

# MANAGEMENT REPORT

Q3 2014



**SOPHARMA AD**

**30 October 2014**

## General information about Sopharma AD

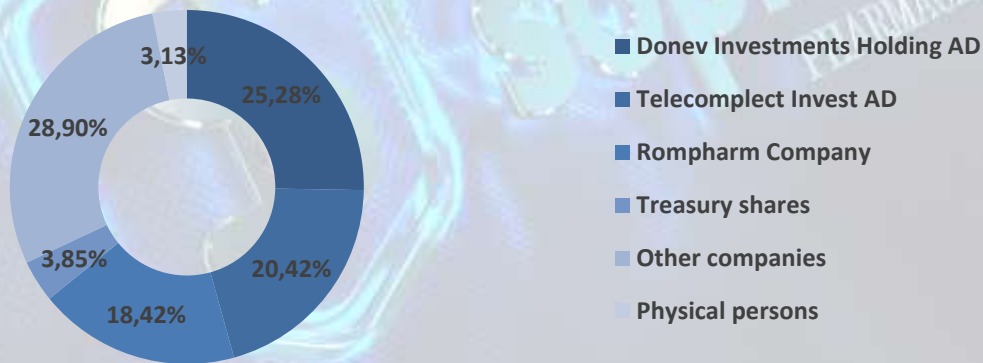
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko Shose Street No 16.

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

The Company conducts 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 provides services related to production, as well as to ancillary and service activities.

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 September 2014



### 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 Chaushev, Andrey Breshkov. The Company is represented and managed by the Executive Director Ognian Donev, PhD.

### Industrial activity

Sopharma AD has ten manufacturing facilities, which are compliant with EU regulations and are located in Bulgaria. In June 2013 the Company opened a new high-tech plant for solid forms with annual capacity of 4 billion tablets in Sofia. Sopharma AD is the largest Bulgarian producer of ampoules and suppositories.

The Company carries out and develops production 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 the leading medicine 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 gynaecology.

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);
- + Tempalgin - original analgesic (painkiller);
- + Tabex – original plant-based drug used for smoking secession
- + Tribestan – original plant-based product, used for stimulation of the reproductive system
- + Broncholytin - original plant-based product used to suppress cough;
- + Analgin - generic analgesic (painkiller);
- + Nivalin – original phyto-based product, used in the treatment of the peripheral nervous system;
- + Methylprednisolone - generic drugs for cases of severe allergies and certain life-threatening conditions;

### **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 in-house-developed extraction technologies. In addition to trademark these products are protected with patent or corporate know-how.

For the distinguishing of the manufactured generic products Sopharma AD relies on brand names, 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 assets, the majority being registered rights (trademarks, patents, designs) and few of which are unregistered items - mainly technologies.

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

### **Research and development**

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

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

### **Employees**

As at 30 September 2014 the average number of employees of Sopharma AD is 1,837 (2013: 1,793). The table below shows the detailed information on the staff of the Company.

	<b>30.09.2014</b>	<b>Share %</b>
Number of employees 30 September 2014	1869	100%
Higher education	845	45%
Special education	51	3%
High school education	948	51%
Primary school education	25	1%
Up to 30 years of age	242	13%
Between 31 - 40 years of age	436	23%
Between 41 - 50 years of age	561	30%
Between 51 - 60 years of age	517	28%
Over 60 years of age	113	6%
Women	1173	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.

### ***Significant events in the nine months of 2014***

On 14 January 2014 Sopharma AD made a final payment for the capital increase of Briz, which would allow it to expand its presence in the markets of the three Baltic States and Belarus. The share held by Sopharma AD in the capital of the company after the increase reached 66.13% (previously 53.14%). The expansion of the presence on the market of the Republic of Belarus includes acquisition of a warehouse complex, implementation of an integrated information system, as well as acquisition of new pharmacies. In 2013 Briz increased the total number of owned pharmacies to 91 through the acquisition of three pharmacy chains in the Republic of Belarus. Additionally, the acquisition of a company for wholesale of pharmaceutical products was completed.

On 6 February 2014 Sopharma AD sold 616 015 ordinary registered shares with voting rights of the capital of Sopharma Trading AD. After this transaction, the share of Sopharma AD in the capital of Sopharma Trading AD decreased with 1.87%.

