

PRELIMINARY MANAGEMENT REPORT 2011 SOPHARMA GROUP




29.02.2012



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 Breeze SIA in Latvia;
-  production and distribution of non-pharmaceutical products, primarily medical supplies such as syringes and other disposables in medicine, which is mainly performed by Momina Krepost AD, and other complementary activities to the production of pharmaceutical products and distribution of pharmaceutical products.

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

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

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

Subsidiaries

Sopharma Group consists of Sopharma AD and 21 entities, including 20 subsidiaries, directly or indirectly controlled by the Company and a jointly controlled company (Sopharma - Zdrovit JSC, Poland, now in Liquidation).

Company	Share as at
	31.12.2011 in %
Sopharma Trading AD	81.34
Bulgarian Rose Sevtopolis AD, Kazanlak, Bulgaria	52.77**

Biofarm Engineering AD, Sliven, Bulgaria	69.43
Farmalogistika AD, Sofia, Bulgaria	76.54
Elektronkomers EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	42.64
Momina Krepost AD, Veliko Tarnovo, Bulgaria	51.10**
Unipharm AD, Sofia, Bulgaria	52.05**
OAD Vitaminy, Uman, Ukraine	99.56
Rostbalkanpharm ZAO, Azov, Russia	51.00
Sopharma Poland LLC, Warsaw, Poland	60.00
Ivanchich and Sinovi DOO., Belgrade, Serbia	51.00
Sofarma Warsaw Sp. z o.o., Warsaw, Poland	100.00
Sopharma USA Corp., Los Angeles, USA	100.00
Extab Corporation USA, Wilmington, USA	80.00
Extab Pharma Limited, Henley on Thames, Great Britain*	80.00
BRIZ ZAO, Riga, Latvia	51.00
Brititreyd SOOO, Minsk, Belarus*	49.73
Tabina SOOO, Minsk, Belarus *	50.49
Superlats OOO, Riga, Latvia *	31.24
Sopharma Zdrovit JSC Warsaw, Poland ***	50.01

* indirect participation;

** effective share;

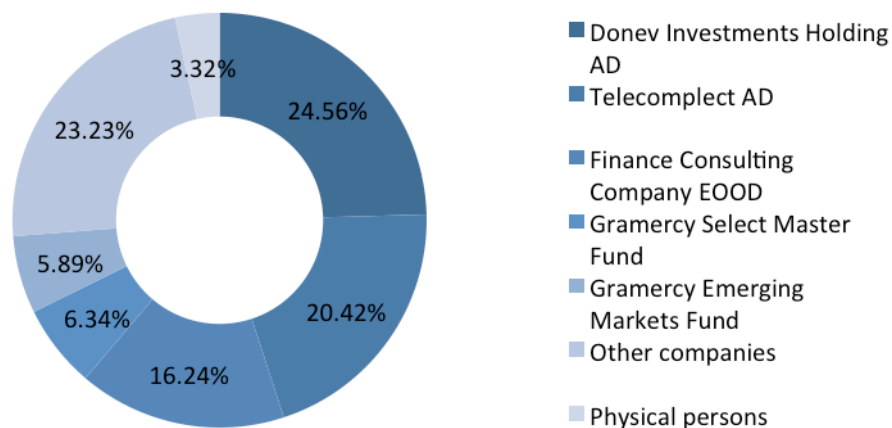
*** joint stock company.

Interpharm ZAO is an associate company, registered in 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 Unipharm AD, represented by Ognian Palaveev. The company is represented and managed by the Executive Director Ognian Donev, PhD.

Shareholder structure as at 31.12.2011



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

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

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

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

Distribution

Sopharma Trading is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 22% in 2011 (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

As of 31.12.2011 the average number of employees in the Sopharma Group is 3,996 (3,654 in 2010). The average number of employees in Sopharma AD for 2011 is 1,848 (1,775 in 2010), and in Sopharma Trading AD it is 700, the same as in 2010

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 2011

CPC allowed concentrations without conditions requested by Sopharma AD in connection with the acquisition of shares of Unipharm AD through the Bulgarian Stock Exchange - Sofia AD.

Breeze SIA signed contract for the acquisition of the Belarusian chain of pharmacies Interpharm Company ZAO, with the first stage of the procedure (acquisition of 44.07%) being

completed by January 27, 2011. The remaining 52.54% are projected to be acquired under a contract from January 18, 2011 in the period 2012 - 2013

On February 28, 2011 Sopharma AD signed a contract for the project under OP Competitiveness of around 8 million BGN.

In January 2011 the Central Laboratory of the factory for production of drugs of OAO Vitaminy obtained a quality certificate from the Ukrainian authorities. The certification ensures that the analysis of production conducted in the laboratory are a quality indicator which is recognized by the Ukrainian authorities. This finalizes the first stage of the overall modernization and certification of the production facilities of the Company.

