Total</b>	<b>4 516</b>	<b>5 140</b>	-12%	100%

*Financial income* increased by 0,5 million BGN, or 6%, reaching 9,9 million BGN at the end of the third quarter of 2012 compared to 9,4 million BGN at the end of the third quarter of 2011. Income from interests in other companies amounts to 5,5 million BGN as a result of received dividends equaling 4,5 million BGN from interest in Sopharma Trading AD, 0,8 million BGN from interest in Unipharm AD and 0,2 million BGN from interest in Medica AD. Net gain from exchange rate differences on loans also increases by 0,3 million BGN. Income from interest on loans granted decreased by 0,2 million BGN, income from operations with securities - by 0,1 million BGN and income from interest on deposits – by 0,1 million BGN.

*Financial expenses* decreased by 0,6 million BGN or 12%, from 5,1 in the third quarter of 2011 to 4,5 million BGN in the third quarter of 2012. This decrease is mainly due to the smaller amount of expenses for interest on loans received with 0,6 million BGN, as well as a fall in the net loss from exchange rate differences on loans by 0,07 million BGN.

*Net financial income (expense)* increased by 1,1 million BGN, reaching 5,4 million BGN by the end of the third quarter of 2012, compared to 4,3 million BGN at the end of the third quarter of 2011.

## Operatng result



*Profit before interest, taxes, depreciation and amortization (EBITDA)* fell by 2,4 million BGN or 6%, amounting to 39,7 million BGN in the third quarter of 2012, compared to 42,1 million BGN in the third quarter of 2011.

*The operating profit* decreased by 2,5 million BGN or 7% to 33,2 million BGN in the third quarter of 2012 compared to 35,7 million BGN in the third quarter of 2011.

*Net income* for in the third quarter of 2012 decreased by 1 million BGN or 3%, reaching 35,2 million BGN for the third quarter of 2012 compared to 36,2 million BGN for the third quarter of 2011.

## Assets

	30 September 2011 BGN '000	31 December 2011 BGN '000	Change %	Share %
<b>Non-current assets</b>				
Property, plant and equipment	173 752	135 048	29%	56%
Intangible assets	3 701	3 386	9%	1%
Investment property	19 170	19 170	0%	6%
Investments in subsidiaries	93 967	88 462		30%
Available-for-sale investments	19 572	16 792	17%	6%
Long-term loans to related parties	787	16 069	-95%	0%
Other non-current assets	445	272	64%	0%
	<b>311 394</b>	<b>279 199</b>	12%	53%
<b>Current assets</b>				
Inventories	50 515	50 916	-1%	19%
Receivables from related parties	159 795	135 104	18%	61%
Commercial receivables	31 448	29 383	7%	12%
Other receivables and prepaid expenses	10 229	10 333	-1%	4%
Cash and cash equivalents	11 965	18 038	-34%	5%
	<b>263 952</b>	<b>243 774</b>	8%	47%
<b>TOTAL ASSETS</b>	<b>565 267</b>	<b>522 973</b>	8%	100%

*Total assets* increased by 59,1 million BGN or 11%, reaching 582,1 million BGN compared to 523 million BGN as at 31 December 2011 as a consequence of the increase of both current and non-current assets.

*Non-current assets* increased by 32,2 million BGN, or 12%, due mainly to the increase in property, plant and equipment by 38,7 million BGN, the growth of intangible assets by 0,3 million BGN, the increase in investments in subsidiaries by 5,5 million BGN, as well as the increase in the available-for-sale investments by 2,8 million BG. Long-term loans to related parties decreased by 15,3 million BGN compared to 31 December 2011.

	<b>30 September 2011</b>	<b>31 December 2011</b>	<b>Change</b>	<b>Share</b>
<b>Property, plant and equipment</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
Land and buildings	63 457	63 416	0%	37%
Machines and equipment	33 896	31 392	8%	20%
Other	11 683	7 348	59%	7%
In process of acquisition	64 716	32 892	97%	37%
<b>Total</b>	<b>173 752</b>	<b>135 048</b>	<b>29%</b>	<b>100%</b>

Property, plant and equipment has substantially increased in the proportion of assets in process of acquisition, which grew by 31,8 million BGN, as a result primarily of investments in the new plant for tablet forms, which for the third quarter of 2012 amounts to 36,7 million BGN, and the total funds invested in it since the beginning of the project amount to 62,2 million BGN. Additional funds are spent on advances for acquisition of laboratory and production equipment.

