



**MANAGEMENT REPORT**

**SOPHARMA AD**

**Q1 2012**

**30.04.2012**

## General information about Sopharma AD

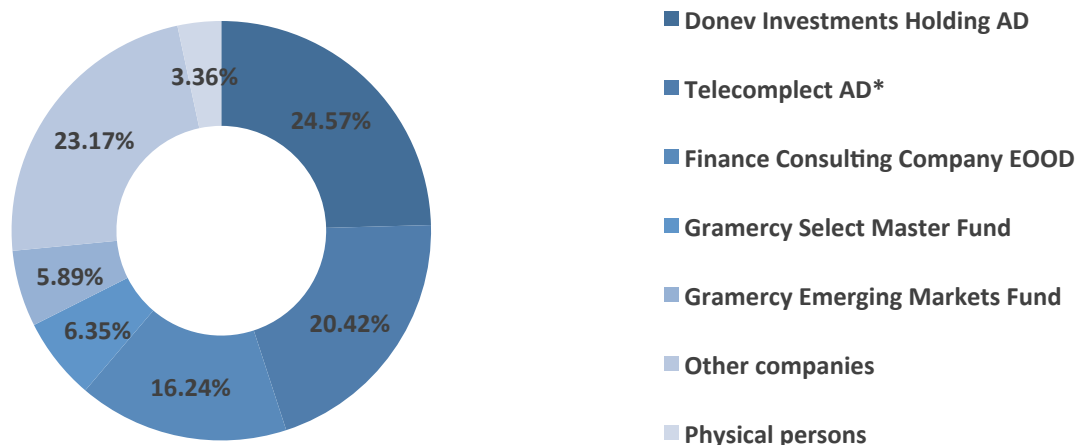
Sopharma AD is a trade company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko shoes street No 16.

Sopharma AD was established in 1933 with a court registration of the company from 15.11.1991, 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 31.03.2012



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

### Management Board

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

## Industrial activity

Sopharma AD manufacturing facilities are compliant with EU regulations 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 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 gynecology.

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

- + Carsil - original product plant-based, used to treat gastroenterological disorders (liver disease);
- + Sedal M - generic analgetic (painkiller);
- + Tempalgin - original analgetic (bolkouspokyavashto);
- + Analgin - generic analgetic (painkiller);
- + Broncholytin - original plant-based product used to suppress cough;
- + Methylprednisolone - generic drugs for cases of severe allergies and certain life-threatening conditions;
- + Tabex – original plant-based drug used for smoking secession
- + Tribestan – original plant-based 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 of 31.03.2012 the average number of employees of Sopharma AD is 1842 (31.03.2011: 1820). The table below shows the detailed information on the staff of the company.

	31.12.2011	Share %
Number of employees 31.03.2011	1849	100%
Higher education	794	43%
Special education	59	3%
High school education	978	53%
Others	18	1%
Up to 30 years of age	257	14%
Between 31 - 40 years of age	477	26%
Between 41 - 50 years of age	543	29%
Between 51 - 60 years of age	508	27.5%
Over 60 years of age	64	3.5%
Women	1156	63%
Men	693	37%

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

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

### ***Changes in the first quarter of 2012 or as at the date of publication of the management report***

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 its indirect participations.

On 31 January 2012 the subsidiary Breeze Ltd - Latvia acquired 18% of the share capital of OOO "Vivaton plus" in Belarus. The remaining 57% are projected to be acquired under the agreed contract during the period 2012 – 2013

On 02.15.2012 the subsidiary Breeze Ltd - Latvia sold its interest in its subsidiary OOO "Superlats."

## Sopharma AD

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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 300,000 Levs

As at 31 March 2012 the treasury stock of Sopharma AD amounted to 2,571,066. shares or 1.95% of the Company's capital.

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.

### New developments and products

#### New in the first quarter of 2012

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

#### Expected in 2012

Three to five new products are expected to be introduced by the end of 2012.

#### Developments

About 30 production processes and technologies are in the process of transfer and optimization. Pharmaceutical development is carried out of about 22 new products for the company.

