

PRELIMINARY MANAGEMENT REPORT FOR 2013



SOPHARMA GROUP

28 February 2014

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 South-eastern Europe, offering a wide range of prescription medicines and OTC products.

The Group operates in the following areas:

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

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

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

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

Controlled companies

Sopharma Group consists of Sopharma AD and 30 entities, including 28 subsidiaries, directly or indirectly controlled by the Company, and two joint ventures.

Sopharma Group

Company	Share as at 31.12.2013 in %
Sopharma Trading AD, Sofia, Bulgaria	75.92
Bulgarian Rose Sevtopolis AD, Kazanluk, Bulgaria	49.99
Biopharm Engineering AD, Sliven, Bulgaria	97.15
Pharmalogistica AD, Sofia, Bulgaria	76.54
Elektroncommerce EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	42.89
Momina Krepost AD, Veliko Tarnovo, Bulgaria	53.29
Unipharm AD, Sofia, Bulgaria	51.87
Phyto Palauzovo AD, Kazanluk, Bulgaria**	47.49
OAO Vitamini, Uman, Ukraine	99.56
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Ivanchich and Sinovi DOO., Belgrade, Serbia	51.00
Sopharma 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	53.14
Brititrade SOOO, Minsk, Belarus*	52.34
Tabina SOOO, Minsk, Belarus *	57.29
Brizpharm SOOO, Minsk, Belarus**	31.35
ZAO Interpharm, Vitebsk, Belarus	29.71
Alean ODO, Minsk, Belarus	37.73
Sopharma Ukraine, Kiev, Ukraine	100.00
Vivaton OOO, Grodno, Belarus**	50.00
OOO Med-dent, Bobruisk, Belarus***	50.00
OOO Pharmacist Plus, Minsk, Belarus **	27.10
Vestpharm ODO **	43.04
NPK Biotest OOO **	30.29
BelAgroMed ODO **	30.29
ZAO TBS Pharma, Vilnius, Lithuania**	27.10

*effective share in percent

**indirect share

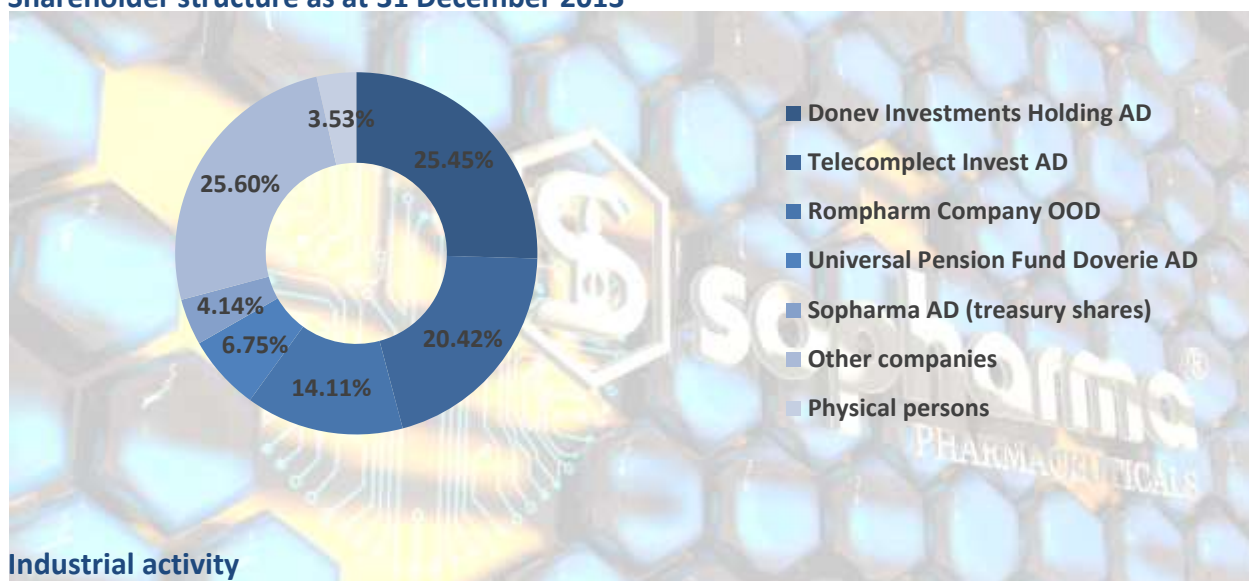
***joint stock company

As at 31 December 2013 the Group has an interest through its subsidiary Briz OOD, Latvia in the associated company BOOO SpecApharmacia, Bobruisk, Belarus.

Management Board

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

Shareholder structure as at 31 December 2013



Industrial activity

Sopharma AD and its production subsidiaries have 15 pharmaceutical plants in Bulgaria, compliant with EU regulations, one plant in Ukraine, certified by the local authorities with a certificate recognized in all CIS Member States, and two in Serbia. With the exception of the plant in Ukraine, all production facilities have undergone procedures for certification to the European GMP.

