

# MANAGEMENT REPORT

Q1 2015



**SOPHARMA AD**

30 April 2015

## General information about Sopharma AD

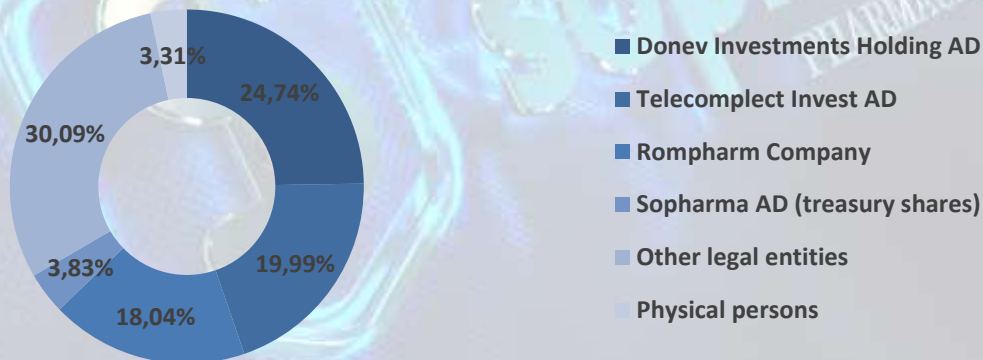
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko shose street No 16.

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 2015



### 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. The Company 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

## Sopharma AD

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 2015 the average number of employees of Sopharma AD is 2 084 (2014: 1 825). The table below shows the detailed information on the staff of the Company.

	31.03.2015	Share %
Number of employees 31.03.2015	2 090	100%
Higher education	920	44%
Special education	54	3%
High school education	1 078	51%
Primary school education	38	2%
Up to 30 years of age	259	12%
Between 31 - 40 years of age	471	23%
Between 41 - 50 years of age	640	31%
Between 51 - 60 years of age	588	28%
Over 60 years of age	132	6%
Women	1 294	62%
Men	796	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.

## Sopharma AD

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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 three months of 2014*

On 9 January 2015 was held an Extraordinary General Meeting of Shareholders of Sopharma AD, which approved a decision for transformation of Sopharma AD through the merger of Bulgarian Rose – Sevtopolis AD into Sopharma AD, as well as for the capital increase of Sopharma AD from 132 000 000 BGN to 134 798 527 BGN through the issuance of 2 798 527 new shares with a nominal value of 1 BGN and an emission value of 4.14 BGN, equal to the fair value of one share of Sopharma AD in relation to the merger of Bulgarian Rose – Sevtopolis AD. The entry in the Commercial Register was conducted on 26 February 2015. As at 6 March 2015 the new capital of 134 797 899 BGN was registered in the Central Depository AD. By Decision №216-E/25.3.2015 of the Financial Supervision Commission the emission is listed in the register of public companies of the FSC. From 9 April 2015 the emission of shares is admitted to trading on the BSE.

The entry in the register of the Financial Supervision Commission and trading on the Bulgarian Stock Exchange are pending.

The installments on the share capital of the newly founded in 2014 subsidiary Sopharma Kazakhstan at the amount of 258 thousand BGN (132 thousand EUR) were partially paid in the period 26 January – 19 March 2015. The deadline for the final payment of the capital is 31 May 2015.

On 28 January 2015 was held a hearing before the court in Poland in a lawsuit, filed by Sopharma AD, for recognition and enforcement of a decision of the Arbitration Court in Paris. The defendant in the case has submitted a refusal to recognize and comply with the decision. By decision from 25 February 2015 the court in Poland has ruled that the arbitration decision is subject to enforcement. This court ruling has not entered into force because of an appeal procedure.