In April 2011 Sopharma AD launched a new project - socially oriented and named "We for the society." In four pharmacies in Sofia everyone has the opportunity to measure their blood pressure, pulse and weight, and for smokers - the volume of their lungs with breathing apparatus including a special Smoke check. Social services will be offered later in other pharmacies in the capital and throughout the country. Public projects include long-term social activities in small cities and are aimed at those most affected by the crisis in our society.

On April 8, 2011 Breeze SIA - Latvia acquired 99% of the capital of Tabina SOOO, which owns 14 pharmacies, united under the DoktorDo brand.

On April 18 2011, Sopharma AD held an annual meeting with investors in Sredets Hall, Sheraton Hotel.

In early May, the process of four new registrations from the company's portfolio was completed - Tribestan tablets in Turkey and in Poland - Tribestan Vita, Tribestan Plus tablets and Ambroxol syrup.

On June 29, 2011 at 11:00 am in the company's headquarters in Sofia, Iliensko Road street 16 the General Meeting of Shareholders was held. The following decisions were taken:

- ✚ 11,220,000 BGN dividend for shareholders or 0.085 BGN (eight and a half stotinki) per share;
- ✚ The member of the Board of Directors Alexander Dimitrov Todorov was dismissed upon his request and Alexander Viktorov Tchaushev was elected member of the Board of Directors;
- ✚ The General Meeting of Shareholders adopted amendments to the Statute of the company.

On September 15, 2011 through the purchase of 22,300 new shares of the capital of Medica AD, the participation of Sopharma AD in the capital of Medica AD reached 10.06%.

On September 28, 2011 in Stara Banovci, 25 km north of Belgrade, Serbia, Sopharma AD together with its Serbian partner Ivanchich and Sons opened a new plant for solid dosage forms. The investment amounts to € 8,000,000. The annual capacity is 5 million packages.

With decision № 648-F of October 20, 2011 the Financial Supervision Commission approved the prospectus for admission to trading on the Warsaw Stock Exchange of shares issued by Sopharma amounting to 132 million BGN – the total existing capital of the company registered in court, divided into 132,000,000 ordinary, dematerialized, registered, freely transferable shares with nominal value of 1 BGN each, ISIN code BG 11SOSOBT18.

Under the plan for acquisition of Telecomplex AD in accordance with Art. 262a, para. 2 of the CA through separation by formation of Telecomplex Invest AD and registration in the Trade Registry under number 164905 from July 29, 2011, the right of ownership of 26,948,052 shares of the capital of Sopharma was transferred to the newly formed company. At the date of preparation of the financial statements the change in the ownership of shares is not registered with the Central Depository.

On November 24, 2011 Sopharma AD received formal decision from the Warsaw Stock Exchange (№ 1422/20.11.2011) whereby the entire registered capital of 132 million shares with a nominal value of 1 / one / BGN was adopted for trade. The first day of trading of the shares was on November 28, 2011.

At an Extraordinary General Meeting of Shareholders of Sopharma AD held on November 30, 2011, at the company's headquarters the following decisions were taken:

- ✚ Amendment of the decision taken under item seven from the agenda of the regular General Meeting of Shareholders held on June 29, 2011 as follows: the amount determined for a dividend to shareholders instead of 11,220,000 / eleven million two hundred and twenty thousand / shall read: 11 082 388.48 BGN / eleven million eighty-two thousand three hundred eighty-eight BGN and 48 stotinki/. The difference between the two amounts to 137 611.52 BGN / one hundred thirty-seven thousand six hundred and eleven BGN and 52 stotinki / shall be referred for additional reserves of the company. The remainder of the decision under section seven of the agenda of the regular General Meeting of Shareholders held on June 29, 2011 shall not be changed.
- ✚ Pursuant to Article 24, paragraph 3, letter "B" of the Statutes, the Executive Director of the company shall be paid extra remuneration amounting to 1% / one percent / of the profit realized in 2010 according to the adopted annual financial statements; pursuant to Article 28, paragraph 4, letter "D" of the Statute, the Executive Director can allocate at their discretion, 2% / two percent / of the company's profit realized in 2010 between members of the senior management team of the company.
- ✚ The term for buy-back of own shares shall be extended from 2 /two / to 3 /three/ years.

As at 31.12.2011 were purchased 2,568,609 own shares or 1.946% of the capital, according to the decision of the General Meeting of Shareholders of the company on June 23, 2010.

Bulgarian rose Sevtopolis SA signed a contract with the Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA) under the Operational Program "Competitiveness 2007-2013" for the purchase of a new tablet-press and a blister machine and the repair of an existing building for technological modernization of the tablet production. At the date of preparation of the current report the company has completed construction works for the technological modernization of the tablet production and brought into operation the blister machine, the tablet press and the ancillary equipment. The necessary final technical and financial reports are presented to the contracting authority for review and approval.