## Key financial indicators

Indicators	01.-03.2012 BGN '000	01.-03.2011 BGN '000	Change %
Sales revenues	50 473	52 282	-3,5%
EBITDA	11 745	14 110	-16,8%
Operating profit	9 710	12 013	-19,2%
Net profit	8 441	10 454	-19,3%
CAPEX	10 792	5 431	98,7%
Non-current assets	281 491	279 199	0,8%
Current assets	234 828	243 744	-3,7%
Owners' equity	329 101	320 668	2,6 %
Non-current liabilities	26 302	24 174	8,8%
Current liabilities	160 916	178 131	-9,7%

Ratios	01.-03.2012	01.-03.2011
EBITDA / Sales revenues	23,3%	27,0%
Operating profit/ Sales revenues	19,2%	23,0%
Net profit/ Sales revenues	16,7%	20,0%
Borrowed capital/Owners' equity	0,57	0,53
Net debt/ EBITDA	3,2x	2,2x

## Review of risk factors

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

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

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

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

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

### **Currency risk**

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. 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 commercial 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) 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 favorable 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.

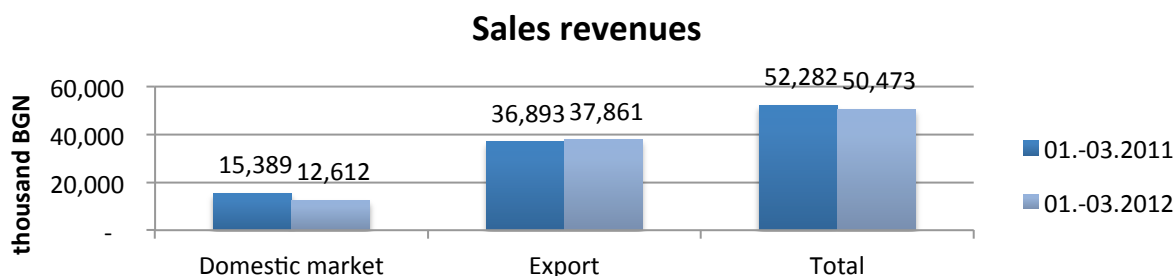
The Company's management currently monitors and analyzes its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed 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.

## Financial results in the first quarter of 2012

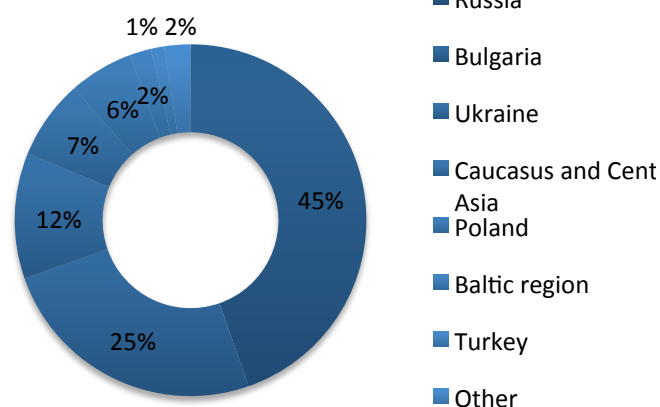
### Sales revenues

Sales revenues of production decrease by 1.8 million BGN or 3%, reaching 50,5 million BGN as at the end of the first quarter 2012, compared to 52,3 million BGN at the end of the first quarter of 2011.



### Main markets

Revenues by market	01.-03.2012 BGN '000	01.-03.2011 BGN '000	Change %
Russia	22 532	22 364	1%
Bulgaria	12 612	15 389	-18%
Ukraine	5 827	7 601	-23%
Caucasus and Central Asia	3 695	3 659	1%
Poland	2 963	231	1183%
Baltic region	1 020	1 267	-19%
Turkey	617	376	64%
Other	1 207	1 395	-13%
<b>Total</b>	<b>50 473</b>	<b>52 282</b>	<b>-3%</b>



#### Russia

The realized production in Russia grew by 0.2 million BGN, or 1% to 22.5 million BGN in the first quarter of 2012 compared to 22.3 million BGN in the first quarter of 2011. The main products that are sold on the Russian market are Carsil, Tabex, Sedal M, Tempalgin and Broncholytin.