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

- ✚ Production of pharmaceutical products;
- ✚ Substances and preparations based on vegetable raw materials (phytochemical production);
- ✚ Veterinary vaccines;
- ✚ Infusion solutions;
- ✚ Concentrates for hemodialysis;

- ✦ Medical disposable products for human and veterinary medicine;
- ✦ Injection molded products for the industry, agriculture and households.
- ✦ Finished dosage forms including
 - ✦ Solid tablets, coated tablets, coated tablets, capsules;
 - ✦ 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);
- ✦ Tempalgin – original analgesic (painkiller);
- ✦ Tabex – original plant-based drug used for smoking secession
- ✦ Tribestan – original plant-based drug used for stimulation of the male reproductive system
- ✦ Broncholytin - original plant-based product used to suppress cough;
- ✦ Analgin – generic analgesic (painkiller);
- ✦ Nivalin – original plant-based product used for diseases of the peripheral nervous system;
- ✦ Methylprednisolone - generic medicine for cases of severe allergies and certain life-threatening conditions;

Distribution

Sopharma Trading is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 22% (according to IMS). Sopharma Trading is the only distributor on the Bulgarian market of particular pharmaceutical products for several leading international pharmaceutical and other companies the field of healthcare such as

Sopharma Group

Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk.

The company offers more than 7000 products (particularly drugs, medical equipment and devices, accessories, cosmetics, vitamins and supplements) in its portfolio, including the brands of Sopharma, and holds exclusive rights for Bulgaria over brands of strategic partners such as Aboca , Colief, Jamieson, Planter's, Premax, Skincode, SVR Laboratories, US Pharmacia and Wyeth, specialized services (such as software solutions for pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and 3,870 customers.

Intellectual property

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

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

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

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

Research and development

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

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

Employees

For 2013 the average number of employees in the Sopharma Group is 4 122 (3,945 in 2012). The average number of employees in Sopharma AD for 2013 is 1,793 (1,859 in 2012), and in Sopharma Trading AD it is 666 (688 in 2012).

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 2013

On 23 January 2013 Sopharma AD received a notification of disclosure of shareholdings under art. 145 of POSA from Financial Consulting Company EOOD for the selling of 4,053,002 shares of Sopharma, resulting in a decrease of its interest in the capital of Sopharma to 9,62%.

On 23 January 2013 Sopharma AD received a notification for disclosure of shareholdings under art. 145 of POSA from Donev Investments Holding AD for the purchasing of 2,982,666 shares of Sopharma, resulting in an increase of its share in the capital of Sopharma to 26,79%.

On 18 February 2013 Sopharma sold 1,105,000 shares in the capital of Sopharma Trading AD, resulting in a decrease in its share in the capital of the company to 76,77%.

On 28 February 2013 was held an Extraordinary General Meeting of Shareholders of Sopharma AD, which took the following decision: "Amendment of the conditions for acquisition of treasury shares of the Company. Draft decision: AGM shall amend the conditions for share repurchase, determined by the decision on the regular AGM, held on 23 June 2010, and amended by decisions of the Extraordinary General Meeting of Shareholders from 30 November 2011 and the EGM from 1 November 2012, as follows: the repurchase of own shares representing the company's capital, subject to the specific requirements of CA and POSA, shall be carried out at a minimal repurchase price not lower than the nominal value of one share of the capital of the Company."

On 21 March 2013 Sopharma AD acquired additional 770 shares of the capital of Momina Krepost AD. After this transaction the share of Sopharma AD in the capital of Momina Krepost AD increased to 50.01%.

The Board of Directors of Sopharma authorizes the Executive Director to launch negotiations for the sale of all shares representing 85% of the capital of the subsidiary Extab Corporation in order to acquire resources for the development of the original products of Sopharma on new markets.

On 4 June 2013, Sopharma AD sold 156,000 shares of the capital of Doverie United Holding AD, through which transaction the share of the Company in the capital of the Holding fell to 9.90%.

On 13 June 2013 Sopharma AD opened its new tablet plant. The total investment is 70 million BGN on total built-up area of 20,000 square meters. There are plans for the production of 4 billion tablets annually in the plant, with a range including over 100 pharmaceutical products.

On 18 June 2013 Sopharma AD bought 4,039 shares of the capital raising of Lavena AD, through which transaction the share of Sopharma AD in the capital of Lavena AD reached 5.18%.

On 20 June 2013 was held the Annual General Meeting of Shareholders of Bulgarian Rose Sevtopolis AD according to the announced and published agenda, adopting a decision that the profit for 2012, after subtracting 10% for the "Reserve Fund", to be transferred to the additional reserves of the company.

On 21 June 2013 was held the Annual General Meeting of Shareholders of Sopharma. It decided on the payment of dividends to shareholders at the amount of 0.07 BGN (gross) per share. Dividend payment will start on 29 July 2013. In accordance with the Regulations of the Central Depository AD, the dividend shall be paid as follows: shareholders with open 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 /Postbank/ in the country.

On 21 June 2013 was held the Annual General Meeting of Shareholders of Sopharma Trading AD. It decided on the payment of dividends to shareholders at the amount of 0.20 BGN (gross) per share. Dividend payment will start on 1 September 2013. The dividend for 2012 will be paid as follows: shareholders with open client accounts at an investment intermediary – through the investment intermediary, for shareholders without accounts at an investment intermediary – through the branches of SG Expressbank AD.

On 21 June 2013 was held the Annual General Meeting of Shareholders of Sopharma Buildings AD. It decided on the payment of dividends to shareholders at a total amount of 11 209,50 BGN, determined in compliance with the requirements of art. 10, par. 3 of the Real Estate Investment Trusts Act. The gross dividend is 0.01720 BGN per share. Dividend payment has started on 18 September 2013. . In accordance with the Regulations of the Central Depository AD, the dividend shall be paid as follows: shareholders with open client accounts at an investment intermediary – through the investment intermediary, for shareholders without accounts at an investment intermediary – through the branches of Raiffeisenbank EAD.

