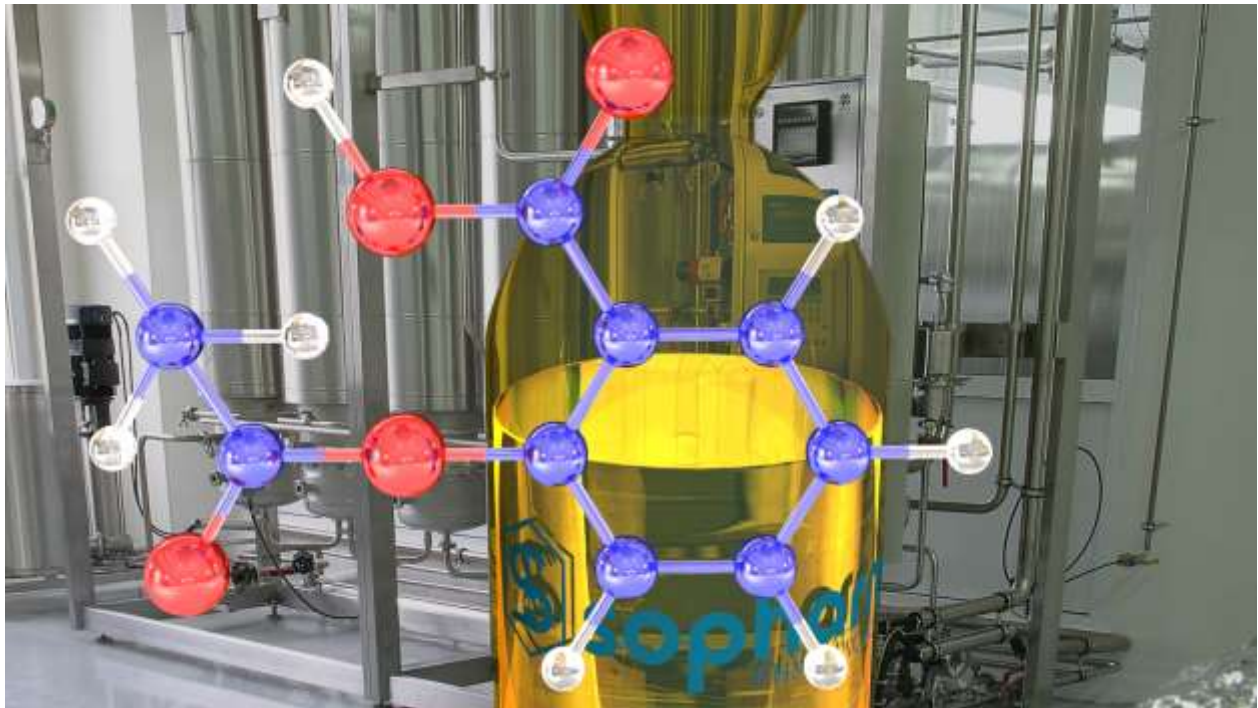


PRELIMINARY MANAGEMENT REPORT



SOPHARMA AD

2013

General information about Sopharma AD

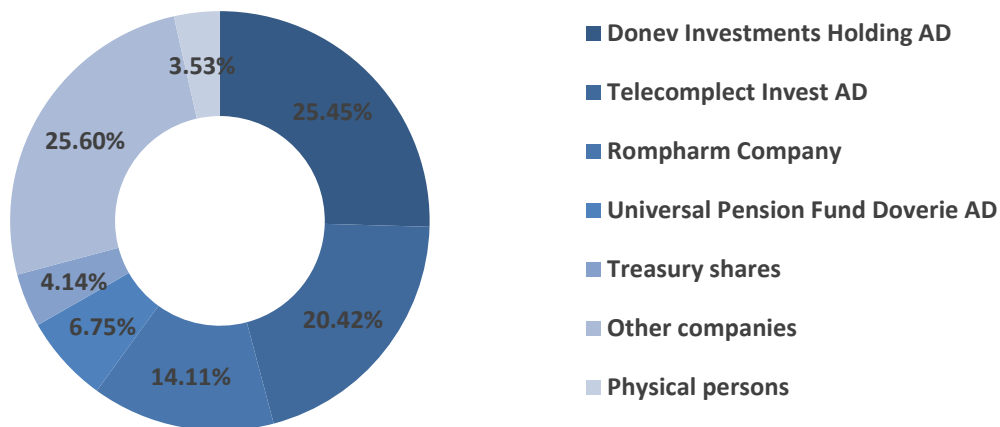
Sopharma AD is a trade company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko shose street No 16.