#### Bulgaria

The sales of Sopharma AD on the domestic market decreased by 2.8 million BGN, or 18% and reached 12.6 million BGN in the first quarter of 2012 compared to 15.4 million BGN in the first

quarter of 2011. 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 7% (14% in units), Novartis - 7% (5% in units), Sanofi-Aventis-Zentiva - 5% (3% in units), Glaxosmithkline - 5% (2% in units), Roche-5% (1% in units), Servier - 4% (2% in units), Pfizer - 3% (2% in units), Bayer -3% (2% in units), Astra Zeneca -3% (1% in units).

### Ukraine

Sales in the Ukraine in the first quarter of 2012 have decreased by 23%, reaching 5.8 million BGN, compared with 7.6 million BGN in the first quarter of 2011. The main products exported to the Ukrainian market are Carsil, Tribestan, Tabex, Sydnopharm 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 0,04 million BGN or 1%, reaching 3.7 million BGN in the first quarter of 2012, compared to 3,66 million BGN in the first quarter of 2011. The largest share of revenues in this region have sales in Kazakhstan (45%), with an increase of 13% over the previous year, reaching 1.7 million BGN. The main products Sopharma AD exported to this region were Tempalgin, Carsil, Tribestan, Broncholytin, Tabex.

### Baltic region

Sales to the Baltic region have decreased by 0.3 million BGN or 19%, from 1,3 million BGN in the first quarter of 2011 to 1,0 million BGN in the first quarter of 2012. The main products are Carsil, Tribestan and ampoules.

### Belarus

Sales in Belarus in the first quarter of 2012 amounted to 0,3 million BGN, compared to 0,7 million BGN in the first quarter of 2011. The main products realized on this market are Sydnopharm, Tabex, Tribestan, Troxerutin, Indometacin.

### Turkey

In Turkey sales increased by 0.2 million BGN or 64%, from 0.4 million BGN in the first quarter of 2011 to 0.6 million BGN in in the first quarter of 2011. The main product, which is sold on this market is the life saving hospital Methylprednisolone.

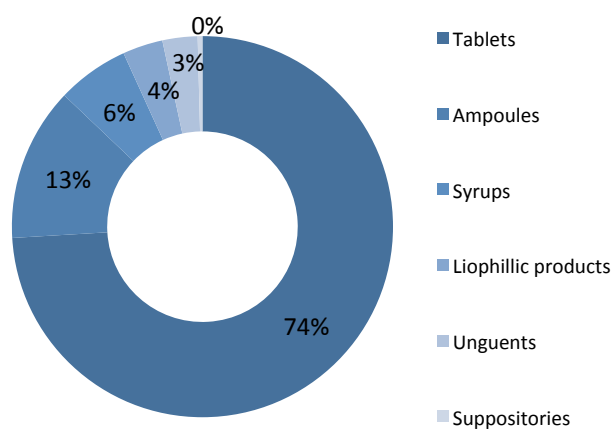
### Poland

Sopharma AD increased its sales in Poland by 2.7 million BGN from 0.2 million BGN in the first quarter of 2011 to 2.9 million BGN in the first quarter of 2012. The main products on this market are Tabex, Nivalin, Buscolysin, Spasmalgon, Tribestan plus.

## Sales by type of formulation

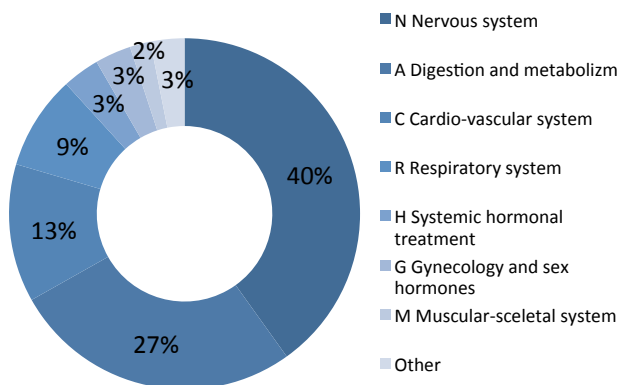
The highest share in the volume of sales have tablet formulations, followed by ampoules, syrups, lyophilic products and unguents.