On 7 February 2014 Sopharma AD received a notification for participation disclosure under art. 145 from POSA from Rompharm Company OOD for the acquisition of 4 230 000 shares, representing 3.20 % of its capital, through which transaction the share of Rompharm Company OOD in the capital of Sopharma AD reached 17.60%.

On 11 February 2014 Sopharma AD received a notification for participation disclosure under art. 145 from POSA from UPF Doverie for the selling of 3 424 005 shares. After the transaction the share of UPF Doverie in the capital of Sopharma AD decreased with 2.59%. The registration date of the transaction in the Central Depository AD, Sofia is 6 February 2014.

On 19 June 2014 Sopharma AD and Bulgarian Rose – Sevtopolis AD signed a Contract for transformation through merger in accordance with the requirements of art. 262d and following of the Commercial Act (CA), as a result of which all assets of Bulgarian Rose – Sevtopolis AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Bulgarian Rose – Sevtopolis shall be terminated without liquidation. Pursuant to art. 124, par. 1 of the Public Offering of Securities Act (POSA) the Contract for merger, as well as reports of the management bodies of the companies involved in the transformation of the company under art. 262i of the CA and the report of the examiner under art. 262m of the CA must be approved by the deputy chairman of the Financial Supervision Commission, managing the "Investment Supervision" division. According to the signed contract, in connection with the implementation of the merger shall be carried out a capital increase of the receiving company Sopharma AD through issuing of new shares to be distributed among the shareholders of the transferring company Bulgarian Rose - Sevtopolis AD (except the shareholder Sopharma AD).

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

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

seventy-four stotinki/ shall be paid a gross dividend of 0.07 BGN /seven stotinki/ per share with dividend right. After the exact amount of the dividend has been determined, based on a list of shareholders, provided by the Central Depository AD, entitled to receive a dividend as per art.115c of POSA, the remainder of the net profit shall be allocated to the additional reserves of the Company. In accordance with the Regulations of the Central Depository, the dividend shall be paid out as follows: for shareholders with client accounts at an investment intermediary – through the investment intermediary, for shareholders without accounts at an investment intermediary - through the branches of Eurobank EFG - Bulgaria AD /Postbank/ in the country. Payment of dividend will commence within three months from the date of the AGM, on which the payment of dividend was approved;

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

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

### **New developments and products**

- ✚ New with marketing authorizations in the nine months of 2014

The Company has received marketing authorizations for 4 new products – Otofix drops, Softenzif delayed release tablets, Promerol injection solution, Fentoril injection solution and implemented one new product Glicerax suppository.

- ✚ Expected in 2014

The Company expects to introduce one to two new products by the end of 2014.

## ✚ Developments

Around twenty-two production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 20 new products for the Company.

## Key financial indicators

Indicators	1-9/2014	1-9/2013	Change %
	BGN '000	BGN '000	
Sales revenues	149 995	157 622	-4,8%
EBITDA	36 275	42 685	-15,0%
Operating profit	24 005	34 534	-30,5%
Net profit	30 140	31 470	-4,2%
CAPEX	6 668	21 550	-69,1%
	30.09.2014	31.12.2013	
	BGN '000	BGN '000	
Non-current assets	364 489	358 109	1,8%
Current assets	214 427	191 027	12,2%
Owners' equity	393 013	369 686	6,3%
Non-current liabilities	53 222	57 987	-8,2%
Current liabilities	132 681	121 463	9,2%
	1-9/2014	1-9/2013	
Ratios			
EBITDA / Sales revenues	24,2%	27,1%	
Operating profit/ Sales revenues	16,0%	21,9%	
Net profit/ Sales revenues	20,1%	20,0%	
Borrowed capital/Owners' equity	0,47	0,51	
Net debt/ EBITDA	3,0x	2,9x	

## 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. The Company supplies part of its raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognized 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 statement of financial position 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. 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 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) optimization 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 unfavorable change of cash flows is reduced to a minimum.

The Company's management currently monitors and analyses 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 nine months of 2014**

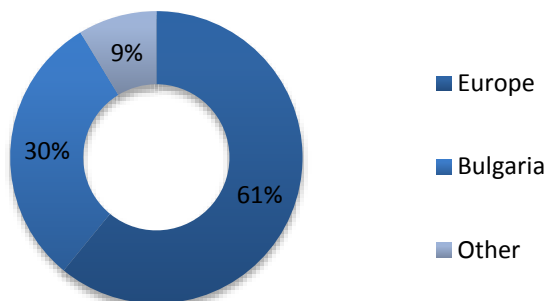
#### **Sales revenues**

Sales revenues of goods decrease by 7,6 million BGN or 5%, reaching 150 million BGN as at the end of the nine months of 2014, compared to 157,6 million BGN at the end of the nine months of 2013.