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

The Company conducts the production and marketing of medicinal substances and dosage forms; research, engineering and implementation activities in the field of phytochemistry, chemistry and pharmacy. Sopharma AD provides services related to production, as well as to ancillary and service activities.

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

Shareholder structure as at 31 December 2013



Management Board

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

Industrial activity

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

The Company carries out and develops production in the following areas:

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

The Company has more than 210 products in its portfolio: mainly generics and 15 original products, 12 products are phyto-based. The original products of the Company (and in particular Carsil and Tempalgin) are key contributors to its revenues from export markets, while for the domestic sales the most important products are generics, among which the leading medicine is Analgin.

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

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

- + Carsil - original product plant-based, used to treat gastroenterological disorders (liver disease);
- + Tempalgin - original analgesic (painkiller);
- + Tabex – original plant-based drug used for smoking secession
- + Tribestan – original plant-based product, used for stimulation of the reproductive system
- + Broncholytin - original plant-based product used to suppress cough;
- + Analgin - generic analgesic (painkiller);
- + Nivalin – original phyto-based product, used in the treatment of the peripheral nervous system;

- ✚ Methylprednisolone - generic drugs for cases of severe allergies and certain life-threatening conditions;

Intellectual property

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

For the distinguishing of the manufactured generic products Sopharma AD relies on brand names, all of which are registered trademarks of the Company.

In all the years of its existence, Sopharma AD generates and protects its intellectual property. As a result, the Company owns a large number of intellectual property assets, the majority being registered rights (trademarks, patents, designs) and few of which are unregistered items - mainly technologies.

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

Research and development

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

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

Employees

For the nine months of 2013 the average number of employees of Sopharma AD is 1,833 (2012: 1,859). The table below shows the detailed information on the staff of the Company.

	31.12.2013	Share %
Number of employees 31.12.2013	1795	100%
Higher education	811	45%
Special education	50	3%
High school education	914	51%
Primary school education	20	1%
Up to 30 years of age	237	13%
Between 31 - 40 years of age	417	23%
Between 41 - 50 years of age	557	31%
Between 51 - 60 years of age	501	28%
Over 60 years of age	83	5%
Women	1157	62%
Men	686	38%

Training programs offered to employees of the Company, aim at increasing their competence levels. The training policy is specifically aimed at providing high professional knowledge and improving awareness related to health and safety issues.

Employees are entitled to higher remuneration, required by applicable law for overtime, night shifts and working weekends and during holidays. Employees who work in specific, harmful or dangerous conditions receive personal protective equipment and allowances.

Changes in 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%.

Sopharma AD

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%.

The Extraordinary General Meeting of Shareholders of Sopharma AD, which was held on 28 February 2013 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 21 June 2013 the Annual General Meeting of Shareholders of Sopharma was held. It decided on the payment of dividends to shareholders in the amount of 0.07 BGN (gross) per share. Dividend payment started on 29 July 2013.

Sopharma AD

On 31 July 2013 Sopharma AD bought 1000 shares, representing 0.21% of the capital of Maritzatex AD. After the transaction the share of the Company in the capital of Maritzatex AD reached 10.12%.

On 10 September 2013 Sopharma 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 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 SopharmaAD" 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.

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.

Sopharma AD

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.

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

Around 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 revenues	216 054	210 291	2,7%
EBITDA	56 758	49 757	14,1%
Operating profit	45 042	40 816	10,4%
Net profit	33 604	40 885	-17,8%
CAPEX	24 785	45 697	-45,8%

	31.12.2013	31.12.2012	
	BGN '000	BGN '000	
Non-current assets	358 109	324 734	10,3%
Current assets	190 557	258 289	-26,2%
Owners' equity	369 628	350 940	5,3%
Non-current liabilities	58 087	57 647	0,8%
Current liabilities	120 951	174 436	-30,7%

Ratios	2013	2012
EBITDA / Sales revenues	26,3%	23,7%
Operating profit/ Sales revenues	20,8%	19,4%
Net profit/ Sales revenues	15,6%	19,4%
Borrowed capital/Owners' equity	0,48	0,66
Net debt/ EBITDA	2,5x	4,2x

Review of risk factors

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

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

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

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

- ✦ The political environment in the Group's export markets, especially in Russia and Ukraine, has a significant effect on the Group's operations and financial condition.
- ✦ Risks related to the Bulgarian legal system.
- ✦ Developing legal frameworks in some countries in which the Group sells its products, in particular Russia and Ukraine, may negatively impact the Group's operations in such countries.
- ✦ Risks relating to exchange rates and the Bulgarian Currency Board.
- ✦ Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change.

