

# MANAGEMENT REPORT

Q1 2014



**SOPHARMA AD**

**2014**

## General information about Sopharma AD

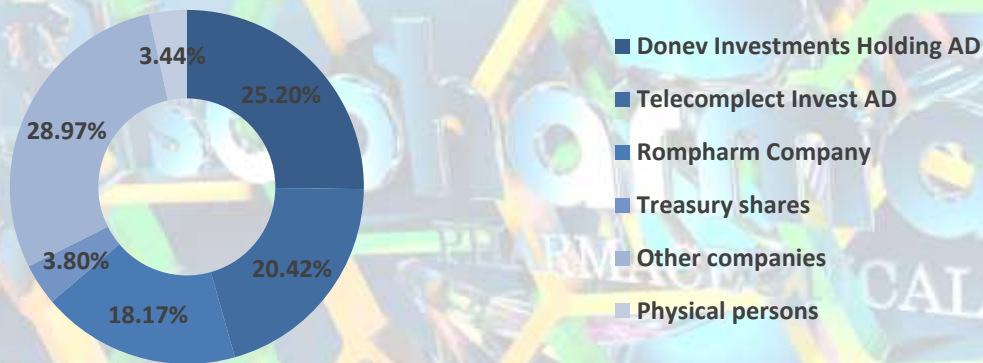
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko shose street No 16.

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

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

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

### Shareholder structure as at 31 March 2014



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

### Industrial activity

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

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

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

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

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

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

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

### **Intellectual property**

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

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

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

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

### **Research and development**

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

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

### **Employees**

As at 31 March 2014 the average number of employees of Sopharma AD is 1.796 (2013: 1,793). The table below shows the detailed information on the staff of the Company.

	<b>31.03.2014</b>	<b>Share %</b>
Number of employees 31 March 2014	1795	100%
Higher education	811	45%
Special education	50	3%
High school education	914	51%
Primary school education	20	1%
Up to 30 years of age	237	13%
Between 31 - 40 years of age	417	23%
Between 41 - 50 years of age	557	31%
Between 51 - 60 years of age	501	28%
Over 60 years of age	83	5%
Women	1109	62%
Men	686	38%

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

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

### ***Significant events in the first quarter of 2014***

On 14 January 2014 Sopharma AD made a final payment for the capital increase of Briz, which would allow it to expand its presence in the markets of the three Baltic States and Belarus. The share held by Sopharma AD in the capital of the company after the increase reached 66.13% (previously 53.14%). The expansion of the presence on the market of the Republic of Belarus includes acquisition of a warehouse complex, implementation of an integrated information system, as well as acquisition of new pharmacies. In 2013 Briz increased the total number of owned pharmacies to 91 through the acquisition of three pharmacy chains in the Republic of Belarus. Additionally, the acquisition of a company for wholesale of pharmaceutical products was completed.

On 6 February 2014 Sopharma AD sold 616 015 ordinary registered shares with voting rights of the capital of Sopharma Trading AD. After this transaction, the share of Sopharma AD in the capital of Sopharma Trading AD decreased with 1.87%.

On 7 February 2014 Sopharma AD received a notification for participation disclosure under art. 145 from POSA from Rompharm Company OOD for the acquisition of 4 230 000 shares, representing 3.20 % of its capital.

On 11 February 2014 Sopharma AD received a notification for participation disclosure under art. 145 from POSA from UPF Doverie for the selling of 3 424 005 shares. After the transaction the share of UPF Doverie in the capital of Sopharma AD decreased with 2.59%. The registration date of the transaction in the Central Depository AD, Sofia is 6 February 2014.

### New developments and products

- ✚ New with extended usage in the first quarter of 2014

The Company has received marketing authorizations for 4 new products – Otofix drops, Softenzif delayed release tablets, Promerol injection solution, Fentoril injection solution.

- ✚ Expected in 2014

The Company expects to introduce three to five new products by the end of 2014.

- ✚ Developments

Around fifteen production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 20 new products for the Company.

