

# MANAGEMENT REPORT



**SOPHARMA AD**  
**2012**

## General information about Sopharma AD

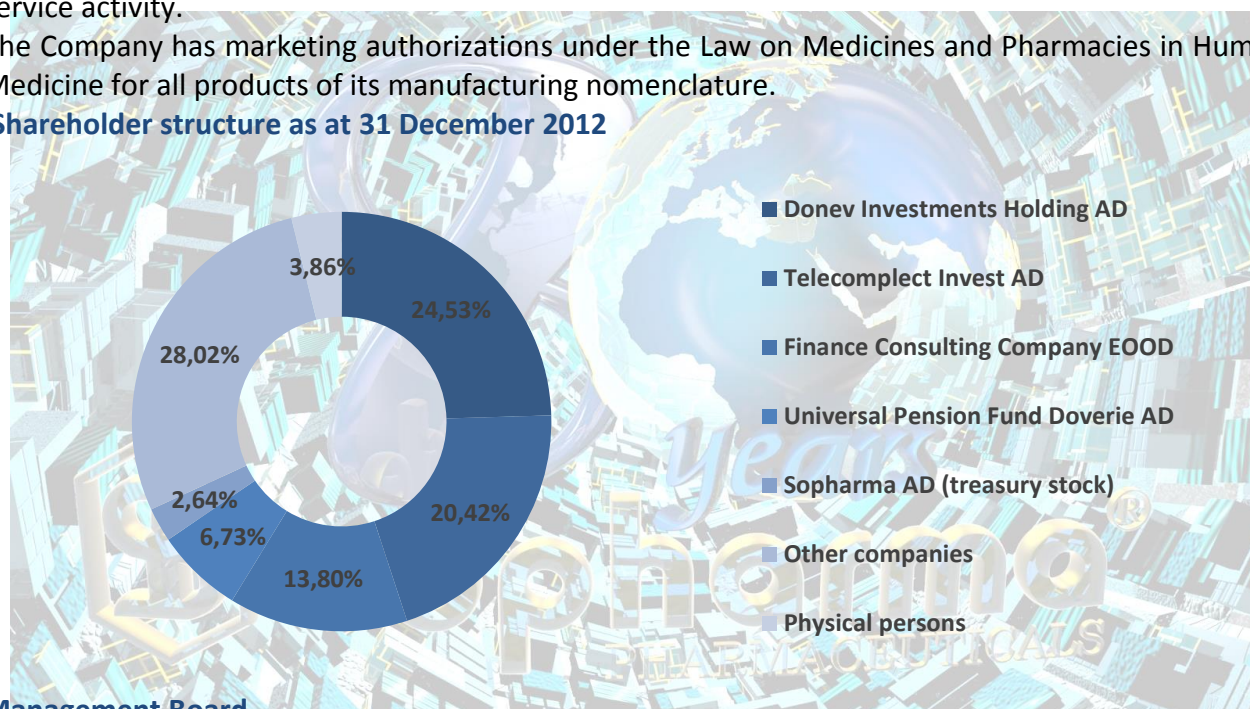
Sopharma AD is a trade company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16 „Iliensko shose“ Str.

Sopharma AD was established in 1933 with a court registration of the company from 15 November 1991, the decision No 1 / 1991 of Sofia City Court. Sopharma AD is a public company under the Law on Public Offering of Securities.

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

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 2012



### 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.

Remuneration received by the members of the Board of Directors of Sopharma AD as at 31 December 2012 amounts to 1,013 thousand BGN (Art.247a of CA).

Company shares, owned by members of the Board of Directors of the Company as at 31 December 2012 are as follows:

Ognian Palaveev – 54,320 shares;

Alexandar Tchaouchev - 86,514 shares.

The Articles of association of Sopharma AD do not provision any restrictions on the right of the members of the Board of Directors to acquire shares or bonds of the Company.

Share in the capital of other companies amounting to more than 25% of the members of the Board of Directors:

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

1. "Donev Investments Holding" AD, UIC 831915121, with address of management in Sofia, 12 "Positano" Str.;
2. "OG International" EOOD., UIC 121372478, with address of management in Sofia. 20b "Cherni vrah" Blvd;
3. "Telekomplekt Invest" AD, UIC 201653294, with address of management in Sofia, 9 "Slaveikov" Square;
4. "Fininvest Holding" AD, UIC 831065071, with address of management in Sofia, 1 "Bulgaria" Square;
5. "Telecomplect" AD, UIC 831643753, with address of management in Sofia, 5 "Lachezar Stanchev" Str., Building A;
6. "Sopharma Buildings" REIT, UIC 173346309, with address of management in Sofia, 16 „Iliensko shose“ Str.;
7. "Sopharma Properties" REIT, UIC 175059266, with address of management in Sofia, 5 "Lachezar Stanchev" Str., Building A;
8. "Sofprint Group" AD, UIC 175413277 with seat and address of management: Sofia, 12 "Positano" Str.
9. "Sofconsult Group" AD, UIC 175413245, with seat and address of management: Sofia, 12 "Positano" Str.
10. "Sofia Inform" AD, UIC 121303553, with address of management in Sofia, 12 "Positano" Str.
11. "Media Group Bulgaria Holding" OOD, UIC 121135162, with seat and address of management: Sofia, 47 "Tsarigradsko Shosse" Blvd
12. "Elpharma" AD, UIC 130299513, with seat and address of management: Sofia, 16 „Iliensko shose“ Str.
13. "Sopharma Trading" AD, UIC 103267194, with seat and address of management: Sofia, 16 "Rozhen" Str.

Vessela Liubenova Stoeva owns directly/indirectly more than 25% of the capital of the following companies:

1. "VES elektroinvest systems" EOOD, UIC 201712700, with seat and address of management: Sofia, 9 "P. R. Slaveykov" Square
2. "Eco Solar Invest" OOD, UIC 201634905, with seat and address of management: Sofia, 48 "Alabin" Str.

Alexandar Victorov Tchaouchev owns directly/indirectly more than 25% of the capital of the following companies:

- "Sofsarvis" OOD, UIC 131407109, with address of management in Sofia, 339, "Tsar Boris III"

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Andrey Liudmilov Breshkov owns directly/indirectly more than 25% of the capital of the following companies:

1. "Breshkov and Sons" OOD, UIC 115114555, with address of management in Plovdiv, 36 "Gladstone" Str.
2. "CFM" OOD, UIC 131304899, with address of management in Sofia, 2 "Nikolay Haitov" Str.

Ognian Kirilov Palaveev owns directly/indirectly more than 25% of the capital of the following companies:

1. "Mill Stefanovo Village" EOOD, UIC 201045146, with address of management in Stefanovo Village, Lovech District.
2. "Sirius" OOD, UIC 110543305, with address of management in Stefanovo Village, Lovech District, 7 "Apriltsi" Str.

Ognian Ivanov Donev participates in the managing/controlling body in the following companies:

1. "Elpharma" AD, UIC 130299513, with seat and address of management: Sofia, 16 „Iliensko shose“ Str. – member of the Board of Directors and Executive Director;
2. "Sopharma Trading" AD, UIC 103267194, with address of management in Sofia, 16 "Rozhen" Str. – Chairman of the Board of Directors;
3. "Donev Investments Holding" AD, UIC 831915121, with address of management in Sofia, 12 "Positano" Str. – Chairman of the Supervisory Board;
4. "Unipharm" AD, UIC 831537465, with address of management in Sofia, 3 "Trajko Stanoev" Str. – Chairman of the Supervisory Board;
5. "Sofia Inform" AD, UIC 121303553, with address of management in Sofia, 12 "Positano" Str. – Chairman of the Supervisory Board;
6. "OG International" EOOD., UIC 121372478, with address of management in Sofia. 20b "Cherni vrah" Blvd – partner and Manager;
7. "Pharmachim Holding" EAD, UIC 121094178, with address of management in Sofia, 16 „Iliensko shose“ Str. – Chairman of the Board of Directors;
8. "Kaliman - RT" AD, UIC 121120513, with address of management in Sofia, , 16 „Iliensko shose“ Str. – Chairman of the Board of Directors;
9. "Telecomplect" AD, UIC 831643753, with address management in Sofia, 5 "Lachezar Stanchev" Str., Building A;
10. – Chairman of the Supervisory Board;
11. "Doverie United Holding" AD, UIC 121575489, with address of management in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board, Vice-President;
12. "Doverie Capital" AD, UIC 130362127, with address of management in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board;
13. "Medica" AD, UIC 000000993, with address of management in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Board of Directors;
14. "Riton P" AD, UIC 822106398, with address of management in Panagyurishte, 30 "Krastio