## Main markets

Revenues by market	1-9/2014 BGN'000	1-9/2013 BGN '000	Change %
Europe	91 367	95 767	-5%
Bulgaria	45 582	44 093	3%
Other	13 046	17 762	-27%
<b>Total</b>	<b>149 995</b>	<b>157 622</b>	<b>-5%</b>



### 🇪🇺 Europe

Revenues from sales to European countries decreased by 5% compared to the first nine months of 2013 due to the decrease of sales in Ukraine by 31%. Currently the normal access to the eastern territories is permanently restricted, with distributors having difficulties making sales there and only in much smaller quantities. Sales revenue in Russia increased, where five new products are in the process of registration. Sales in Poland, Serbia, Turkey, and Belarus increased.

### 🇬🇧 Bulgaria

The sales of Sopharma AD on the domestic market increased by 1,5 million BGN, or 3% and reached 45,6 million BGN at the end of the nine months of 2014 compared to 44,1 million BGN at the end of the nine months of 2013. The products with largest share of sales in the country are Analgin, Vicetin, Flixotid, Vitamin C, and Methylprednisolone. The Company has a 4% share of the total Bulgarian pharmaceutical market in value and 13% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 6.5% (4.5% in units), Roche – 6% (0.4% in units), GlaxoSmithKline – 5.6% (2.6% in units), Actavis – 5.4% (14% in units), Sanofi-Aventis-Zentiva – 4.3% (3.4% in units), Astra Zeneca – 3.6% (1% in units), Pfizer – 3.4% (1.4% in units), Servier – 3% (1.7% in units), Bayer – 2.8% (1.7% in units).

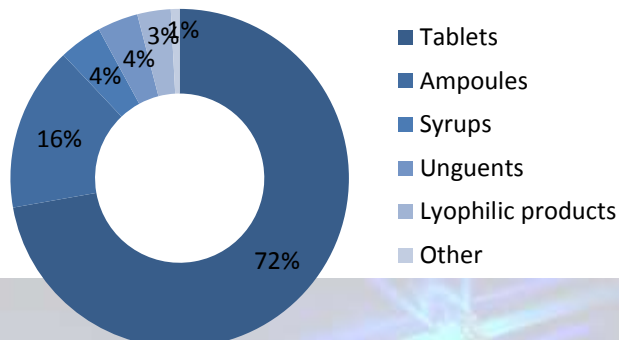
### 🌐 Other markets

Sales revenues from other markets decreased by 27% in the first nine months of 2014. This mainly includes revenues from sales in the Caucasus and Central Asia, which decreased by 39% compared to the first nine months of 2013. This decrease is due to the economic and financial crisis in Kazakhstan at the beginning of the year, when the local currency devalued by 21% over the course of one day and practically froze the economy for more than two months. Currently, the situation in the country stabilizes slowly and Sopharma is recovering its business operations and positions. Sales revenues in Vietnam, Mongolia, and Tunis increased.

## Sales by type of formulation

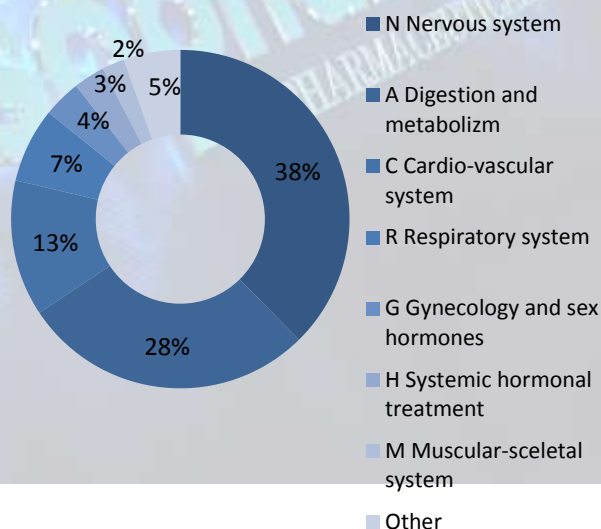
The highest share in the volume of sales have tablet formulations, followed by ampoules, syrups, unguents, and lyophilic products.