On 25 June 2013 was held the Annual General Meeting of Shareholders of Unipharm AD. It decided on the payment of dividends to shareholders at the amount of 0.05 BGN (gross) per

share. The dividend for 2012 will be paid as follows: shareholders with open client accounts at an investment intermediary – through the investment intermediary, for shareholders with personal accounts at the Central Depository – through the branches of DSK EAD.

On 27 June 2013 was held the Annual General Meeting of Shareholders of Momina Krepost AD according to the announced and published agenda, adopting a decision that the profit for 2012, after subtracting 10% for the "Reserve Fund", to be transferred to the additional reserves of the company.

On 31 July 2013 Sopharma AD purchased additional 1000 shares of the capital of Maritzatex AD. As a result of this transaction the share of the Company in the capital of Maritzatex AD has reached 10.12%.

On 10 September 2013 Sopharma AD received a notification for the acquisition of 11,885,951 shares, representing 9% of its capital, by Rompharm Company OOD. After the transaction the share of Rompharm Company OOD in the capital of Sopharma AD reached 13.53%.

On 13 November 2013 the Company bought 1 000 shares from the capital of Hydroizomat AD. After this transaction, the share of Sopharma AD in the capital of Hydroizomat AD increased to 10.02%.

On 27 November 2013 was conducted an Extraordinary General Meeting of the Shareholders of Bulgarian Rose Sevtopolis AD, which took the following decisions: 1) EGM approves the Report, prepared by the Board of Directors of the Company, regarding the appropriateness and conditions of the contracts, for which art. 114, par. 1 of POSA is applicable and in which the company is a party and 2) EGM authorizes the Board of Directors of the company to enter into a contract with Sopharma AD, Sofia, for which art. 114, par. 1 of POSA is applicable, namely: a contract for the manufacturing of medicinal products and active substances, signed between Sopharma AD and Bulgarian Rose Sevtopolis AD with a contract period of 5 /five/ years and in compliance with item 4 "Contract conditions and term" from the Report, prepared by the Board of Directors.

On 12 December 2013 the Sopharma AD received an official confirmation from the Ministry of Economy and Energy that the project "Implementation of innovative products in the ampoule production of Sopharma AD" under Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007-2013 has been ranked at 5th place in the large companies ranking. The project is included in the list of proposals approved for funding under the above procedure, with a maximum grant of 3,000,000 BGN. The total cost of the project is 6,063,073 BGN excl. VAT. The project is aimed at the acquisition and commissioning of: 1) a line for automatic grading of ampoules consisting of a machine for visual inspection and a module for 100% quality control and control of the hermeticity through a high-voltage arc and 2) a line for

interior and exterior wash, dry sterilization (depyrogenation) , filling and sweating of ampoules through gassing with nitrogen. The total duration of the project will be 18 months. The grant contract was signed on 21 December 2013.

Significant events after the date of preparation of the annual financial statement

Sopharma AD invested in the capital increase of its subsidiary Briz (Riga, Latvia) in order to expand its presence in the markets of the three Baltic States and Belarus. On 14 January 2014 Sopharma AD made the final payment for the capital increase of Briz. 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.

As a result of all these activities consolidated revenues of Briz from the beginning of 2013 have almost doubled compared to revenue for the same period of 2012 and amounted to over 33 million EUR.

On 6 February 2014 the Company 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 to 73.99%.

On 7 February 2014 the Company received a notification for the acquisition of 4 230 000 shares, representing 3.20 % of its capital, by Rompharm Company OOD. After the transaction the share of Rompharm Company OOD in the capital of Sopharma AD reached 17.60%. The registration date of the transaction in the Central Depository AD, Sofia is 2 February 2014.

On 11 February 2014 the Company received a notification for the sale of 3 424 005 shares by UPF Doverie. After the transaction the share of UPF Doverie in the capital of Sopharma AD decreased to 4,155 %. The registration date of the transaction in the Central Depository AD, Sofia is 6 February 2014.

On 7 February 2014, Bulgarian Rose Sevtopolis received a notification for disclosure of participation per art. 145 of POSA from Rompharm Company ODD for the purchase of 1,689,440 shares, representing 14.00%. After the transaction the share of Rompharm Company OOD in the capital of Bulgarian Rose Sevtopolis AD reached 20.22%. The registration date of the transaction in the Central Depository is 6 February 2014.

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On 12 February 2014, Bulgarian Rose Sevtopolis received a notification for disclosure of participation per art. 145 of POSA from UPF Doverie for the selling of 794,317 shares, representing 6,58%. After the transaction the share of UPF Doverie in the capital of Bulgarian Rose Sevtopolis AD reached 0.00%. The registration date of the transaction in the Central Depository is 6 February 2014.

New developments and products

New in 2013

The Company has implemented 5 new products in its portfolio – Methadone Sopharma oral solution, Movix ampules, Carsil max 110mg. capsules, Analgin drops, Feloran forte 5% gel.

Expected in 2014

Three to five new products are expected to be introduced by the end of 2014.

Developments

Thirty production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 10 new products for the company.