On 17 March 2015 was concluded an extrajudicial agreement between Sopharma AD (as guarantor under a supply contract and universal successor of Bulgarian Rose – Sevtopolis AD, terminated due to its merger into Sopharma AD) and a company supplier of the merged subsidiary. The agreement settles all disputes between the parties, including the related collateral court cases. On the same date (17 March 2015), according to the agreements between the parties, Sopharma AD has paid the company supplier of Bulgarian Rose – Sevtopolis AD the amount of 1,246 thousand BGN (673 thousand USD and 4 thousand EUR),

representing the residue after a netting made between the parties. On 19 March 2015, each of the parties withdrew their appeals against court decisions on the cases and requested revocation of the collaterals imposed on them as well as repayment of guarantees given in connection with the collaterals.

On 19 March 2015, a contract was concluded between Sopharma AD and PAO Vitamini based on which the trade receivables of Sopharma AD, amounting to EUR 12,774 million, were transformed to their equivalent in Hryvnia - UAH 316,532 million. This right of receivable, in accordance with a Decision of the Board of Directors of Sopharma AD, dated 20 March 2015, was used as an additional contribution to the increase in the share capital of Sopharma Ukraine OOD, which at the end of March after the registration of the capital increase amounts to UAH 317 531 502.

On 23 March 2015 the Board of Directors of Sopharma AD took a decision for the conducting of the procedure, required by POSA, for a tender offer under Art. 149, para. 6 of POSA for the purchasing all shares of the other shareholders Momina Krepost AD, Veliko Tarnovo, UIC 104055543 by the majority shareholder Sopharma AD. The application for the tender offer was submitted to the Financial Supervision Commission on 24 March 2015. On 23 April 2015 the Financial Supervision Commission issued a temporary ban on the issuing of the tender offer.

### New developments and products

#### New products with marketing authorizations in the first quarter of 2015:

Authorizations were received for the bringing to market of 5 new products for the Company – Otofix drops, Softenzif tablets with delayed release, Fentoril injection solution, Ivadron injection solution, Tuspan syrup 100 ml., and one new product Glicerax suppository was brought to market Promerol injection solution.

#### Expected in 2015

Three to five new products are expected to be introduced by the end of 2015.

#### Developments

Around eighteen production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 22 new products for the Company.

## Key financial indicators

Indicators	1-3/2015	1-3/2014	change %
	BGN '000	BGN '000	
Sales revenues	40 498	51 124	-20,8%
EBITDA	11 738	14 263	-17,7%
Operating profit	7 951	9 148	-13,1%
Net profit	7 216	10 448	-30,9%
CAPEX	1 607	2 279	-29,4%
	<b>31.03.2015</b>	<b>31.12.2014</b>	
	<b>BGN '000</b>	<b>BGN '000</b>	
Non-current assets	402 452	375 678	7,1%
Current assets	173 233	196 239	-11,7%
Owners' equity	413 613	406 549	1,7%
Non-current liabilities	46 593	48 460	-3,9%
Current liabilities	115 479	116 908	-1,2%
	<b>1-3/2015</b>	<b>1-3/2014</b>	
<b>Ratios</b>			
EBITDA / Sales revenues	29,0%	27,9%	
Operating profit/ Sales revenues	19,6%	17,9%	
Net profit/ Sales revenues	17,8%	20,4%	
Borrowed capital/Owners' equity	0,39	0,41	
Net debt/ EBITDA	3,6x	2,4x	

## 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. The Company sells some of its finished products in Russia in euro and thus eliminates the currency risk associated with the depreciation of the Russian ruble in the recent months. The accounts with subsidiaries in Ukraine are also denominated in euro. However, in connection with the instability in the country and the continued depreciation of the Ukrainian hryvnia, in order to minimize currency risk, the company conducts through its subsidiaries a currency policy, which includes the implementation of advance payments and shortening of the periods of delayed payments and immediate exchange of revenues in local currency in euros, as well as raising of the price mark-ups on products in order to compensate for possible future devaluation of the hryvnia. 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