## Key financial indicators

Indicators	1-3/2014	1-3/2013	промяна %
	BGN '000	BGN '000	
Sales revenues	51 124	48 173	6,1%
EBITDA	13 633	12 414	9,8%
Operating profit	8 799	9 941	-11,5%
Net profit	10 104	9 090	11,2%
CAPEX	2 279	12 539	-88,8%
	<b>31.03.2014</b>	<b>31.12.2013</b>	
	<b>BGN '000</b>	<b>BGN '000</b>	
Non-current assets	361 346	358 109	0,9%
Current assets	196 328	191 027	2,8%
Owners' equity	381 791	369 686	3,3%
Non-current liabilities	56 131	57 987	-3,2%
Current liabilities	119 752	121 463	-1,4%
	<b>1-3/2014</b>	<b>1-3/2013</b>	
<b>Ratios</b>			
EBITDA / Sales revenues	26,7%	25,8%	
Operating profit/ Sales revenues	17,2%	20,6%	
Net profit/ Sales revenues	19,8%	18,9%	
Borrowed capital/Owners' equity	0,46	0,49	
Net debt/ EBITDA	2,4x	2,8x	

## Review of risk factors

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

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

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

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

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

### Currency risk

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



### **Credit risk**

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

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

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

### **Liquidity risk**

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

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

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

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

- a) optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and
- b) the combined structure of interest rates on loans, which consists of two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and maintained in a proportion favourable for the

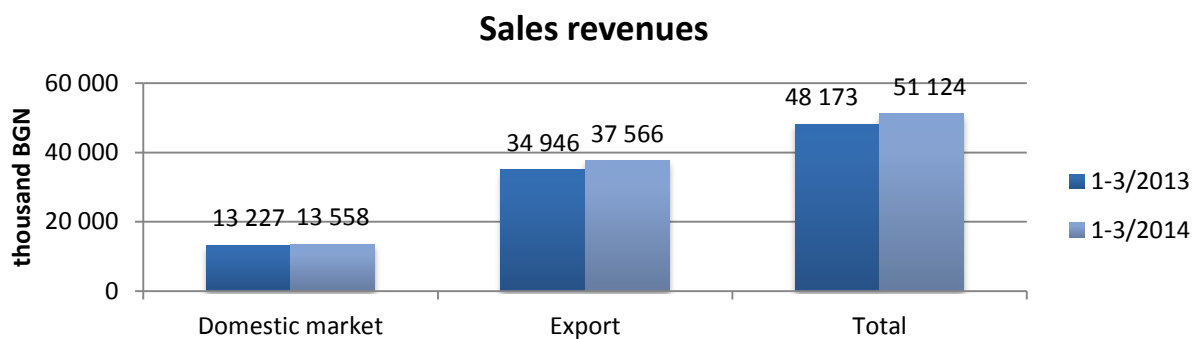
Company. The permanent component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

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

### **Financial results in the first quarter of 2014**

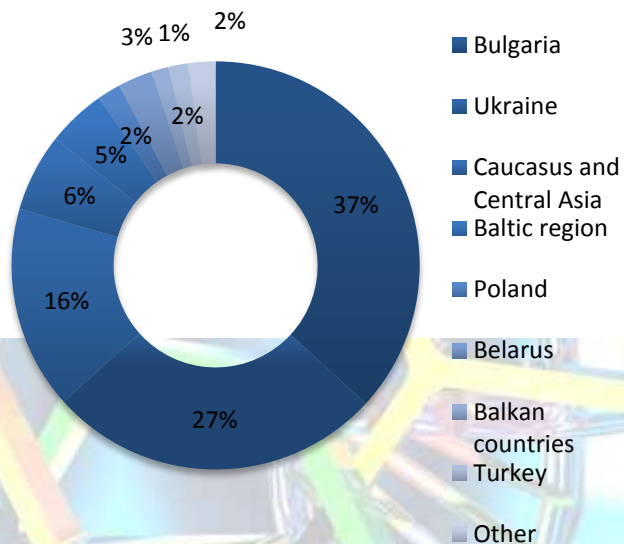
#### **Sales revenues**

Sales revenues of production increase by 2,9 million BGN or 6%, reaching 51,1 million BGN as at the end of the first quarter of 2014, compared to 48,2 million BGN at the end of the first quarter of 2013.