Intangible assets also showed growth of 0,3 million BGN as a result of implementing an integrated information system, which should be completed in 2012.

Investments in subsidiaries increased due to an increase in the capital of Biopharm Engineering AD.

The available-for-sale investments increased in relation to an increase in the capital of Doverie United Holding AD.

Long-term loans to related parties have decreased by 15,3 million BGN as a consequence of paying up of principals and interests amounting to 9,6 million BGN, as well as the transformation of loans amounting to 5,7 million BGN to short-term receivables from related parties.

*Current assets* increased by 27 million BGN or 11%, reaching 271 million BGN as at 30 September 2012 compared to 243,8 million BGN as at 31 December 2011.

	<b>30 September 2011</b>	<b>31 December 2011</b>	<b>change</b>	<b>share</b>
<b>Inventories</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
Materials	23 009	21 949	5%	43%
Finished products	22 192	22 054	1%	41%
Work in progress	4 871	3 054	59%	9%
Mid products	3 552	3 813	-7%	7%
Goods	130	46	183%	0%
<b>Total</b>	<b>53 754</b>	<b>50 916</b>	<b>6%</b>	<b>100%</b>

Inventories increased by 2,8 million BGN compared to 31 December 2011, mainly in the part of materials and work in progress respectively by 1,1 million BGN and 1,8 million BGN. Finished products increased by 0,1 million BGN, as well as goods, which grew by 0,08 million BGN. Mid-products decreased by 0.3 million BGN.

Receivables from related parties increased by 28,1 million BGN. The greatest share in this increase have the income from sale of products and materials with 22,6 million BGN, commercial loans with an increase of 6 million BGN., as well as advance payments with an increase of 0,2 million BGN. Income from dividends fell by 0,8 million BGN.

Commercial receivables increased by 2,1 million BGN in the portion of receivables from customers (by 1,7 million BGN) and advance payments increased by 0,5 million BGN compared to 31 December 2011.

Other receivables and advance payments increased by 5 million BGN. Basically this is due to funds provided to the Central Depository for the payment of dividends amounting to 4,8 million BGN. Advance payments decreased by 0,7 million BGN, as well as litigation and awarded amounts – by 0,3 million BGN. Loans granted to third parties increased by 0,3 million BGN, recovery of taxes increased by 0,4 million BGN and provided funds to investment intermediary grew by 0,6 million BGN.

Cash and cash equivalents decreased by 11 million BGN and as at 30 September 2012 amount to 7 million BGN compared to 18 million BGN as at 31 December 2011.

**Liabilities and owners' equity**

	<b>30 September 2011</b>	<b>31 December 2011</b>	<b>Change</b>	<b>Share</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>OWNERS' EQUITY</b>				
Share capital	132 000	132 000	0%	38%
Treasury stock	(11 502)	(10 036)	15%	-3%
Reserves	189 683	157 913	20%	55%
Retained earnings	35 192	40 791	-14%	10%
<b>TOTAL OWNERS' EQUITY</b>	<b>345 373</b>	<b>320 668</b>	<b>8%</b>	<b>100%</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	45 306	18 737	142%	19%
Liabilities on deferred taxes	3 408	3 864	-12%	1%
Liabilities to the personnel upon retirement	1 352	1 269	7%	1%
Financial leasing liabilities	639	304	110%	0%
<b>Total non-current liabilities</b>	<b>50 705</b>	<b>24 174</b>	<b>110%</b>	<b>21%</b>
<b>Current liabilities</b>				
Short-term bank loans	94 001	112 008	-16%	40%
Short-term part of long-term bank loans	65 111	40 735	60%	28%
Commercial liabilities	5 843	16 544	-65%	2%
Liabilities to related parties	10 947	5 236	109%	5%
Liabilities for taxes	321	262	23%	0%
Liabilities to the personnel and for social insurance	4 145	2 748	51%	2%
Other current liabilities	5 694	598	852%	2%
<b>Total current liabilities</b>	<b>186 062</b>	<b>178 131</b>	<b>4%</b>	<b>79%</b>
<b>TOTAL LIABILITIES</b>	<b>236 767</b>	<b>202 305</b>	<b>17%</b>	<b>100%</b>
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>582 140</b>	<b>522 973</b>	<b>11%</b>	

*Equity* increased by 24,7 million BGN compared to 31 December 2011 as a result of increased reserves by 31,8 million BGN. At the end of the third quarter the treasury stock amounts to 3 205 655. During the reporting period no new issue of securities was conducted.