Currency risk

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Company supplies part of its raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The remaining part of Company operations are usually denominated in BGN and/or EUR. To control foreign currency risk, the Company has introduced a system for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

Credit risk

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

In the years of its trade experience, the Company has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts. The Company works on its main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

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

Liquidity risk

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

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the Company implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Risk of interest-bearing cash flows

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

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

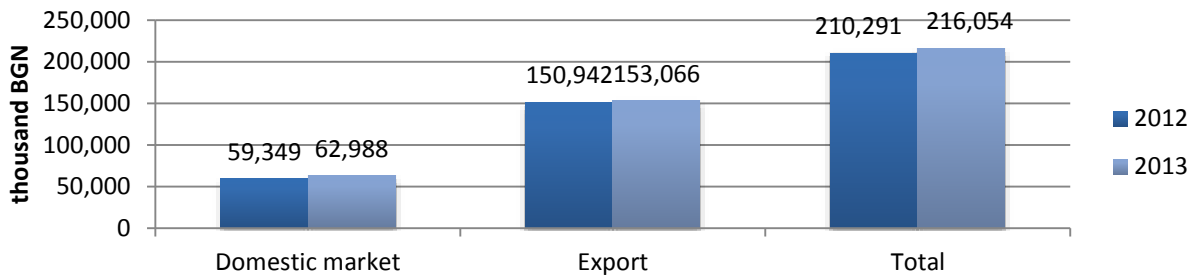
The Company's management currently monitors and analyses its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

Financial results in 2013

Sales revenues

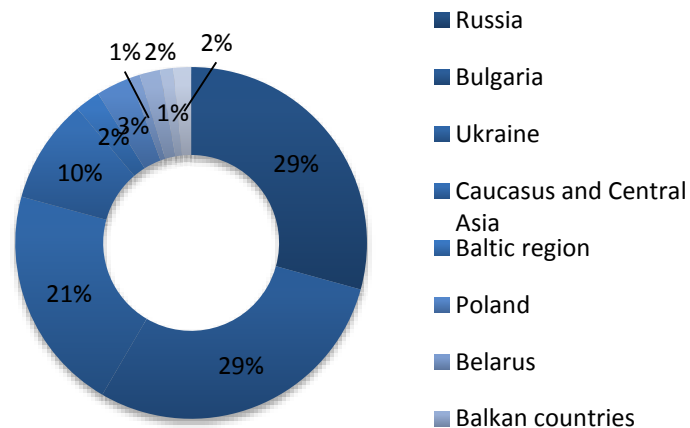
Sales revenues of production increase by 5,8 million BGN or 3%, reaching 216,1 million BGN as at the end of 2013, compared to 210,3 million BGN at the end of 2012.

Sales revenues



Main markets

Revenues by market	2013 BGN '000	2012 BGN '000	Change %
Russia	63 237	69 868	-9%
Bulgaria	62 988	59 349	6%
Ukraine	44 966	38 120	18%
Caucasus and Central Asia	20 680	17 670	17%
Baltic region	6 954	5 515	26%
Poland	5 019	8 274	-39%
Belarus	4 070	4 459	-9%
Balkan countries	2 607	1 294	101%
Turkey	1 994	2 745	-27%
Other	3 539	2 997	18%
Total	216 054	210 291	3%



Russia

The marketed production in Russia fell by 6,6 million BGN, or 9% to 63,2 million BGN in 2013 compared to 69,8 million BGN in 2012. The main products that are sold on the Russian market are Carsil, Tempalgin, Tabex, Troxerutin, and Sidnopharm.

Bulgaria

The sales of Sopharma AD on the domestic market increased by 3,6 million BGN, or 6% and reached 62,9 million BGN at the end of 2013 compared to 59,3 million BGN at the end of 2012. The products with largest share of sales in the country are Analgin, Vicetin, Methylprednisolone, Nivalin and Vitamin C. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 13% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 6.7% (4.6% in units), Actavis - by value 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).

Ukraine

Sales in the Ukraine in 2013 increased by 6,8 million BGN or 18% to 44,9 million BGN in 2013 from 38,1 million BGN in 2012. The main products exported to the Ukrainian market are Carsil, Tribestan, Tempalgin, Spazmalgon, and Tabex.

Caucasus and Central Asia

Sales in the Caucasus and Central Asia (including Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan, Georgia, Azerbaijan and Armenia) rose by 3 million BGN or 17%, reaching 20,7 million BGN in 2013, compared to 17,7 million BGN in 2012. The largest share of revenues in this region have sales in Kazakhstan (42%), with an increase of 7% over the previous year, reaching 8,7 million BGN. The main products Sopharma AD exported to this region were Carsil, Broncholytin, Tempalgin, Tribestan, and Vitamin B Complex.

