



# MANAGEMENT REPORT

## SOPHARMA AD

2011

26 March 2012

## General Information of Sopharma AD

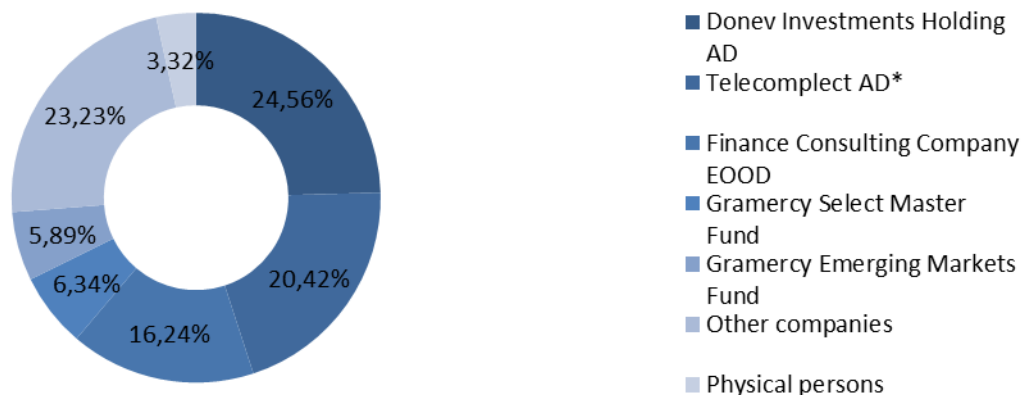
Sopharma AD (the Company) is a commercial entity registered in Bulgaria under the provisions of the Commercial Act (CA), with registered office in Sofia, 16 Iliensko Shousse Str.

Sopharma AD was established in 1933, The Company was registered in Court on 15 November 1991 by Decision No 1/1991 of Sofia City Court. Sopharma AD is a public company under the Public Offering of Securities Act.

The Company performs the production and marketing of medicinal substances and finished dosage forms; research and development, engineering and implementation activities in the field of phytochemistry, chemistry and pharmacy. Sopharma AD performs services both for production purposes and related ancillary and service activity.

The Company holds licenses for use under the Law on Medicinal Products and Pharmacies in Human Medicine (LMPPHM) for all products from its manufacturing nomenclature.

## Shareholding structure as at 31 December 2011



\* formal holder of the shares as per the Registry at the Central Depository (CD) until the entry of Telecomplex Invest AD in the Registry of CD

## Board of Directors

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

The remuneration of the Board of Directors of Sopharma AD amounted to BGN 1,010 thousand as at 31 December 2011 (Art. 247 of CA).

The shares held by the members of the Board of Directors as at 31 December 2011 are as follows:

Ognian Donev – 57,116 shares,  
Andrey Breshkov – 11,000 shares,  
Unipharm AD – 221,166 shares,  
Alexander Chaushev – 85,514 shares.

The Articles of Association of Sopharma AD do not set out restrictions as to the right of the Board of Directors members to acquire shares and bonds of the Company.

Interest of Board of Directors members with more than 25% of other companies capital:

*Ognian Ivanov Donev* holds directly/indirectly more than 25% of the following companies' capital:

1. Donev Investments Holding AD, UIC 831915121, with registered office: 12, Pozitano Str., Sofia, entered under Company File No 476/1989 in the Registry of Sofia City Court.
2. Media Group Bulgaria Holding OOD, UIC 121135162, with a seat and registered office: 47, Tsarigradsko Shousse Blvd., Sofia,
3. OG International OOD, UIC 121372478, with registered office: 20B, Cherni Vrah Blvd., Sofia, entered under Company File No 3380/1997 in the Registry of Sofia City Court.
4. Fininvest Holding AD, UIC 831065071, with registered office: 1, Bulgaria Square, Sofia, entered under Company File No 19019/1993 in the Registry of Sofia City Court.
5. Telecomplect AD, UIC831643753, with registered office: 69-73, Totleben Blvd., Sofia, entered under Company File No 29401/1992 in the Registry of Sofia City Court.
6. Sopharma Buildings REIT, UIC 831915121, with registered office: 16, Iliensko Shousse Str., Sofia, entered under Company File No 12390/2007 of Sofia City Court.
7. Sopharma Properties REIT, UIC 175059266, with registered office: 16, Iliensko Shousse Str., Sofia, entered under Company File No 3548/2006 of Sofia City Court.
8. Sofprint Group AD, UIC 175413277, entered under Company File No 18752/2007 of Sofia City Court, with a seat and registered office: 12, Pozitano Str., Sofia.
9. Sofconsult Group AD, UIC 175413245, entered under Company File 18751/2007 of Sofia City Court, with a seat and registered office: 12, Pozitano Str., Sofia.
10. Sofia Inform AD, UIC 121303553, with registered office: 12, Pozitano Str., Sofia, entered under Company File No 14349/1996 in the Registry of Sofia City Court.

*Vessela Lyubenova Stoeva* holds more than 25% of the following companies' capital:

VES Electroinvest Systems EOOD, UIC 201712700, with a seat and registered office: 9, P.R. Slaveikov Square, Sofia.

*Alexander Viktorov Chaushev* holds more than 25% of the following companies' capital:

Sofservice OOD, UIC 131407109, with registered office: 339, Tsar Boris III Blvd., Sofia.

*Andrey Lyudmilov Breshkov* holds more than 25% of the following companies' capital:

1. Breshkov and Sons OOD, UIC 115114555, with registered office: 3, Gladstone Str., Plovdiv, entered under Company File No 666/1997 of Plovdiv District Court.

2. CFM OOD, UIC 131304899, with registered office: 2, Nikolay Haitov Str., Sofia, entered under Company File No 11886/2007 of Sofia City Court.

*Ognian Ivanov Donev* participates in a managing/supervisory body of the following companies:

1. Elpharma AD, UIC 130299513, with registered office: 16, Iliensko Shousse Str., Sofia, entered under Company File No 7545/2000 in the Registry of Sofia City Court – Member of the Board of Directors (BD) and Executive Director.

2. Sopharma Trading AD, UIC103267194 with registered office: 16, Rozhen Str., Sofia, entered under Company File No 9598/2005 of Sofia City Court - Chairman of BD.

3. Donev Investments Holding AD, UIC 831915121, with registered office: 12, Pozitano Str., Sofia, entered under Company File No 476/1989 in the Registry of Sofia City Court – Chairman of the Supervisory Board (SB).

4. Unipharm AD, UIC831537465, with registered office: 3, Trayko Stanoev Str. Sofia, entered under Company File No 3685/1994 in the Registry of Sofia City Court – Chairman of SB.

5. Sofia Inform AD, UIC 121303553, with registered office: 12, Pozitano Str., Sofia, entered under Company File No 14349/1996 in the Registry of Sofia City Court – Chairman of SB.

6. OG International OOD, UIC 121372478, with registered office: 20B, Cherni Vrah Blvd., Sofia, entered under Company File No 3380/1997 in the Registry of Sofia City Court – Shareholder and General Manager.

7. Pharmachim Holding EAD, UIC 121094178, with a seat and registered office; 16, Iliensko Shousse Str., Sofia, Company File No 2616/1989 in the Registry of Sofia City Court – Chairman of BD.

8. Kaliman RT AD, UIC 121120513, with registered office: 16, Iliensko Shousse Str., Sofia, entered under Company File No 107/1991 in the Registry of Sofia City Court – Chairman of BD.

9. Fininvest Holding AD, UIC 831065071, with registered office: 1, Bulgaria Square, Sofia, entered under Company File No 19019/1993 in the Registry of Sofia City Court – Member of BD and Executive Director.

10. Telecomplect AD, UIC831643753, with registered office: 69-73, Totleben Blvd., Sofia, entered under Company File No 29401/1992 in the Registry of Sofia City Court – Chairman of SB.