*Non-current liabilities* increased by 26,5 million BGN, from 24,2 million BGN at the end of 2011 to 50,7 million BGN at the end of the third quarter of 2012 mainly due to the increase of long-term bank loans by 26,6 million BGN

*Current liabilities* increased by 7,9 million BGN compared to the end of 2011. The main reason is an increase in the short-term part of long-term bank loans by 24,4 million BGN .

The total exposition on bank loans of the Company as at 30 September 2012 increased by 33 million BGN compared to the previous period, mainly as a result of the investments in the new solid-forms plant.

Commercial liabilities decreased due to liabilities to suppliers, which decreased by 10,7 million BGN compared to 31 December 2011.

Liabilities to related parties increased by 5,7 million BGN, mainly as a result of liabilities for services rendered amounting to 2,5 million BGN.

Obligations to employees and social security increased by 1,4 million BGN mostly due to increases in the payment of royalties by 0,8 million BGN, current liabilities by 0,1 million BGN and accruals for unused paid leaves by 0,4 million BGN. Other current liabilities increased by 5,1 million BGN due to an increase in liabilities for dividends by 4,8 million BGN.

### Cash flow

	2012 BGN '000	2011 BGN '000
Net cash flow from operations	(16 918)	7 104
Net cash flow from investment activities	(26 372)	(29 921)
Net cash flow used in financial operations	31 951	8 931
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(11 339)</b>	<b>(13 886)</b>
Cash and cash equivalents on 1 January	18 038	30 982
Cash and cash equivalents on 30 September	6 699	17 096

*Net cash flows* as at 30 September 2012 generated from operating activities amounted to (16,9) million BGN, net cash from investing activities (26,4) million BGN and financing activities 32 million BGN. As a result of these activities cash and cash equivalents mark a net decrease by 11,3 million BGN and the end of the third quarter of 2012 amounted to 6,7 million BGN compared to 18 million at the end of 2011.

### Ratios

	30 September 2012	30 September .2011
ROE	12.1%	13.4%
ROA	7.4%	8.6%
Asset turnover	0.40	0.44
Current liquidity	1.46	1.37
Quick ratio	1.17	1.08
Cash/current liabilities	0.04	0.10
Owners' equity/liabilities	1.46	1.59

### *Information on shares of Sopharma AD*

The total number of outstanding shares at 30 September 2011 of Sopharma AD is 132 million with a nominal value of 1 BGN per share. All issued shares are registered, dematerialized, registered and indivisible. All issued shares are of one class. Each share gives equal rights to its owner, proportionate to the nominal share value. Shares of Sopharma AD are listed on the official market of the Bulgarian Stock Exchange - Sofia and the official market of the Warsaw Stock Exchange. Shares participate in the formation of the indices SOFIX, BG40 and BGTR30 of the Bulgarian Stock Exchange - Sofia.

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

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

#### Important information for the shares of Sopharma AD

	30 September 2012	30 September .2011
Total number of issued shares	132 000 000	132 000 000
Average outstanding number of shares	129 164 126	130 827 434
Number of shares outstanding at the end of the period	128 794 345	130 021 039
Earnings per share in BGN	0,307	0,311
Price per share at the end of the period in BGN	2,40	3,301
Price/Earnings ratio (P/E)	7.82	10,61
Book value per share in BGN	2.682	2,425
Price/Book value ratio (P/B)	0,89	1,36
Market capitalization in BGN	316 800 000	435 732 000

## Trade with shared of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01.01.-30.09.2012



The interim management report for Q3 2012 is not audited.

Signature:

Ognian Donev, PhD  
Executive Director, Sopharma AD