Sopharma Trading AD introduced a new service - Automatic notification via email (automated mailing) on financial matters, which started in July 2011.

An Extraordinary General Meeting of Shareholders of Sopharma Trading was held on May 5, 2011 at 16.00 at the headquarters of the company. On the meeting the members of the Board of Directors were dismissed due to expiration of their term and a new Board of Directors with a three-year term was elected, composed of: PhD, Ognyan Donev - Chairman and members - Dimitar Dimitrov and Alexander Raichev.

Unipharm AD continues the process of reconstruction and modernization of the "Tablet-1 Workshop" in accordance with GMP program "Technological modernization in big enterprises," of BSMEPA of the Ministry of Economy and Energy.

New developments and products

New in 2011

Seven company's new products have been implemented (Siafen oral suspension, Siafen gel, Dehidrazid tablets, tablets Thaler, Thaler syrup and food additives - Bodunoff tablets, Neurelaks syrup).

Expected in 2012

By the end of 2012 we expect to have introduced 3-5 new products.

Developments

Twenty nine new and improved technologies are in the process of transfer. The technological documentations for 6 food supplements, 6 cosmetic products, and 5 new licenses for the production of generic medicines have been registered. Another 26 new products are currently in development, such as: Doxazosin tablets, Methadone solution and others.

Key financial indicators

Indicators	31.12.2011 BGN '000	31.12.2010 BGN '000	Change %
Sales revenues	209 845	209 059	0,4%
EBITDA	52 851	61 539	-14.1%
Operating profit	44 397	53 033	-16.3%
Net profit	40 660	40 544	0.3%
CAPEX	29 447	9 876	198%
Non-current assets	278 899	254 020	9,8%
Current assets	247 568	213 249	16,1%
Owners' equity	320 854	295 959	8,4%
Non-current liabilities	24 093	32 873	-26,7%
Current liabilities	181 520	138 437	31,1%

Ratios	2011	2010
EBITDA / Sales revenues	25,2%	29,4%
Operating profit/ Sales revenues	21,2%	25,4%
Net profit/ Sales revenues	19,4%	19,4%
Borrowed capital/Owners' equity	0,64	0,58
Net debt/ EBITDA	2,9x	1,9x

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 containing the name "Sopharma" which have not been authorized by the Company.
- ✚ The Group is dependent on regulatory approvals.
- ✚ Government regulations affecting the Group's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- ✚ Part of the Group's revenues, in particular in Bulgaria, depend on the inclusion of the Company's medicines on reimbursement lists.
- ✚ The Company's and Group Companies' production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Group's operations.

- ✚ The Company's ability to pay dividends depends on a number of factors and there can be no assurance that the Company will be able to pay dividends in accordance with its dividend policy or at all in any given year.
- ✚ The Group is subject to operational risk which is inherent to its business activities.
- ✚ The Group is subject to numerous environmental and health and safety laws and regulations and is exposed to potential environmental liabilities.
- ✚ Litigation or other out-of-court proceedings or actions may adversely affect the Group's business, financial condition and results of operations.

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

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

Currency risk

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

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

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

Credit risk

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

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

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

Liquidity risk

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

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

Risk of interest-bearing cash flows

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

- (a) optimisation of resources and structure of credit resources for achieving relatively lower price of attracted funds; and
- (b) combined structure of interest rates on loans comprising two components – a fixed one and a variable one, the correlation between which, as well as their absolute value, can be achieved and maintained in a proportion favourable for the Group companies. The fixed component has a relatively low absolute value

and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

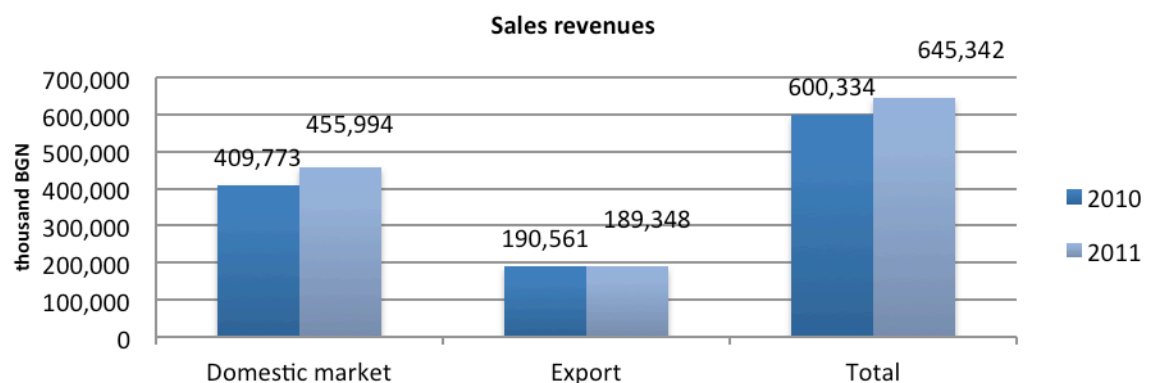
The management of the Group companies together with that of the parent company currently monitor and analyse the exposure of the respective company to the changes in interest levels. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or 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 for 2011