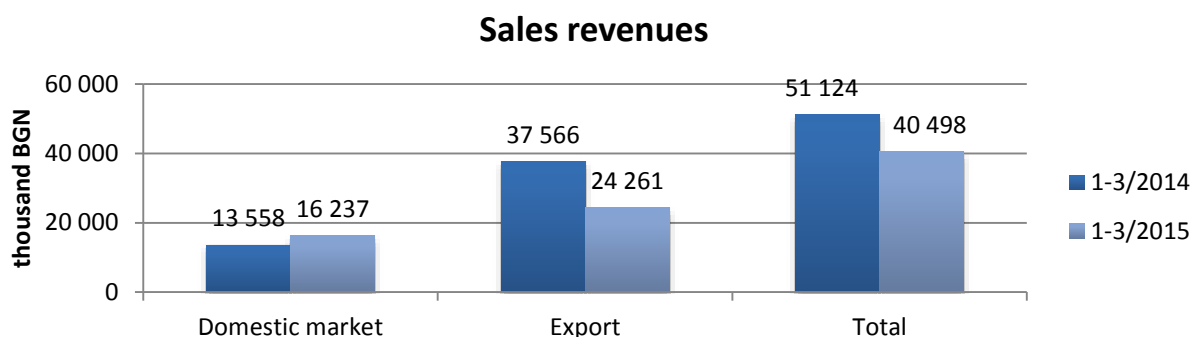
value, can be achieved and maintained in a proportion favourable for the Company. The permanent component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in 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.

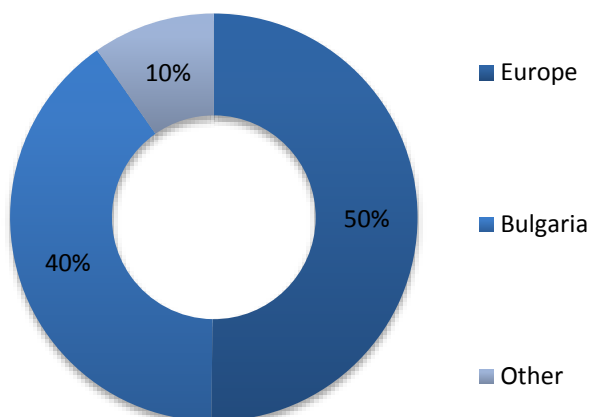
### Operating results in the first quarter of 2015

#### Sales revenues

Sales revenues of production decrease by 10,6 million BGN or 21%, reaching 40,5 million BGN at the end of the first quarter of 2015, compared to 51,1 million BGN at the end of the first quarter of 2014.



Revenues by market	1-3/2015 BGN '000	1-3/2014 BGN '000	Change %
Europe	20 329	33 534	-39%
Bulgaria	16 237	13 558	20%
Other	3 932	4 032	-2%
<b>Total</b>	<b>40 498</b>	<b>51 124</b>	<b>-21%</b>



### 🌍 Europe

Revenues from sales to European countries decreased by 39% compared to the first quarter of 2014 due to the decrease of sales in Ukraine by over 80%. Currently the access to the eastern territories is permanently restricted and sales there are difficult to conduct by the distributors and are in much smaller quantities. The revenue from sales in Russia decreased due to the volatility of the ruble, which required the revision of the prices of the products intended for the Russian market, as a result of which the Company limited the export to Russia in the first quarter of 2015. Sales to the Baltics, Greece, and Kosovo have increased.

### 🇬🇧 Bulgaria

The sales of Sopharma AD on the domestic market increased by 2,7 million BGN, or 20% and reached 16,2 million BGN at the end of the first quarter of 2015 compared to 13,5 million BGN at the end of the first quarter of 2014. The products with largest share of sales in the country are Methylprednisolone, Vicetin, Flixotid, Vitamin C, and Carsil. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 12% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7,2% (4,7% in units), Roche – 6,2% (0,3% in units), Sanofi-Aventis-Zentiva – 5,9% (3,6% in units), Actavis – 5,2% (13,7% in units), GlaxoSmithKline – 4,7% (2,6% in units), Pfizer – 3% (1,2% in units), Servier – 2,9% (1,8% in units), Astra Zeneca – 2,8% (0,8% in units).