Revenues by type of formulation	01.-03.2012	01.-03.2011	Change %
	BGN '000	BGN '000	
Tablets	37 304	39 406	-5%
Ampoules	6 568	5 878	12%
Syrups	3 076	3 130	-2%
Liophilic products	1 721	1 739	-1%
Unguents	1 500	1 524	-2%
Suppositories	203	302	-33%
Drops	92	275	-67%
Other	9	28	-68%
<b>Total</b>	<b>50 473</b>	<b>52 282</b>	<b>-3%</b>



## Sales by therapeutic group

Revenues by therapeutic group	01.-03.2012	01.-03.2011	Change %
	BGN '000	BGN '000	
N Nervous system	20 244	24 187	-16%
A Digestion and metabolism	13 489	12 782	6%
C Cardio-vascular system	6 422	4 883	32%
R Respiratory system	4 374	4 099	7%
H Systemic hormonal treatment	1 725	1 761	-2%
G Gynecology and sex hormones	1 680	1 445	16%
M Muscular-skeletal system	961	1 200	-20%
Other	1 578	1 926	-18%
<b>Total</b>	<b>50 473</b>	<b>52 282</b>	<b>-3%</b>



## Other operating revenues

Other operating revenues	01.-03.2012	01.-03.2011	Change %	Share 2012 %
	BGN '000	BGN '000		
Income from services	534	581	-8%	55%
Income from sale of materials	176	89	98%	18%
Net income from sale of long-term assets	173	5	3360%	18%
Income from sale of products	98	133	-26%	10%

Net loss from exchange rate differences	(25)	(161)	-84%	-3%
Other	19	12	58%	2%
<b>Other operating income</b>	<b>975</b>	<b>659</b>	<b>48%</b>	<b>100%</b>

Other operating income increased by 0.3 million BGN or 48%, reaching 3,8 million BGN in the first quarter of 2012 compared to 0,7 million BGN in the first quarter of 2011. The most significant impact have has the sale of long-term assets with 0,2 million BGN and the net loss from exchange rate differences on commercial receivables, liabilities and current accounts, which increased by 0.1 million BGN. An influence in downward direction have income from services and income from sale of products.

### Operating expenses

Operating expenses	01.-03.2012 BGN '000	01.-03.2011 BGN '000	Change %	Share 2012 %
Changes in the finished goods and work in progress inventory	(2 942)	286	-1129%	-7%
Materials	17 603	15 824	11%	42%
External services	15 888	13 931	14%	38%
Personnel	8 227	7 644	8%	20%
Amortization	2 035	2 097	-3%	5%
Other operating expenses	927	1 146	-19%	2%
<b>Total operating expenses</b>	<b>41 738</b>	<b>40 928</b>	<b>2%</b>	<b>100%</b>

The operating expenses increased by 0,8 million BGN, or 2%, from 40,9 million BGN in the first quarter of 2011 to 41,7 million BGN in the first quarter of 2012, which is due to the increase in the cost of materials, external services and personnel. Changes in inventories of finished goods and work in partially compensate by decreasing costs by 3,2 million BGN. The increase is caused by the planned temporary decrease in production of solid forms at the end of the year, due to the shifting of manufacturing to the new solid forms plant and necessary period for validation of the production capacity, related to it.

	01.-03.2012	01.-03.2011	Change	share 2012
Materials expenses	BGN '000	BGN '000	%	%
Main materials	13 518	12 388	9%	77%
Spare parts, laboratory items and technical materials	1 342	991	35%	8%
Heat	1 416	1 203	18%	8%
Electricity	623	592	5%	4%
Fuels and lubricants	319	277	15%	2%
Water	230	239	-4%	1%
Safety	155	133	17%	1%
Other	0	1	-100%	0%
<b>Total</b>	<b>17 603</b>	<b>15 824</b>	<b>11%</b>	<b>100%</b>

*Cost of materials* (42% share) increased by 11% or 2 million from 15,8 million BGN in the first quarter of 2011 to 17,6 million BGN in the first quarter of 2012. Costs for basic materials increased by 1.1 million BGN, or 9%, the most significant effect is reported in chemical costs, which increased by 0,6 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 the end of the first quarter.