Geshanov" Str. – Member of the of Directors;

15. "Momina Krepost" AD, UIK 104055543, with address of management in Veliko Tarnovo, 23 "Magistralna" Str. – Member of the Board of Directors;
16. "Alumni Association of International Economic Relations", Bulstat 175861145 – Chairman of the Management Board.
17. Association "German-Bulgarian Chamber of Industry and Commerce," Bulstat 131218681 – Member of the Management Board.
18. "Bulgarian Generic Pharmaceutical Association /BGPHARMA/", Bulstat 130568180, representing Sofarma AD as a member of the Management Board.
19. "Bulgarian Chamber of Commerce", Bulstat 000703066
20. Association "Confederation of Employers and Industrialists in Bulgaria – CEIB the voice of the Bulgarian business", Bulstat 130439965 – Chairman.

Vessela Liubenova Stoeva participates in the management/supervisory body for the following companies:

1. "Elpharma" AD, UIC 130299513, with seat and address of management: Sofia, 16 „Iliensko shose“ Str. - member of the Board of Directors;
2. "VLS" AD, UIC 175082980, with address of management in Sofia, 48 "Alabin" Str. - member of the Board of Directors;
3. "VES elektroinvest systems" EOOD, UIC 201712700, with seat and address of management: Sofia, 9 "P. R. Slaveykov" Square - Manager.

Alexandar Victorov Tchaouchev participates in the management/supervisory body of the following companies:

1. "Monbat" AD, UIC 111028849, with registered office in Sofia, Lozenets area, 4 "Golo Bardo" Str. – member of the Supervisory Board;
2. "DK-Domostroene" AD, UIC 102148397, with registered office in Burgas, PO Box 8000, Pobeda area – member of the Board of Directors;
3. "Agency management and advertising in sport 'EAD, UIC 130969084, with registered office in Sofia, Vazrazhdane," Todor Alexandrov "№ 42 – Member of the Board of Directors.

Andrey Liudmilov Breshkov participate in the management/supervisory body for the following companies:

1. "Simol" EAD, UIC 101795403, with address of management in Blagoevgrad, 3 "Georgy Izmirliev" Square – Chairman of the Board of Directors
2. "Expat Beta" REIT, UIC 200059488, with registered office in Sofia, Sredets, 96A "G. S. Rakovski" Blvd – Executive Director, Chairman of the Board of Directors;
3. "Vizatov" OOD, UIC 202235166, with seat and address of management: Sofia, Sredets, 225A "Tsar Boris III" Blvd – Chairman of the Board;
4. ZAD "Energy", UIC 831040933, with seat and address of management: Sofia, 33 "Knyaz Dondukov" Blvd - member of the Board of Directors.

Ognyan Kirilov Palaveev participates in the management/supervisory body of the following companies:

1. "Sirius" OOD, UIC 110543305, with address of management in Stefanovo Village, Lovech District, 7 "Apriltsi" Str. – member of the Management Board;
2. "Lozenets 13" AD, UIC 130539474, with seat and address of management in Sofia, Studentski area, 3 "Traiko Stanoev" Str. - member of the Board of Directors.

There were no contracts under Art. 240b of CA in 2012.

Investor Relations Director of is Pelagia Viatcheva, tel. 8134 523, Sofia, 5 "Lachezar Stanchev" Str., Building A, Floor 11.

### Industrial activity

Sopharma AD manufacturing facilities are compliant with EU regulations and are located in Bulgaria. In 2013 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 of the company is carried out and developed 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 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 important pharmaceutical products in terms of their contribution to revenues are:

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

- ✚ Methylprednisolone - generic drugs for cases of severe allergies and certain life-threatening conditions;
- ✚ Tabex – original plant-based drug used for smoking secession
- ✚ Tribestan – original plant-based product, used for stimulation of the reproductive system

### 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 self-developed extraction technologies. These products are protected in addition to trademark and patent or corporate know-how.

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

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

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

### Research and development

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

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

### Employees

As at 31 December 2012 the average number of employees of Sopharma AD is 1 859 (30.06.2011: 1848). The table below shows the detailed information on the staff of the company.

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Share

	<b>31 December 2012</b>	<b>%</b>
Number of employees 31 December 2012	1837	100%
Higher education	815	44%
Special education	55	3%
High school education	967	53%
Up to 30 years of age	252	14%
Between 31 - 40 years of age	448	24%
Between 41 - 50 years of age	553	30%
Between 51 - 60 years of age	506	28%
Over 60 years of age	78	4%
Women	1154	63%
Men	683	37%

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

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

### 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 28%, Delta Sales – 33% and OAO Vitamini – 18%.

- ✚ Sopharma Trading AD with a seat in Sofia, Nadezhda Region, 16 “Rozhen” Str., with principal activities: wholesale and retail trading of medicines and sanitary and hygiene products. 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 with a seat in Sofia, 20-22 “Zlaten Rog” Str. and principal activities: foreign trade of medicines. The relations are regulated through a contract for sale.
- ✚ OAO Vitamini is a trading company, registered in Ukraine, with a seat and address of management: Ukraine, Cherkas Area, Uman, 31 “Leninski Iskri” Str., with principal activities: production of pharmaceutical products and medicines, wholesale and retail trade of pharmaceutical products, other types of wholesale trade and intermediary services in consumer goods trading. OAO Vitamini is a subsidiary of Sopharma AD.

Suppliers with a relative share exceeding 10% of the supplied services and materials for 2012 are Telecomplex AD with a relative share of 15% and Bulgarian Rose Sevtopolis AD with a relative share of 10.3%.



- ✚ "Telekomplekt" AD with a seat and address of management in Sofia, 69-73 "Totleben" Blvd is related to Sopharma AD as a company – main shareholder;
- ✚ "Bulgarian Rose Sevtopolis" AD with a seat and address of management in Kazanalak, 110 "23 Pehoten shipchenski polk" Blvd is a subsidiary of Sopharma AD.

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

The Board of Directors of Sopharma AD complies with and implements the Code of Corporate Governance. The Company periodically discloses information about corporate governance in accordance with the "comply or explain" principle. In the event of non-compliance with the recommendations of the Code the Company provides an explanation.

The actions of the Management of Sopharma AD are directed towards affirming the principles for good corporate governance, increasing the trust of shareholders, investors and persons interested in the management and business of the Company.

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

The Board of Directors approves disclosure policies in accordance with the legal requirements and organizational acts. The system for information disclosure guarantees equality of the addressees (shareholders, stakeholders, investors) and prevents misuse of inside information.

The corporate governance guarantees that the system for information disclosure provides complete, timely, accurate and understandable information that allows objective and informed decisions and evaluations.

The Company maintains an English version of the corporate website with identical content.

The processes and procedures for conducting of General Meetings of Shareholders guarantee equal treatment of all shareholders – including minority and foreign ones, and protect their interests.

The materials related with the General Meeting of Shareholders are at the disposal of the shareholders as from the day of the invitation announcement in the Commercial Register, on the website of the Company: [www.sopharma.bg](http://www.sopharma.bg), and upon request, are provided at no cost to the shareholders.

Shareholders with a voting right can exercise their voting right at the General Meeting personally or through a representative and when the Articles of association of the Company provide such an option – also through correspondence and/or electronically.

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

### ***Changes in 2012***

As of 31 January 2012, Mr Ognyan Donev has closed his personal position as a shareholder of Sopharma. Mr Donev remains a shareholder in the Company through his indirect participations.

On 31 January 2012 the subsidiary Breeze OOD - Latvia acquired 18% of the share capital of OOO Vivaton plus in Belarus. As at 29 December 2012 the shareholding in the company through Briz OOD has reached 50% of the capital.