11. Doverie United Holding AD, UIC 121575489, with registered office: 82, Knyaz Dondukov Blvd., Sofia, entered under Company File No 13056/1996 in the Registry of Sofia City Court – Member of SB, Deputy Chairman.

12. Doverie Capital AD, UIC 130362127, with registered office: 82, Knyaz Dondukov Blvd., Sofia, entered under Company File No 10906/2000 in the Registry of Sofia City Court – Member of SB.

13. Medica AD, UIC: 000000993, with registered office: 82, Knyaz Dondukov Blvd., Sofia – Member of BD.

14. Riton P AD, UIC: 822106398, with registered office: 30, Krastyo Geshanov Str., Panagyurishte – Member of BD

15. Momina Krepost AD, UIC: 104055543, with registered office: 23, Magistralna Str., Veliko Tarnovo – Member of BD

16. MIO Alumni Association, Bulstat 175861145 – Chairman of MB.

17. Association "German-Bulgarian Chamber of Commerce and Industry", Bulstat 131218681 – member of MB.
18. Bulgarian Generic Pharmaceutical Association /BGPHARMA/, Bulstat 130568180, Representative of Sopharma AD as a Member of MB.
19. Bulgarian Chamber of Commerce and Industry, Bulstat 000703066
20. Confederation of Employers and Industrialists in Bulgaria – KRIB the Voice of Bulgarian Business, Bulstat 130439965 – Chairman.

*Vessela Lyubenova Stoeva* participates a managing/supervisory body of the following companies:

1. Elpharma AD, UIC 130299513, with registered office: 16, Iliensko Shousse Str., Sofia, entered under Company File No 7545/2000 in the Registry of Sofia City Court – Member of BD
2. VLS AD, UIC 175082980, with registered office: 48, Alabin Str., Sofia, entered under Company File No 5087/2006 in the Registry of Sofia City Court – Member of BD.
3. VES Electroinvest Systems EOOD, UIC 201712700, with a seat and registered office: 9, P.R. Slaveikov Square, Sofia– General Manager.

*Alexander Viktorov Chaushev* participates a managing/supervisory body of the following companies:

1. Monbat AD, UIC: 111028849 with registered office: 4, Golo Bardo Str., Lozenets Region, Sofia, entered under Company File No 4536/1999 in the Registry of Sofia City Court – Member of SB.
2. DK-Domostroene AD, UIC: 102148397 with registered office: Pobeda Quarter, 8000 Burgas, entered under Company File No 29627/1997 of Burgas District Court – Member of BD.
3. Sports management and Advertising Agency EAD, UIC: 130969084 with registered office: 42, Todor Alexandrov Str., Vazrazhdane Region, Sofia, entered under Company File No 7512/2002 in the Registry of Sofia City Court – Member of BD.

*Andrey Lyudmilov Breshkov* participates a managing/supervisory body of the following companies:

1. Expat Imoti AD, UIC 175341828, with registered office: 96A, G.S. Rakovski Str., Sredets Region, Sofia, entered under Company File No 11886/2007 in the Registry of Sofia City Court - Member of BD.
2. Simol EAD, UIC 101795403, with a seat and registered office: 3, Georgi Izmirliiev Square, Blagoevgrad, entered under Company File No 2508/2007 of Blagoevgrad District Court – Chairman of BD.
3. Expat Beta REIT, UIC 200059488 with registered office: 96A, G.S. Rakovski Str., Sredets Region, Sofia – Executive Director, Chairman of BD.
4. Expat Alpha AD, UIC 175237224, with a seat and registered office: 96A, G.S. Rakovski Str., Sredets Region, Sofia, entered under Company File No 2712/2007 in the Registry of Sofia City Court - Chairman of BD.

*Ognian Kirilov Palaveev*, representing *Unipharm AD*, participates in the managing bodies of the following companies:

1. Sirius OOD, UIC: 110543305, with a seat and registered office: 7, Apriltsi Str., Stefanovo Village, Lovech Municipality, entered under Company File No 277/2004 of Lovech District Court – Member of MB.
2. Lozenets 13 AD, UIC: 130539474, with a seat and registered office: 3, Trayko Stanoev Str., Studentski Region, Sofia, entered under Company File No 2487/2001 in the Registry of Sofia City Court– Member of BD.

*Unipharm AD* participates a managing/supervisory body of the following companies:  
Bulgarian Generic Pharmaceutical Association /BGPHARMA/ – member of MB.

No contracts were concluded under Art. 240 (b) of CA in 2011.

Pelagia Viacheva is Director of Investor Relations, tel. 8134 523, correspondence address: Sofia, 5 Lachezar Stanchev Str., Building A, floor 11.

### Industrial activity

Sopharma AD has nine production plants, which comply with EU requirements - GMP, and are located in Bulgaria. In 2012 the Company expects to complete the construction of a new production plant with annual capacity of 4 billion tablets in Sofia, which is currently under construction. Sopharma AD is the only Bulgarian producer of ampoules and suppositories.

The production activities of the Company are carried out and developed in the following areas:

- + Substances and preparations based on plant raw materials (phytochemical production);
- + Finished dosage forms, including:
  - ✓ Solid tablets, coated tablets, film-coated tablets, capsules;
  - ✓ Galenical - suppositories, drops, syrups, ointments;
  - ✓ Parenteral – injectable solutions, lyophilic powders for injections.

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

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

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

- + Carsil - original product, plant-based, used to treat gastroenterological disorders (liver diseases);
- + Sedal M - generic analgesic (painkiller);
- + Tempalgin - original analgesic (painkiller);
- + Analgin - generic analgesic (painkiller);

- + Broncholytin - original plant-based product used to suppress cough;
- + Methylprednisolone - generic drug for cases of severe allergies and certain life-threatening conditions;
- + Tabex – original plant-based drug used for smoking secession

### Intellectual property

Although oriented towards generic pharmaceuticals, Sopharma AD is known for years with its traditional production of several unique products based on plant extracts obtained by self-developed extraction technologies. In addition to the trademark, these products are also protected by patents 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.

Over all the years of its existence, Sopharma AD has been generating and protecting its intellectual property. As a result, the Company owns a large number of intellectual property items, 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 activities mainly on generics. R & D projects are focused on finding and developing new formulas and compositions or physical properties (such as drug formulation or tablets form) of products in order to adapt them to current market needs. Strategic goal of Sopharma AD in the future is to achieve a stable result on 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.

The company generally lodges applications for obtaining licences for use of new products, including new product forms, in Bulgaria and/or export markets as well as for new markets of the existing products.

### Workers and employees

In 2011 the average number of employees of Sopharma AD was 1,848 (1,775 in 2010). The table below shows the detailed information on the staff of the Company.

	<b>31.12.2011</b>	<b>relative share</b> %
Number of employees 31.12.2011	1,841	100%
Higher education	784	42,5%
Special education	61	3,3%
High school education	979	53,2%
Others	17	1%
Up to 30 years of age	260	14%
Between 31 - 40 years of age	473	26%
Between 41 - 50 years of age	545	30%
Between 51 - 60 years of age	496	27%
Over 60 years of age	67	3%
Women	1,151	63%
Men	690	37%

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.

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

### Major trade counterparts

The main clients of the Company with relative share in sales revenue exceeding 10% are Sopharma Trading AD with a relative share of 31%, Delta Sales – 37% and OAO Vitamini – 12%.

- ✚ Sopharma Trading AD has a seat in Sofia, Nadezhda Region, 16 Rozhen Str., with principal activities: wholesale and retail trade in medicinal products and sanitary and hygiene materials. Sopharma Trading AD is a subsidiary of Sopharma AD performing the functions of a "pre-wholesaler" in the process of its finished products realization.
- ✚ Delta Sales Corporation has address in Sofia, 20-22 Zlaten Rog Str. and principal activities: trade in medicinal products abroad. The relations are regulated through a purchase-and-sale contract.
- ✚ OAO Vitamini is a commercial company, registered in Ukraine, with a seat and registered address: Ukraine, Cherkas Area, Uman, 31 Leninski Iskri Str., having as principal activities the production of pharmaceuticals and medicinal materials, wholesale and retail trade in pharmaceutical goods, other types of wholesale and intermediary activities in the consumer goods trading. OAO Vitamini is a subsidiary of Sopharma AD.