Sales revenues

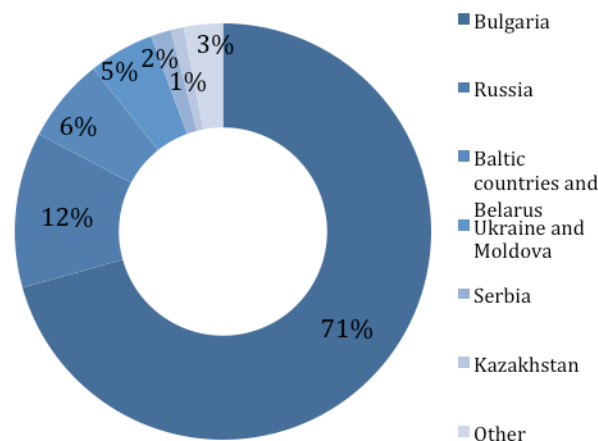
Sales revenue of the Group grew by 45 million BGN, or 7.5%, reaching 645.3 million BGN in 2011 compared to 600.3 million BGN in 2010. The increase is due to the rise in sales of goods with 42 million BGN, reaching 408.5 million BGN in 2011, compared to 366.5 million BGN in 2010, as well as an increase of 3 million BGN in sales of finished products, reaching 236.9 million BGN in 2011, compared to 233.9 million lev in 2010.

Sales by types of markets



Main markets

Приходи по пазари	2011 BGN '000
Bulgaria	455 994
Russia	78 008
Baltic States and Belarus	42 372
Ukraine and Moldova	32 766
Serbia	10 242
Kazakhstan	6 388
Other	19 572
Total	645 342



Bulgaria

The contribution of sales in Bulgaria to the consolidated revenues from sales in 2011 amounted to 71%, increasing by 46.2 million BGN or 11% to 456 million BGN in 2011 compared to 409.8 million BGN in 2010. According to IMS Health data for January-November 2011 the Bulgarian pharmaceutical market reached 1,895 million BGN, of which 1,650 million BGN is the pharmacy market. Sopharma AD has a share of 5% of the market in terms of value and 13% in terms of sales volume. The positions of the main competitors of the company in the country are as follows: Actavis - a share of 8% (17% in volume), Glaxosmithkline - 7% (3% in volume), Novartis – 6% (6% in volume), Sanofi-Aventis-Zentiva - 5% (4% in volume), Roche – 5% (1% in volume), Servier - 5% (3% in volume), Astra Zeneca – 4% (1% in volume), Pfizer - 3% (2% in volume), Bayer -3% (3% in volume). Among the distributors of medicines Sopharma Trading AD has a share of 22%, and together with Phoenix/Libra (21.6%) and Sting (20,9%) has a leading position in the national pharmaceutical market.

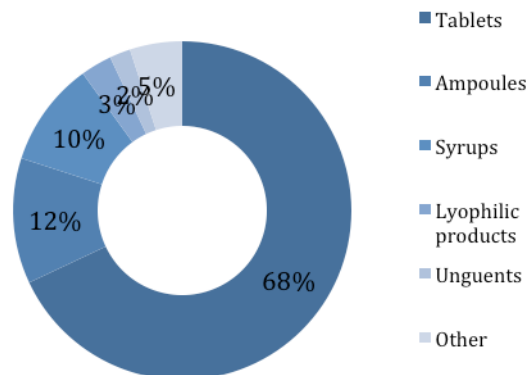
The highest proportion of sales in the country within the products produced by companies in the Group are Analgin, Vitsetin, Methylprednisolone, Vitamin C, Fliksotid.

Revenue by groups of products

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

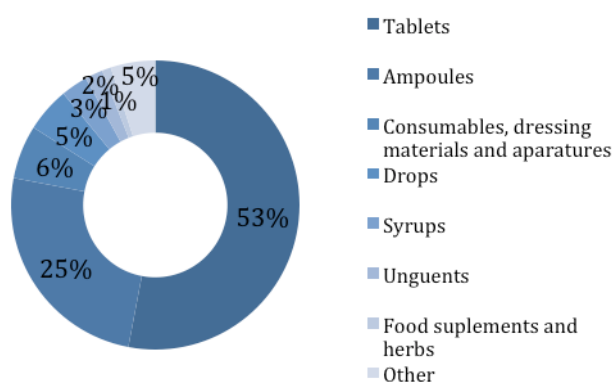
Revenues from the sale of finished products include revenue from the sale of products manufactured by the Company and the Group companies.