On 15 February 2012 the subsidiary Breeze Ltd - Latvia sold its interest in its subsidiary OOO Superlats.

On 19 March 2012 the new corporate kindergarten of Sopharma AD was opened, which is intended for children of employees. 25 children will receive professional day care in a building that is fully aligned with the requirements for child care and has a total area of 253 m<sup>2</sup>. The interior is designed according to modern European standards, and the food menu is prepared with the age of the children and the requirements for proper nutrition in mind. The investment amounted to 300 thousand BGN.

On 10 April 2012 the Board of Directors of Sopharma decided to sell the 51% ownership of the capital of ZAO Rostbalkanpharm, city of Azov, Rostov Region, Russian Federation.

On 18 April 2012 notifications for disclosure of shareholdings under Art. 145 of the LPOS were received regarding the selling of 6.51% of the capital of Sopharma by Gramarcy Select Master Fund, USA, Georgetown and the selling of 6.05% of the capital of Sopharma by Gramarcy Emerging Markets Fund, USA, Georgetown, both funds effectively closing their positions in the Company. Both transactions were registered with the Central Depository on 09 April 2012.

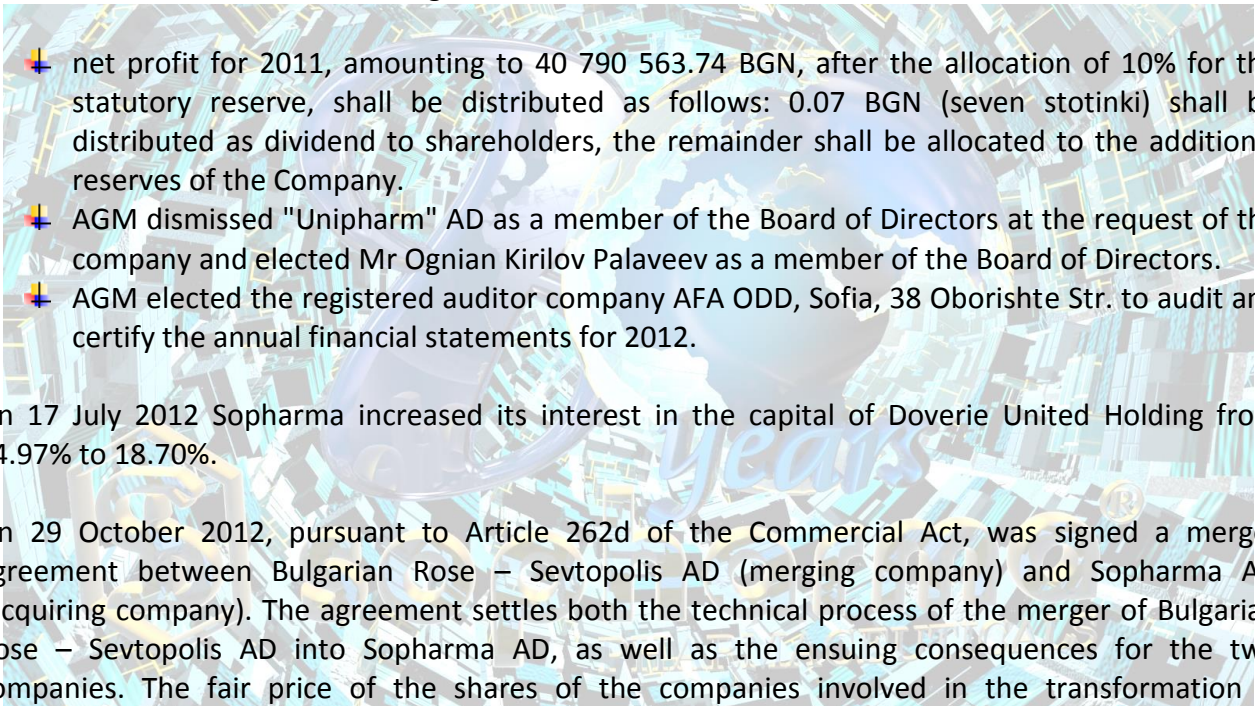
In May the Board of Directors of Sopharma AD (the “Company”) took the decision to establish the Sopharma Ukraine OOD company with address of management in Kiev, Ukraine and with share

capital of 1,000,000 / one million / UAH. The aim of the company is to optimize the trading business in Ukraine.

Sopharma received in June in Belgrade the prestigious international award "Business Partner of 2012" for the opening of a second production plant for medicines near Belgrade in September 2011.

On 14 June 2012 Sopharma AD purchased 6,149 shares of the capital of Maritzatex AD, increasing its share in the capital of Maritzatex AD to 6,20%.

The Annual General Meeting of shareholders of Sopharma AD, held on 19 June 2012 in Sofia, 16 Iliensko shousee, took the following decisions:

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- ✚ net profit for 2011, amounting to 40 790 563.74 BGN, after the allocation of 10% for the statutory reserve, shall be distributed as follows: 0.07 BGN (seven stotinki) shall be distributed as dividend to shareholders, the remainder shall be allocated to the additional reserves of the Company.
  - ✚ AGM dismissed "Unipharm" AD as a member of the Board of Directors at the request of the company and elected Mr Ognian Kirilov Palaveev as a member of the Board of Directors.
  - ✚ AGM elected the registered auditor company AFA ODD, Sofia, 38 Oborishte Str. to audit and certify the annual financial statements for 2012.

On 17 July 2012 Sopharma increased its interest in the capital of Doverie United Holding from 14.97% to 18.70%.

On 29 October 2012, pursuant to Article 262d of the Commercial Act, was signed a merger agreement between Bulgarian Rose – Sevtopolis AD (merging company) and Sopharma AD (acquiring company). The agreement settles both the technical process of the merger of Bulgarian Rose – Sevtopolis AD into Sopharma AD, as well as the ensuing consequences for the two companies. The fair price of the shares of the companies involved in the transformation is determined based on generally accepted valuation methods. Based on the fair price of the shares of the companies involved in the transformation an exchange ratio of 0.554192 has been formed, which means that one share of the merging company Bulgarian Rose – Sevtopolis AD shall be exchanged for 0.554192 shares of the acquiring company Sopharma AD. As of the present moment the Deputy Chairman of the Financial Supervision Commission, Head of the "Investment Supervision" Department, has not yet granted an approval under art. 124 of the POSA of the merger contract, of the reports of the governing bodies under art. 262i of the Commercial Act and of the report of the examiner under art. 262 m of the Commercial Act.

Sopharma AD increased its share in the capital of Biopharm Engineering AD from 69,43% to 97,15% after a capital increase of the company.

On 01 November 2012 an Extraordinary Meeting of Shareholders of Sopharma was held, which took the following decision: “EGM amends the conditions for share repurchase, determined by the decision taken on item 14 of the agenda of the regular AGM, held on 23 June 2010, and amended by the decision of the Extraordinary General Meeting of Shareholders from 30 November 2011, 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 under the following conditions: volume of treasury shares - up to 10% of the total number of shares issued by the company, but not more than 3% for one calendar year; period of execution of the repurchase – not longer than 5 (five) years; minimum repurchase price– 2.10 BGN; the maximum repurchase price of 5,50 BGN per share, determined by a decision of the regular AGM from 23 June 2010, shall not be amended.”

No major contracts or contracts with a substantial influence on the business of the Company have been concluded during the reporting period.

Transactions between the Company and related parties during the reporting period are presented in the "Related Party Transactions" annex to the annual financial statements. The Company has no transactions outside the ordinary course of its business, and ones which deviate from the market conditions.

During the reporting period there are no unusual events or indicators for the Company.

Information regarding transactions, not listed in the balance sheet is presented in the “Contingencies and commitments” annex to the annual financial statements.

### **New developments and products**

#### New in 2012

The Company implemented 3 new products into its portfolio – Vitamin C ampoules of 2 ml. and 5 ml. for drinking and Neurelaks tablets.

#### Expected in 2013

Three to five new products are expected to be introduced by the end of 2013.

#### Developments

Forty-eight production processes and technologies are in the process of transfer and optimization. 23 new products for the Company are currently in development.