A supplier with relative share exceeding 10% of the supplied services and materials for 2011 is Telecomplex AD holding 10.8%. The company has a seat and registered main shareholder.



### **Information regarding the execution of the Program for the Implementation of the Internationally Recognised Good Corporate Governance Standards**

The Board of Directors prepares Comply or Explain Report in line with Art. 100n, para 4 (3) of the Public Offering of Securities Act.

The actions of the management of Sopharma AD are directed to laying down the principles for good corporate governance, strengthening the trust of shareholders, investors and persons interested in Company's governance and activities.

The Board of Directors of Sopharma AD observes the Good Corporate Governance Program, which is in line with the effective regulation, the internationally recognised good corporate Governance standards and the National Corporate Governance Code.

There is an established practice for public disclosure of any information, which is of significance for the Company. A number of practices have been created and implemented to facilitate shareholders efficient participation in the General Meetings of Shareholders.

The processes and procedures for holding General Meetings of Shareholders allow equal treatment of all shareholders.

When a General Meeting of Shareholders is summoned, the invitation for that is announced in the Commercial Register at least 30 days prior to its opening. The invitation states the exact date, time and place of the meeting, the order for exercising voting rights and the agenda.

The materials related with the General Meeting of Shareholders are at the disposal of shareholders as from the day of the invitation announcement in the Commercial register, on the site of the Company: [www.sopharma.bg](http://www.sopharma.bg), and upon request, they are provided for free to shareholders.

The shareholders have the right to participate in the General Meeting through a representative after the latter presents a specific explicit authorization with minimum contents as set out in an ordinance. This participation procedure is disclosed in the invitation for the General Meeting summoning.

Sopharma AD informs the Financial Supervision Commission (FSC), the Bulgarian Stock Exchange – Sofia AD (BSE) and the public for the General Meeting of Shareholders held and for exercising the voting rights through representatives. Each shareholder is entitled to get acquainted with contents of the Minutes from the GMS.

Sopharma AD provides periodical and incidental information to FSC, BSE and the public. The annual and the interim financial statements are submitted to FSC, BSE and the public through the system X3NEWS on the basis of a concluded contract with SERVICE FINANCIAL MARKETS EOOD and through Investor.BG.

The Board of Directors believes that prerequisites have been established for sufficient transparency in the relations with investors, finance media and capital market analyzers.

### *Changes in 2011*

The Commission for Protection of Competition (CPC) allowed the unconditional concentration requested by Sopharma AD in connection with the acquisition of shares of Unipharm AD through the Bulgarian Stock Exchange - Sofia AD.

On 28 February 2011, Sopharma AD signed a contract for the execution of a project under Operational Program Competitiveness amounting to about BGN 8 million.

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

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

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

On 29 June 2011, the General Meeting of Shareholders was held at 11:00 a.m. in Company's headquarters in Sofia, 16 Iliensko Shousse Str. The following decisions were taken:

- ✚ BGN 11,220,000 dividend to shareholders or BGN 0.085 (eight and a half stotinki) per share
- ✚ The member of the Board of Directors Alexander Dimitrov Todorov was dismissed upon his request and Alexander Viktorov Chaushev was elected member of the Board of Directors
- ✚ The General Meeting of Shareholders adopted amendments to Company's Articles of Association.

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

On 28 September 2011, Sopharma AD together with its Serbian partner Ivanchich and Sons opened a new plant for solid dosage forms in Stari Banovci, 25 km north of Belgrade, Serbia. This was an investment of EUR 8 million. The capacity is 5 million packages annually.

By Decision No 648-F of 20 October 2011 the Financial Supervision Commission approved the prospectus for admission to trading on the Warsaw Stock Exchange of shares issued by Sopharma AD at the amount of BGN 132 million (representing the Company's capital registered in court), distributed in 132,000,000 ordinary, dematerialized, registered, freely transferable shares with nominal value of BGN 1 each, ISIN code BG 11SOSOBT18.

On 24 November 2011, Sopharma AD received the formal decision of the Warsaw Stock Exchange (No 1422/20.11.2011), whereby the total registered capital of the Company of 132 million shares of nominal value BGN 1 (one) each was accepted for trading. The first day of trade in the shares was 28 November 2011.

At an extraordinary General Meeting of the Shareholders of Sopharma AD, held on 30 November 2011, in Company's headquarters the following decisions were taken:

- ✚ The decision taken on point Seven of the Agenda of the regular General Meeting of Shareholders, held on 29 June 2011, shall be amended as follows: the amount set as dividend to shareholders instead of BGN 11,220,000 /eleven million two hundred twenty thousand/ shall read: BGN 11,082,388.48 /eleven million eighty two thousand three hundred eighty eight levs and 48 stotinki/. The difference between both amounts, amounting to BGN 137,611.52 /one hundred thirty seven thousand six hundred eleven levs and 52 stotinki/ shall be taken as additional reserves of the Company. The remaining part of the decision on point of the Agenda of the regular General Meeting of Shareholders, held on 29 June 2011, remains unchanged.
- ✚ On the grounds of Art. 24, para 3 (B) of the Articles of Association, additional remuneration shall be paid to Company's Executive Director at the amount of 1 % /one percent/ of the profit generated in 2010 in line with the approved Annual Financial Statements; On the grounds of Art. 28, para 4 (E) of the Articles of Association, the Executive Director shall distribute at his discretion 2 % /two percent/ of company's profit generated in 2010 among the members of the higher managing staff of the Company.
- ✚ The term for buy-back of treasury shares shall be extended from 2 /two / to 3 /three/ years.

As at 31 December 2011, 2,568,609 own shares were purchased or 1.946% of the capital, in accordance with a decision of the General Meeting of Shareholders of the Company, held on 23 June 2010 (Art. 187e of CA).

There are no large deals and such of crucial significance for the Activities of the Company concluded during the reporting period.

The transactions between the Company and its related parties in the reporting period are described in a Note "Related Party Transactions" to the Annual Financial Statements. The Company has no deals that are beyond its ordinary activities and such depart from the market conditions.

There are no events and indicators for the reporting period that are of nature unusual for the Company.

Information on deals kept off-balance sheet are pointed out in the Note "Contingent Liabilities and Commitment" to the Annual Financial Statements.

### New developments and products

#### ✚ New in 2011

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

#### ✚ Expected in 2012

By the end of 2012, it is expected 3-5 new products to be implemented.

#### ✚ Developments

Twenty nine new and improved technologies are in a process of transfer. The technological documentation of 6 supplements, 6 cosmetics and medical products and 5 new licenses for the production of generic medicines have been registered. Pharmaceutical development is carried out of about 26 new products for the Company, such as: Doxazosin tablets, Methadone solution and other.

### Planned development

✚ Sopharma AD will continue its development as a company producing high quality medicinal products that comply with international standards.

✚ Through upgrading scales, aggressive marketing policy and competitive prices, the Company aims at expanding the market share of its products on the territory of the country.

✚ With regard to foreign markets, the efforts are focused on retaining and increasing the share of the Company in the main markets (Russia, Ukraine and Poland) as well as to strengthen and extend its market position in other countries (USA, Central and East European countries, and the Caucasian region).

- ✚ Continuing the policy of active partnership with recognized international pharmaceutical companies, with new companies as well as broadening the product range of already established collaborations.
- ✚ Capital investments are intended for to the construction of the new plant for solid drug forms in Sofia and the expectations are that in 2012 about BGN 40 million will be invested.