Key financial indicators

Indicators	1-12/2013	1-12/2012	change %
	BGN '000	BGN '000	
Sales revenue	764 574	688 579	11,0%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	76 532	67 463	13,4%
Operating profit	52 983	45 468	16,5%
Net profit	33 664	37 966	-11,3%
Capital expenditures	41 163	78 541	-47,6%

	31.12.2013	31.12.2012	
	BGN '000	BGN '000	
Non-current assets	388 771	354 751	9,6%
Current assets	398 257	390 667	1,9%
Equity	414 104	391 245	5,8%
Non-current liabilities	75 089	70 196	7,0%
Current liabilities	297 835	283 977	4,9%

Ratios	1-12/2013	1-12/2012
EBITDA / Sales revenue	10,0%	9,8%
Operating profit/ Sales revenue	6,9%	6,6%
Net profit/ Sales revenue	4,4%	5,2%
Borrowed capital/ Equity	0,90	0,91
Net debt/ EBITDA, annualized	3,2x	3,8x

Review of risk factors

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

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

- ✚ The Group is subject to operational risk which is inherent to its business activities.
- ✚ The Group is subject to numerous environmental and health and safety laws and regulations and is exposed to potential environmental liabilities.
- ✚ Litigation or other out-of-court proceedings or actions may adversely affect the Group's business, financial condition and results of operations.

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

- ✚ The macroeconomic environment, particularly in Bulgaria, Russia, Belarus 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, Belarus and Ukraine, has a significant effect on the Group's operations and financial condition.
- ✚ The development in the legislation of some of the countries in which the Company sells its products, in particular Russia, Belarus and Ukraine, could adversely affect the Group's operations in these countries
- ✚ Risks related to the Bulgarian legal system.
- ✚ Risks relating to exchange rates and the Bulgarian Currency Board
- ✚ Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change

Currency risk

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

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

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

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

Credit risk

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

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

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

Liquidity risk

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

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

Risk of interest-bearing cash flows

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

- (a) optimization of resources and structure of credit resources for achieving relatively lower price of attracted funds; and

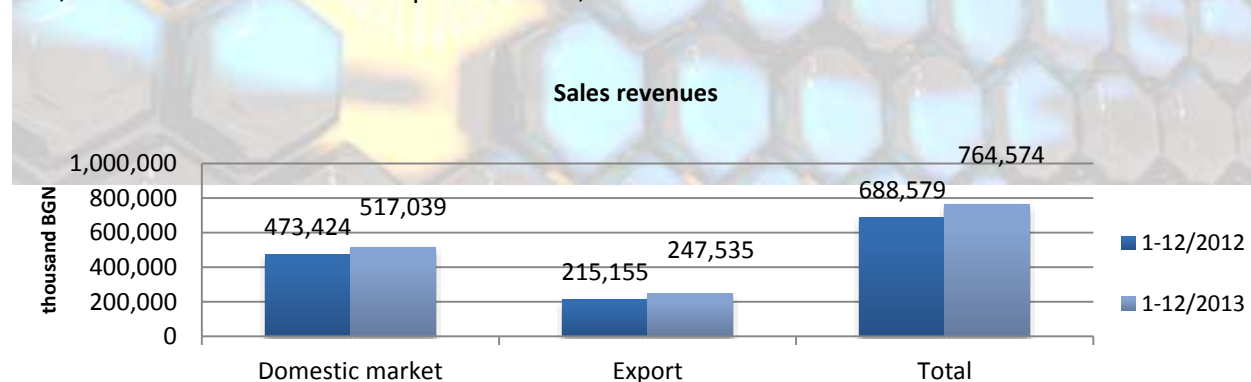
- (b) combined structure of interest rates on loans comprising two components – a fixed one and a variable one, the correlation between which, as well as their absolute value, can be achieved and maintained in a proportion favorable for the Group companies. The fixed component has a relatively low absolute 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 unfavorable 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 analyze 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 %age, on the financial result and equity is calculated. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

Financial results in 2013

Sales revenues

Revenues from sales of the Group have increased by 76 million BGN or 11%, reaching 764,6 million BGN in 2013 compared to 688,6 million BGN in 2012. The increase is due to an increase in sales of goods by 75,1 million BGN, reaching 497,4 million BGN in 2013 compared to 422,3 million BGN in 2012 and growth of 0,9 million BGN in sales of finished products, which reach 267,2 million BGN in 2013 compared to 266,3 million BGN in 2012.



The contribution of sales in Bulgaria to the consolidated sales revenue in 2013 amounted to 68%, increasing by 43,6 million BGN, or 9%, to 517, compared to 473,4 million BGN in 2012.

Sopharma has a 4% share of the Bulgarian pharmaceutical market in terms of value and a 13% share in terms of sales. The positions of the main competitors of the company in the country are

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as follows: Novartis – 6,7% (4,6% in units.), Actavis – 5,9% (14,5% in units.), GlaxoSmithKline – 5,7% (2,6% in units), Roche - 5,6% (1% in units.), Sanofi-Aventis-Zentiva – 4,4% (3,5% in units.), Astra Zeneca – 3,5% (1 % in units), Servier – 3,4% (1,9% in units), Pfizer – 3,3% (1,4% in units), Bayer – 2,9% (2% in units).

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

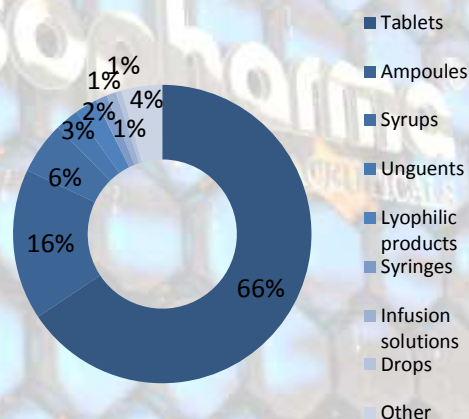
Export sales grew by 32,4 million BGN or 15%, reaching 247,5 million BGN in 2013 compared to 215,1 million BGN in 2012.