## Main markets

Revenues by market	1-3/2014 BGN'000	1-3/2013 BGN '000	Change %
Russia	18 837	17 645	7%
Bulgaria	13 558	13 227	3%
Ukraine	8 237	6 490	27%
Caucasus and Central Asia	3 153	5 655	-44%
Poland	2 388	2 175	10%
Turkey	1 403	0	
Baltic region	947	1 252	-24%
Balkan countries	790	467	69%
Belarus	691	354	95%
Other	1 120	908	23%
<b>Total</b>	<b>51 124</b>	<b>48 173</b>	<b>6,13%</b>



### 🇷🇺 Russia

The marketed production in Russia increased by 1.2 million BGN, or 7% to 18,8 million BGN in the first quarter of 2014 compared to 17,6 million BGN in the first quarter of 2013. The main products that are sold on the Russian market are Carsil, Tempalgin, Tabex, Sidnopharm, and Tribestan.

### 🇬🇧 Bulgaria

The sales of Sopharma AD on the domestic market increased by 0,4 million BGN, or 3% and reached 13,6 million BGN at the end of the first quarter of 2014 compared to 13,2 million BGN at the end of the first quarter of 2013. The products with largest share of sales in the country are Analgin, Vicetin, Vitamin C, Flikostid, and Carsil. The Company has a 4% share of the total Bulgarian pharmaceutical market in value and 13% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 6.4% (4.5% in units), Roche – 6% (1% in units), GlaxoSmithKline – 5.7% (2.8% in units), Actavis – 5.3% (14% in units), Sanofi-Aventis-Zentiva – 4.4% (3.4% in units), Astra Zeneca – 3.5% (1% in units), Pfizer – 3.4% (1.4% in units), Servier – 3.1% (1.8% in units), Bayer – 2.5% (15% in units).

### 🇺🇦 Ukraine

Sales in the Ukraine increased by 1,7 million BGN or 27% reaching 8,2 million BGN in the first quarter of 2014 from 6,5 million BGN in the first quarter of 2013. The main products exported to the Ukrainian market are Carsil, Sidnofarm, Tempalgin, Tribestan, and Spazmalgon.

### ✚ Caucasus and Central Asia

Sales in the Caucasus and Central Asia (including Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan, Georgia, Azerbaijan and Armenia) fell by 2,5 million BGN or 44% 3,2 million BGN in the first quarter of 2014, compared to 5,7 million BGN in the first quarter of 2013. The largest share of revenues in this region have sales in Kazakhstan (34%) where the decrease in comparison to thte same period of the previous year is 1,5 million BGN. The main products Sopharma AD exported to this region were Tribestan, Tempalgin, Analgin, Tabex, and Vitamin B Complex.

### ✚ Poland

Sopharma AD increased its sales in Poland by 10% or 0,2 million BGN from 2,2 million BGN in the first quarter of 2013 to 2,4 million BGN in the first quarter of 2014. The main products on this market are Tabex, Nivalin, Buscolisin, and Spasmalgon.

### ✚ Turkey

In Turkey, sales increased by 1,4 million. In the first quarter of 2013 the Company has not had any exports to this market due to reregistration of its products The main product sold on this market is Methylprednisolone.

### ✚ Baltic region

Sales to the Baltic region have decreased by 0,3 million BGN or 24%, from 1,2 million BGN in the first quarter of 2013 to 0,9 million BGN in the first quarter of 2014. The main products are Carsil, Tribestan, and ampoules.

### ✚ Balkan countries

Sales in the Balkan countries in the first quarter of 2014 amount to 0,8 million BGN compared to 0,5 million BGN in the first quarter of 2013. The main products, sold on these markets are Furosemide, Paracetamol, Sidnopharm, Tribestan, and Carsil.