### Significant events occurred after the end of the reporting period

As at 31 January 2012, Mr Ognian Donev closed his personal position as a shareholder of Sopharma AD. Mr Donev remains a shareholder in the Company through his indirect participation.

On 31.01.2012 the subsidiary Briz Ltd - Latvia acquires 18% of the share capital of OOO Vivaton plus in Belarus. The remaining 57% are projected to be acquired under the contract during the period 2012-2013.

On 02.15.2012 the subsidiary Briz Ltd - Latvia sold its shares in its subsidiary OOO Superlats.

### Key financial indicators

Indicators	31.12.2011 BGN '000	31.12.2010 BGN '000	change %
Sales revenue	209 847	209 059	0,4%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	52 424	61 539	-14,8%
Operating profit	43 970	53 033	-17,1%
Net profit	40 685	40 544	0,3%
Capital expenditures	29 974	9 876	204%
Non-current assets	279 199	254 020	9,9%
Current assets	243 774	213 249	14,3%
Equity	320 668	295 959	8,3 %
Non-current liabilities	24 174	32 873	-26,5 %
Current liabilities	178 131	138 437	28,7%

Ratios	2011	2010
EBITDA / Sales revenue	25,0%	29,4%
Operating profit/ Sales revenue	21,0%	25,4%
Net profit/ Sales revenue	19,4%	19,4%
Borrowed capital/ Equity	0,63	0,58
Net debt/ EBITDA	2,9x	1,9x

## ***Review of risk factors***

### **Risks related to Company's business and the industrial field in which the Company operates**

- ✦ The Company is exposed to strong competition
- ✦ Company's reputation can be adversely affected by incorrect or misleading information including such published on the website [www.sopharma.com](http://www.sopharma.com), which is not approved by the Company
- ✦ The Company is dependent on approvals by regulatory bodies
- ✦ A change is possible in the legislation regulating Company's business and this may result in possible increase in the costs of compliance with the requirements or to affect its operations otherwise
- ✦ Part of Company's revenue, especially in Bulgaria, depends on the inclusion of Company's medicinal products in the lists for reimbursement
- ✦ The production facilities and processes of the Company are subject to strict requirements and approvals by regulatory bodies, which may delay or terminate Company's operations
- ✦ Company's ability to pay dividend depends on a number of factors and no guarantee exists that it would be able to pay dividend certain years in line with its dividend policy
- ✦ The Company is exposed to operating risk, which is inherent in its business activities
- ✦ The Company observes a number of laws and regulations in the area of environment protection and the safe and healthy labour conditions and is exposed to potential environment-related responsibilities
- ✦ Court disputes or other out-of-court procedures or actions may have an adverse effect on Company's business, financial position or performance

### **Risks related to Bulgaria and other markets in which the Company operates**

- ✦ The macroeconomic environment in Bulgaria, Russia and Ukraine affects materially the operations and the position of the Group
- ✦ The political situation in Bulgaria has a significant impact on the operations of the Group and its financial position
- ✦ The political situation in the export markets of the Group, more specifically Russia and Ukraine, has a significant impact on the operations of the Group and its financial position
- ✦ Risks related with the Bulgarian legal system
- ✦ The developing legislation in some of the countries, in which the Group sells its products, Russia and Ukraine in particular, may have an adverse effect on the activities of the Group in these countries

- ✚ Risks related with foreign currency exchange rates and the effective currency board in Bulgaria
- ✚ The interpretation of the tax regulations may be unclear and the tax laws and provisions, applicable to the Group, may be amended

### Currency risk

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

### Credit risk

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

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

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

### Liquidity risk

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

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

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

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

- (a) optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and
- (b) combined structure of interest rates on loans comprising 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 analyzes its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.



### **Information about the main characteristics of the internal control system applied by the Company in the process of financial statements preparation**

According to the Bulgarian legislation, the management is to prepare a report on the activities as well as financial statements for each financial year, which to give a true and fair view of Company's financial position and performance at year-end, and for the cash flows in accordance with the applicable accounting framework. The responsibility of the management includes also the application of internal control system for preventing, revealing and elimination of errors and misstatement resultant from the operation of the accounting system. In this respect, the management observes the following main principles in its activities:

- + adherence to a specific management and accounting policy disclosed in the financial statements;
- + execution of all operation in accordance with the legal and regulatory provisions;
- + reflection of all events and operations on timely basis, at their accurate amount in the appropriate accounts and for the corresponding reporting period so as to allow the preparation of financial statements in line with the relevant accounting framework;
- + observance of the prudence principle in the valuation of assets, liabilities, income and expenses;
- + identification and elimination of fraud and errors;
- + completeness and accuracy of accounting information;
- + preparation of reliable financial information; compliance with international financial reporting standards and observance of the going concern principle.

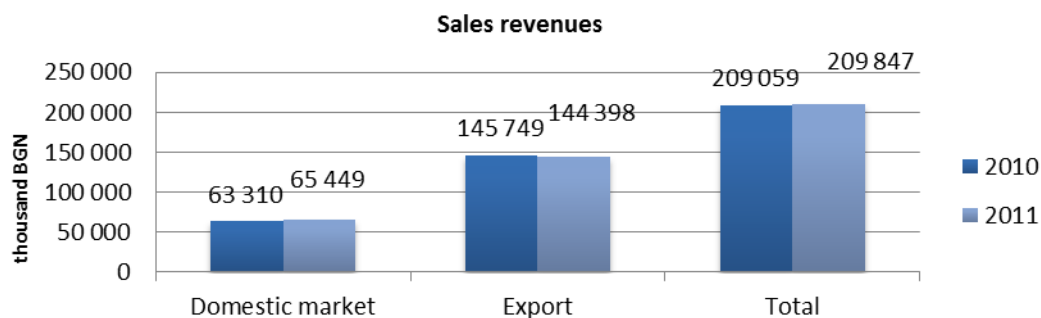
No changes occurred in the main principles of governance of Sopharma AD and its economic group during the reporting period.

## Operating results for 2011

### Sales revenues

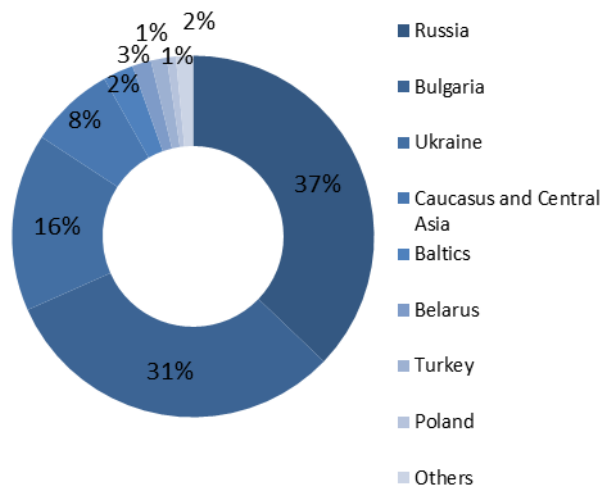
Sales revenues of production increase with 0.8 million BGN or 0,4%, reaching 209,9 million BGN as at the end of 2011, compared to 209,1 million BGN as at the end of 2010.

### Sales by types of markets



### Main markets

Revenues by market	2011	2010	change %
	BGN '000	BGN '000	
Russia	77 968	81 972	-5%
Bulgaria	65 449	63 310	3%
Ukraine	33 372	31 404	6%
Caucasus and Central Asia	15 936	13 537	18%
Baltics	5 717	4 924	16%
Belarus	3 546	3 532	0%
Turkey	2 968	3 417	-13%
Poland	1 698	3 897	-56%
Others	3 193	3 066	-2%
<b>TOTAL</b>	<b>209 847</b>	<b>209 059</b>	<b>0.4%</b>



#### Russia

The realized production in Russia fell by 4 million BGN, or 5% to 77.9 million BGN in 2011 compared to 81.9 million BGN in 2010. Key factors for the decline are the re-registration of products on the Russian market and exhaustion of travel permits for transportation of goods to

Russia at the end of 2011, which prevented export to the country. The main products that are sold on the Russian market are Sedal M, Carsil, Tempalgin, Tabex and Broncholytin.