Poland

Sopharma AD decreased its sales in Poland by 3,3 million BGN from 8,3 million BGN in 2012 to 5 million BGN in 2013. The main products on this market are Tabex, Nivalin, Buscolisin, and Spasmalgon.

Baltic region

Sales to the Baltic region have increased by 1,4 million BGN or 26%, from 5,5 million BGN in 2012 to 6,9 million BGN in 2013. The main products are Carsil, Analgin, Tabex, and ampoules.

Belarus

Sales in Belarus in 2013 amount to 4,1 million BGN, compared to 4,4 million BGN in 2012. The main products sold on this market are Carsil, Tempalgin, Alergozan, Sidnopharm, and Tabex.

Balkan countries

Sales in the Balkan countries in 2013 amount to 2,6 million BGN compared to 1,3 million BGN in 2012. The main products, sold on these markets are sterilized water, Furosemide, Sidnopharm, Tribestan, and Paracetamol.

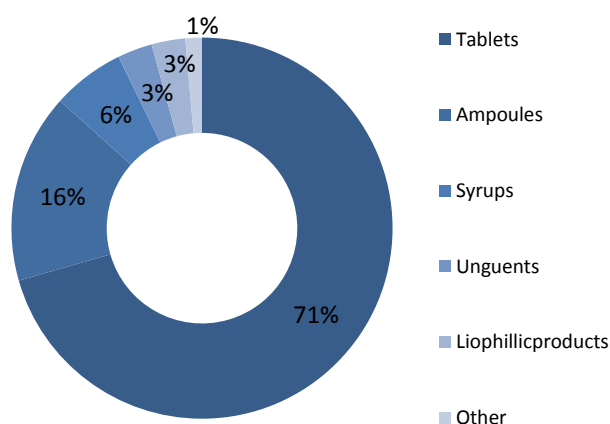
Turkey

In Turkey, sales decreased by 0,7 million BGN from 2,7 million BGN in 2012 to 2 million BGN in 2013. The main product sold on this market is Methylprednisolone.

Sales by type of formulation

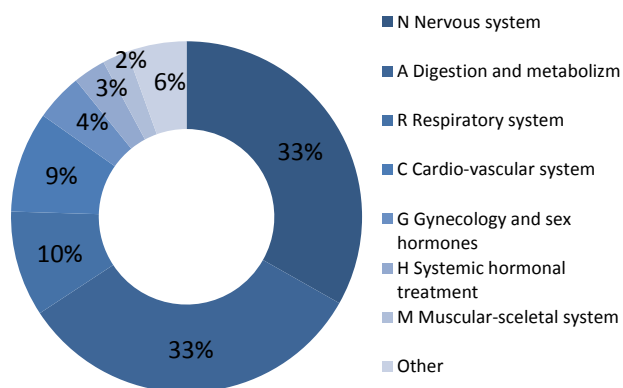
The highest share in the volume of sales have tablet formulations, followed by ampoules, syrups, lyophilic products, and unguents,

Revenues by type of formulation	2013	2012	Change %
	BGN '000	BGN '000	
Tablets	152 442	153 559	-1%
Ampoules	34 719	30 109	15%
Syrups	13 305	12 129	10%
Lyophilic products	6 375	5 467	17%
Unguents	6 179	7 289	-15%
Other	3 034	1 738	75%
Total	216 054	210 291	3%



Sales by therapeutic group

Revenues by therapeutic group	2013	2012	Change %
	BGN '000	BGN '000	
N Nervous system	71 700	82 435	-13%
A Digestion and metabolism	70 348	60 412	16%
R Respiratory system	21 023	23 938	-12%
C Cardio-vascular system	20 092	18 456	9%
G Gynaecology and sex hormones	9 455	6 493	46%
H Systemic hormonal treatment	6 484	5 546	17%
M Muscular-skeletal system	5 070	4 235	20%
Other	11 882	8 776	35%
Total	216 054	210 291	3%



Other operating revenues

Other operating revenues	2013 BGN '000	2012 BGN '000	Change %	Share 2013 %
Income from services	2 814	2 637	7%	92%
Income from sale of products	665	601	11%	22%
Income from sale of materials	172	330	-48%	6%
Net loss from exchange rate differences	(538)	(333)	62%	-18%
Other	(43)	908	-105%	-1%
Total	3 070	4 143	-26%	100%

Other operating income decreased by 1,1 million BGN from 4,1 million BGN in 2012 to 3 million BGN in 2013. Main contributors to the decrease are sales of building rights with 0,4 million BGN, income from forfeits with 0,7 million BGN, net loss from exchange rate differences on commercial receivables, liabilities and current accounts, gain from sales of materials, and other income. Income from services, gain from sales of long-term tangible assets and gain from sales of goods have an effect in the opposite direction.