	01.-03.2012	01.-03.2011	Change	Share 2012
Hired services expenses	BGN '000	BGN '000	%	%
Production	7 640	6 159	24%	48%
Advertising	2 484	2 173	14%	16%
Consultancy fees	993	244	307%	6%
Transportation	744	652	14%	5%
Maintenance of buildings and equipment	581	194	199%	4%
Logistics	557	599	-7%	4%
Rents	494	103	380%	3%
State and regulatory taxes and local taxes	385	376	2%	2%
Insurance	281	259	8%	2%
Civil contracts	255	207	23%	2%
Security	195	194	1%	1%
Local taxes and fees	181	187	-3%	1%
Subscription fees	166	111	50%	1%
Registration services and clinical trials	105	178	-41%	1%
Commissions	86	1 282	-93%	1%
Other	741	1 013	-27%	5%
<b>Other</b>	<b>15 888</b>	<b>13 931</b>	<b>14%</b>	<b>100%</b>

*Hired services* occupy 38% share of operating expenses and increased by 1,9 million BGN or 14%, reaching 15,9 million BGN in the first quarter of 2012 compared to 13,9 million BGN in the

first quarter of 2011. The most significant impact on the growth have production costs, which rose by 1.5 million mainly due to increased volume of output, advertising with an increase of 0,3 million BGN, consultancy fees, increasing by 0,7 million BGN, maintenance of buildings and equipment with an increase of 0,4 million BGN, as well as increased costs of rents, transportation, civil contracts, subscription fees and others.

The company reported lower costs for commissions, logistics, insurance, registration services, royalties, services fees and others.

	01.-03.2012	01.-03.2011	Change	Share 2011
	BGN '000	BGN '000	%	%
<b>Personnel expenses</b>				
Remuneration	5 975	5 632	6%	73%
Social insurance	1 298	1 156	12%	16%
Social benefits and payments	366	284	29%	4%
Other	588	572	3%	7%
<b>Total</b>	<b>8 227</b>	<b>7 644</b>	<b>8%</b>	<b>100%</b>

*Personnel costs* (a share of 20%) increased by 0,6 million BGN, or 8% from 7,6 million BGN in the first quarter of 2011 to 8,2 million BGN in the first quarter of 2012. Current salaries increased by 0,3 million BGN, social security contributions increased by 0.1 million BGN and social benefits increased by 0.08 million BGN. The total growth of these costs is due to increased number of employees, increased amount of average salary in the company.

	01.-03.2012	01.-03.2011	Change	Share 2011
	BGN '000	BGN '000	%	%
<b>Other expenses</b>				
Entertainment expenses	414	283	46%	45%
Depreciation of receivables	270	287	-6%	29%
Business trips	133	125	6%	14%
Grants	36	72	-50%	4%
Depreciation of finished goods and work in progress	0	216	-100%	0%
Other	74	163	-55%	8%
<b>Total</b>	<b>927</b>	<b>1 146</b>	<b>-19%</b>	<b>100%</b>

*Other operating expenses* (with a share of 2%) decreased by 0,2 million or 19% from 1.1 million BGN in the first quarter of 2011 to 0,9 million BGN in the first quarter of 2012, which is mostly due to a decrease in depreciation of finished goods and work in progress and Depreciation of receivables. Entertainment expenses increased by 0,1 million BGN.

*Costs of amortization* recorded a minimal decline of 3% or 62 thousand BGN from 2,1 million BGN for the first quarter of 2011 to 2 million BGN for the first quarter of 2012.