### Market Bulgaria

The sales of Sopharma AD on the domestic market increased by 2.2 million BGN, or 3% and reached 65,5 million BGN in 2011 compared to 63.3 million BGN in 2010. The products with largest share of sales in the country are Analgin, Vicetin, Methylprednizolon, Vitamin C, Flixotide. Sopharma AD has a 5% share of total Bulgarian pharmacy market in value and 13% of sales in volume. The positions of the main competitors of the company in the country are as follows: Actavis - by value 8% (17% in units), Glaxosmithkline - 7% (3% in units), Novartis - 6% (6% in units), Sanofi-Aventis-Zentiva - 5% (4% in units), Roche – 5% (1% in units), Servier - 5% (3% in units), Astra Zeneca -4% (1% in units), Pfizer - 3% (2% in units), Bayer -3% (3% in units).

### Ukraine

Sales in the Ukraine in 2011 have increased by 6%, reaching 33.4 million BGN, compared with 31.4 million BGN in 2010. The main products exported to the Ukrainian market are Carsil, Tempalgin, Tribestan, Tabex and Broncholytin.

### Caucasus and Central Asia

Sales in the Caucasus and Central Asia (including Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan, Georgia, Azerbaijan and Armenia) rose by 2.4 million BGN or 18%, reaching 15.9 million BGN for 2011, compared to 13.5 million BGN in 2010. The largest share of revenues in this region have sales in Kazakhstan (40%), as there is an increase of 10% over the previous year, reaching 6.4 million BGN. The main products Sopharma AD exported to this region were Tempalgin, Carsil, Tribestan, Broncholytin, Tabex.

### Baltics

Sales to the Baltics have increased by 0.9 million BGN or 16%, from 4.9 million BGN in 2010 to 5.8 million BGN in 2011. This is mostly due to the increase of sales in Latvia, reaching 3.7 million BGN in 2011 and realized production in Lithuania, where revenues amounted to 1.9 million BGN.

### Belarus

Sales in Belarus in 2011 amounted to 3.5 million BGN, keeping the level of the previous year. The main products realized on this market are Carsil, Tabex, Tempalgin, Sindofarm, Clenbuterol.

### Turkey

In Turkey, sales decreased by 0.5 million BGN or 13%, from 3.5 million BGN in 2010 to 3 million BGN in 2011. The main product, which is sold in this market is Methylprednisolone.

### Poland

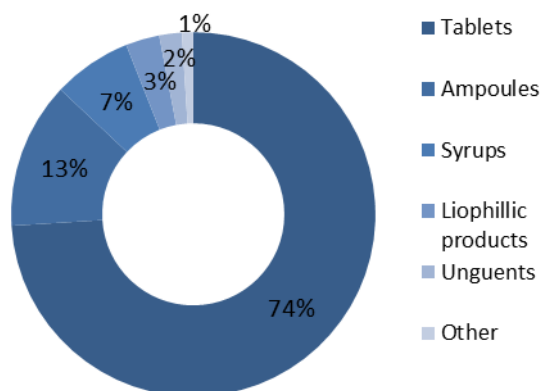
## Sopharma AD

Sopharma AD declined its sales in Poland from 2.2 million BGN or 56%, from 3.9 million BGN in 2010 to 1.7 million in 2011. The decrease is a result of a legal dispute with the previous major distributor on the local market.

### Sales by type of formulation

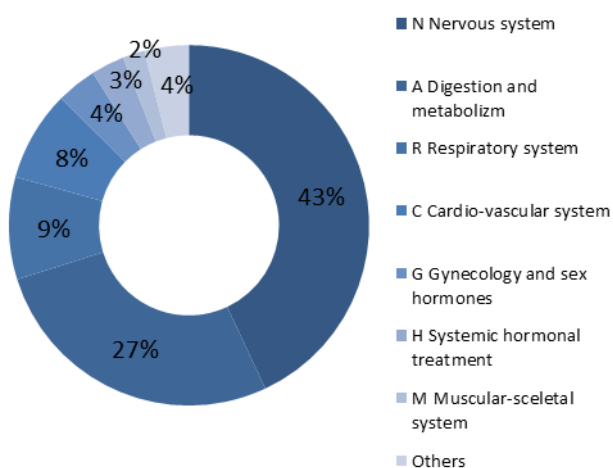
The highest share in the volume of sales are tablet formulations, followed by ampoules, syrups, lyophilic products and unguents.

Revenues by type of formulation	2011 BGN '000	2010 BGN '000	change %
Tablets	155 089	151 335	2%
Ampoules	27 812	29 004	-4%
Syrups	13 923	13 554	3%
Liophilic products	6 262	7 147	-12%
Unguent	4 984	6 252	-20%
Suppositories	7506	1 034	-27%
Drops	869	733	19%
Infusion solutions	158		
<b>Total</b>	<b>209 847</b>	<b>209 059</b>	<b>0.4%</b>



### Sales by therapeutic group

Revenues by therapeutic group	2011 BGN '000	2010 BGN '000	change %
N Nervous system	90 347	82 807	9%
A Digestion and metabolism	56 969	61 712	-8%
R Respiratory system	19 283	18 546	4%
C Cardio-vascular system	17 056	19 824	-14%
G Gynecology and sex hormones	7 544	5 219	45%
H Systemic hormonal treatment	6 279	7 134	-12%
M Muscular-skeletal system	4 113	5 110	-20%
Others	8 256	8 707	-5%
<b>Total</b>	<b>209 847</b>	<b>209 059</b>	<b>0.4%</b>



## Other operating revenues

Other operating revenues	2011 BGN '000	2010 BGN '000	change %	relative share 2011 %
Income from services	2 634	2 525	4%	69%
Income from sale of products	651	680	-4%	17%
Income from sale of materials	398	241	65%	10%
Loss from revaluation of investment property to fair value	(365)	(353)	3%	-10%
Income from forfeit	782			20%
Net loss from exchange rate differences from trade receivables, trade payables, accounts	(526)	(89)	491%	-14%
Net gain from sale of long-term assets	18	(150)	-112%	0%
Other	231	246	-6%	6%
<b>Other operating income</b>	<b>3 823</b>	<b>3 100</b>	<b>22%</b>	<b>100%</b>

*Other operating income* increased by 0.7 million BGN or 23%, reaching 3.8 million BGN in 2011 compared to 3.1 million BGN in 2010, most significantly influenced by the proceeds from forfeits, which amounted to 0.8 million BGN. In addition there was a reduction in net exchange losses on trade receivables, payables and current accounts.

The company reports an increase in profits from the sale of materials (0.2 million BGN), gain on sale of fixed assets (0.2 million BGN) and revenue from the provision of services (0.1 million BGN).

## Operating expenses

Operating expenses	2011 BGN '000	2010 BGN '000	change %	relative share 2011 %
Changes in the finished goods and work in progress inventory	(4 341)	2 393	-281%	-3%
Raw materials and materials	57 460	51 527	12%	34%
External services	68 972	63 243	9%	41%
Personnel	34 051	29 165	17%	20%
Depreciation and amortization	8 454	8 506	-1%	5%
Other operating expenses	5 104	4 292	19%	3%
<b>Total operating expenses</b>	<b>169 700</b>	<b>159 126</b>	<b>7%</b>	<b>100%</b>

*The operating expenses* increased by 10.6 million BGN, or 7%, from 159.1 million BGN in 2010 to 169.7 million BGN in 2011, which is conditioned by the increase in the cost of raw materials and materials, external services and personnel. Changes in inventories of finished goods and work in progress is mostly due to unrealized export of finished products to the Russian market at the end of the year, partially offset by a decrease in the BGN 6.7 million total costs.