<i>Sales of finished products by type</i>	2011 BGN '000	2010 BGN '000	change %
Tablet dosage forms	161 868	159 241	2%
Ampoule dosage forms	27 840	28 832	-3%
Syrup dosage forms	24 359	18 982	28%
Lyophilic products	5 955	10 486	-43%
Ointments	4 980	6 186	-19%
Syringes	2 193	1 987	10%
Infusion solutions	2 093	1 654	27%
Blow-moulded articles	1 036	973	6%
Drops	1 273	1 534	-17%
Other	5 276	3 996	32%
Total	236 873	233 871	1%



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 Breeze SIA.

<i>Sales of goods by type</i>	2011 BGN '000	2010 BGN '000	change %
Tablet dosage forms	217 662	208 351	4%
Ampoule dosage forms	100 741	70 781	42%
Consumables, bandage materials and apparatuses	23 651	33 910	-30%
Drops	22 132	19 674	12%
Syrup dosage forms	10 047	4 980	102%
Ointments	9 591	8 754	10%
Food supplements and herbs	4 980	4 620	8%
Other	19 665	15 393	28%
Total	408 469	366 463	11%



Other revenues from operations

Other revenues from operations	2011 BGN '000	2010 BGN '000	change %	Share %
Services rendered	1 622	1 270	28%	130%
Income from fines and forfeits	785			63%
Rent	562	971	-42%	45%
Services of social activities and events	556	367	51%	44%
Income from financing	439	561	-22%	35%
Profit/ (loss) from sale of long-term assets	180	(241)	-175%	14%
Net profit/ (loss) from exchange rate differences on commercial receivables and payables and current accounts	(3 248)	(1 304)	149%	-260%
Other	355	1 024	-65%	28%
Total	1 251	2 648	-53%	100%

Other revenues from operations are reduced by 1.4 million BGN, or 53% compared to 2010, reaching 1.3 million BGN, in 2011. compared to 2.7 million BGN, in 2010. The most significant influence downwards have net losses from exchange rate differences on commercial receivables and payables and current accounts.

Expenses

Operating expenses	31.12.2011 BGN '000	31.12.2010 BGN '000	Change %	Share %
Changes in inventories of finished goods and work in progress	(8 485)	(654)		-1%
Book value of goods sold	370 004	337 094	10%	62%
Materials	85 557	70 986	21%	14%
Hired services	59 416	61 147	-3%	10%
Personnel	65 200	53 400	22%	11%
Amortisation	18 139	16 560	10%	3%
Other operating expenses	8 435	8 766	-4%	1%
Total operating expenses	598 266	547 299	9%	100%

The operating expenses in 2011. rose by 51 million BGN, or 9% from 547.3 million BGN, in 2010 to 598.3 million BGN, in 2011, under the influence of growth in sales and corresponding book value of sold products in the internal market, the increase in stocks and unfinished production and growth in costs of materials and personnel.

Expenses on materials	2011 BGN '000	2010 BGN '000	change %	share %
Basic materials	64 124	54 240	18%	75%
Spare parts, laboratory and technical materials	5 555	4 058	37%	6%
Fuels and lubricating materials	3 170	3 107	2%	4%
Heat power	4 544	3 062	48%	5%
Electric energy	4 232	3 428	23%	5%
Office supplies	991	384	158%	1%
Water	907	855	6%	1%
Labour safety measures	726	578	26%	1%
Other	1 308	1 274	3%	2%
Total	85 557	70 986	21%	100%

Cost of materials (14% share) increased by 20% or 14.5 million from 70.9 million BGN in 2010 to 85.5 million BGN at the end of 2011. Costs for basic materials increased by 9.9 million BGN, or 18%, with the most significant effect reported in costs for substances, which increased by 5.4 million BGN. There was an increase in the cost of heat, spare parts, laboratory and technical materials, electricity, fuels, and lubricants. This increase in cost of materials is mainly due to increased volume of output, which reflects changes in stocks of finished goods at year end.