### **Planned development**

- ✦ Sopharma AD will continue its development as a company producing high quality medicines 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 national market.
- ✦ With regard to foreign markets, the efforts are focused on retaining and increasing the share of the Company on the main markets (Russia, Ukraine and Poland) as well as establishing and extending of 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.

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

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 from 13,80% to 10,73%.

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

On 18 February 2013 Sopharma sold 1,105,000 shares in the capital of Sopharma Trading AD, resulting in a decrease in its share in the capital of the company to 77,65%.

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%.

### Key financial indicators

Indicators	01.-12.2012	01.-12.2011	Change
Management Report – Sopharma AD 2012			

	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>
Sales revenues	210 291	209 847	0.2%
EBITDA	49 757	52 424	-5.1%
Operating profit	40 816	43 970	-7.2%
Net profit	40 885	40 685	0.5%
CAPEX	63 059	29 974	110.4%
	<b>31 December 2012</b>	<b>31 December 2011</b>	
	<b>BGN '000</b>	<b>BGN '000</b>	
Non-current assets	324 734	279 199	16.3%
Current assets	258 289	243 744	6.0%
Owners' equity	350 940	320 668	9.4%
Non-current liabilities	57 647	24 174	138.5%
Current liabilities	174 436	178 131	-2.1%
	<b>01.-12.2012</b>	<b>01.-12.2011</b>	
<b>Ratios</b>			
EBITDA / Sales revenues	23.7%	25.0%	
Operating profit/ Sales revenues	19.4%	21.0%	
Net profit/ Sales revenues	19.4%	19.4%	
Borrowed capital/Owners' equity	0,66	0,63	
Net debt/ EBITDA	4,2x	2,9x	

## Review of risk factors

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

- ✚ The Company faces significant competition.
- ✚ Reputation of the Company may be adversely affected by untrue or misleading information available on websites containing the name "Sopharma", including [www.sopharma.com](http://www.sopharma.com), which have not been authorized by the Company.
- ✚ The Company is dependent on regulatory approvals.
- ✚ Government regulations affecting the Company's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- ✚ Part of the Company's revenues, in particular in Bulgaria, depend on the inclusion of the Company's medicines on reimbursement lists.
- ✚ The Company's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Company's operations.

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

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

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

### Currency risk

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Company supplies part of its raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the 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.

### **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 required to prepare a report on the activities as well as financial statements for each financial year, which should give a true and fair view of the Company's financial position and performance as at end of the period, and for the cash flows in accordance with the applicable accounting framework. The responsibility of the Management also includes 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 operations in accordance with the legal and regulatory provisions;
- + reflection of all events and operations in a timely manner, 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;
- + adherence to the principle of prudence 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 adherence to the going concern principle.

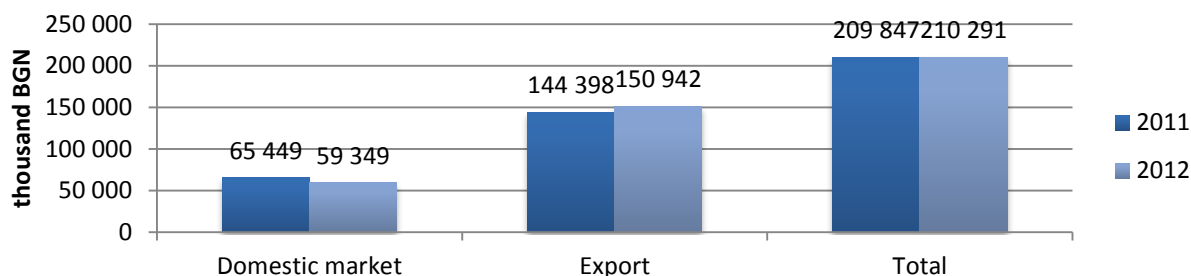
No changes occurred in the main principles of governance of Sopharma AD and its economic group during the reporting period.

## **Financial results in 2012**

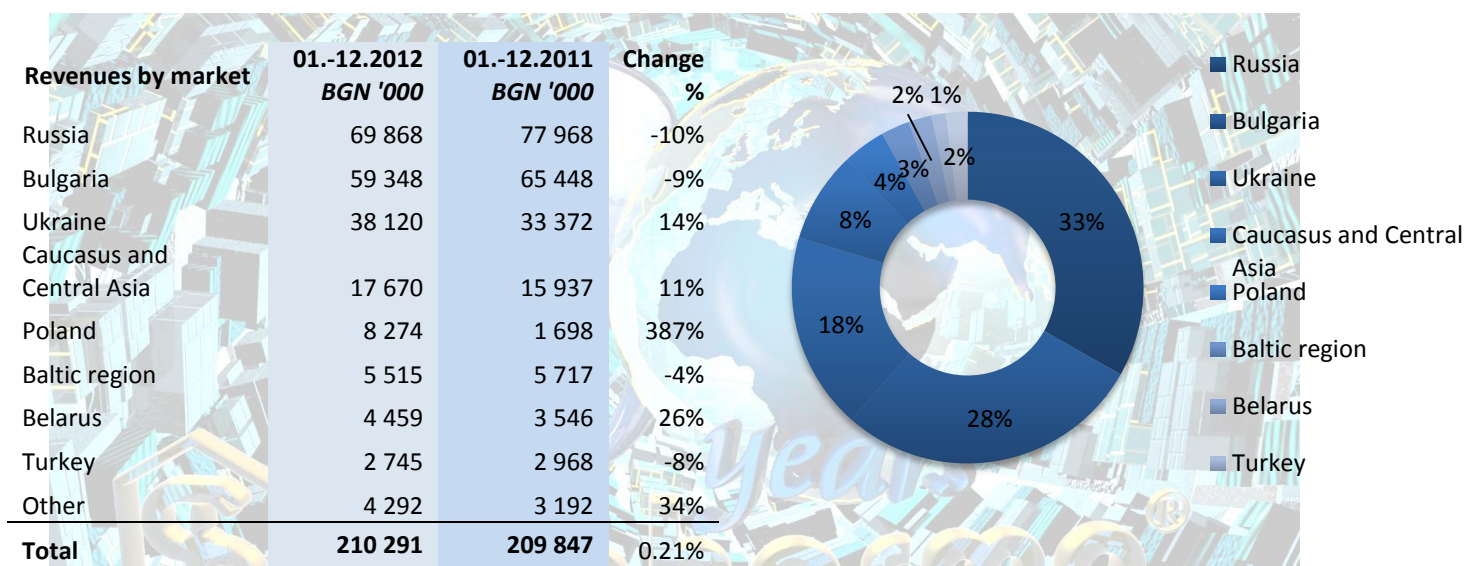
### **Sales revenues**


*Sales revenues of production increase by 0,4 million BGN or 0,21%, reaching 210,3 million BGN as at the end of 2012, compared to 209,8 million BGN at the end of 2011.*

### Sales revenues



### Main markets



 Russia  
The sold production in Russia fell by 8,1 million BGN, or 10% to 69,9 million BGN in 2012 compared to 78 million BGN 2011. The main products that are sold on the Russian market are Carsil, Tempalgin, Sedal M, Tabex, and Broncholytin.

 Bulgaria

The sales of Sopharma AD on the domestic market decreased by 6,1 million BGN, or 9% and reached 59,3 million BGN in 2012 compared to 65,4 million BGN in 2011. The products with largest share of sales in the country are Analgin, Vicetin, Methylprednizolon, Flixotide, Vitamin C. Sopharma AD has a 5% share of 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 - 7% (5% in units), Actavis - by value 6% (14% in units), Roche-6% (1% in units), Glaxosmithkline - 6% (3% in units), Sanofi-Aventis-Zentiva - 5% (3% in units), Servier - 4% (2% in units), Astra Zeneca - 3% (1% in units), Pfizer - 3% (2% in units), Bayer -3% (2% in units),

## Ukraine

Sales in the Ukraine in 2012 increased by 4,7 million BGN or 14% to 38,1 million BGN for the current period from 33,4 million BGN for the same period in 2011. The main products exported to the Ukrainian market are Carsil, Tempalgin, Tabex, Broncholytin, Sydnopharm.