Revenues by type of formulation	1-9/2014 BGN '000	1-9/2013 BGN '000	Change %
Tablets	108 317	111 303	-3%
Ampoules	23 607	23 838	-1%
Syrups	6 186	10 591	-42%
Unguents	5 836	4 886	19%
Lyophilic products	4 791	4 811	0%
Other	1 258	2 193	-43%
<b>Total</b>	<b>149 995</b>	<b>157 622</b>	<b>-5%</b>



## Sales by therapeutic group

Revenues by therapeutic group	1-9/2014 BGN '000	1-9/2013 BGN '000	Changes %
N Nervous system	56 433	50 715	11%
A Digestion and metabolism	42 061	52 360	-20%
C Cardio-vascular system	19 520	14 548	34%
R Respiratory system	10 730	16 473	-35%
G Gynaecology and sex hormones	5 410	7 063	-23%
H Systemic hormonal treatment	4 494	4 784	-6%
M Muscular-skeletal system	3 238	3 271	-1%
Other	8 108	8 408	-4%
<b>Total</b>	<b>149 995</b>	<b>157 622</b>	<b>-5%</b>



## Other operating revenues

Other operating revenues	1-9/2014 BGN '000	1-9/2013 BGN '000	Change %	Share 2014 %
Income from services	2 778	2 044	36%	80%
Income from sale of products	424	512	-17%	12%
Income from sale of materials	153	168	-9%	4%
Net loss from exchange rate differences	(169)	(466)	-64%	-5%
Other	293	91	222%	8%
<b>Total</b>	<b>3 479</b>	<b>2 349</b>	<b>48%</b>	<b>100%</b>

Other operating income increased by 1,2 million BGN from 2,3 million BGN in the nine months of 2013 to 3,5 million BGN in the nine months of 2014, the main contributor being services rendered, which increased by 0,7 million BGN compared to the same period of last year.

## Operating expenses

Operating expenses	1-9/2014 BGN '000	1-9/2013 BGN '000	Change %	Share 2014 %
Changes in the finished goods and work-in-progress inventory	(9 815)	4 449	321%	-8%
Materials	44 376	40 193	10%	34%
External services	54 025	43 275	25%	42%
Personnel	26 041	25 259	3%	20%
Amortization	12 270	8 151	51%	9%
Other operating expenses	2 572	4 110	-37%	2%
<b>Total</b>	<b>129 469</b>	<b>125 437</b>	<b>3.2%</b>	<b>100%</b>

The operating expenses increased by 4 million BGN or 3% compared to the nine months of 2013 reaching 129,5 million BGN, which is a result from an increase in raw material cost, external services expenses, and amortization cost.

	1-9/2014	1-9/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Materials expenses</b>				
Main materials	32 850	29 893	10%	74%
Spare parts, laboratory items and technical materials	4 395	3 506	25%	10%
Electricity	2 766	2 607	6%	6%
Heating	2 406	2 256	7%	5%
Fuels and lubricants	762	945	-19%	2%
Water	544	545	0%	1%
Work cloths	511	441	16%	1%
Scraping of materials	142	0		0%
<b>Total</b>	<b>44 376</b>	<b>40 193</b>	<b>10%</b>	<b>100%</b>

*Cost of materials* (34% share) increased by 4,2 million BGN or 10% from 40,2 million BGN in the nine months of 2013 to 44,4 million BGN in the nine months of 2014. Costs for basic materials increased by 2,8 million BGN, in the segments packaging materials, liquid and hard chemicals, and ampules. There was an increase in the cost of spare parts, laboratory and technical materials, heating, and electricity.