Hired services expenses	2011 BGN '000	2010 BGN '000	change %	share %
Advertising	14 599	12 993	12%	25%
Toll processing	13 815	20 774	-33%	23%
Forwarding and transportation services	4 867	4 412	10%	8%
Buildings and equipment maintenance	3 474	2 500	39%	6%
Commission fees	3 204	3 413	-6%	5%
Consulting services	2 723	2 273	20%	5%
Rentals and insurance	3 505	2 713	29%	6%
Services under civil contracts with physical persons	1 329	1 035	28%	2%
Subscription fees	1 215	977	24%	2%
Local taxes and charges	920	1 051	-12%	2%
Other	9 765	9 006	8%	16%
Total	59 416	61 147	-3%	100%

Hired services expenses have a 10% share of operating expenses and decreased by 1.7 million BGN, or 3%, reaching 59.4 million BGN, in 2011 compared to 61.1 million BGN for 2010. The most significant influence in this direction has the toll processing, which decreased by 6.9 million mostly caused by the elimination of these costs after the consolidation of Unipharm AD.

An increase has occurred in the expenses for advertising, which rose by 1.6 million BGN; maintenance of buildings and equipment, increasing to 0.9 million BGN, rentals and insurance, up by 0.8 million BGN, and in the expenses for shipping, transportation and logistics services, consulting services.

Personnel costs	2011 BGN '000	2010 BGN '000	change %	share %
Current wages and salaries	50 969	41 206	24%	78%
Social security/health insurance contributions	9 879	8 349	18%	15%
Social benefits and payments	3 198	2 207	45%	5%
Other	1 154	1 638	-30%	2%
Total	65 200	53 400	22%	100%

Personnel costs (with 11% share) grew by 11.8 million, or 22%, reaching 65.2 million BGN in 2011. compared to 53.4 million BGN, in 2010. The overall growth in these costs is due to the increased number of employees (mainly due to the consolidation of Unipharm AD), increase in the salaries of the staff, additional compensations for the management team of the Company approved on the EGMS at the end of the year, as well as the additional incentive for the company staff in the form of vouchers for food, due to a contract with a licensed operator.

Other operating expenses	2011 BGN '000	2010 BGN '000	change %	share %
Entertainment allowances	2 457	2 324	6%	29%
Accrued (recovered) impairment of current assets	1 589	2 406	-34%	19%
Business trips	1 283	793	62%	15%
Donations	433	619	-30%	5%
Payments to the budget	371	151	146%	4%
Scrap and loss of finished products, goods, work in progress and other assets	832	1 520	-45%	10%
Other	1 470	953	54%	17%
Total	8 435	8 766	-4%	100%

Other operating expenses (with a share of 1%) decreased by 0.3 million or 4% from 8.7 million BGN at the end of 2010 to 8.4 million BGN at the end of 2011. The decrease was mainly the accrued allowances, gifts, scrap and loss of finished products, goods, work in progress and other assets.

Amortization expenses (with a share of 3%) increased by 1.5 million BGN or 10% from 16.6 million BGN at the end of 2010 to 18.1 million BGN at the end of 2011 due to the increased amount of depreciable assets after the acquisition of new companies in the group.

Financial income and expenses

Financial income	31.12.2011 BGN '000	31.12.2010 BGN '000	change %	share %
Income from interest on loans granted	4 700	2 646	77.6%	69%
Income from interest on overdue payments	1 361	1 926	-29.3%	20%
Income from private equity	80	106	-25%	1%
Income from interest on deposits	267	389	-31%	4%
Income from operations with investments	21	3	600%	0%
Profit from the evaluation of shares to fair value previously booked at acquisition price of a subsidiary		490	-100%	0%
Interest on special contracts		109	-100%	0%
Net profit from exchange rate differences on loans granted	369	577	-36%	5%
Total	6 798	6 246	9%	100%

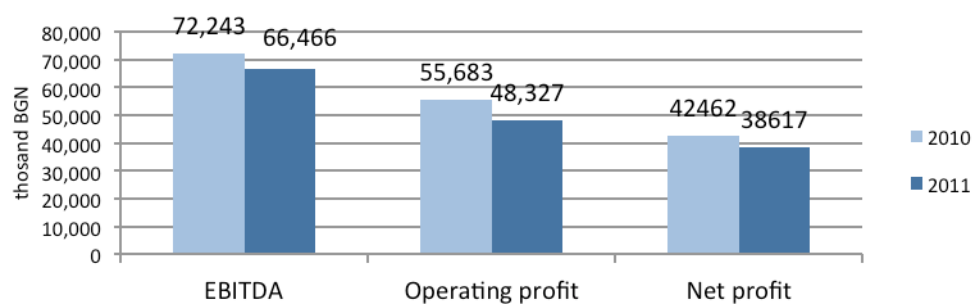
Financial expenses				
Bank fees on loans and guarantees	534	551	-3%	4%
Depreciation of available-for-sale investments	2 350	4 299	-45%	30%
Interest on discounted liabilities		291	-100%	2%
Interest expenses on loans	8 346	8 417	-1%	59%
Financial leasing interest	262	226	16%	2%
Investment operations expenses	100	399	-75%	3%
Total	11 592	14 183	-18%	100%

Financial income rose by 0.6 million BGN or 9%, reaching 6.8 million BGN at the end of 2011 compared to 6.3 million BGN at the end of 2010. This growth is due mainly of interest income from loans, which increased by 2.1 million BGN due to an increase in the value of loans provided by the Company and associated third parties.