## Caucasus and Central Asia

Sales in the Caucasus and Central Asia (including Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan, Georgia, Azerbaijan and Armenia) rose by 1,7 million BGN or 11%, reaching 17,6 million BGN in 2012, compared to 15,9 million BGN in 2011. The largest share of revenues in this region have sales in Kazakhstan (46%), with an increase of 27% over the previous year, reaching 8,1 million BGN. The main products Sopharma AD exported to this region were Tempalgin, Carsil, Broncholytin, Tribestan, Vitamin B Complex.

## Poland

Sopharma AD increased its sales in Poland by 6,6 million BGN from 1,7 million BGN in 2011 to 8,3 million BGN in 2012. The main products on this market are Tabex, Nivalin, Buscolysin, Spasmalgon, Tribestan plus.

## Baltic region

Sales to the Baltic region have decreased by 0,2 million BGN or 4%, from 5,7 million BGN in 2011 to 5,5 million BGN in 2012. The main products are Carsil, Tabex and ampoules.

## Belarus

Sales in Belarus in 2012 amounted to 4,5 million BGN, compared to 3,5 million BGN in 2011. The main products sold on this market are Carsil, Tempalgin, Sydnopharm, Tabex, Tribestan.

## Turkey

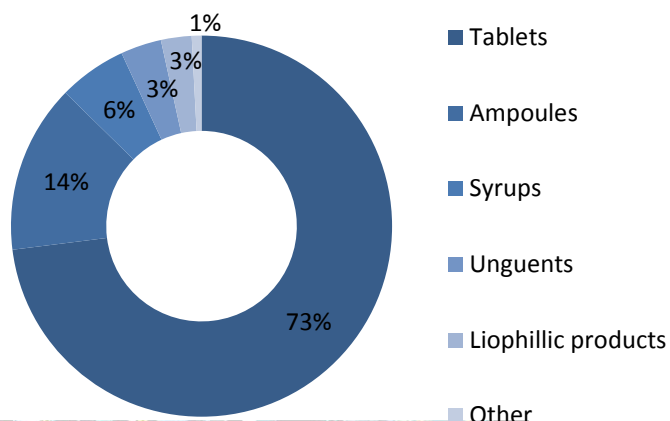
In Turkey sales decreased by 0.3 million BGN from 3 million BGN in 2011 to 2,7 million BGN in 2012. The main product, which is sold on this market is Methylprednisolone.

## Sales by type of formulation

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

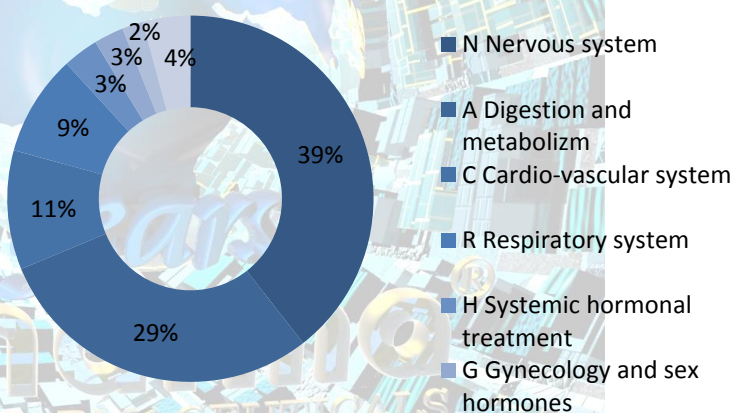
Revenues by type of formulation	01.-12.2012 BGN '000	01.-12.2011 BGN '000	Change %
Tablets	153 559	155 089	-1%
Ampoules	30 109	27 812	8%

Syrups	12 129	13 923	-13%
Unguents	7 289	4 984	46%
Liophilic products	5 467	6 262	-13%
Suppositories	747	746	0%
Drops	587	869	-32%
Infusions	40	158	-75%
Other	364	4	
<b>Total</b>	<b>210 291</b>	<b>209 847</b>	<b>0.21%</b>



## Sales by therapeutic group

Revenues by therapeutic group	2012 BGN '000	2011 BGN '000	Change %
N Nervous system	82 435	90 347	-9%
A Digestion and metabolism	60 412	56 969	6%
C Cardio-vascular system	23 938	19 283	24%
R Respiratory system	18 456	17 056	8%
G Gynaecology and sex hormones	6 493	7 544	-14%
H Systemic hormonal treatment	5 546	6 279	-12%
M Muscular-skeletal system	4 235	4 113	3%
Other	8 776	8 256	6%
<b>Total</b>	<b>210 291</b>	<b>209 847</b>	<b>0.21%</b>



## Other operating revenues

Other operating revenues	2012 BGN '000	2011 BGN '000	Change %	Share 2012 %
Income from services	2 637	2 634	0%	64%
Income from sale of materials	330	398	-17%	8%
(Loss)/gain from sale of long-term assets	(257)	18		-6%
Income from sale of products	601	651	-8%	15%
Income from forfeits	705	782	-10%	17%
Net loss from exchange rate differences	(333)	(526)	-37%	-8%

Income from sale of building rights	416			10%
Other	44	(134)	-133%	1%
<b>Other operating income</b>	<b>4 143</b>	<b>3 823</b>	8%	100%

Other operating income increased by 0,3 million BGN from 3,8 million BGN in 2011 to 4,1 million BGN in 2012. Main contributors to the increase are income from sale of building rights with 0,4 million BGN, net loss from exchange rate differences on commercial receivables, liabilities and current accounts, which decreased by 0.2 million BGN, and other income with 0,2 million BGN. Income from forfeits and income from sale of materials and sale of long-term assets have an effect in the opposite direction.

## Operating expenses

<b>Operating expenses</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>Share2012</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>%</b>	<b>%</b>
Changes in the finished goods and work-in-progress inventory	(1 113)	(4 341)	-74%	-1%
Materials	59 002	57 460	3%	34%
External services	65 710	68 972	-5%	38%
Personnel	34 859	34 051	2%	20%
Amortization	8 941	8 454	6%	5%
Other operating expenses	6 219	5 104	22%	4%
<b>Total operating expenses</b>	<b>173 618</b>	<b>169 700</b>	<b>2%</b>	<b>100%</b>

The operating expenses increased by 3,9 million BGN, or 2%, from 169,7 million BGN in 2011 to 173,6 million BGN in 2012, which is due to the increase in the cost of materials, personnel, amortization and other operating expenses.

<b>Materials expenses</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>share 2012</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
Main materials	44 212	44 246	0%	75%
Spare parts, laboratory items and technical materials	5 542	4 633	20%	9%
Heat	3 560	3 126	14%	6%
Electricity	2 750	2 401	15%	5%
Fuels and lubricants	1 366	1 233	11%	2%
Water	770	719	7%	1%
Work cloths	707	586	21%	1%
Other	95	516	-82%	0%
<b>Total</b>	<b>59 002</b>	<b>57 460</b>	<b>3%</b>	<b>100%</b>

*Cost of materials* (34% share) increased by 3% or 1,5 million from 57,5 million BGN in 2011 to 59 million BGN in 2012. Costs for basic materials decreased by 0,03 million BGN, in the segments chemical and herbs. There was an increase in the cost of heat, spare parts, laboratory and technical materials, electricity, fuel and lubricants and a decrease in impairment of materials by 0,4 million BGN.