	1-9/2014	1-9/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Hired services expenses</b>				
Manufacturing	21 417	18 764	14%	40%
Consultancy fees	10 266	6 391	61%	19%
Advertising	7 235	5 668	28%	13%
Logistic services on export and domestic market	2 131	1 303	64%	4%
Maintenance of buildings and equipment	1 970	727	171%	4%
Rents	1 824	1 745	5%	3%
Transportation	1 240	1 883	-34%	2%
Registration services and clinical trials	1 044	508	106%	2%
Local taxes and fees	834	500	67%	2%
Security	627	672	-7%	1%
Civil contracts	606	543	12%	1%
State and regulatory taxes	577	611	-6%	1%
Subscription fees	554	481	15%	1%
Medical services	551	478	15%	1%
Insurance	496	547	-9%	1%
Car repairs and maintenance	330	230	43%	1%
Other	2 323	2 224	4%	4%
<b>Other</b>	<b>54 025</b>	<b>43 275</b>	<b>25%</b>	<b>100%</b>

*Hired services* have a 41% share of operating expenses and increased by 10,7 million BGN or 25%, reaching 54 million BGN in the nine months of 2014 compared to 43,3 million BGN in the nine months of 2013. The most significant impact have the increase in consulting services by 3,9 million BGN, manufacturing by 2,6 million BGN, advertising by 1,6 million BGN, maintenance of buildings and equipment by 1,2 million BGN, logistics services by 0,8 million BGN. There is a decrease in transportation, state and regulatory taxes, taxes for services of current bank accounts, and others.

	1-9/2014	1-9/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Personnel expenses</b>				
Salaries	19 329	18 545	4%	74%
Social insurance	3 603	3 116	16%	14%
Social benefits and payments	1 325	1 539	-14%	5%
Performance-based bonuses	834	1 235	-32%	3%
Other	950	824	15%	4%
<b>Total</b>	<b>26 041</b>	<b>25 259</b>	<b>3%</b>	<b>100%</b>

*Personnel costs* (a share of 20%) increased by 0,8 million BGN, or 3% from 28,2 million BGN in the nine months of 2013 to 26 million BGN in the nine months of 2014. Current salaries increased by 0,8 million BGN, social security contributions - by 0,5 million BGN, and social benefits and current accruals decreased by 0,2 million BGN, as well as performance-based bonuses by 0,4 million BGN.

	1-9/2014	1-9/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Other operating expenses</b>				
Entertainment events expenses	1 588	1 437	11%	62%
Business trips	506	476	6%	20%
Donations	123	195	-37%	5%
Scrapping and losses of materials	102	263	-61%	4%
Other taxes and payments to the budget	45	636	-93%	2%
Trainings	91	66	38%	4%
Accrued impairment of receivables, net	38	710	-95%	1%
Other (see FS notes)	79	327	-76%	3%
<b>Total</b>	<b>2 572</b>	<b>4 110</b>	<b>-37%</b>	<b>100%</b>

*Other operating expenses* (with a share of 2%) decreased by 1,5 million BGN or 37% from 4,1 million BGN in the nine months of 2013 to 2,6 million BGN in the nine months of 2014, which is mostly due to a decrease in accrued impairment of receivables net by 0,7 million BGN, other taxes and payments to the budget by 0,6 million BGN, and scrapping and losses of materials by 0,2 million BGN. Entertainment allowances increased by 0,2 million BGN.



*Amortization costs* increased by 4,1 million BGN or 50% from 8,2 million BGN in the nine months of 2013 to 12,3 million BGN in the nine months of 2014.

## Financial income and expenses

Financial income	1-9/2014 BGN '000	1-9/2013 BGN '000	Change %	Share 2014 %
Income from participations	6 361	5 889	8.0%	53%
Income from interest on loans granted	3 320	-		28%
Net gain from operations with securities	2 300	3 054	-24.7%	19%
<b>Total</b>	<b>11 981</b>	<b>8 943</b>	<b>34%</b>	<b>100%</b>

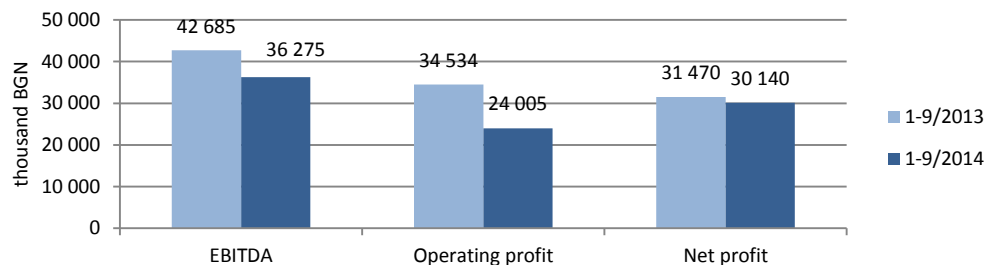
Financial expenses	1-9/2014 BGN '000	1-9/2013 BGN '000	Change %	Share 2014 %
Expenses for interest on loans received	3 216	4 047	-21%	44%
Bank fees for loans and guarantees	139	251	-45%	3%
Impairment of available-for-sale investments	68	197	-65%	2%
Interest expenses on finance lease	15	44	-66%	0%
Net loss from operations with securities	-	4 527	-100%	50%
Net loss from exchange rate differences on loans	-	60	-100%	1%
<b>Total</b>	<b>3 438</b>	<b>9 126</b>	<b>-62%</b>	<b>100%</b>