Financial expenses decreased by 2.6 million BGN or 18%, from 14.2 in 2010 to 11.6 million BGN in 2011. This decrease is mainly due to the smaller size of the impairments of the available-for-sale investments, which decreased by 1.9 million BGN. Costs of investment operations also decreased by 0.3 million BGN. Despite the increased amount of obligations the interest costs on borrowings maintain the same level as previous year.

Net financial income (expense) increased by 3.2 million BGN, reaching (4.8) million BGN at the end of 2011, compared to (8) million BGN at the end of 2010.

Operating result



Profit before interest, taxes, depreciation and amortization (EBITDA) fell by 5.7 million BGN or 8%, amounting to 66.5 million BGN in 2011, compared to 72.2 million BGN in 2010. The *operating profit* decreased by 7.4 million BGN or 13% to 48.3 million BGN in 2011, compared to 42.4 million BGN in 2010.

Net income for 2011 decreased by 3.8 million BGN or 9%, reaching 38.6 million BGN in 2011, compared to 42.4 million BGN in 2010.

Assets

	31.12.2011 BGN '000	31.12.2010 BGN '000	change %	share %
Non-currents assets				
Property, plant and equipment	237 751	208 550	14%	81%
Intangible assets	28 297	24 357	16%	10%
Investment property	6 493	6 821	-5%	2%
Available-for-sale investments	20 043	20 927	-4%	7%
Loans granted to related parties	729	3 195	-77%	0%
Other non-current assets	589	601	-2%	0%
	293 902	264 451	11%	43%
Current assets				
Inventories	126 247	111 685	13%	32%
Trade receivables	137 079	145 523	-6%	35%
Receivables from related parties	49 692	45 822	8%	13%
Other receivables and prepayments	44 065	12 640	249%	11%
Cash and cash equivalents	32 377	45 069	-28%	8%
	389 460	360 739	8%	57%
TOTAL ASSETS	683 362	625 190	9%	100%

Total assets increased by 58.2 million BGN, or 9%, reaching 683.4 million BGN, compared to 625.2 as at December 31, 2010. This is a consequence of the increase in non-current as well as current assets.

Non-current assets increased by 29.5 million BGN, or 11%, mainly due to the increase in property, plant and equipment by 29.2 million BGN and the growth of intangible assets by 3.9 million BGN. Most significant contribution have assets in the process of acquisition with a net increase of 23.2 million BGN, mostly due to the investment in a new plant for tablet forms, which in 2011 amounted to 17.9 million BGN and since the beginning of the project - 26.4 million BGN. Additional funds were spent on advances for acquisition of laboratory and production equipment.

Intangible assets also increased by 4 million BGN, with the most significant investment being the implementation of an integrated information system, which should be completed in 2012.

Available-for-sale investments decrease by 0.9 million BGN, loans granted to related parties – by 2.5 million BGN, and investment property – by 0.3 million BGN, compared to December 31, 2010.

Current assets increase by 28.7 million BGN, or 8% reaching 389.5 million BGN in 2011, compared to 36.7 million BGN as at December 31, 2010.

Inventories are 32% of current assets and increase by 14.5 million BGN compared to December 31, 2010, mainly in finished products (by 9.9 million BGN), goods (by 4.6 million BGN), and materials (by 1.9 million BGN). Work-in-progress decreases by 0.7 million BGN, and semi-finished products – by 1.1 million BGN.

Trade receivables have a share of 35% of current assets and decreased by 8.4 million BGN, most significantly in the receivables from clients (8.2 million BGN).

Receivables from related parties take up a 13% share of current assets and grew by 3.8 million BGN. The most significant increase have trade loans, which rose by 4.8 million BGN.

Other receivables and prepayments take up 11% of current assets and increased by 31.4 million BGN.

Cash and cash equivalents decreased by 12.7 million BGN compared to December 31, 2010, with deposits placed as guarantees amounting to 0.5 million BGN.