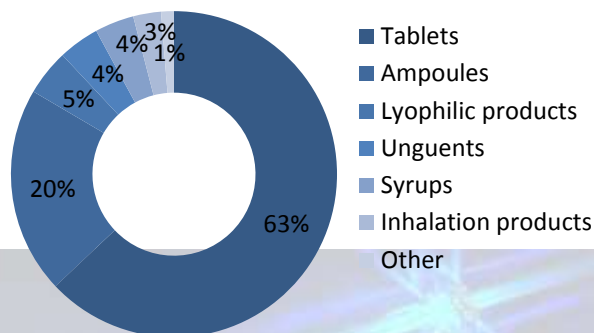
### 🌍 Other markets

Revenues from other markets decreased by 2% in the first quarter of 2015. These mainly include revenues from sales in the Caucasus and Central Asia, which decreased by 6% compared to the first quarter of 2014, due to the financial crisis in Kazakhstan. Sales revenue in Uzbekistan, Armenia, Vietnam, and Tunisia increased.

## Sales by type of formulation

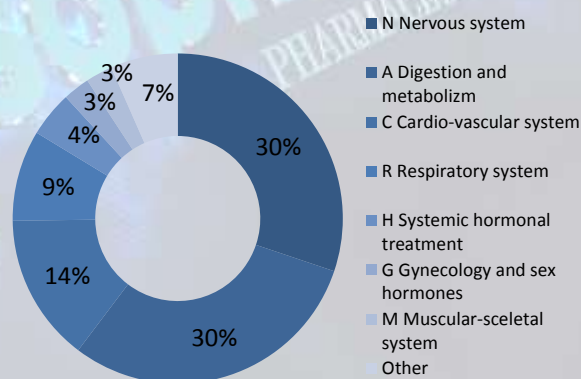
The highest share in the volume of sales are tablet forms, followed by ampoules, lyophilic products, unguents, syrups and others.

Revenues by type of formulation	2014 BGN '000	2013 BGN '000	Change %
Tablets	25 489	37 505	-32%
Ampoules	8 308	7 253	15%
Lyophilic products	1 848	1 802	3%
Unguents	1 648	1 277	29%
Syrups	1 574	2 115	-26%
Inhalation products	1 117	740	51%
Other	514	432	19%
<b>Total</b>	<b>40 498</b>	<b>51 124</b>	<b>-21%</b>



## Sales by therapeutic group

Revenues by therapeutic group	2014 BGN '000	2013 BGN '000	Change %
N Nervous system	12 218	17 296	-29%
A Digestion and metabolism	12 202	16 951	-28%
C Cardio-vascular system	5 865	6 049	-3%
R Respiratory system	3 609	3 527	2%
H Systemic hormonal treatment	1 803	2 318	-22%
G Gynaecology and sex hormones	1 063	1 671	-36%
M Muscular-skeletal system	1 062	966	10%
Other	2 676	2 345	14%
<b>Total</b>	<b>40 498</b>	<b>51 124</b>	<b>-21%</b>



## Other operating revenues

Other operating revenues	1-3/2015 BGN '000	1-3/2014 BGN '000	Change %	Share 2015 %
Income from services rendered	774	950	-19%	149%

Income from fines and penalties	204	-	-	39%
Income from sale of products	193	145	33%	37%
Income from sale of materials	20	21	-5%	4%
Net loss from exchange rate differences	(794)	(20)	3870%	-152%
Other	124	27	359%	24%
<b>Total</b>	<b>521</b>	<b>1 123</b>	<b>-54%</b>	<b>100%</b>

Other operating income decreased by 0,6 million BGN or 54% from 1,1 million BGN in the first quarter of 2014 to 0,5 million BGN in the first quarter of 2015. The main contributors are net loss from exchange rate differences on commercial receivables, commercial liabilities, and current accounts, which increased by BGN 0,8 million, as well as income from services rendered, which decreased by BGN 0,2 million.

income from services, which grew by 0,8 million BGN compared to the previous year.