	2012	2011	Change	Share 2012
	BGN '000	BGN '000	%	%
<b>Hired services expenses</b>				
Manufacturing	30 702	35 991	-15%	47%
Advertising	9 687	8 788	10%	15%
Consultancy fees	5 928	3 862	53%	9%
Transportation	2 808	2 495	13%	4%
Logistics	2 283	2 283	0%	3%
Rents	2 141	794	170%	3%
Maintenance of buildings and equipment	1 985	2 105	-6%	3%
Civil contracts	1 077	1 020	6%	2%
State and regulatory taxes and local taxes	811	1 324	-39%	1%
Registration services and clinical trials	1 220	1 267	-4%	2%
Insurance	888	928	-4%	1%
Security	855	769	11%	1%
Subscription fees	758	483	57%	1%
Local taxes and fees	693	697	-1%	1%
Translations	601	493	22%	1%
Communications	525	408	29%	1%
Commission fees	271	2 974	-91%	0%
Other	2 477	2 291	8%	4%
<b>Other</b>	<b>65 710</b>	<b>68 972</b>	<b>-5%</b>	<b>100%</b>

*Hired services* have a 38% share of operating expenses and decreased by 3,3 million BGN or 5%, reaching 65,7 million BGN in 2012 compared to 69 million BGN in 2011. The most significant impact have the decrease in manufacturing cost by 5,3 million BGN and cost for commission fees by 2,7 million BGN. There is an increase in advertising cost by 0,9 million BGN, consultancy services by 2,1 million BGN, rents by 1,3 million BGN, transportation by 0,3 million BGN and others.

	2012	2011	Change	Share 2012
	BGN '000	BGN '000	%	%
<b>Personnel expenses</b>				
Salaries	25 368	25 046	1%	73%
Social insurance	5 122	5 046	2%	15%
Royalties	1 224	1 217	1%	4%

Social benefits and payments	2 268	2 014	13%	7%
Other	877	728	20%	3%
<b>Total</b>	<b>34 859</b>	<b>34 051</b>	<b>2%</b>	<b>100%</b>

*Personnel costs* (a share of 20%) increased by 0,8 million BGN, or 2% from 34,1 million BGN in 2011 to 34,9 million BGN in 2012. Salaries increased by 0,3 million BGN, social security contributions increased by 0,08 million BGN and social benefits increased by 0,3 million BGN.

<b>Other expenses</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>Share 2012</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
Entertainment expenses	2 154	2 075	4%	35%
Accrued depreciation	1 919	1 023	88%	31%
Business trips	938	812	16%	15%
Awarded amounts	285	42	579%	5%
Donations	246	266	-8%	4%
Other	677	886	-24%	11%
<b>Total</b>	<b>6 219</b>	<b>5 104</b>	<b>22%</b>	<b>100%</b>

*Other operating expenses* (with a share of 4%) increased by 1,1 million or 22% from 5,1 million BGN in 2011 to 6,2 million BGN in 2012, which is mostly due to an increase in accrued depreciation by 0,9 million BGN, awards on litigations and business trips cost. Donations and other taxes decreased.

*Costs of amortization* recorded an increase of 6% from 8,5 million BGN in 2011 to 8,9 million BGN in 2012.

## Financial income and expenses

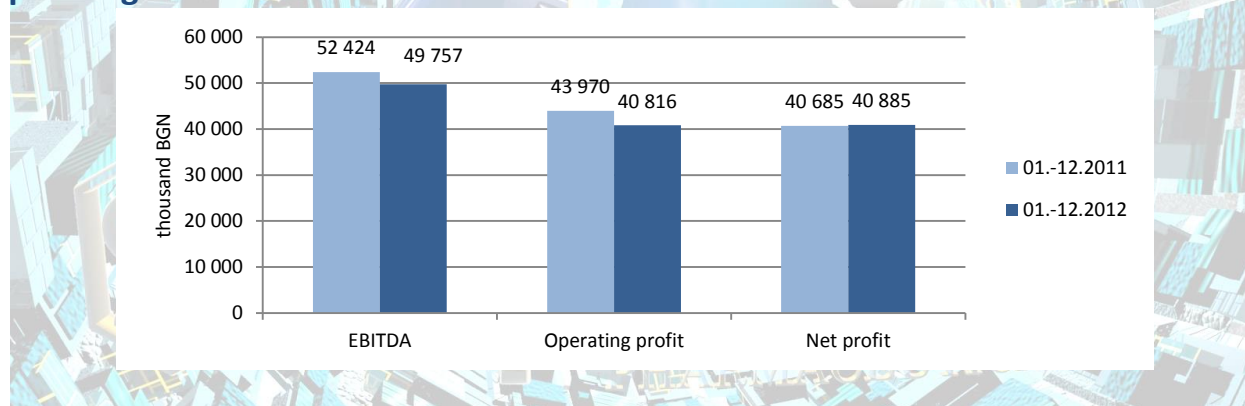
<b>Financial income</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>Share 2012</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
Income from interests in other companies	6 108	5 444	12%	52%
Income from interest on loans granted	5 034	5 264	-4%	43%
Net gain from exchange rate differences on loans	451	222	103%	4%
Gain from transfer of long-term assets in subsidiaries	120			1%
Income from operations with securities	41	230	-82 %	0%
Income from interest on deposits	3	283	-99%	0%
<b>Total</b>	<b>11 757</b>	<b>11 443</b>	<b>3%</b>	<b>100%</b>
<b>Financial expenses</b>				
Expenses for interest on loans received	5 472	6 287	-13%	85%
Impairment of available-for-sale investments	469	2 624	-82%	7%
Financial leasing expenses	264	233	13%	4%

Bank fees for loans and guarantees	246	300	-18%	4%
<b>Total</b>	<b>6 451</b>	<b>9 444</b>	<b>-32%</b>	<b>100%</b>

*Financial income* increased by 0,4 million BGN, or 3%, reaching 11,8 million BGN at the end of 2012 compared to 11,4 million BGN at the end of 2011. Income from interests in other companies amounts to 6,1 million BGN as a result of received dividends equalling 4,5 million BGN from interest in Sopharma Trading AD, 0,8 million BGN from interest in Unipharm AD and 0,2 million BGN from interest in Medica AD. Net gain from exchange rate differences on loans also increases by 0,2 million BGN. Income from interest on loans granted decreased by 0,2 million BGN, income from operations with securities - by 0,2 million BGN and income from interest on deposits – by 0,3 million BGN.

*Financial expenses* decreased by 3 million BGN or 32%, from 9,4 in 2011 to 6,4 million BGN in 2012. This decrease is mainly due to the smaller amount of expenses for interest on loans received with 0,8 million BGN, as well as to the impairment of available-for-sale investments with 2,1 million BGN. *Net financial income (expense)* increased by 3,3 million BGN, reaching 5,3 million BGN by the end of 2012, compared to 2 million BGN at the end of 2011.

## Operating result



*Earnings before interest, taxes, depreciation and amortization (EBITDA)* fell by 2,6 million BGN or 5%, amounting to 49,8 million BGN in 2012, compared to 52,4 million BGN in 2011.

*The operating profit* decreased by 3,2 million BGN or 7,2% to 40,8 million BGN in 2012 compared to 44 million BGN in 2011.

*Net income* for in 2012 increased by 0,2 million BGN or 0,5%, reaching 40,9 million BGN for 2012 compared to 40,7 million BGN for 2011.

## Assets

	31 December 2011 BGN '000	31 December 2011 BGN '000	Change %	Share 2012 %
Non-current assets				



Property, plant and equipment	186 861	135 048	38%	58%
Intangible assets	3 973	3 386	17%	1%
Investment property	19 391	19 170	1%	6%
Investments in subsidiaries	92 932	88 462	5%	29%
Available-for-sale investments	19 472	16 792	16%	6%
Long-term loans to related parties	1 183	16 341	-93%	0%
Other non-current assets	922	0		0%
	<b>324 734</b>	<b>279 199</b>	16%	56%
<b>Current assets</b>				
Inventories	54 482	50 916	7%	21%
Receivables from related parties	167 113	135 104	24%	65%
Commercial receivables	22 539	29 383	-23%	9%
Other receivables and prepaid expenses	11 560	10 333	12%	4%
Cash and cash equivalents	2 595	18 038	-86%	1%
	<b>258 289</b>	<b>243 774</b>	6%	44%
<b>TOTAL ASSETS</b>	<b>583 023</b>	<b>522 973</b>	11%	100%

*Total assets* increased by 60 million BGN or 11%, reaching 583 million BGN compared to 523 million BGN as at 31 December 2011 as a consequence of the increase of both current and non-current assets.

*Non-current assets* increased by 45,5 million BGN, or 16%, due to the increase in property, plant and equipment by 51,8 million BGN, the growth of intangible assets by 0,6 million BGN, the increase in investments in subsidiaries by 4,5 million BGN, the increase in the available-for-sale investments by 2,7 million BGN, as well as other non-current assets by 0,9 million BGN. Long-term loans to related parties decreased by 15,2 million BGN compared to 31 December 2011.