Liabilities and owners' equity

OWNERS' EQUITY	31.12.2011 BGN '000	31.12.2010 BGN '000	Change %	Share %
Share capital	132 000	132 000	0%	41%
Reserves	34 143	34 631	-1%	11%
Retained earnings	155 547	131 601	18%	48%
	321 690	298 232	8%	47%
NON-CONTROLLING INTEREST	44 456	49 047	-9%	7%
TOTAL OWNERS' EQUITY	366 146	347 279	5%	54%
LIABILITIES				
Non-current liabilities				
Long-term bank loans	23 496	31 182	-25%	70%
Liabilities on deferred taxes	5 369	6 433	-17%	16%
Liabilities to the personnel upon retirement	2 388	2 610	-9%	7%
Financial leasing liabilities	1 474	415	255%	4%
Other non-current liabilities	997	798	25%	3%
	33 724	41 438	-19%	11%
Current liabilities				
Short-term loans from banks and third parties	151 798	114 465	33%	54%
Short-term part of long-term bank loans	42 442	50 795	-16%	15%
Commercial liabilities	68 580	59 326	16%	24%
Liabilities to related parties	7 033	2 605	170%	2%
Liabilities for taxes	5 592	3 950	42%	2%
Liabilities for taxes	3 239	3 200	1%	1%
Other current liabilities	4 808	2 132	126%	2%
	283 492	236 473	20%	89%
TOTAL LIABILITIES	317 216	277 911	14%	46%

TOTAL OWNERS' EQUITY AND LIABILITIES

683 362

625 190

9%

100%

Equity of the Sopharma Group increased by 18.8 million BGN compared to December 31, 2010, primarily through the net financial result for the current period. Equity related to equity holders of the Company is 47% of total equity and liabilities, with some improvement of the financial autonomy of the group.

Non-current liabilities decreased by 7.7 million BGN, or 19%, from 41.1 million BGN at the end of 2010 to 33.7 million BGN at the end of 2011 mainly due to the reduction of long-term bank loans by 8.4 million BGN due to restructuring of bank loans of the company.

Current liabilities increased by 43.1 million BGN or 20% compared to 2010. The main reason for this is the increase in short-term bank loans by 33.1 million BGN, as a result of maturing working capital loans that are in the process of renegotiating. In the period new contracts with banks, incl. contract for an investment credit of 32 million EUR to finance the construction of a new tablet plant of Sopharma AD in Sofia and annexes for extension of working capital loans, have been signed. Total liabilities on bank loans of the group increased by 21.3 million BGN. The increase in commercial payables is due to a great extent of its obligations to suppliers, which increased by 9.3 million BGN compared to December 31, 2010. Liabilities to associated companies increased, mainly as a result of service obligations for the construction of the new tablet plant, which at the end of the year amounted to 4.1 million BGN. The increase in other current liabilities is mainly related to liabilities of Unipharm and Bulgarian Rose Sevtopolis for the financing of european projects amounting to 2.5 million BGN.

Cash flow

	31.12.2011 BGN '000	31.12.2010 BGN '000
Net cash flow from operations	48 892	70 770
Net cash flow from investment activities	(61 168)	(51 996)
Net cash flow used in financial operations	(883)	9 452
Net increase/(decrease) of cash and cash equivalents	(13 159)	28 226
Cash and cash equivalents on January 1	45 069	16 843
Cash and cash equivalents on December 31	31 910	45 069

Net cash flows as at December 31, 2011 generated from operating activities amounted to 48.9 million BGN, net cash from investing activities (61.2) million BGN and from financing activities (0.9) million BGN. As a result of these activities cash and cash equivalents decreased by 13.2 million BGN and the end of 2011 amounted to 31.9 million BGN, compared to 45.1 million at the end of 2010.

Financial ratios

	2011	2010
ROE ¹	12.6%	15.0%
ROA ²	6.0%	7.4%
Asset turnover ³	1.00	1.06
Current liquidity ⁴	1.37	1.53
Quick ratio ⁵	0.93	1.05
Cash/current liabilities ⁶	0.11	0.19
Owners' equity/liabilities ⁷	1.15	1.25

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

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

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

⁴ Current assets / current liabilities

⁵ Receivables+cash/current liabilities

⁶ Cash/current liabilities

⁷ Equity/Liabilities

Information on shares of Sopharma AD

The total number of outstanding shares at December 31, 2011 of Sopharma AD is 132 million with a nominal value of 1 BGN per share. All issued shares are nominal, dematerialized, registered and indivisible in accordance with the Statute of the Company. 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. The 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 Dow Jones STOXX EU Enlarged, Total Market Index with a 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.

Important information for the shares of Sopharma AD

	2011	2010
Total number of issued shares	132 000 000	132 000 000
Average outstanding number of shares	130 330 455	131 843 881
Number of shares outstanding at the end of the period	129 431 391	131 392 572
Earnings per share in BGN	0,31	0,31
Price per share at the end of the period in BGN	3,175	3,912
Price/Earnings ratio (P/E)	10,24	12,62
Book value per share in BGN	2,478	2,252
Price/Book value ratio (P/B)	1,28	1,74
Market capitalization in BGN	419 760 000	516 384 000

Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01.01-31.12.2011



Signature:

Ognian Donev, PhD
Executive Director, Sopharma AD