*Financial income* increased by 3,1 million BGN, or 34%, to 12 million BGN in the nine months of 2014 compared to 8,9 million BGN in the nine months of 2013. This is a result of an increase in net gain from operations with securities by 3 million BGN. Income from interest on loans granted decreased by 0,7 million BGN.

*Financial expenses* decreased by 5,7 million BGN or 62% from 9,1 million BGN in the nine months of 2013 to 3,4 million BGN in the nine months of 2014. This decrease is mainly due to the change in net loss from operations with securities by 4,5 million BGN.

*Net financial income (expense)* increased by 8,7 million BGN, reaching 8,5 million BGN in the nine months of 2014, compared to (0,2) million BGN in the nine months of 2013.

## Operating result



*Profit before interest, taxes, depreciation and amortization (EBITDA)* fell by 6,4 million BGN or 15%, amounting to 36,3 million BGN as at 30 September 2014, compared to 42,7 million BGN as at 30 September 2013.

*The operating profit* decreased by 10,5 million BGN or 30,5% to 24 million BGN as at 30 September 2014, compared to 34,5 million BGN as at 30 September 2013.

*Net profit* decreased by 1,4 million BGN or 4,2% reaching 30,1 million BGN as at 30 September 2014 compared to 31,5 million BGN as at 30 September 2013.

## Assets

	30.09.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	192 926	198 158	-3%	53%
Intangible assets	2 968	3 661	-19%	1%
Investment property	22 555	22 555	0%	6%
Investments in subsidiaries	105 462	101 207	4%	29%
Available-for-sale investments	7 797	6 862	14%	2%
Long-term receivables from related parties	32 773	25 649	28%	9%
Other long-term receivables	8	17	-53%	0%
	<b>364 489</b>	<b>358 109</b>	2%	63%
<b>Current assets</b>				
Inventories	56 751	50 083	13%	26%
Receivables from related parties	118 214	103 350	14%	55%
Commercial receivables	26 559	22 155	20%	12%
Other receivables and prepaid expenses	10 587	7 241	46%	5%
Cash and cash equivalents	2 316	8 198	-72%	1%
	<b>214 427</b>	<b>191 027</b>	12%	37%
<b>TOTAL ASSETS</b>	<b>578 916</b>	<b>549 136</b>	5%	100%

*Total assets* increased by 29,8 million BGN or 5%, reaching 578,9 million BGN compared to 549,1 million BGN as at 31 December 2013.

*Non-current assets* increased by 6,4 million BGN, or 2%, due to the increase in long-term receivables from related parties by 7,1 million BGN and investments in subsidiaries by 4,3 million BGN. Property, plant and equipment decreased by 5,2 million BGN compared to 31 December 2013.

Property, plant and equipment	30.09.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000		
Land and buildings	104 261	106 621	-2%	54%
Machines and equipment	76 524	80 237	-5%	40%
Other	8 020	10 317	-22%	4%
In process of acquisition	4 121	983	319%	2%
<b>Total</b>	<b>192 926</b>	<b>198 158</b>	<b>-3%</b>	<b>100%</b>

Property, plant and equipment most substantially decreased in the portion of plant and equipment by 3,7 million BGN, in the portion of other by 2,3 million BGN, and in the portion of land and buildings by 2,4 million BGN and property. The assets in process of acquisition increased by 3,1 million BGN. Intangible assets fell in the portion of assets in the process of acquisition by 1,8 million BGN.

Investments in subsidiaries increased by 4,3 million BGN in relation to a capital increase in Briz, Latvia. The available-for-sale investments increased by 0,9 million BGN. Long-term loans to related parties increases by 7,1 million BGN.

*Current assets* increased by 29,8 million BGN or 5%, reaching 214,4 million BGN as at 30 September 2014 compared to 191 million BGN as at 31 December 2013.