	2011	2010	change	relative share 2011
	BGN '000	BGN '000	%	%
<b>Materials expenses</b>				
Main materials	44 246	41 106	8%	77%
Spare parts, laboratory items and technical materials	4 633	3 371	37%	8%
Heat	3 126	2 712	15%	5%
Electricity	2 401	1 983	21%	4%
Fuels and lubricants	1 233	1 004	23%	2%
Water	719	701	3%	1%
Working clothes	586	522	12%	1%
Other	516	128	303%	1%
<b>Total</b>	<b>57 460</b>	<b>51 527</b>	<b>12%</b>	<b>100%</b>

*Cost of materials* (34% share) increased by 12% or 5.9 million from 51.5 million BGN in 2010 to 57.59 million BGN at the end of 2011. Costs for basic materials increased by 3.1 million BGN, or 8%, the most significant effect is reported in substances, which increased by 1.8 million BGN. There was an increase in the cost of heat, spare parts, laboratory and technical materials, electricity, fuel and lubricants. This increase in cost of materials is mainly due to increased volume of output, which reflects changes in stocks of finished goods at year end.

	2011	2010	change	relative share 2011
	BGN '000	BGN '000	%	%
<b>External services expenses</b>				
Production	35 991	34 440	5%	52%
Advertising	8 788	8 587	2%	13%
Consultancy fees	3 862	1 310	195%	6%
Commissions	2 974	3 411	-13%	4%
Transportation	2 495	2 796	-11%	4%
Logistics related to export and domestic market	2 283	2 134	7%	3%
Maintenance of buildings and equipment	2 105	1 378	53%	3%
State and regulatory fees	1 324	1 409	-6%	2%
Registration and clinical test services	1 267	593	114%	2%
Civil contracts	1 020	879	16%	1%
Insurance	928	938	-1%	1%
Security	769	725	6%	1%
Local taxes and fees	697	732	-5%	1%
Other (see notes to FS)	4 469	3 911	14%	6%
<b>Total</b>	<b>68 972</b>	<b>63 243</b>	<b>9%</b>	<b>100%</b>

*Hired services* occupy 41% share of operating expenses and increased by 5.7 million BGN or 9%, reaching 68.9 million BGN in 2011 compared to 63.2 million BGN in 2010. The most significant impact of this growth have production costs, which rose by 1.5 million mainly due to increased BGN outputs, consulting services, increasing to 2.5 million BGN, maintenance of buildings and equipment grew by 0.7 million BGN, as well as increased costs for registration and clinical tests, logistics services, royalties, advertising, etc.

The company reported less cost for commissions, transport, insurance, messaging and telecommunications, courier services and others.

	2011	2010	change	relative share 2011
	BGN '000	BGN '000	%	%
<b>Personnel expenses</b>				
Current salaries	25 046	22 596	11%	74%
Tantiemes	1 217	0		4%
Social insurance	5 046	4 347	16%	15%
Social benefits and payments	2 014	1 439	40%	6%
Other	728	783	-7%	2%
<b>Total</b>	<b>34 051</b>	<b>29 165</b>	<b>17%</b>	<b>100%</b>

*Personnel costs* (a share of 20%) increased by 4.9 million BGN, or 17% from 29.2 million BGN in 2010 to 34 million BGN to 31.12.2011. Current salaries increased by 2.5 million BGN, social security contributions have increased by 0.7 million BGN and social benefits increased by 0.6 million BGN. The total growth of these costs is due to increased number of employees, increased amount of average salary in the company, additional remuneration for the management team, voted on EGMS end of the year, as well as additional incentives to the staff of the company in the form of food vouchers, in accordance with a contract with a licensed operator.

	31.12.2011	31.12.2010	change	relative share 2011
	BGN '000	BGN '000	%	%
<b>Other expenses</b>				
Entertainment expenses	2 075	2 000	4%	41%
Accrued/recovered impairment of finished products and work in progress charged	851	429	98%	17%
Business trips	812	526	54%	16%
Other taxes	347	111	213%	7%
Grants	266	342	-22%	5%
Reject of finished goods and work in progress	216	368	-41%	4%
Impairment of receivables charged / reversed	172	116	48%	3%
Other (see notes to the FS)	365	400	-9%	7%
<b>Total</b>	<b>5 104</b>	<b>4 292</b>	<b>19%</b>	<b>100%</b>

*Other operating expenses* (with a share of 3%) increased by 0.8 million or 19% from 4.2 million BGN at the end of 2010 to 5.1 million BGN in 2011, expanding business trips costs by 0.3 million BGN, and total accumulated impairment of finished goods and receivables, which increased 0.7 million BGN. Other taxes increased by 0,2 million BGN.

*Depreciation and amortization* recorded a minimal decline of 1% or 52 thousand BGN from 8.5 million BGN in 2010 to 8.45 million BGN in 2011.

### Financial income and expenses

	2011 BGN '000	2010 BGN '000	change %	relative share 2011 %
<b>Financial income</b>				
Income from private equity	5 444	2 879	89.1%	48%
Income from interest on loans granted	5 264	3 302	59.4%	46%
Income from interest on deposits	283	278	1.8%	2%
Net gain from operations with securities	230	0		2%
Net gain from exchange rate differences on loans	222	67	231.3%	2%
<b>Total</b>	<b>11 443</b>	<b>6 526</b>	<b>75%</b>	<b>100%</b>
<b>Financial expenses</b>				
Expenses for interest on loans received	6 287	6 309	0%	52%
Impairment of investments available for sale	2 624	4 299	-39%	35%
Bank fees for loans and guarantees	300	294	2%	2%
Financial leasing expenses	233	225	4%	2%
Revaluation to fair value upon merger of an associated company into a daughter company		670	-100%	6%
Net loss for operations with securities		368	-100%	3%
<b>Total</b>	<b>9 444</b>	<b>12 165</b>	<b>-22%</b>	<b>100%</b>

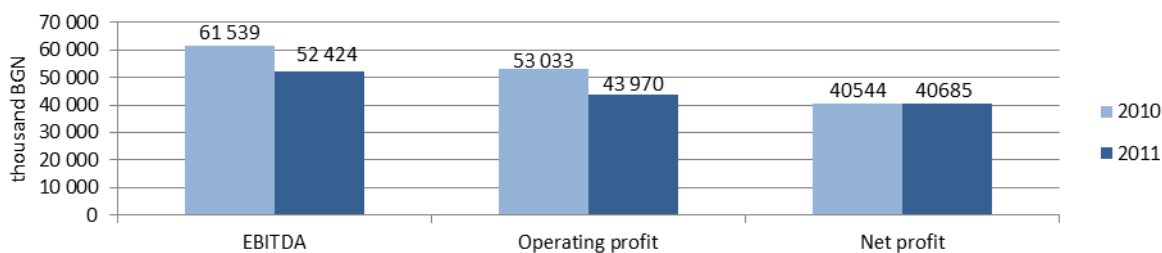
*Financial income* increased by 4.9 million BGN, or 75%, reaching 11.4 million BGN at the end of 2011 compared to 6.5 million BGN at the end of 2010. This growth is due mostly to income from private equity which increased by 2.6 million BGN, and interest income from loans granted, which increased by 1.96 million BGN due to increase in value of loans granted by the company to third parties.

*Financial expenses* decreased by 2.7 million BGN or 22%, from 12.2 in 2010 to 9.4 million BGN in 2011. This decrease is mainly due to the smaller amount of the impairment of investments available for sale in 2011, which decreased by 1.7 million BGN. The net loss on transactions with securities also decreased by 0.4 million BGN. Despite the increased amount of payables the interest costs on borrowings maintained the same level compared to the previous year.

*Net financial income (expense)* increased by 7.6 million BGN, reaching 2 million t the end of 2011, compared to (5.6) million BGN at the end of 2010.