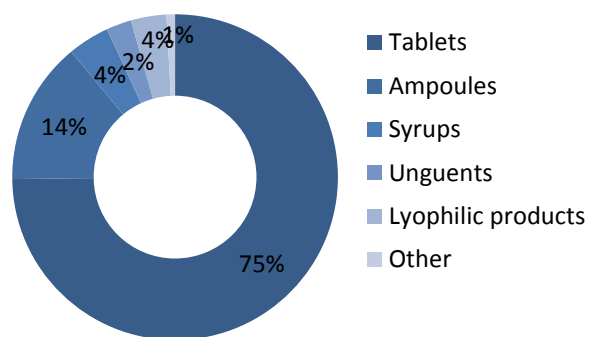
### ✚ Belarus

Sales in Belarus in the first quarter of 2014 amount to 0,7 million BGN, compared to 0,4 million BGN in the first quarter of 2013. The main products sold on this market are Sidnopharm, Tempalgin, Broncholitin, Alergozan, and Clenbuterol.

### **Sales by type of formulation**

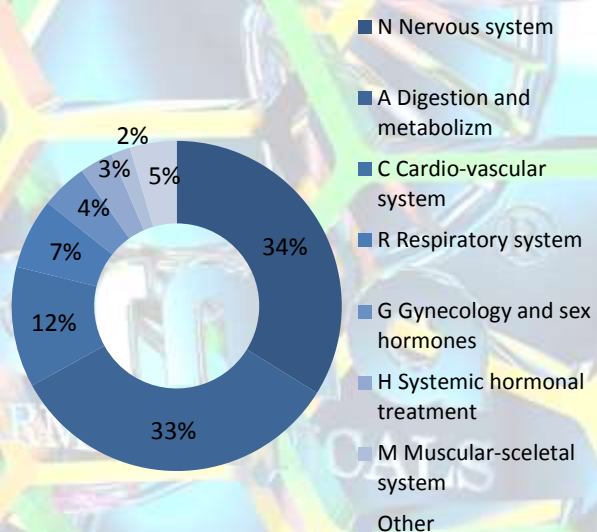
The highest share in the volume of sales have tablet formulations, followed by ampoules, syrups, unguents, and lyophilic products.

Revenues by type of formulation	1-3/2014 BGN '000	1-3/2013 BGN '000	Change %
Tablets	38 245	33 482	14%
Ampoules	7 253	8 071	-10%
Syrups	2 115	2 871	-26%
Unguents	1 277	1 634	-22%
Lyophilic products	1 802	996	81%
Other	432	1 119	-61%
<b>Total</b>	<b>51 124</b>	<b>48 173</b>	<b>6%</b>



## Sales by therapeutic group

Revenues by therapeutic group	1-3/2014 BGN '000	1-3/2013 BGN '000	Changes %
N Nervous system	17 296	15 948	8%
A Digestion and metabolism	16 951	17 658	-4%
C Cardio-vascular system	6 049	3 666	65%
R Respiratory system	3 527	4 607	-23%
G Gynaecology and sex hormones	2 318	1 752	32%
H Systemic hormonal treatment	1 671	911	84%
M Muscular-skeletal system	966	1 062	-9%
Other	2 345	2 570	-9%
<b>Total</b>	<b>51 124</b>	<b>48 173</b>	<b>6%</b>



## Other operating revenues

Other operating revenues	1-3/2014 BGN '000	1-3/2013 BGN '000	Change %	Share 2014 %
Income from services	951	637	49%	79%
Income from sale of products	145	135	7%	12%
Income from sale of materials	104	93	12%	9%
Net loss from exchange rate differences	(20)	(116)	-83%	-2%
Other	27	4	575%	2%
<b>Total</b>	<b>1 207</b>	<b>753</b>	60%	100%

Other operating income increased by 0,4 million BGN from 0,8 million BGN in the first quarter of 2013 to 1,2 million BGN in the first quarter of 2014, the main contributor being services rendered, which increased by 0,3 million BGN compared to the same period of last year.

## Operating expenses

Operating expenses	1-3/2014 BGN '000	1-3/2013 BGN '000	Change %	Share 2014 %
Changes in the finished goods and work-in-progress inventory	(4 768)	(574)	(731)%	-11%
Materials	16 154	14 272	13%	37%
External services	18 311	13 791	33%	42%
Personnel	8 435	7 790	8%	19%
Amortization	4 834	2 473	95%	11%
Other operating expenses	566	1 233	-54%	1%
<b>Total</b>	<b>43 532</b>	<b>38 985</b>	11.7%	100%

The operating expenses increased by 4,5 million BGN or 12% compared to the first quarter of 2013 reaching 43,5 million BGN, which is a result from an increase in finished products inventories, raw material cost, external services expenses, personnel cost and amortization cost.