## Financial income and expenses

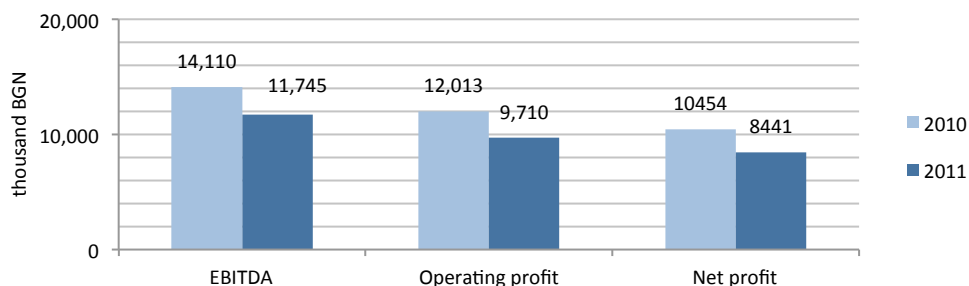
Financial income	01.-03.2012	01.-03.2011	Change	Share 2011
	BGN '000	BGN '000		
Income from interest on loans granted	1 222	1 324	-7.7%	100%
Income from interest on deposits	3			0%
Income from operations with securities	0	239		0%
<b>Total</b>	<b>1 225</b>	<b>1 563</b>	<b>-22%</b>	<b>100%</b>
<b>Financial expenses</b>				
Expenses for interest on loans received	1 185	1 463	-19%	78%
Net loss from exchange rate differences on loans	125	212	-41%	11%
Bank fees for services and guarantees	125	148	-16%	8%
Financial leasing expenses	65	55	18%	3%
Net loss on operations with securities	7	7	0%	0%
<b>Total</b>	<b>1 507</b>	<b>1 885</b>	<b>-20%</b>	<b>100%</b>

*Financial income* decreased by 0,3 million BGN, or 22%, reaching 1,2 million BGN at the end of the first quarter of 2012 compared to 1,6 million BGN at the end of the first quarter of 2011. This decrease is due mostly to income from interest on loans granted with 0,1 million BGN and Income from operations with securities with 0,2 million BGN

*Financial expenses* decreased by 0,4 million BGN or 20%, from 1,9 in the first quarter of 2011 to 1,5 million BGN in the first quarter of 2012. This decrease is mainly due to the smaller amount of expenses for interest on loans received with 0,3 million BGN.

*Net financial income (expense)* increased by 40 thousand BGN, reaching (282) thousand BGN by the end of the first quarter of 2012, compared to (332) thousand BGN at the end of the first quarter of 2011.

## Operatng result



*Profit before interest, taxes, depreciation and amortization (EBITDA)* fell by 1,3 million BGN or 17%, amounting to 11,8 million BGN in the first quarter of 2012, compared with 14,11 million BGN in the first quarter of 2011.



*The operating profit* decreased by 2,3 million BGN or 19% to 9,7 million BGN in the first quarter of 2012 compared to 12 million BGN in the first quarter of 2011.

*Net income* for in the first quarter of 2012 decreased by 2 million BGN or 19%, reaching 8,4 million BGN for the first quarter of 2012 compared to 10.5 million BGN for the first quarter of 2011.

### Assets

	31.03.2011	31.12.2010	Change	Share
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	142 789	135 048	6%	51%
Intangible assets	3 705	3 386	9%	1%
Investment property	19 170	19 170	0%	7%
Investments in subsidiaries	88 464	88 462		31%
Available-for-sale investments	16 881	16 792	1%	6%
Long-term loans to related parties	10 210	16 069	-36%	4%
Other non-current assets	272	272	0%	0%
<b>Total non-current assets</b>	<b>281 491</b>	<b>279 199</b>	1%	55%
<b>Current assets</b>				
Inventories	51 191	50 916	1%	22%
Receivables from related parties	141 473	135 104	5%	60%
Commercial receivables	27 489	29 383	-6%	12%
Other receivables and prepaid expenses	11 622	10 333	12%	5%
Cash and cash equivalents	3 053	18 038	-83%	1%
<b>Total current assets</b>	<b>234 828</b>	<b>243 774</b>	-4%	45%
<b>TOTAL ASSETS</b>	<b>516 319</b>	<b>522 973</b>	-1%	100%

*Total assets* decreased by 6,6 million BGN or 1%, reaching 516 million BGN compared with 523 million BGN as at 31.12.2011 as a consequence of the decrease in current assets.