## Operating result



*Profit before interest, taxes, depreciation and amortization (EBITDA) fell by 9.1 million BGN or 15%, in 2011 it amounted to 52.4 million BGN, compared with 61.5 million BGN in 2010. The operating profit decreased by 9 million BGN or 17% to 44 million BGN in 2011 compared to 53 million BGN in 2010. Net profit for 2011 increased by 0.2 million BGN or 0.3%, reaching 40.7 million BGN for 2011 compared to 40.5 million BGN in 2010.*

## Assets

	31.12.2011	31.12.2010	change	relative share 2011
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	135 048	112 497	20%	48%
Intangible assets	3 386	1 950	74%	1%
Investment property	19 170	19 535	-2%	7%
Investments in subsidiaries	88 462	89 744		32%
Investments available for sale	16 792	18 040	-7%	6%
Long-term loans to related parties	16 069	12 254	31%	6%
Other non-current assets	272	9		0%
	<b>279 199</b>	<b>254 020</b>	10%	53%
<b>Current assets</b>				
Inventories	50 916	46 507	9%	21%
Receivables from related parties	135 104	90 607	49%	55%
Trade receivables	29 383	39 311	-25%	12%
Other receivables and prepaid expenses	10 333	5 842	77%	4%
Cash and cash equivalents	18 038	30 982	-42%	7%
	<b>243 774</b>	<b>213 249</b>	14%	47%
<b>TOTAL ASSETS</b>	<b>522 973</b>	<b>467 269</b>	12%	100%

*Total assets increased by 55.7 million BGN or 12%, reaching 523 million BGN compared with 467.3 in 2010 as a consequence of the increase in non-current as well as current assets.*

*Non-current assets increased by 25.2 million BGN, or 10%, due mainly to the increase in property, plant and equipment by 22,6 million BGN, the growth of intangible assets with 1.4 million BGN, and the increase in long-term loans to related companies with 3.8 million BGN.*

Investments available for sale decrease by 1.2 million BGN, investments in subsidiaries by 1.3 million BGN and Investment property with 0.4 million compared to 31/12/2010.

Property, plant and equipment	31.12.2011	31.12.2010	change	relative
	BGN '000	BGN '000	%	share 2011
Land and buildings	63 416	63 952	-1%	47%
Machines and equipment	31 392	31 788	-1%	23%
Other	7 348	7 883	-7%	5%
In process of acquisition	32 892	8 874	271%	24%
<b>Total</b>	<b>135 048</b>	<b>112 497</b>	<b>20%</b>	<b>100%</b>

Property, plant and equipment has substantially increased in the part of assets in process of acquisition, which grew by 24 million BGN, as a result primarily of investments in the new plant for tablet forms, which for 2011 is amounting to 17.9 million BGN, and total funds invested in it since the beginning of the project amounted to 26.4 million BGN. Additional funds are spent on advances for acquisition of laboratory and production equipment.

Intangible assets also showed growth of 1.4 million BGN as a result of capital expenditure related to implementing an integrated information system, which should be completed in 2012.

Loans to related companies have increased from 3.8 million BGN as a result of the transformation of part of borrowing to short-term receivables.

Long-term loans granted to related companies at 31.12.2011:

- ✚ OAO "Vitamini" – contractual loan of 3 000 thousand USD; interest rate – 9,8%; maturity – 25.01.2015; purpose of the loan – working capital; balance at 31.12.2011 – 5 845 thousand BGN (3 867 thousand USD); no collateral.
- ✚ OAO "Vitamini" – contractual amount 1 000 thousand USD; interest rate – 9,8%; maturity – 25.01.2015; purpose of the loan – working capital; balance at 31.12.2011 – 2 022 thousand BGN (1 337 thousand USD); no collateral.
- ✚ OAO "Vitamini" – contractual loan of 3 000 thousand USD; interest rate – 9,8%; maturity – 25.01.2015; purpose of the loan – working capital; balance at 31.12.2011 – 1 741 thousand BGN (1 152 thousand USD); no collateral.
- ✚ „Briz“ OOD – contractual amount 2 770 thousand EUR; interest rate – 6,1%; maturity – 20.01.2013; purpose of the loan – working capital; balance at 31.12.2011 – 5 732 thousand BGN (2 931 thousand EUR); no collateral.
- ✚ To companies under common control through key management personnel:
- ✚ „ZOF Medico 21“ – contractual amount 1 100 thousand BGN; interest rate – 8,08%; maturity – 31.12.2014; purpose of the loan – working capital; balance at 31.12.2011 – 729 thousand BGN.

Information about the Company's shareholdings and major investments in the country and abroad is provided in the notes to the annual financial statements - „Investments in subsidiaries“ and „Investments available for sale“.

Current assets increased by 30.5 million BGN or 14%, reaching 243.8 million BGN in 2011 compared to 213.3 million BGN as at 31/12/2010.

	31.12.2011	31.12.2010	change	relative share 2011
	BGN '000	BGN '000	%	%
<b>Inventory</b>				
Materials	21 949	20 705	6%	43%
Finished products	22 054	17 277	28%	43%
Mid products	3 813	4 950	-23%	7%
Work in progress	3 054	3 501	-13%	6%
Goods	46	74	-38%	0%
<b>Total</b>	<b>50 916</b>	<b>46 507</b>	<b>9%</b>	<b>100%</b>

Inventories increased by 4.4 million BGN compared to 31/12/2010, mainly in the part of the finished products, which grew by 4.8 million BGN, and materials increased by 1.2 million BGN whereas mid products decreased by 1.1 million BGN. Work in progress fell by 0.5 million BGN.

Receivables from related companies increased by 44.4 million BGN. The greatest burden in this increase are receivables on sales of goods and materials which rose by 25.8 million BGN, and trade loans granted, marking an increase by 17.9 million BGN

Current trade loans granted to related companies:

To companies – main shareholder:

- ✚ „Donev Investments Holding“ AD – contractual amount 4 035 thousand EUR; interest rate – 4,8%; maturity – 30.09.2012; purpose of the loan – working capital; balance at 31.12.2011 – 7 991 thousand BGN (4 086 thousand EUR); no collateral.
- ✚ „Telecomplect“ AD – contractual amount 18 495 thousand BGN; interest rate – 8,08%; maturity – 31.08.2012; purpose of the loan – working capital; balance at 31.12.2011 – 6 467 thousand BGN.

To companies under joint indirect control:

- ✚ „Elpharma“ AD – contractual amount 7 000 thousand EUR; interest rate – 4,5%; maturity – 28.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 10 604 thousand BGN (5 422 thousand EUR); no collateral.
- ✚ „Mineralcommerce“ AD – contractual amount 570 thousand BGN; interest rate – 8,08%; maturity – 15.03.2012; purpose of the loan – working capital; balance at 31.12.2011 – 350 thousand BGN.

To companies under common control through key management personnel:

- ✚ „Doverie United Holding“ AD – contractual amount 14 287 thousand BGN; interest rate – 8,3%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 14 492 thousand BGN.
- ✚ „Doverie United Holding“ AD – contractual amount 945 thousand BGN; interest rate – 8,08%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 1 011 thousand BGN.

- + „Doverie United Holding“ AD – contractual amount 2 477 thousand BGN; interest rate – 8,08%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011– 2 669 thousand BGN.
- + „TELCO“ AD – contractual amount 7 200 thousand EUR; interest rate – 4,50%; maturity – 25.10.2012; purpose of the loan – working capital; balance at 31.12.2011– 14 164 thousand BGN.
- + „TELCO“ AD – contractual amount 1 581 thousand EUR; interest rate – 5,50%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011– 3 387 thousand BGN.
- + „BG VINO“ AD – contractual amount 190 thousand BGN; interest rate – 8,08%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 211 thousand BGN.
- + „Hydroizomat“ AD – contractual amount 500 thousand BGN; interest rate – 8,08%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 53 thousand BGN.
- + „Riton P“ AD – contractual amount 120 thousand BGN; interest rate – 8,08%; maturity – 10.07.2012; purpose of the loan – working capital; balance at 31.12.2011 – 101 thousand BGN.