Operating expenses	2013 BGN '000	2012 BGN '000	Change %	Share 2012 %
Changes in the finished goods and work-in-progress inventory	6 872	-1 113	717%	4%
Materials	55 032	59 002	-7%	32%
External services	59 844	65 710	-9%	34%
Personnel	32 334	34 859	-7%	19%
Amortization	11 716	8 941	31%	7%
Other operating expenses	8 284	6 219	33%	5%
Total	174 082	173 618	0.3%	100%

The operating expenses increased by 0,5 million BGN, or 0.3%, from 173,6 million BGN in 2012 to 174,1 million BGN in 2013, which is due to changes in finished products inventories, amortization costs, and other operating expenses.

	2013	2012	Change	Share 2013
	BGN '000	BGN '000	%	%
Materials expenses				
Main materials	40 335	44 212	-9%	73%
Spare parts, laboratory items and technical materials	5 307	5 542	-4%	10%
Electricity	3 496	2 750	27%	6%
Heat	3 235	3 560	-9%	6%
Fuels and lubricants	1 254	1 366	-8%	2%
Water	733	770	-5%	1%
Work cloths	593	707	-16%	1%
Scraping and loss of materials	52	22	136%	0%
Impairment of materials	27	73	-63%	0%
Total	55 032	59 002	-7%	100%

Cost of materials (32% share) decreased by 7% or 4 million BGN from 59 million BGN in 2012 to 55 million BGN in 2013. Costs for basic materials decreased by 3,9 million BGN, in the segments substances, packaging materials, auxiliary, liquid, and hard chemicals, and ampules. There was a decrease in the cost of heat, spare parts, laboratory and technical materials, fuel and lubricants, water and working cloths.

	2013	2012	Change	Share 2013
	BGN '000	BGN '000	%	%
Hired services expenses				
Manufacturing	25 337	30 702	-17%	42%
Consultancy fees	9 049	5 928	53%	15%
Advertising	7 915	9 687	-18%	13%
Transportation	3 366	2 808	20%	6%
Rents	2 427	2 141	13%	4%
Logistics	1 843	2 283	-19%	3%
Maintenance of buildings and equipment	1 182	1 985	-40%	2%
Security	904	855	6%	2%
Registration services and clinical trials	844	1 220	-31%	1%
Civil contracts	775	1 077	-28%	1%
State and regulatory taxes and local taxes	763	811	-6%	1%
Insurance	756	888	-15%	1%
Subscription fees	718	758	-5%	1%
Local taxes and fees	667	693	-4%	1%
Medical services	659	501	32%	1%
Other	2 639	3 373	-22%	4%
Other	59 844	65 710	-9%	100%

Hired services have a 34% share of operating expenses and decreased by 5,9 million BGN or 9%, reaching 59,8 million BGN in 2013 compared to 65,7 million BGN in 2012. The most significant impact have the decrease in manufacturing cost by 5,4 million BGN, advertising cost by 1,8 million BGN and the cost for maintenance of buildings and equipment by 0,8 million BGN. There is an increase in consultancy services by 3,1 million BGN, rents by 0,3 million BGN and others.

	2013	2012	Change	Share 2013
	BGN '000	BGN '000	%	%
Personnel expenses				
Salaries	23 909	25 368	-6%	74%
Social insurance	4 268	5 122	-17%	13%
Social benefits and payments	2 176	2 268	-4%	7%
Performance-based bonuses	1 125	1 224	-8%	3%
Other	856	877	-2%	3%
Total	32 334	34 859	-7%	100%

Personnel costs (a share of 19%) decreased by 2,6 million BGN, or 7% from 34,9million BGN in 2012 to 32,3 million BGN in 2013. Current salaries decreased by 1,5 million BGN, social security contributions decreased by 0,8 million BGN and social benefits and current accruals increased by 0,01 million BGN.

	2013	2012	Change	Share 2013
	BGN '000	BGN '000	%	%
Other expenses				
Entertainment expenses	2 655	2 154	23%	32%
Other taxes and payments to the budget	768	186	313%	9%
Accrued impairment of receivables, net	1 653	1 373	20%	20%
Accrued impairment of finished good and unfinished products	1 098	546	101%	13%
Business trips	695	938	-26%	8%
Scrapping of finished good and unfinished products	437	159	175%	5%
Other (see FS notes)	978	863	13%	12%
Total	8 284	6 219	33%	100%

Other operating expenses (with a share of 5%) increased by 2,1 million or 33% from 6,2 million BGN in 2012 to 8,3 million BGN in 2013, which is mostly due to an increase in entertainment allowances by 0,5 million BGN, other taxes and payments to the budget by 0,6 million BGN, scrap and losses of inventories by 0,3 million BGN, accrued impairment of finished goods and unfinished products by 0,6 million BGN, accrued impairment of receivables by 0,3 million BGN. Awards on litigations and business trips costs decreased.