	31 December 2011	31 December 2011	Change	Share
Property, plant and equipment	BGN '000	BGN '000	%	%
Land and buildings	63 259	63 416	0%	34%
Machines and equipment	33 500	31 392	7%	18%
Other	11 485	7 348	56%	6%
In process of acquisition	78 617	32 892	139%	42%
<b>Total</b>	<b>186 861</b>	<b>135 048</b>	38%	100%

Property, plant and equipment has substantially increased in the proportion of assets in process of acquisition, which grew by 45,7 million BGN, as a result primarily of investments in the new plant for tablet forms, which for 2012 amounts to 48,9 million BGN, and the total funds invested in it

since the beginning of the project amount to 76,4 million BGN. Additional funds are spent on acquisition of laboratory and production equipment.

Intangible assets also showed growth of 0,6 million BGN as a result of implementing an integrated information system, which should be completed in 2013.

Investments in subsidiaries increased due to an increase in the capital of Biopharm Engineering AD by 5 million BGN.

The available-for-sale investments increased in relation to an increase in the capital of Doverie United Holding AD by 2,1 million BGN.

Long-term loans to related parties have decreased by 15,1 million BGN as a consequence of paying up of principals and interests amounting to 9,6 million BGN, as well as the transformation of loans amounting to 5,7 million BGN to short-term receivables from related parties.

Long-term loans to related parties as at 31 December 2012 are to companies under common control through key management personnel:

- ✚ Contracted amount: 1,100 thousand BGN, interest rate — 8.08% , maturity — 31 December 2014, balance as at 31 December 2012 — 748 thousand BGN;

Information on shareholdings and key investments in the country and abroad of Sopharma is presented in the notes to the financial statements - "Investments in subsidiaries" and "Available-for-sale Investments".

*Current assets* increased by 14,5 million BGN or 6%, reaching 258,3 million BGN as at 31 December 2012 compared to 243,8 million BGN as at 31 December 2011.

	30 September 2011	31 December 2011	change	relative share 2012
Inventories	BGN '000	BGN '000	%	%
Materials	24 800	21 949	13%	46%
Finished products	22 973	22 054	4%	42%
Semi-finished products	3 182	3 813	-17%	6%
Work in progress	3 162	3 054	4%	6%
Goods	365	46	693%	1%
<b>Total</b>	<b>54 482</b>	<b>50 916</b>	<b>7%</b>	<b>100%</b>

Inventories increased by 3,6 million BGN compared to 31 December 2011, mainly in the part of materials and work in progress respectively by 2,8 million BGN and 0,1 million BGN. Finished

products increased by 0,9 million BGN, as well as goods, which grew by 0,3 million BGN. Mid-products decreased by 0.6 million BGN.

Receivables from related parties increased by 32 million BGN. The greatest contribution to this increase have income from sale of products and materials with 32,1 million BGN, commercial loans with an increase of 0,7 million BGN. Income from dividends fell by 0,8 million BGN.

Current trade loans granted to related companies:

To companies – main shareholder:

- ✚ Contractual amount: 4 035 thousand EUR; interest rate – 4,8%; maturity – 30 December 2012, balance at 31 December 2011 – 8 170 thousand BGN (4 177 thousand EUR);

To companies under common indirect control:

- ✚ Contractual amount: 7 556 thousand EUR; interest rate – 4,5%; maturity – 31 December 2013; balance at 31 December 2012 – 10 101 thousand BGN (5 118 thousand EUR);
- ✚ Contractual amount: 1 330 thousand BGN; interest rate – 8,08%; maturity – 31 December 2013; balance at 31 December 2012 – 710 thousand BGN.

To companies under common control through key management personnel:

- ✚ Contractual amount: 18 478 thousand BGN; interest rate – 8,3%; maturity – 31 December 2013; balance at 31 December 2012 – 14 932 thousand BGN.
- ✚ Contractual amount: 8 630, interest rate – 4,50%; maturity – 31 December 2013; balance at 31 December 2012 – 12 257 thousand BGN (6 267 thousand EUR);
- ✚ Contractual amount: 25 550 thousand BGN, interest rate – 8,08%; maturity – 31 August 2013; balance at 31 December 2012 – 9 230 thousand BGN;
- ✚ Contractual amount: 190 thousand BGN; interest rate – 8,08%; maturity – 31 December 2013; balance at 31 December 2012 – 227 thousand BGN.
- ✚ Contractual amount: 1 300 thousand BGN; interest rate – 8,08%; maturity – 31 December 2013; balance at 31 December 2012 – 510 thousand BGN.

To subsidiaries:

- ✚ Contractual amount: 600 thousand BGN; interest rate – 7,00%; maturity – 31 December 2012; balance at 31 December 2012 – 101 thousand BGN;
- ✚ Contractual amount: 25 thousand USD; interest rate – 3,5%; maturity – 31 December 2013; balance at 31 December 2012 – 40 thousand BGN (26 thousand USD);
- ✚ Contractual amount: 20 thousand USD; interest rate – 3,5%; maturity – 31 December 2013; balance at 31 December 2012 – 32 thousand BGN (21 thousand USD);
- ✚ Contractual amount: 110 thousand USD; interest rate – 3,5%; maturity – 31 December 2013; balance at 31 December 2012 – 167 thousand BGN (113 thousand USD);
- ✚ Contractual amount: 2 770 thousand EUR; interest rate – 6,1%; maturity – 20 January 2013; balance at 31 December 2012 – 6 062 thousand BGN (3 099 thousand EUR);

- ✚ Contractual amount: 3 thousand EUR; interest rate – 13%; maturity – 07 November 2013; balance at 31 December 2012 – 6 thousand BGN (3 thousand EUR)

Commercial receivables decreased by 6,8 million BGN in the portion of receivables from customers (by 6,1 million BGN) and advance payments by 0,7 million BGN compared to 31 December 2011.

Other receivables and advance payments increased by 1,2 million BGN. Mainly this is due to tax recovery by 1,8 million BGN and funds provided to investment intermediaries by 0,5 million BGN.

Advance payments decreased by 0,2 million BGN, as well as the awards on litigations – by 0,6 million BGN, and loans granted to third parties – by 0,5 million BGN. Cash and cash equivalents decreased by 15 million BGN and as at 31 December 2012 amount to 3 million BGN, compared to 18 million BGN as at 31 December 2011.

## Liabilities and owners' equity

	31 December 2011 BGN '000	31 December 2011 BGN '000	Change %	Share 2012 %
<b>OWNERS' EQUITY</b>				
Share capital	132 000	132 000	0%	38%
Treasury stock	(12 156)	(10 036)	21%	-3%
Reserves	189 928	157 913	20%	54%
Retained earnings	41 168	40 791	1%	12%
<b>TOTAL OWNERS' EQUITY</b>	<b>350 940</b>	<b>320 668</b>	<b>9%</b>	<b>100%</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	51 779	18 737	176%	22%
Liabilities on deferred taxes	3 815	3 864	-1%	2%
Liabilities to the personnel upon retirement	1 371	1 269	8%	1%
Financial leasing liabilities	682	304	124%	0%
<b>Total non-current liabilities</b>	<b>57 647</b>	<b>24 174</b>	<b>138%</b>	<b>25%</b>
<b>Current liabilities</b>				
Short-term bank loans	152 778	130 123	17%	66%
Short-term part of long-term bank loans	5 888	22 620	-74%	3%
Commercial liabilities	7 090	16 544	-57%	3%
Liabilities to related parties	3 782	5 236	-28%	2%
Liabilities for taxes	208	262	-21%	0%
Liabilities to the personnel and for social insurance	3 684	2 748	34%	2%

Other current liabilities	1 006	598	68%	0%
<b>Total current liabilities</b>	<b>174 436</b>	<b>178 131</b>	-2%	75%
<b>TOTAL LIABILITIES</b>	<b>232 083</b>	<b>202 305</b>	15%	100%
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>583 023</b>	<b>522 973</b>	11%	

*Equity* increased by 30,3 million BGN compared to 31 December 2011 as a result of increased reserves by 32 million BGN. At the end of 2012 the treasury stock amounts to 3 486 231. During the reporting period no new issue of securities was conducted.