Inventories	30.09.2014	31.12.2013	change	Share 2014
	BGN '000	BGN '000		
Materials	25 490	28 045	-9%	45%
Finished products	25 721	16 606	55%	45%
Semi-finished products	3 069	2 392	28%	5%
Work in progress	2 245	2 835	-21%	4%
Goods	226	205	10%	0%
<b>Total</b>	<b>56 751</b>	<b>50 083</b>	<b>13%</b>	<b>100%</b>

Inventories increased by 6,7 million BGN compared to 31 December 2013, mainly in the portion of finished and semi-finished products respectively by 9,1 million BGN and 0,7 million BGN. Material and unfinished products inventories decreased by 2,5 million BGN and 0,6 million BGN. Receivables from related parties increased by 14,9 million BGN. This is a result of an increase of income from sale of finished products and materials by 13 million BGN.

Commercial receivables increased by 4,4 million BGN in the portion of receivables from customers compared to 31 December 2013.

Other receivables and advance payments increased by 3,3 million BGN. Mainly this is due to an increase in refundable taxes by 2 million BGN, and provided funds to the Central Depository for the payment of dividends by 2,2 million BGN.

Cash and cash equivalents decreased by 5,9 million BGN and as at 30 September 2014 amount to 2,3 million BGN, compared to 8,2 million BGN as at 31 December 2013.

### Liabilities and owners' equity

	30.09.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>OWNERS' EQUITY</b>				
Share capital	132 000	132 000	0%	34%
Treasury stock	-17 060	-18 105	-6%	-4%
Reserves	246 841	220 935	12%	63%
Retained earnings	31 232	34 856	-10%	8%
<b>TOTAL OWNERS' EQUITY</b>	<b>393 013</b>	<b>369 686</b>	6%	100%
	<b>30.09.2014</b>	<b>31.12.2013</b>	<b>Change</b>	<b>Share 2014</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	43 333	48 723	-11%	23%
Liabilities on deferred taxes	4 347	3 826	14%	2%
Long-term liabilities to personnel	2 099	1 855	13%	1%
Financial leasing liabilities	44	49	-10%	0%
Government financing	3 399	3 534	-4%	2%
	<b>53 222</b>	<b>57 987</b>	-8%	29%

<b>Current liabilities</b>				
Short-term bank loans	107 315	98 878	9%	58%
Short-term part of long-term bank loans	3 765	3 822	-1%	2%
Liabilities to related parties	7 789	7 836	-1%	4%
Commercial liabilities	5 129	4 973	3%	3%
Liabilities for taxes	781	1 243	-37%	0%
Liabilities to the personnel and for social insurance	4 715	3 736	26%	3%
Other current liabilities	3 187	975	227%	2%
	<b>132 681</b>	<b>121 463</b>	9%	71%
<b>TOTAL LIABILITIES</b>	<b>185 903</b>	<b>179 450</b>	4%	100%
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>578 916</b>	<b>549 136</b>	5%	

*Equity* increased by 23,3 million BGN compared to 31 December 2013 as a result of increase in reserves by 25,9 million BGN. At the end of the nine months of 2014 the treasury stock amounts to 5 086 198. During the reporting period no new issue of shares was conducted.

*Non-current liabilities* decreased by 4,8 million BGN, from 58 million BGN at the end of 2013 to 53,2 million BGN at the end of the nine months of 2014 mainly due to a decrease of long-term bank loans by 5,4 million BGN.

*Current liabilities* decreased by 11,2 million BGN compared to 31 December 2013. This is mainly due to an increase in short-term bank loans, other current liabilities, and liabilities to personnel and for social security respectively by 8,4 million BGN, 2,2 million BGN, and 1 million BGN. There is a decrease in tax liabilities.

The total exposition to bank loans of the Company as at 30 September 2014 increased by 3 million BGN compared to 31 December 2013.

Commercial liabilities increased by 0,2 million BGN compared to 31 December 2013 due to an increase liabilities to suppliers.

Liabilities to related parties decreased by 0,05 million BGN, mainly due to a decrease in supply of long-term assets by 1,6 million BGN. There is an increase in the segments of liabilities for the supply of materials and liabilities for dividends respectively by 1,1 million BGN and 0,6 million BGN. Liabilities to personnel and for social security increased by 1 million BGN.

Other current liabilities increased mainly in the portion of liabilities for dividends by 2,2 million BGN.