*Non-current assets* increased by 2,2 million BGN, or 1%, due mainly to the increase in property, plant and equipment by 7,7 million BGN, the growth of intangible assets with 1.4 million BGN, and the increase in long-term loans to related companies with 0,3 million BGN, as well as the increase in the available-for-sale investments by 0,1 million BG. Long-term loans to related parties decreased by 5,9 million BGN compared to 31.12.2011. Investments in subsidiaries remain at 88,5 million BGN.

	31.03.2012	31.12.2010	Change	Share
Property, plant and equipment	BGN '000	BGN '000	%	%
Land and buildings	63 109	63 416	0%	44%
Machines and equipment	30 989	31 392	-1%	22%
Other	7 451	7 348	1%	5%
In process of acquisition	41 240	32 892	25%	29%
<b>Total</b>	<b>142 789</b>	<b>135 048</b>	<b>6%</b>	<b>100%</b>

Property, plant and equipment has substantially increased in the proportion of assets in process of acquisition, which grew by 8,3 million BGN, as a result primarily of investments in the new plant for tablet forms, which for the first quarter of 2012 amounts to 6,7 million BGN, and the total funds invested in it since the beginning of the project amount to 33,7 million BGN. Additional funds are spent on advances for acquisition of laboratory and production equipment. Intangible assets also showed growth of 0,3 million BGN as a result of implementing an integrated information system, which should be completed in 2012.

Long-term loans to related parties have decreased by 5,9 million BGN as a result of the transformation of part of borrowing to short-term receivables.

*Current assets* decreased by 8,9 million BGN or 4%, reaching 234,8 million BGN as at 31.03.2012 compared to 243,8 million BGN as at 31.12.2011.

	31.03.2012	31.12.2010	change	share
Inventory	BGN '000	BGN '000	%	%
Materials	19 282	21 949	-12%	38%
Finished products	22 581	22 054	2%	44%
Mid products	3 679	3 813	-4%	7%
Work in progress	5 601	3 054	83%	11%
Goods	48	46	4%	0%
<b>Total</b>	<b>51 191</b>	<b>50 916</b>	<b>1%</b>	<b>100%</b>

Inventories increased by 0,3 million BGN compared to 31.12.2011, mainly in the part of the work-in-progress, which grew by 2,5 million BGN, and the finished products, which increased by 0.5 million BGN. Materials and mid products fell by 2,7 million BGN and 0,1 million BGN.

Receivables from related parties increased by 6,4 million BGN. The greatest share in this increase have commercial loans with an increase of 6,8 million BGN. Advance payments also rose by 0,2 million BGN.

Commercial receivables decreased by 1,9 million BGN in the portion of receivables from customers (by 1,7 million BGN) and advance payments (by 0,2 million BGN) compared with 31.12.2011.

Other receivables and prepaid expenses increased by 1,3 million BGN. Basically this is due to an increase in loans to third parties by 0,2 million BGN and recovery of taxes, which increased by 1.4 million BGN. Advance payments and provided funds to investment intermediary fell by 0,3 million BGN and 0,1 million BGN.

Cash and cash equivalents decreased by 15 million BGN and as at 31.03.2012 amount to 3 million BGN compared to 18 million BGN as at 31.12.2011.