Revenue by groups of products

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

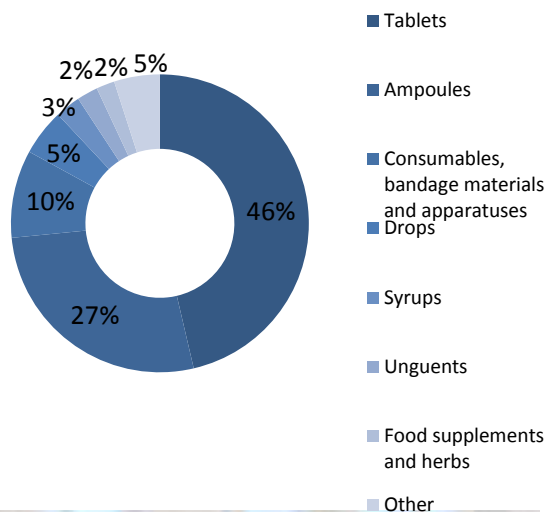
Revenues from the sale of finished products include revenue from the sale of products manufactured by the Company and the Group companies.

Revenues of finished products by type	1-12/2013 BGN '000	1-12/2012 BGN '000	change %
Tablets	175 380	185 081	-5%
Ampoules	43 722	33 434	31%
Syrups	15 149	15 163	0%
Unguents	6 798	8 138	-16%
Lyophilic products	6 551	5 164	27%
Syringes	3 319	2 375	40%
Infusion solutions	2 773	1 763	57%
Drops	1 644	5 007	-67%
Other	11 819	10 137	17%
Total	267 155	266 262	0.3%



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

Revenues of goods by type	1-12 / 2013	1-12 / 2012	change %
	BGN '000	BGN '000	
Tablets	230 541	204 399	13%
Ampoules	134 788	115 617	17%
Consumables, bandage materials and apparatuses	47 387	34 549	37%
Drops	25 063	20 478	22%
Syrups	13 665	10 220	34%
Unguents	11 363	10 077	13%
Food supplements and herbs	9 888	8 916	11%
Other	24 724	18 061	37%



Other revenues from operations

Other revenues from operations	1-12/2013	1-12/2012	change	share 2012
	BGN '000	BGN '000	%	%
Services rendered	2223	2394	-7%	45%
Laboratory analysis services	1978	109	1715%	40%
Rents	830	735	13%	17%
Services of social activities and events	584	598	-2%	12%
Income from financing	573	563	2%	12%
Income from forfeits	151	705	79%	3%
Current accounts interest	114	82	-39%	2%
Profit/(loss) from sale of long-term assets	94	(88)	-207%	2%
Asset surpluses	60	0		1%
Written-off payables	34	12	-183%	1%
Received insurance compensations	13	43	70%	0%
(Loss)/Gain from change in the fair value of investment properties	(19)	116	116%	0%
Loss from sale of materials	(264)	(171)	-54%	-5%
Net losses on exchange rate differences on commercial receivables and payables and current accounts	(2 930)	(3 683)	-20%	-60%
Other	1 460	913	60%	30%
Total	4 901	2 328	111%	14%

Other operating income increased by 2,5 million BGN reaching 4,9 million BGN in 2013, compared to 2,3 million in 2012. The most significant influence have the increase in laboratory analysis services by 1,9 million BGN, profit from sale of long-term assets by 0,2 million BGN and the decrease in loss on exchange rate differences on commercial receivables and payables and current accounts by 0,7 million BGN and other income by 0,5 million BGN. There is a decrease in income from forfeits by 0,5 million BGN and services rendered by 0,2 million BGN.

Expenses

Operating expenses	1-12/2013	1-12/2012	change	share
	BGN '000	BGN '000	%	2012
Changes in inventories of finished goods and work in progress	3 430	(2 678)	228%	0%
Book value of goods sold	452 105	400 535	13%	63%
Materials	86 302	89 575	-4%	12%
Hired services	59 809	55 492	8%	8%
Personnel	74 852	68 972	9%	10%
Amortization	23 549	21 995	7%	3%
Other operating expenses	16 445	11 548	42%	2%
Total	716 492	645 439	11%	100%

The operating expenses in 2013 increased by 71 million BGN or 11% from 645,4 million BGN in 2012 to 716,5 million BGN in 2013. The change is due to growth in sales and therefore the carrying value of sold products in the internal market, increased external services, personnel, amortization and other operating expenses.

Expenses on materials	1-12/2013	1-12/2012	change	share
	BGN '000	BGN '000	%	2012
Basic materials	61 957	64 725	-4%	72%
Spare parts, laboratory and technical materials	6 459	6 985	-8%	7%
Electricity	5 635	4 866	16%	7%
Heating	4 344	4 994	-13%	5%
Fuels and lubricating materials	3 673	3 737	-2%	4%
Water	889	947	-6%	1%
Other	3 345	3 321	1%	4%
Total	86 302	89 575	-4%	100%

Cost of materials (12% share) decreased by 3,3 million BGN or 4% to 86,3 million BGN in 2013 compared to 89,6 million BGN in 2012. The cost of basic materials fell by 2,8 million BGN, or 4%, the most significant impact is defined as the cost of chemicals and packaging materials which decreased accordingly by 0,6 million BGN and 2,6 million BGN. The cost of heat, spare parts, laboratory and technical materials decreased. The cost of electricity increased by 0,8 million BGN.