### Operating expenses

Operating expenses	1-3/2015 BGN '000	1-3/2014 BGN '000	Change %	Share 2015 %
Changes in the finished goods and work-in-progress inventory	(5 672)	(4 139)	-37%	-17%
Materials	15 574	18 741	-17%	47%
External services	11 116	13 642	-19%	34%
Personnel	9 539	9 161	4%	29%
Amortization	3 787	5 115	-26%	11%
Other operating income (expenses)	(1 276)	579	-320%	-4%
<b>Total</b>	<b>33 068</b>	<b>43 099</b>	<b>-23%</b>	<b>100%</b>

The operating expenses decreased by 10 million BGN or 23% from BGN 43,1 million in the first quarter of 2014 to BGN 33,1 million the first quarter of 2015, which is due to a decrease in material costs, hired services expense, amortization, and other costs.

	1-3/2015	1-3/2014	Change	Share
	BGN '000	BGN '000	%	2015
<b>Materials expenses</b>				
Main materials	11 189	14 180	-21%	72%
Spare parts, laboratory items and technical materials	1 443	1 405	3%	9%
Heat	1 166	1 412	-17%	7%
Electricity	1 041	977	7%	7%
Fuels and lubricants	463	322	44%	3%
Water	129	267	-52%	1%
Work cloths	117	148	-21%	1%
Scraping of materials	0	15	-100%	0%
Other	26	15	73%	0%
<b>Total</b>	<b>15 574</b>	<b>18 741</b>	<b>-17%</b>	<b>100%</b>

*Cost of materials* (47% share) decreased by 3,1 million BGN or 17% from 18,7 million BGN in the first quarter of 2014 to 15,6 million BGN in the first quarter of 2015. Costs of basic materials decreased by 3 million BGN, in the segments of substances, PVC and aluminum foil, vials and tubes, and herbs.

	1-3/2015	1-3/2014	Change	Share
	BGN '000	BGN '000	%	2015
<b>Hired services expenses</b>				
Manufacturing of medicines	2 659	2 706	-2%	24%
Advertising	2 237	2 290	-2%	20%
Consultancy fees	1 086	3 934	-72%	10%
Rents	632	592	7%	6%
Transportation	553	752	-26%	5%
Logistics services on export and domestic market	733	557	32%	7%
Registration services and clinical trials	635	310	105%	6%
Maintenance of buildings and equipment	352	344	2%	3%
Local taxes and fees	315	317	-1%	3%
Security	235	227	4%	2%
State and regulatory taxes and local taxes	186	308	-40%	2%
Medical services	184	184	0%	2%
Subscription fees	173	152	14%	2%
Civil contracts	168	182	-8%	2%
Insurance	164	223	-26%	1%
Communications	96	76	26%	1%
Other	708	488	45%	6%
<b>Other</b>	<b>11 116</b>	<b>13 642</b>	<b>-19%</b>	<b>100%</b>

*Hired services* have a 34% share of operating expenses and decreased by 2,5 million BGN or 19%, to 11,1 million BGN in the current period of 2015 compared to 13,6 million BGN in the first quarter of 2014. The most significant impact have the decrease in consultancy services by 2,8 million BGN.

	1-3/2015	1-3/2014	Change	Share
	BGN '000	BGN '000	%	2015
<b>Personnel expenses</b>				
Salaries	6 992	6 785	3%	73%
Social insurance	1 296	1 308	-1%	14%
Social benefits and payments	499	447	12%	5%
Other	752	621	21%	8%
<b>Total</b>	<b>9 539</b>	<b>9 161</b>	<b>4%</b>	<b>100%</b>

*Personnel costs* (with a share of 29% of operating expenses) increased by 0,3 million BGN, or 4% from 9,2 million BGN in the first quarter of 2014 to 9,5 million BGN in the first quarter of 2015. Current salaries increased by 0,2 million BGN, social security contributions - by 0,6 million BGN, and social benefits and current accruals decreased by 0,2 million BGN.