	1-3/2014	1-3/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Materials expenses</b>				
Main materials	12 054	10 656	13%	75%
Spare parts, laboratory items and technical materials	1 354	1 004	35%	8%
Heat	1 173	1 231	-5%	7%
Electricity	872	773	13%	5%
Fuels and lubricants	288	313	-8%	2%
Water	260	213	22%	2%
Work cloths	140	82	71%	1%
Scraping of materials	13	0		0%
<b>Total</b>	<b>16 154</b>	<b>14 272</b>	<b>13%</b>	<b>100%</b>

*Cost of materials* (37% share) increased by 1,9 million BGN or 13% from 14,3 million BGN in the first quarter of 2013 to 16,2 million BGN in the first quarter of 2014. Costs for basic materials increased by 1,4 million BGN, in the segments substances, packaging materials, auxiliary, liquid, and hard chemicals, ampules, and herbs. There was a decrease in the cost of heat, fuel, and lubricants.

	1-3/2014	1-3/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Hired services expenses</b>				
Manufacturing	7 610	6 100	25%	42%
Consultancy fees	3 905	1 371	185%	21%
Advertising	2 290	2 085	10%	13%
Transportation	752	743	1%	4%
Rents	592	653	-9%	3%
Logistics	557	485	15%	3%
Registration services and clinical trials	310	146	112%	2%
State and regulatory taxes	308	357	-14%	2%
Local taxes and fees	277	145	91%	2%
Maintenance of buildings and equipment	227	200	14%	1%
Security	227	225	1%	1%
Insurance	198	194	2%	1%
Medical services	184	128	44%	1%
Civil contracts	179	163	10%	1%
Subscription fees	152	174	-13%	1%
Car repairs and maintenance	131	75	75%	1%
Other	412	547	-25%	2%
<b>Other</b>	<b>18 311</b>	<b>13 791</b>	<b>33%</b>	<b>100%</b>

*Hired services* have a 42% share of operating expenses and increased by 4,5 million BGN or 33%, reaching 18,3 million BGN in the first quarter of 2014 compared to 13,8 million BGN in the first quarter of 2013. The most significant impact have the increase in consulting services by 2,5 million BGN, manufacturing by 1,5 million BGN, advertising by 0,2 million BGN. There is a decrease in rents, regulatory and subscription fees, and others.

	1-3/2014	1-3/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Personnel expenses</b>				
Salaries	6 200	5 719	8%	74%
Social insurance	1 203	1 019	18%	14%
Social benefits and payments	411	496	-17%	5%
Other	621	556	12%	7%
<b>Total</b>	<b>8 435</b>	<b>7 790</b>	<b>8%</b>	<b>100%</b>

*Personnel costs* (a share of 19%) increased by 0,6 million BGN, or 8% from 7,8 million BGN in the first quarter of 2013 to 8,4 million BGN in the first quarter of 2014. Current salaries increased by 0,5 million BGN, social security contributions - by 0,2 million BGN, and social benefits and current accruals decreased by 0,1 million BGN.

	1-3/2014	1-3/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Other expenses</b>				
Entertainment events expenses	358	266	35%	63%
Business trips	144	135	7%	25%
Donations	23	70	-67%	4%
Other taxes and payments to the budget	20	66	-70%	4%
Trainings	18	21	-14%	3%
Scrapping of finished good and unfinished products	3	150	-98%	1%
Other (see FS notes)	-	525	-100%	0%
<b>Total</b>	<b>566</b>	<b>1 233</b>	<b>-54%</b>	<b>100%</b>

*Other operating expenses* (with a share of 1%) decreased by 0,6 million BGN or 54% from 1,2 million BGN in the first quarter of 2013 to 0,6 million BGN in the first quarter of 2014, which is mostly due to a decrease in scrapping of finished good and unfinished products by 0,2 million BGN and accrued impairment of receivables net by 0,4 million BGN. Entertainment events expenses increased by 0,1 million BGN.