	1-12/2013	1-12/2012	change	share 2013
	BGN '000	BGN '000	%	%
Hired services expenses				
Advertising	17 696	16 698	6%	30%
Rentals and insurance	7 477	5 841	28%	13%
Consulting services	4 844	4 969	-3%	8%
Manufacture	4 713	4 773	-1%	8%
Forwarding and transportation services	4 600	4 287	7%	8%
Buildings and equipment maintenance	3 327	3 712	-10%	6%
Bank and regulatory taxes	1 703	1 638	4%	3%
Subscription fees	1 533	1 497	2%	3%
Local taxes and fees	1 516	1 171	29%	3%
Services related to the registration of medicines	1 359	1 241	10%	2%
Security	1 246	1 118	11%	2%
Service fees	1 047	271	286%	2%
Services under civil contracts with physical persons	1 016	1 794	-43%	2%
Car repairs and maintenance	978	724	35%	2%
Communications	922	1 102	-16%	2%
Other	5 832	4 656	25%	10%
Total	59 809	55 492	8%	100%

Hired services have an 8% share of operating expenses and increased by 4,3 million BGN or 8%, reaching 59,8 million BGN in 2013 compared to 55,5 million BGN in 2012. The most significant increase comes from advertising by 1 million BGN and rents and insurances with 1,6 million BGN, as well as services by 0,8 million BGN. The most significant decrease have services under civil contracts with physical persons by 0,48 million BGN.

	1-12/2013	1-12/2012	change	share 2013
	BGN '000	BGN '000	%	%
Personnel costs				
Current wages and salaries	58 004	51 964	12%	78%
Social security/health insurance contributions	10 532	10 785	-2%	14%
Social benefits and payments	3 695	3 631	2%	5%
Profit-based bonuses	1 285	1 288	-13%	2%
Other	1 336	1 304	2%	2%
Total	74 852	68 972	9%	100%

Personnel costs (with an 11% share) grew by 5,9 million, or 9%, reaching 74,9 million in 2013 compared to 69 million BGN in 2012. The general growth of these costs is due to both the increase of salaries of the personnel, as well as to the growth of the number of employees in the Group as a result of the consolidation of new companies.

Other operating expenses	1-12/2013	1-12/2012	change	share 2013
	BGN '000	BGN '000	%	%
Accrued/(recovered) impairment of current assets	4 620	3 080	50%	28%
Entertainment allowances	3 537	2 778	27%	22%
Business trips	1 582	1 741	-9%	10%
Scrapping and loss of goods	1 227	1 115	10%	7%
Payments to the budget	768	225	241%	5%
Scrapping of finished goods and semi-finished products	659	189	249%	4%
Donations	417	519	-20%	3%
Trainings	412	318	30%	3%
Other	3 223	1 583	104%	20%
Total	16 445	11 548	42%	100%

Other operating expenses (with a share of 2%) increased by 4,9 million BGN or 42% from 11,5 million BGN in 2012 to 16,4 million BGN in 2013. The most significant part in the increase have payments to the budget with a growth of 0,5 million BGN and allowance for impairment of current assets, net by 1,5 million BGN. There is also an increase in entertainment allowances, scrapping and loss of goods, scrapping of finished goods and semi-finished products and other operating expenses.

Amortization costs (with a share of 3 %) increased by 1,5 million BGN or 7% from 22 million BGN in 2012 to 23,5 million BGN in 2013.

Financial income and expenses

Financial income	1-12/2013	1-12/2012	change	share 2013
	BGN '000	BGN '000	%	%
Income from interest on granted loans	5 212	4 109	27%	59%
Income from interest on overdue payments	2 202	1 246	77%	25%
Income from operations with investments	720	-		8%
Income from shares	438	184	138%	5%
Interest on special contracts	203	-		2%
Income from interest on deposits	8	71	-89%	0%
Net gain on exchange rate differences on loans	-	433	-100%	0%
Total	8 783	6 043	45%	100%

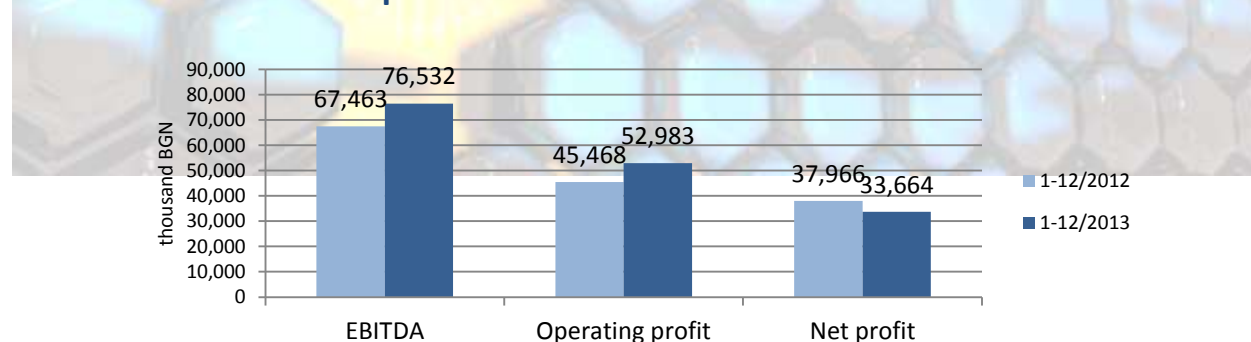
			change	share 2013
Financial expenses				
Interest expenses on loans	8 354	7 338	14%	79%
Impairment of available-for-sale investments	6 746	1 071		11%
Expenses from operations with investments	5 787	31		0%
Net profit from exchange rate differences on loans	1 388	-		0%
Bank fees on loans and guarantees	702	520	35%	6%
Financial leasing interest	347	381	-9%	4%
Total	23 324	9 341	150%	100%