#### To subsidiaries:

- + „Momina Krepost“ AD – contractual amount 600 thousand BGN; interest rate – 7,00%; maturity – 02.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 151 thousand BGN.
- + „Extab Corporation“ – contractual amount 20 thousand USD; interest rate – 3,5%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 32 thousand BGN (21 thousand USD)
- + „Extab Corporation“ – contractual amount 25 thousand USD; interest rate – 3,5%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 39 thousand BGN (26 thousand USD)
- + „Extab Pharma Limited“ – contractual amount 30 thousand USD; interest rate – 3,5%; maturity – 31.12.2012; purpose of the loan – working capital; balance at 31.12.2011 – 45 thousand BGN (30 thousand USD)

Trade receivables decreased by 9.9 million BGN in the portion of receivables from customers (by 11.2 million BGN). Increase is visible in the advance payments for purchase of raw materials and materials by 1.3 million BGN compared with 31/12/2010.

Other receivables and prepaid expenses increased by 4.5 million BGN. Basically this is due to an increase in court and awarded receivables – by 2.5 million BGN, as well as recovery of taxes, which increased by 1.7 million BGN and prepaid expenses, which increased by 0.5 million BGN. Loans granted to third parties decreased by 0.3 million BGN.

Cash and cash equivalents decreased by 13 million BGN at 31.12.2011 and are 18 million compared to 31 million BGN 31/12/2010.

**Owners' equity and liabilities**

	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>change</b>	<b>relative share from Owner's equity 2011</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>OWNERS' EQUITY</b>				
Share capital	132 000	132 000	0%	41%
Repurchased own shares	(10 036)	(2 392)	320%	-3%
Reserves	157 913	125 679	26%	49%
Retained earnings	40 791	40 672	0%	13%
<b>TOTAL OWNERS' EQUITY</b>	<b>320 668</b>	<b>295 959</b>	<b>8%</b>	<b>100%</b>
				<b>relative share Liabilities 2011</b>
<b>LIABILITIES</b>				<b>%</b>
<b>Non-current liabilities</b>				
Long-term bank loans	18 737	27 131	-31%	9%
Liabilities on deferred taxes	3 864	4 152	-7%	2%
Liabilities to the personnel upon retirement	1 269	1 267	0%	1%
Financial leasing liabilities	304	323	-6%	0%
	<b>24 174</b>	<b>32 873</b>	<b>-26%</b>	<b>12%</b>
<b>Current liabilities</b>				
Short-term bank loans	112 008	78 869	42%	55%
Short-term part of long-term bank loans	40 735	39 361	3%	20%
Trade payables	16 544	14 047	18%	8%
Liabilities to related parties	5 236	3 595	46%	3%
Liabilities for taxes	262	574	-54%	0%
Liabilities to the personnel and for social security	2 748	1 615	70%	1%
Other current liabilities	598	376	59%	1%
	<b>178 131</b>	<b>138 437</b>	<b>29%</b>	<b>88%</b>
<b>TOTAL LIABILITIES</b>	<b>202 305</b>	<b>171 310</b>	<b>18%</b>	<b>100%</b>
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>522 973</b>	<b>467 269</b>	<b>12%</b>	

*Owner's equity* increased by 24.7 million BGN compared to 31.12.2010 mainly as a result of increased reserves by 32.2 million BGN. At year end the repurchased own shares are 2,568,609. There have been no new issues of securities during the reporting period.

*Non-current liabilities* decreased by 8.7 million BGN, or 27%, from 32.8 million BGN at the end of 2010 to 24.2 million BGN at the end of 2011 mainly due to the reduction of long-term bank loans by 8.4 million BGN due to restructuring of bank loans of the company.

*Current liabilities* increased 39.7 million BGN compared to the end of 2010. The main reason is the increase in short-term bank loans by 33.1 million BGN, as a result of maturing working capital loans that are in the process of renegotiating. New contracts with banks were signed during the period, including contract for an investment credit of 32 million EUR to finance the construction of a new tablet plant of Sopharma AD in Sofia and annexes for extension of working capital loans. The total liabilities of the company on bank loans increased by 26.1 million BGN compared to 2010.

The increase in trade payables is due mainly to its payables to suppliers, which increased by 2.5 million BGN compared to at 31/12/2010.

Payables to related companies increased by 1.6 million BGN, mainly as a result of service obligations for the construction of the new tablet plant, which at the end of the year amounted to 1.5 million BGN.

Payables to related companies increased by 1.6 million BGN, mainly as a result of service obligations for the construction of the new tablet plant, which at the end of the year amounted to 1.5 million BGN.

Payables to employees and social security increased by 1.1 million BGN mostly due to the increase in current payables by 1.1 million BGN, as a result of unpaid bonuses for 811 thousand BGN at the end of 2011 and also of the increase in average salary and personnel in the company.

### Cash flows

	<b>31.12.2011</b>	<b>31.12.2010</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flow from operating activities	24 051	60 804
Net cash flow used in investing activities	(43 286)	(46 787)
Net cash flow used in financing operations	6 291	12 037
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(12 944)</b>	<b>26 054</b>
Cash and cash equivalents on January 1	30 982	4 928
Cash and cash equivalents on December 31	18 038	30 982

Net cash flows as at 31.12.2011 generated from operating activities amounted to 24.1 million BGN, net cash from investing activities (43.3) million BGN and financing activities 6.3 million BGN. As a result of these activities cash and cash equivalents decreased by a net 12.9 million BGN and the end of 2011 amounted to 18 million BGN compared to 30.1 million at the end of 2010.

## Ratios

	2011	2010
Return on equity (ROE) <sup>1</sup>	13.2%	14.7%
Return on assets (ROA) <sup>2</sup>	8.2%	9.4%
Asset turnover ratio <sup>3</sup>	0.43	0.49
Current liquidity <sup>4</sup>	1.37	1.54
Quick ratio <sup>5</sup>	1.08	1.20
Cash/current liabilities <sup>6</sup>	0.10	0.22
Owners' equity/liabilities <sup>7</sup>	1.59	1.73

<sup>1</sup> Net profit / average value of equity during the last five quarters

<sup>2</sup> Net profit / average total assets during the last five quarters

<sup>3</sup> Sales / average total assets during the last five quarters

<sup>4</sup> Current assets / Current liabilities

<sup>5</sup> Receivables+Cash / Current liabilities

<sup>6</sup> Cash / Current liabilities

<sup>7</sup> Owner's equity / Liabilities

\* In 2011, the financial indicators reflecting the ROE, ROA and Asset turnover ratio are calculated according to the methodology for calculating the financial ratios of BSE.

## Information on shares of Sopharma AD

The total number of outstanding shares of Sopharma AD at 31.12.2011 is 132 million with a nominal value of 1 BGN per share. All issued shares are registered, dematerialized, ordinary and indivisible according to the Company's Articles of Association. 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" AD 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" AD.

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

## Important information for the shares of Sopharma AD

	2011	2010
Total number of issued shares	132 000 000	132 000 000
Average outstanding number of shares	130 330 455	131 843 881
Number of shares outstanding at the end of the period	129 431 391	131 392 572
Earnings per share in BGN <sup>1</sup>	0,31	0,31
Price per share at the end of the period	3,175	3,912
Price per share / Net earnings per share (P/E)	10,24	12,62
Accounting value per share in BGN <sup>2</sup>	2,478	2,252
Price per share / Accounting value per share (P/B)	1,28	1,74
Market capitalization at the end of the period in BGN	419 100 000	516 384 000

<sup>1</sup> Net profit for the period / average number of shares outstanding during the period

<sup>2</sup> Equity / shares outstanding at the end of the period

## Trade with shares of Sopharma AD on „BSE – Sofia“ AD for the period 01.01-31.12.2011



The annual activity report for 2011 were audited.

Ognian Donev, PhD  
Executive Director, Sopharma AD