Costs of amortization increased of 31% from 8,9 million BGN in 2012 to 11,7 million BGN in 2013.

Financial income and expenses

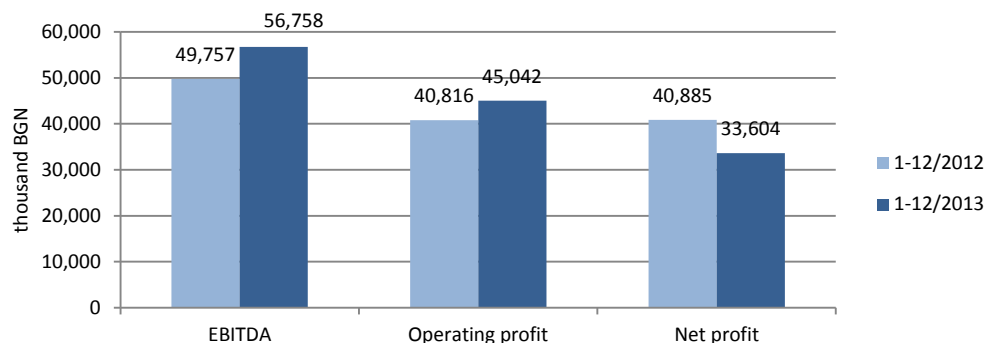
Financial income	2013	2012	Change	Share 2013
	BGN '000	BGN '000		
Income from participations	5 889	6 108	-3.6%	59%
Income from interest on loans granted	4 008	5 034	-20.4%	40%
Income from liquidation shares in subsidiaries	109	-		1%
Net gain from exchange rate differences on loans	-	451		0%
Gain from contribution of fixed assets to a subsidiary	-	120		0%
Net gain from operations with securities	-	41		0%
Income from interest on deposits	-	3		0%
Total	10 006	11 757	-15%	100%
Financial expenses				
Impairment of available-for-sale investments	6 746	469	1338%	7%
Expenses for interest on loans received	5 688	5 472	4%	85%
Net loss on from operations with securities	4 509	-		0%
Bank fees for loans and guarantees	289	246	17%	4%
Net loss from exchange rate differences on loans	68	-		0%
Financial leasing expenses	49	264	-81%	4%
Total	17 349	6 451	169%	100%

Financial income decreased by 1,7 million BGN, or 15%, to 10 million BGN in 2013 compared to 11,7 million BGN in 2012. This is a result of a decrease in income from participations by 0,2 million BGN, as well as income from interest on loans granted by 1 million BGN.

Financial expenses increased by 10,9 million BGN from 6,4 million BGN in 2012 to 17,3 million BGN in 2013. This increase is mainly due to the net loss from operations with securities by 4,5 million BGN as a result to the sale of shares of Doverie United Holding AD and impairment of available-for-sale (mainly the shares in Doverie United Holding AD) by 6,7 million BGN.

Net financial income (expense) decreased by 12,6 million BGN, reaching (7,3) million BGN in 2013, compared to 5,3 million BGN in 2012.

Operating result



Profit before interest, taxes, depreciation and amortization (EBITDA) grew by 7 million BGN or 14,1%, amounting to 56,8 million BGN as at 31 December 2013, compared to 49,8 million BGN as at 31 December 2012.

The operating profit increased by 4,2 million BGN or 10,4%, reaching 45 million BGN as at 31 December 2013, compared to 40,8 million BGN as at 31 December 2012.

Net income decreased by 7,3 million BGN or 17,8% to 33,6 million BGN as at 31 December 2013 compared to 40,9 million BGN as at 31 December 2012.