Financial income increased by 2,7 million BGN or 45%, to 8,7 million BGN in 2013 compared to 6 million BGN in 2012. This is due to an increase in income from operations with investments by 0,7 million BGN, income from interest on overdue payments by 1 million BGN and income from interest on granted loans by 1,1 million BGN.

Financial expenses increased by 14 million BGN or 150% from 9,3 million BGN in 2012 to 23,3 million BGN in 2013. The most significant influence have expenses from operations with investments with 5,7 million BGN mainly as a result of sold interest in Doverie United Holding AD and impairment of available-for-sale investments (mainly the shareholding in Doverie United Holding AD) by 6,7 million BGN.

Net financial income (expenses) increased by 11,2 million BGN, reaching (14,5) million BGN in 2013 compared to (3,3) million BGN in 2012.

Financial income and expenses



Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 9 million BGN or 13%, amounting to 76,5 million BGN as at 31 December 2013, compared to 67,5 million BGN as at 31 December 2012.

Operating profit increased by 7,5 million BGN or 17%, to 53 million BGN as at 31 December 2013, compared to 45,5 million BGN as at 31 December 2012.

Net profit decreased by 4,3 million BGN, or 11%, reaching 33,7 million BGN as at 31 December 2013, compared to 38 million BGN as at 31 December 2012.

Assets

	31.12.2013	31.12.2012	change	share
	BGN '000	BGN '000	%	2013
				%
Non-current assets				
Property, plant and equipment	309 154	292 074	6%	80%
Intangible assets	29 018	26 380	10%	7%
Investment property	10 534	7 110	48%	3%
Investments in associated companies	998	582	71%	0%
Available-for-sale investments	8 082	23 425	-65%	2%
Long-term receivables from related parties	25 656	1 183	2069%	7%
Other non-current assets	588	1 460	-60%	0%
Differed taxes	4 741	2 537	87%	1%
	388 771	354 751	10%	49%
Current assets				
Inventories	140 722	130 950	7%	35%
Trade receivables	193 056	160 558	20%	48%
Receivables from related parties	26 771	60 871	-56%	7%
Other receivables and prepayments	10 553	22 521	-53%	3%
Cash and cash equivalents	27 155	15 767	72%	7%
	398 257	390 667	2%	51%
TOTAL ASSETS	787 028	745 418	6%	100%

Total assets increased by 41,6 million BGN, or 6%, reaching 787 million BGN, compared to 745,4 million BGN as at 31 December 2012 as a result of the increase in both current and non-current assets.

Non-current assets increased by 34 million BGN, or 10%, mainly due to the increase in property, plant and equipment by 17 million BGN. The main role in this increase have the investments in building the new solid-forms factory. Additional funds were invested for the acquisition of laboratory and production equipment.

Intangible assets increased by 2,6 million BGN, with the most significant expense being for the acquisition of intellectual property rights and the implementation of an integrated information system.

Investments in associated companies increased by 0,4 million BGN, compared to 31 December

2012 as a result of acquired shares by Briz in Belarusian companies for trade with pharmaceutical products.

The available-for-sale investments decreased by 15,3 million BGN in relation to the sale of shares of the capital of Doverie United Holding AD and Kringas OAO.

Long-term receivables from related parties increased by 24.5 million BGN, which is mostly due to short-term loans being transformed into long-term loans.

Current assets increased by 7,6 million BGN or 2%, reaching 398,3 million BGN as at 31 December 2013 compared to 390,7 million BGN as at 31 December 2012.

Inventories comprise 35% of current assets and increased by 9,8 million BGN compared to 31 December 2012, mainly in the portion of goods by 11 million BGN and materials by 5,7 million BGN. There is a decrease in finished products by 6 million BGN and semi-finished products by 0,8 Million BGN. Commercial loans, which have a relative share of 48% of current assets, increased by 32,5 million BGN, most significantly in the portion of receivables from customers (31,7 million BGN).

Receivables from related parties have a relative share of 7% in current assets and decreased by 34 million BGN. The most significant contribution to this decrease have commercial loans with 31,2 million BGN, a large part of which are transformed into long-term loans.

Other receivables and prepaid expenses comprise 3% of current assets and decreased by 19 million BGN, as a result of a decrease in awards on litigations by 9,5 million BGN.

Cash and cash equivalents increased by 11 million BGN compared to 31 December 2012. As at the end of the current period there are deposits amounting to 4,5 million BGN.