*Costs of amortization* increased by 2.3 million BGN or 95% from 2,5 million BGN in the first quarter of 2013 to 4,8 million BGN in the first quarter of 2014.



## Financial income and expenses

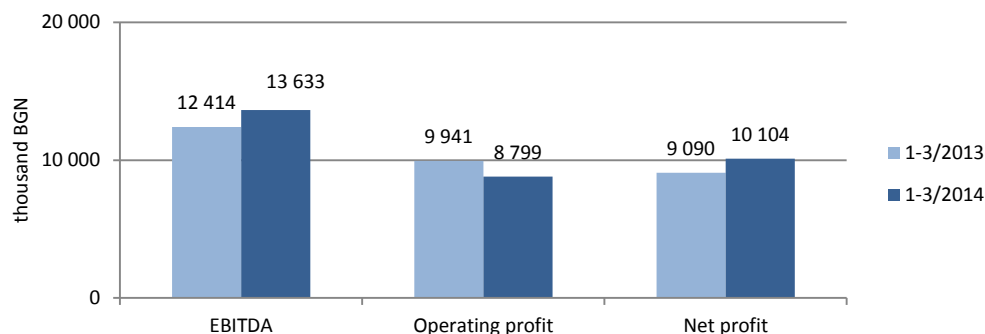
Financial income	1-3/2014	1-3/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
Income from interest on loans granted	2 772	813	241.0%	80%
Net gain from operations with securities	712	1 030	-30.9%	20%
<b>Total</b>	<b>3 484</b>	<b>1 843</b>	<b>89%</b>	<b>100%</b>
<b>Financial expenses</b>				
Expenses for interest on loans received	1 017	1 224	-17%	83%
Bank fees for loans and guarantees	36	68	-47%	5%
Interest expenses on finance lease	5	24	-79%	2%
Net loss from exchange rate differences on loans	-	164	-100%	11%
<b>Total</b>	<b>1 058</b>	<b>1 480</b>	<b>-29%</b>	<b>100%</b>

*Financial income* increased by 1,7 million BGN, or 89%, to 3,5 million BGN in the first quarter of 2014 compared to 1,8 million BGN in the first quarter of 2013. This is a result of an increase in income from interest on loans granted by 2 million BGN. Net gain from operations with securities decreased by 0,3 million BGN.

*Financial expenses* decreased by 0,4 million BGN or 29% from 1,5 million BGN in the first quarter of 2013 to 1,1 million BGN in the first quarter of 2014. This decrease is mainly due to the decrease in expenses for interest on loans received by 0,2 million BGN and in the net loss from exchange rate differences on loans by 0,2 million BGN.

*Net financial income (expense)* increased by 2 million BGN, reaching 2,4 million BGN in the first quarter of 2014, compared to 0,4 million BGN in the first quarter of 2013.

## Operating result



*Profit before interest, taxes, depreciation and amortization (EBITDA)* grew by 1,2 million BGN or 9,8%, amounting to 13,6 million BGN as at 31 March 2014, compared to 12,4 million BGN as at 31 March 2013.

*The operating profit* decreased by 1,1 million BGN or 11,5% to 8,8 million BGN as at 31 March 2014, compared to 9,9 million BGN as at 31 March 2013.

*Net profit* increased by 1 million BGN or 11,2% reaching 10,1 million BGN as at 31 March 2014 compared to 9,1 million BGN as at 31 March 2013.

### Assets

	31.03.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	195 431	198 158	-1%	54%
Intangible assets	3 601	3 661	-2%	1%
Investment property	22 555	22 555	0%	6%
Investments in subsidiaries	105 687	101 207	4%	29%
Available-for-sale investments	6 919	6 862	1%	2%
Long-term receivables from related parties	27 137	25 649	6%	8%
Other long-term receivables	16	17	-6%	0%
	<b>361 346</b>	<b>358 109</b>	1%	65%
<b>Current assets</b>				
Inventories	54 361	50 083	9%	28%
Receivables from related parties	108 077	103 350	5%	55%
Commercial receivables	22 695	22 155	2%	12%
Other receivables and prepaid expenses	6 920	7 241	-4%	4%
Cash and cash equivalents	4 275	8 198	-48%	2%
	<b>196 328</b>	<b>191 027</b>	3%	35%
<b>TOTAL ASSETS</b>	<b>557 674</b>	<b>549 136</b>	2%	100%

*Total assets* increased by 8,6 million BGN or 2%, reaching 557,7 million BGN compared to 549,1 million BGN as at 31 December 2013.