Assets

	31.12.2013	31.12.2012	Change	Share 2013
	BGN '000	BGN '000	%	%
Non-current assets				
Property, plant and equipment	198 158	186 861	6%	55%
Intangible assets	3 661	3 973	-8%	1%
Investment property	22 555	19 391	16%	6%
Investments in subsidiaries	101 207	92 932	9%	28%
Available-for-sale investments	6 862	19 472	-65%	2%
Long-term receivables from related parties	25 649	1 183	2068%	7%
Other long-term receivables	17	922	-98%	0%
	358 109	324 734	10%	65%

Current assets				
Inventories	50 059	54 482	-8%	26%
Receivables from related parties	103 485	167 113	-38%	54%
Commercial receivables	22 075	22 539	-2%	12%
Other receivables and prepaid expenses	6 740	11 560	-42%	4%
Cash and cash equivalents	8 198	2 595	216%	4%
	190 557	258 289	-26%	35%
TOTAL ASSETS	548 666	583 023	-6%	100%

Total assets decreased by 34,3 million BGN or 6%, reaching 548,7 million BGN compared to 583 million BGN as at 31 December 2012.

Non-current assets increased by 33,4 million BGN, or 10%, due to the increase in property, plant and equipment by 11,3 million BGN, long-term receivables from related parties by 24,5 million BGN, investments in subsidiaries by 8,3 million BGN, and investment properties by 3,2 million BGN. Available-for-sale investments decreased by 12,6 million BGN, other long-term receivables – by 0,9 million BGN and intangible assets – by 0,3 million BGN, compared to 31 December 2012.

	31.12.2013	31.12.2012	Change	Share 2013
Property, plant and equipment	BGN '000	BGN '000	%	%
Land and buildings	106 621	63 259	69%	54%
Machines and equipment	80 237	33 500	140%	40%
Other	10 317	11 485	-10%	5%
In process of acquisition	983	78 617	-99%	0%
Total	198 158	186 861	6%	100%

Property, plant and equipment has most substantially increased in the proportion of land and buildings by 43,4 million BGN and property, plant and equipment by 46,7 million BGN. The assets in process of acquisition decreased by 77,6 million BGN. These changes are primarily due to the newly opened plant for solid dosage forms. Intangible assets fell in the part of assets in the process of acquisition and increased in software products.

Investments in subsidiaries increased by 8,3 million BGN in relation to a payment for a capital increase in Briz, Latvia. The available-for-sale investments decreased by 12,6 million BGN, due to the sale and impairment of shares of the capital of Doverie United Holding AD.

Long-term loans to related parties increases by 24,5 million BGN, which represent transformed short-term loans.

Current assets decreased by 67,7 million BGN or 26%, reaching 190,6 million BGN as at 31 December 2013 compared to 258,3 million BGN as at 31 December 2012.

	31.12.2013	31.12.2012	change	Share 2013
Inventories	BGN '000	BGN '000	%	%
Materials	29 010	24 800	17%	58%
Finished products	15 686	22 973	-32%	31%
Semi-finished products	2 393	3 182	-25%	5%
Work in progress	2 835	3 162	-10%	6%
Goods	135	365	-63%	0%
Total	50 059	54 482	-8%	100%

Inventories decreased by 4,4 million BGN compared to 31 December 2012, mainly in the part of finished products, semi-finished products, unfinished products and goods respectively by 7,3 million BGN, 0,8 million BGN, 0,3 million BGN and 0,2 million BGN. Materials increased by 4,2 million BGN in the basic materials part.

Receivables from related parties decreased by 63,6 million BGN. This is a result of both a decrease of income from sale of finished products and materials by 35,6 million BGN, as well as the transformation in long-term granted loans. Receivables from customers increased by 0,3 million BGN compared to compared to 31 December 2012.

Other receivables and advance payments decreased by 4,8 million BGN. Mainly this is due to a decrease in refundable taxes by 2,9 million BGN and awards on litigations by 1, 8 million BGN.

Cash and cash equivalents increased by 5,6 million BGN and as at 31 December 2013 amount to 8,2 million BGN compared to 2,6 million BGN as at 31 December 2012.

Liabilities and owners' equity

	31.12.2013	31.12.2012	Change	Share 2013
	BGN '000	BGN '000	%	%
OWNERS' EQUITY				
Share capital	132 000	132 000	0%	36%
Treasury stock	-18 105	-12 156	49%	-5%
Reserves	221 952	189 928	17%	60%
Retained earnings	33 781	41 060	-18%	9%
TOTAL OWNERS' EQUITY	369 628	350 832	5%	100%
LIABILITIES				
Non-current liabilities				
Long-term bank loans	48 723	51 779	-6%	27%
Liabilities on deferred taxes	3 968	3 815	4%	2%
Liabilities to the personnel upon retirement	1 710	1 479	16%	1%
Financial leasing liabilities	49	682	-93%	0%
Other non-current liabilities	3 637	-		2%
Total non-current liabilities	58 087	57 755	1%	32%
Current liabilities				
Short-term bank loans	98 878	152 778	-35%	55%
Short-term part of long-term bank loans	3 822	5 888	-35%	2%
Commercial liabilities	4 904	7 090	-31%	3%
Liabilities to related parties	7 823	3 782	107%	4%
Liabilities for taxes	758	208	264%	0%
Liabilities to the personnel and for social insurance	3 791	3 684	3%	2%
Other current liabilities	975	1 006	-3%	1%
Total current liabilities	120 951	174 436	-31%	68%
TOTAL LIABILITIES	179 038	232 191	-23%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	548 666	583 023	-6%	

Equity increased by 18,8 million BGN compared to 31 December 2012 as a result of increased reserves by 32 million BGN. At the end of 2013 the treasury stock amounts to 5 460 676. During the reporting period no new issue of securities was conducted.