### Liabilities and owners' equity

	31.03.2012	31.12.2011	Change	Share
	BGN '000	BGN '000	%	%
<b>OWNERS' EQUITY</b>				
Share capital	132 000	132 000	0%	40%
Treasury stock	(10 044)	(10 036)	0%	-3%
Reserves	157 913	157 913	0%	48%
Retained earnings	49 232	40 791	21%	15%
<b>TOTAL OWNERS' EQUITY</b>	<b>329 101</b>	<b>320 668</b>	3%	100%
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	20 963	18 737	12%	11%
Liabilities on deferred taxes	3 634	3 864	-6%	2%
Liabilities to the personnel upon retirement	1 344	1 269	6%	1%
Financial leasing liabilities	361	304	19%	0%
<b>Total non-current liabilities</b>	<b>26 302</b>	<b>24 174</b>	9%	14%
<b>Current liabilities</b>				
Short-term bank loans	100 762	112 008	-10%	54%
Short-term part of long-term bank loans	41 698	40 735	2%	22%
Commercial liabilities	8 048	16 544	-51%	4%
Liabilities to related parties	6 368	5 236	22%	3%
Liabilities for taxes	227	262	-13%	0%
Liabilities to the personnel and for social insurance	3 195	2 748	16%	2%
Other current liabilities	618	598	3%	0%
<b>Total current liabilities</b>	<b>160 916</b>	<b>178 131</b>	-10%	86%
<b>TOTAL LIABILITIES</b>	<b>187 218</b>	<b>202 305</b>	-7%	100%
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>516 319</b>	<b>522 973</b>	-1%	

Equity increased by 8,4 million BGN compared to 31.12.2010 as a result of increased retained earnings by 8.4 million BGN. At the end of the first quarter the treasury stock amounts to 2,571,066. During the reporting period no new issue of securities was conducted.

*Non-current liabilities* increased by 2,1 million BGN, or 9%, from 24,2 million BGN at the end of the first quarter of 2011 to 26,3 million BGN at the end of the first quarter of 2012 mainly due to the increase of long-term bank loans by 2,2 million BGN

*Current liabilities* decreased by 17,2 million BGN compared to the end of 2011. The main reason is the decrease in short-term bank loans by 11,2 million BGN, which compensates the decrease of cash and cash equivalents compared to 2011. The total exposition on bank loans of the Company as at 31.03.2012 decreased by 8,1 million BGN compared to the previous period.

Commercial liabilities decreased due to liabilities to suppliers, which decreased by 8,6 million BGN compared to 31.12.2011.

Liabilities to associated companies increased by 1,1 million BGN, mainly as a result of service obligations for the construction of the new tablet plant, which at the end of the first quarter of 2012 amounted to 3,2 million BGN.

Obligations to employees and social security increased by 0,4 million BGN mostly due to increases in current liabilities by 0,8 million BGN and accruals for unused paid leaves by 0,4 million BGN and a decrease in tantieme by 811 thousand BGN compared to 31.12.2011.

### Cash flow

	<b>31.03.2012</b>	<b>31.12.2011</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flow from operations	2 375	17 908
Net cash flow from investment activities	(9 518)	(34 654)
Net cash flow used in financial operations	(7 842)	(8 569)
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(14 985)</b>	<b>(25 315)</b>
Cash and cash equivalents on 1 January 1	18 038	30 982
Cash and cash equivalents on 31March	3 053	5 667

*Net cash flows* as at 31.03.2012 generated from operating activities amounted to 2,3 million BGN, net cash from investing activities (9,5) million BGN and financing activities (7,8) million BGN. As a result of these activities cash and cash equivalents decreased by a net 15 million BGN and the end of the first quarter of 2012 amounted to 3 million BGN compared to 18 million at the end of 2011.

## Ratios

	31.03.2012	2011
ROE	12.3%	13.3%
ROA	7.7%	8.6%
Asset turnover	0.41	0.48
Current liquidity	1.46	1.48
Quick ratio	1.14	1.16
Cash/current liabilities	0.02	0.04
Owners' equity/liabilities	1.76	1.87

## Information on shares of Sopharma AD

The total number of outstanding shares at 31.12.2011 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 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

	31.03.2012	31.03.2011
Total number of issued shares	132 000 000	132 000 000
Average outstanding number of shares	130 265 139	131 629 893
Number of shares outstanding at the end of the period	129 428 934	130 983 920
Earnings per share in BGN	0,297	0,290
Price per share at the end of the period in BGN	2,738	4,512
Price/Earnings ratio (P/E)	9.21	15,56
Book value per share in BGN	2.542	2,448
Price/Book value ratio (P/B)	1,07	1,84
Market capitalization in BGN	361 416 000	595 584 000

## Trade with shared of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01.01.-31.03.2012



Signature:

Ognian Donev, PhD  
Executive Director, Sopharma AD