*Non-current assets* increased by 3,2 million BGN, or 1%, due to the increase in long-term receivables from related parties by 1,5 million BGN and investments in subsidiaries by 4,5 million BGN. Property, plant and equipment decreased by 2,7 million BGN compared to 31 December 2013.

Property, plant and equipment	31.03.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000		
Land and buildings	105 890	106 621	-1%	54%
Machines and equipment	78 605	80 237	-2%	40%
Other	8 553	10 317	-17%	4%
In process of acquisition	2 383	983	142%	1%
<b>Total</b>	<b>195 431</b>	<b>198 158</b>	<b>-1%</b>	<b>100%</b>

Property, plant and equipment has most substantially decreased in the proportion of plant and equipment by 1,6 million BGN, in the portion other by 1,7 million BGN, and in the portion of land and buildings by 0,7 million BGN and property. The assets in process of acquisition increased by 1,4 million BGN. Intangible assets fell in the portion of intellectual property rights and software products and increased in the portion of assets in the process of acquisition.

Investments in subsidiaries increased by 4,5 million BGN in relation to a capital increase in Briz, Latvia. The available-for-sale investments remain at 6,9 million BGN.

Long-term loans to related parties increases by 1,5 million BGN, which represent transformed short-term loans.

*Current assets* increased by 5,3 million BGN or 3%, reaching 196,3 million BGN as at 31 March 2014 compared to 191 million BGN as at 31 December 2013.

Inventories	31.03.2014	31.12.2013	change	Share 2014
	BGN '000	BGN '000		
Materials	28 284	28 045	1%	52%
Finished products	19 056	16 606	15%	35%
Work in progress	4 519	2 835	59%	8%
Semi-finished products	2 266	2 392	-5%	4%
Goods	236	205	15%	0%
<b>Total</b>	<b>54 361</b>	<b>50 083</b>	<b>9%</b>	<b>100%</b>

Inventories increased by 4,3 million BGN compared to 31 December 2013, mainly in the part of finished products, unfinished products, materials and goods respectively by 2,4 million BGN, 1,7 million BGN, 0,2 million BGN and 0,032 million BGN.

Receivables from related parties increased by 4,7 million BGN. This is a result of an increase of income from sale of finished products and materials by 4,9 million BGN.

Commercial receivables increased by 0,5 million BGN in the portion of receivables from customers compared to 31 December 2013.

Other receivables and advance payments decreased by 0,3 million BGN. Mainly this is due to a decrease in prepayments by 0,8 million BGN.

Cash and cash equivalents decreased by 3,9 million BGN and as at 31 March 2014 amount to 4,3 million BGN, compared to 8,2 million BGN as at 31 December 2013.

### Liabilities and owners' equity

	31.03.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>OWNERS' EQUITY</b>				
Share capital	132 000	132 000	0%	35%
Treasury stock	(16 716)	(18 105)	-8%	-4%
Reserves	221 066	220 935	0%	58%
Retained earnings	45 441	34 856	30%	12%
<b>TOTAL OWNERS' EQUITY</b>	<b>381 791</b>	<b>369 686</b>	<b>3%</b>	<b>100%</b>
	<b>31.03.2014</b>	<b>31.12.2013</b>	<b>Change</b>	<b>Share 2014</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	46 926	48 723	-4%	27%
Liabilities on deferred taxes	3 769	3 826	-1%	2%
Liabilities to the personnel upon retirement	1 882	1 855	1%	1%
Financial leasing liabilities	66	49	35%	0%
Other non-current liabilities	3 488	3 534		2%
	<b>56 131</b>	<b>57 987</b>	<b>-3%</b>	<b>32%</b>