Liabilities and owner's equity

	31.12.2013 BGN '000	31.12.2012 BGN '000	change %	share 2013 %
OWNERS' EQUITY				
Share capital	132 000	132 000	0%	32%
Reserves	33 058	35 979	-8%	8%
Retained earnings	195 038	177 792	10%	47%
	360 096	345 771	4%	87%
NON-CONTROLLING INTEREST	54 008	45 474	19%	13%
TOTAL OWNERS' EQUITY	414 104	391 245	6%	100%

	31.12.2013	31.12.2012	change	share 2013
	BGN '000	BGN '000	%	%
LIABILITIES				
Non-current liabilities				
Long-term bank loans	56 556	56 844	-1%	15%
Liabilities on deferred taxes	7 717	5 792	33%	2%
Liabilities to the personnel upon retirement	2 590	2 439	6%	1%
Financial leasing liabilities	2 438	2 509	-3%	1%
Government grants	5 612	2 567	119%	2%
Other non-current liabilities	176	45	291%	0%
	75 089	70 196	7%	20%
Current liabilities				
Short-term loans from banks and third parties	209 743	203 994	3%	56%
Short-term part of long-term bank loans	6 246	9 559	-35%	2%
Commercial liabilities	63 568	55 242	15%	17%
Liabilities to related parties	3 806	1 560	144%	1%
Liabilities to the personnel and for social insurance	6 855	6 624	3%	2%
Liabilities for taxes	4 241	2 408	76%	1%
Other current liabilities	3 376	4 590	-26%	1%
	297 835	283 977	5%	80%
TOTAL LIABILITIES	372 924	354 173	5%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	787 028	745 418	5,6%	

The owner's equity of the Sopharma Group increased by 22,8 million BGN compared to 31 December 2012 mainly through the achieved net profit for the current period. Equity relating to equity holders of the Company comprise 46% of total equity and liabilities, with a certain improvement of the financial autonomy of the Group.

Non-current liabilities increased by 4,9 million BGN or 7%, from 70,2 million BGN at the end of 2012 to 75,1 million BGN at the end of 2013 mainly due to the increase in government grants by 3 million BGN, which is due to the appropriation of funds from an participation of Group companies in OP Competitiveness.

Deferred taxes liabilities increased by 1,9 million BGN. There is a decrease in financial lease liabilities by 0,07 million BGN and long-term bank loans by 0,3 million BGN.

Current liabilities increased by 13,9 million BGN or 5% compared to 2012, mainly in the portion of commercial payables, which increased by 8,3 million BGN. There is an increase in tax liabilities by 1,8 million BGN, liabilities to the personnel and for social security by 0,2 million BGN, liabilities to related parties by 2,2 million BGN. The Group's total liabilities on bank loans and leases increased by 2,1 million BGN compared to the end of 2012, while net debt, after subtracting of cash and cash equivalents, decreases by 9,3 million BGN.

Cash flow

	31.12.2013 BGN '000	31.12.2012 BGN '000
Net cash flow from operations	52 709	5 733
Net cash flow from investment activities	(24 608)	(59 838)
Net cash flow from financial operations	(16 277)	38 212
Net increase/(decrease) of cash and cash equivalents	11 388	(16 468)
Cash and cash equivalents on January 1	15 767	32 235
Cash and cash equivalents on 31 December	27 155	15 767

Net cash flow from operations as at 31 December 2013 amounts to 52,7 million BGN, from investment activities (24,6) million BGN and from financial operations (16,3) million BGN. As a result of these activities the cash and cash equivalents mark a net increase of 11,4 million BGN and as at 31 December 2013 amount to 27,2 million BGN, compared to 15,8 million BGN as at the end of 2012.

Financial ratios

	31.12.2013	31.12.2012
ROE ¹	9,4%	9,9%
ROA ²	4,3%	4,6%
Asset turnover ³	0,98	0,96
Current liquidity ⁴	1,34	1,38
Quick ratio ⁵	0,86	0,91
Cash/current liabilities ⁶	0,09	0,06
Owners' equity/liabilities ⁷	1,11	1,10

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

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

³ Revenues from sales, annualized / 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 about the shares of Sopharma AD

The total number of shares issued by Sopharma as at 31 December 2013 is 132 million with a nominal value of 1 BGN per share. All issued shares are dematerialized, common and indivisible, under the Articles of Association. All issued shares are of one class. Each share gives equal rights

to its holder, in proportion to its nominal value. Sopharma's shares are traded on the official market of the BSE - Sofia and the official market of the Warsaw Stock Exchange. The shares are part of the indices SOFIX, BGBX40 and BGTR30 on the BSE - 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 a new index for Central and Eastern Europe (CEE) that WSE started to calculate on 30 May 2012. The index is called WIG-CEE and is the third after the WIG-Poland and WIG-Ukraine, which is based on the origin of the companies by country. WIG-CEE is calculated based on total return and includes income from dividends and subscription rights to shares.

Important information for the shares of Sopharma AD

	31.12.2013	31.12.2012
Total number of issued shares	132 000 000	132 000 000
Number of shares outstanding at the end of the period	126 539 324	128 146 265
Earnings per share in BGN ¹	0,24	0,26
Price per share at the end of the period in BGN	3,914	2,139
Price/Earnings ratio (P/E)	16,31	8,10
Book value per share in BGN ²	2,85	2,68
Price/Book value ratio (P/B)	1,37	0,80
Income from sale of one share in BGN ³	6,04	5,37
Price of one share / Income from sale of one share (P/S)	0,65	0,40
Market capitalization in BGN	516 648 000	282 348 000

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

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

³ Income from sales in the last four months / number of outstanding shares as at the end of the period.

Trade with shares of Sopharma AD on the Bulgarian Stock Exchange – Sofia AD for the period 1 January – 31 December 2013