*Non-current liabilities* increased by 33,4 million BGN, from 24,2 million BGN at the end of 2011 to 57,6 million BGN at the end of 2012 mainly due to the increase of long-term bank loans by 33 million BGN.

*Current liabilities* decreased by 3,7 million BGN compared to the end of 2011. The main reason is the decrease in short-term part of long-term bank loans and commercial payables by 16,7 million BGN and 9,5 million BGN. Short-term bank loans increased by 22,7 million BGN.

The total exposition on bank loans of the Company as at 31 December 2012 increased by 39 million BGN compared to the previous period, as a result of the investments in the new solid-forms plant.

Commercial liabilities decreased due to liabilities to suppliers, which decreased by 9,4 million BGN compared to 31 December 2011.

Liabilities to related parties decreased by 1,4 million BGN, mainly as a result of repayment of liabilities to suppliers, related to the construction of new manufacturing facilities.

Liabilities to employees and for social security increased by 1 million BGN mostly due to increases in the payment of royalties by 0,8 million BGN

Other current liabilities increased by 0,4 million BGN due to an increase in liabilities for dividends and awards on litigations.

### Cash flow

	2012 BGN '000	2011 BGN '000
Net cash flow from operations	(5 933)	24 051
Net cash flow from investment activities	(36 118)	(43 286)
Net cash flow used in financial operations	26 608	6 291

<b>Net increase/(decrease) of cash and cash equivalents</b>	(15 443)	(12 944)
Cash and cash equivalents on 1 January	18 038	30 982
Cash and cash equivalents on 31 December	2 595	18 038

*Net cash flows* as at 31 December 2012 generated from operating activities amounted to (5,9) million BGN, net cash from investing activities (36,1) million BGN and financing activities 26,6 million BGN. As a result of these activities cash and cash equivalents mark a net decrease by 15,4 million BGN and the end of 2012 amounted to 2,6 million BGN compared to 18 million at the end of 2011.

### Ratios

	31 December 2012	31 December 2011
ROE	12.2%	13.2%
ROA	7.4%	8.2%
Asset turnover	0.38	0.43
Current liquidity	1.48	1.37
Quick ratio	1.17	1.08
Cash/current liabilities	0.01	0.10
Owners' equity/liabilities	1.51	1.59

### Information about the shares of Sopharma AD

The total number of outstanding shares at 31 December 2011 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.

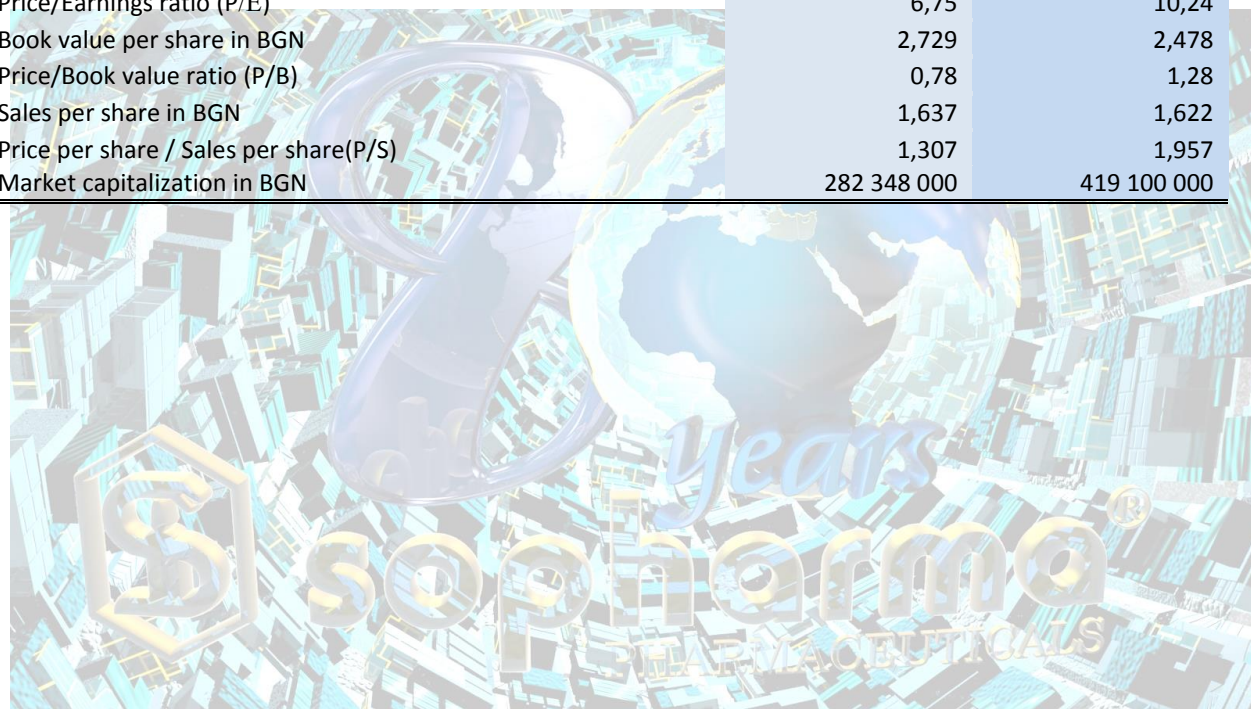
The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds and the certificate ABN AMRO SOFIX - Open-end-certificate and the new blue-chip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

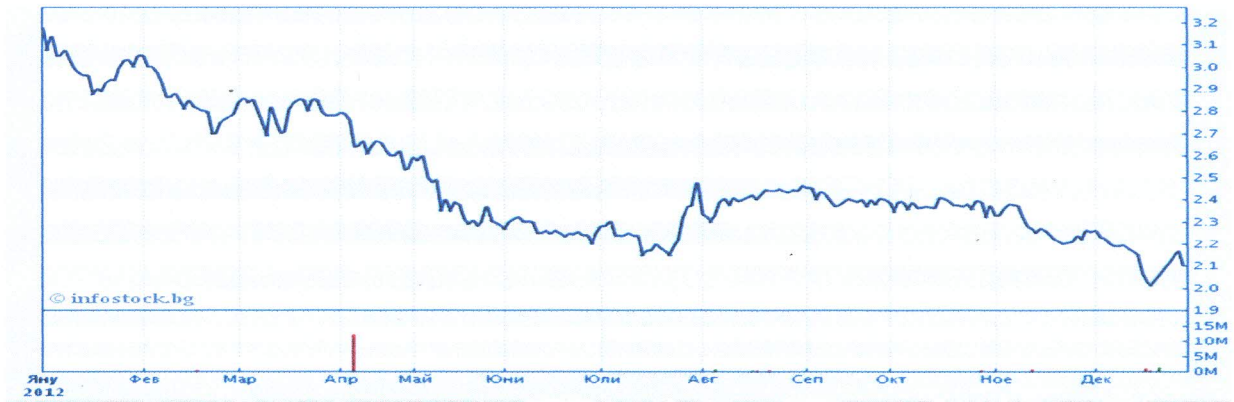
## Important information for the shares of Sopharma AD

	31 December 2012	31 December 2011
Total number of issued shares	132 000 000	132 000 000
Average outstanding number of shares	128 924 868	130 330 455
Number of shares outstanding at the end of the period	128 513 769	129 431 391
Earnings per share in BGN	0,317	0,312
Price per share at the end of the period in BGN	2,139	3,175
Price/Earnings ratio (P/E)	6,75	10,24
Book value per share in BGN	2,729	2,478
Price/Book value ratio (P/B)	0,78	1,28
Sales per share in BGN	1,637	1,622
Price per share / Sales per share(P/S)	1,307	1,957
Market capitalization in BGN	282 348 000	419 100 000



SOPHARMA AD

Trade with Sopharma AD shares on the Bulgarian Stock Exchange: 01.01.2012 - 31.12.2012



*[Signature]*  
Ognian Donev, PhD  
/CEO/