<b>Current liabilities</b>				
Short-term bank loans	96 588	98 878	-2%	55%
Short-term part of long-term bank loans	3 731	3 822	-2%	2%
Liabilities to related parties	7 830	7 836	0%	4%
Commercial liabilities	5 849	4 973	18%	3%
Liabilities for taxes	629	1 243	-49%	0%
Liabilities to the personnel and for social insurance	4 138	3 736	11%	2%
Other current liabilities	987	975	1%	1%
	<b>119 752</b>	<b>121 463</b>	-1%	68%
<b>TOTAL LIABILITIES</b>	<b>175 883</b>	<b>179 450</b>	-2%	100%
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>557 674</b>	<b>549 136</b>	2%	

*Equity* increased by 12,1 million BGN compared to 31 December 2013 as a result of increase in retained earnings by 10,6 million BGN. At the end of the first quarter of 2014 the treasury stock amounts to 5 022 555. During the reporting period no new issue of shares was conducted.

*Non-current liabilities* decreased by 1,9 million BGN, from 58 million BGN at the end of 2013 to 56,1 million BGN at the end of the first quarter of 2014 mainly due to a decrease of long-term bank loans by 1,8 million BGN.

*Current liabilities* decreased by 1,7 million BGN compared to 31 December 2013. This is mainly due to a decrease in short-term bank loans, the short-term part of long-term bank loans and tax liabilities by 2,3 million BGN, 0,1 million BGN and 0,6 million BGN accordingly. Commercial liabilities, liabilities to personell and for social security increased.

The total exposition to bank loans of the Company as at 31 March 2014 decreased by 4,2 million BGN compared to 31 December 2013.

Commercial liabilities increased by 0,8 million BGN compared to 31 December 2013 due to an increase in liabilities to suppliers.

Liabilities to related parties do not change and amount to 7,8 million BGN as at 31 March 2014. Liabilities to personnel and for social security increased by 0,4 million BGN. Other current liabilities do not change.

## Cash flow

	<b>31.03.2014</b>	<b>31.03.2013</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flow from/(used in) operations	3 143	6 377
Net cash flow used for investment activities	(4 502)	(14 035)
Net cash flow used in/from financial operations	(2 564)	9 188
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(3 923)</b>	<b>1 530</b>
Cash and cash equivalents on 1 January	7 671	2 595
Cash and cash equivalents on 31 March	3 748	4 125

*Net cash flows* as at 31 March 2014 generated from operating activities amounted to 3,1 million BGN, net cash from investing activities (4,5) million BGN and finance activities (2,6) million BGN. As a result of these activities cash and cash equivalents mark a net decrease by 3,9 million BGN and as at 31 March 2014 amount to 3,8 million BGN compared to 7,7 million as at 1 January 2014.

## Ratios

	<b>31.03.2014</b>	<b>31.03.2013</b>
ROE	9,4%	12,2%
ROA	6,0%	7,3%
Asset turnover	0,38	0,36
Current liquidity	1,64	1,45
Quick ratio	1,19	1,15
Cash/current liabilities	0,04	0,02
Owners' equity/liabilities	2,17	1,48

## *Information about the shares of Sopharma AD*

The total number of outstanding shares at 31 March 2014 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, BGBX40 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

## Sopharma AD

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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 an 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.

### Key indicators of the shares of Sopharma AD

	31.03.2014	31.03.2013
Total number of issued shares	132 000 000	132 000 000
Average-weighted number of outstanding shares for the last four quarters	127 028 999	128 668 081
Number of shares outstanding at the end of the period	126 977 445	128 333 653
Earnings per share in BGN	0,273	0,323
Price per share at the end of the period in BGN	4,599	2,373
Price/Earnings ratio (P/E)	16,85	7,35
Book value per share in BGN	3,007	2,803
Price/Book value ratio (P/B)	1,53	0,85
Sales per share in BGN	1,725	1,621
Price per share / Sales per share(P/S)	2,666	1,464
Market capitalization in BGN	607 068 000	313 236 000

# Sopharma AD

Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2014 – 31 March 2014