## Cash flow

	30.09.2014 BGN '000	30.09.2013 BGN '000
Net cash flow from/(used in) operations	4 524	71 514
Net cash flow used for investment activities	(7 875)	(7 302)
Net cash flow used in/from financial operations	(2 582)	(62 984)
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(5 933)</b>	<b>1 228</b>
Cash and cash equivalents on 1 January	7 671	2 595
Cash and cash equivalents on 30 September	1 738	3 823

*Net cash flows* as at 30 September 2014 generated from operating activities amounted to 4,5 million BGN, net cash from investing activities (7,9) million BGN and finance activities (2,3) million BGN. As a result of these activities cash and cash equivalents mark a net decrease by 5,9 million BGN and as at 30 September 2014 amount to 1,7 million BGN compared to 7,7 million as at 1 January 2014.

## Ratios

	30.09.2014	30.09.2013
ROE	8,5%	10,4%
ROA	5,7%	6,3%
Asset turnover	0,37	0,36
Current liquidity	1,62	1,72
Quick ratio	1,19	1,30
Cash/current liabilities	0,02	0,03
Owners' equity/liabilities	2,11	1,97

## Information about the shares of Sopharma AD

The total number of outstanding shares at 30 September 2014 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, BGBX40 and BGTR30 of the Bulgarian Stock Exchange - Sofia.

The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds and the certificate ABN AMRO SOFIX - Open-end-certificate and the new blue-chip index Dow Jones STOXX Balkan 50 Equal Weighted Index.

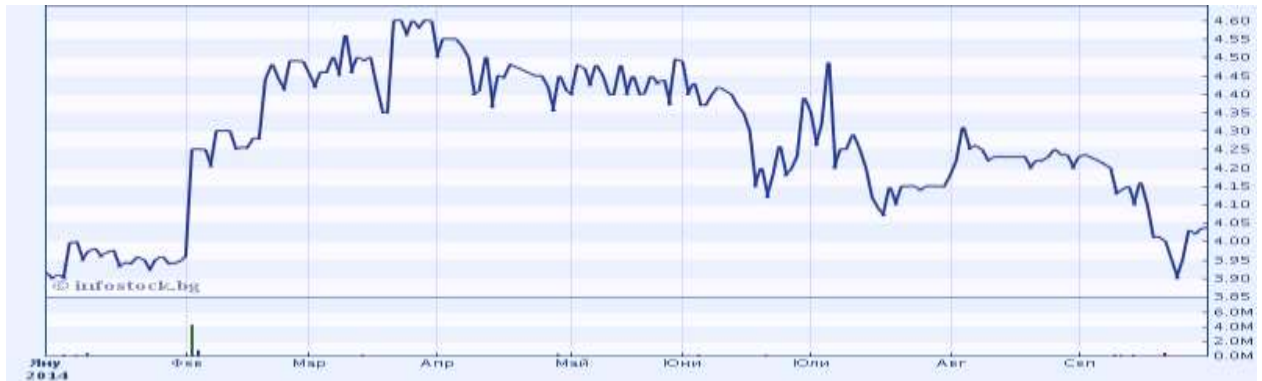
Sopharma AD is one of the three Bulgarian companies included in an index for Central and Eastern Europe (CEE), which the Warsaw Stock Exchange started to calculate on 30 May 2012. The name of the index is WIG-CEE and it is the third one after WIG-Poland and WIG-Ukraine, which is based on the origin of companies by country. WIG-CEE is calculated based on total return and includes income from dividends and subscription rights.

### Key indicators of the shares of Sopharma AD

	30.09.2014	30.09.2013
Total number of issued shares	132 000 000	132 000 000
Average-weighted number of outstanding shares for the last four quarters	126 839 172	127 918 327
Number of shares outstanding at the end of the period	126 913 802	126 758 394
Earnings per share in BGN	0,255	0,291
Price per share at the end of the period in BGN	4,037	3,292
Price/Earnings ratio (P/E)	15,83	11,31
Book value per share in BGN	3,097	2,907
Price/Book value ratio (P/B)	1,30	1,13
Sales per share in BGN	1,642	1,703
Price per share / Sales per share(P/S)	2,46	1,93
Market capitalization in BGN	532 884 000	434 544 000

# Sopharma AD

Trade with shared of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2014 – 30 September 2014



Ognian Donev, PhD  
/Executive Director/