Non-current liabilities increased by 0,3 million BGN, from 57,8 million BGN at the end of 2012 to 58,1 million BGN at the end of 2013 mainly due to a decrease of long-term bank loans by 3,1 million BGN, as well as finance lease liabilities. Other non-current liabilities increased by 3,6 million BGN due to received unconditional financial aid under Operational programme - 2007-2013 - Development of the Competitiveness of the Bulgarian Economy.

Current liabilities decreased by 53,5 million BGN compared to 31 December 2012. This is mainly due to a decrease in short-term bank loans, the short-term part of long-term bank loans and commercial liabilities by 53,9 million BGN, 2,1 million BGN and 2,2 million BGN accordingly. Liabilities to related parties, liabilities to personell and for social security, tax liabilities increased.

The total exposition to bank loans of the Company as at 31 December 2013 decreased by 59 million BGN compared to 31 December 2012.

Commercial liabilities decreased due to liabilities to suppliers, which decreased by 2,6 million BGN compared to 31 December 2012.

Liabilities to related parties increased by 4 million BGN, mainly due to liabilities for services.

Liabilities to personnel and for social security increased by 0,1 million BGN.

Other current liabilities decreased in the segment financial lease liabilities.

Cash flow

	31.12.2013	31.12.2012
	BGN '000	BGN '000
Net cash flow from operations	91 970	(5 933)
Net cash flow from investment activities	(13 890)	(36 118)
Net cash flow used in financial operations	(72 477)	26 608
Net increase/(decrease) of cash and cash equivalents	5 603	(15 443)
Cash and cash equivalents on 1 January	2 595	18 038
Cash and cash equivalents on 31 December	8 198	2 595

Net cash flows as at 31 December 2013 generated from operating activities amounted to 92 million BGN, net cash from investing activities (13,9) million BGN and financing activities (72,5) million BGN. As a result of these activities cash and cash equivalents mark a net increase by 5,6 million BGN and as at 31 December 2013 amount to 8,2 million BGN compared to 2,6 million as at 1 January 2013.

Ratios

	31.12.2013	31.12.2012
ROE	9,3%	12,2%
ROA	5,8%	7,4%
Asset turnover	0,37	0,38
Current liquidity	1,58	1,48
Quick ratio	1,16	1,17
Cash/current liabilities	0,07	0,01
Owners' equity/liabilities	2,06	1,51

Information about the shares of Sopharma AD

The total number of outstanding shares at 31 December 2013 of Sopharma AD is 132 million with a nominal value of 1 BGN per share. All issued shares are registered, dematerialized, registered and indivisible. All issued shares are of one class. Each share gives equal rights to its owner, proportionate to the nominal share value. Shares of Sopharma AD are listed on the official market of the Bulgarian Stock Exchange - Sofia and the official market of the Warsaw Stock Exchange. Shares participate in the formation of the indices SOFIX, BG40 and BGTR30 of the Bulgarian Stock Exchange - Sofia.

The Company's shares are included in the indices 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), which the Warsaw Stock Exchange started to calculate on 30 May 2012. The name of the index is WIG-CEE and it is the third one after WIG-Poland and WIG-Ukraine, which is based on the origin of companies by country. WIG-CEE is calculated based on total return and includes income from dividends and subscription rights.

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
Average outstanding number of shares	127 422 985	130 330 455
Number of shares outstanding at the end of the period	126 539 324	129 431 391
Earnings per share in BGN	0,264	0,312
Price per share at the end of the period in BGN	3,914	3,175

Sopharma AD

Price/Earnings ratio (P/E)	14,82	10,24
Book value per share in BGN	2,921	2,478
Price/Book value ratio (P/B)	1,34	1,28
Sales per share in BGN	1,707	1,622
Price per share / Sales per share(P/S)	2,293	1,957
Market capitalization in BGN	516 648 000	419 100 000

Trade with shared of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2013 – 31 December 2013



Signature:

Ognian Donev, PhD
Executive Director, Sopharma AD