	1-3/2015	1-3/2014	Change	Share
	BGN '000	BGN '000	%	2015
<b>Other expenses</b>				
Entertainment expenses	352	366	-4%	-28%
Business trips	120	144	-17%	-9%
Donations	117	23	409%	-9%
Scrapping of finished good and unfinished products	101	3	3267%	-8%
Training	89	18	394%	-7%
Accrued (recovered) impairment of receivables, net	(2 138)	-	-	168%
Other (see FS notes)	83	25	232%	-7%
<b>Total</b>	<b>(1 276)</b>	<b>579</b>	<b>-320%</b>	<b>100%</b>

*Other operating expenses* (with a relative share of 4% of operating expenses) decreased by 1,9 million from 0,6 million BGN in the first quarter of 2014 to (1,3) million BGN in the first quarter of 2015, which is mostly due to recovered impairment of receivables, net by 2,1 million BGN.

*Costs of amortization* (with a relative share of 11% of operating expenses) decreased by 1,3 million BGN of 26% from 5,1 million BGN in the first quarter of 2014 to 3,8 million BGN in the first quarter of 2015.

## Financial income and expenses

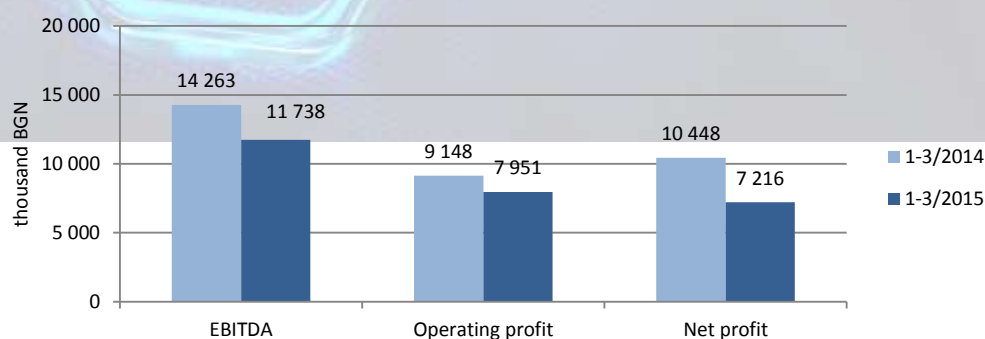
Financial income	1-3/2015	1-3/2014	Change %	Share 2015 %
	BGN '000	BGN '000		
Income from interest on loans granted	793	713	11,2%	92%
Net gain from operations with securities	68	2 772	-97,5%	8%
<b>Total</b>	<b>861</b>	<b>3 485</b>	<b>-75%</b>	<b>100%</b>
Financial expenses				
Expenses for interest on loans received	765	1 023	-25%	96%
Bank fees for loans and guarantees	59	36	64%	3%
Financial leasing expenses	4	5	-20%	0%
<b>Total</b>	<b>828</b>	<b>1 064</b>	<b>-22%</b>	<b>100%</b>

*Financial income* decreased by 2,6 million BGN, or 75%, to 0,9 million BGN in the first quarter of 2015 compared to 3,5 million BGN in the first quarter of 2014. This is a result of a decrease in net gain from operations with securities by 2,7 million BGN. Income from interest on loans granted increased by 0,08 million BGN.

*Financial expenses* decreased by 0,3 million BGN or 22% to 0,8 million BGN in the first quarter of 2015 compared to 1,1 million BGN in the first quarter of 2014. This decrease is mainly due to the change in expenses for interest on loans received by 0,3 million BGN.

*Net financial income (expense)* decreased by BGN 2,4 million to 0,03 million BGN in the first quarter of 2015, compared to 2,4 million BGN in the first quarter of 2014.

## Financial result



*Profit before interest, taxes, depreciation and amortization (EBITDA)* decreased by 2,5 million BGN or 18%, amounting to 7,2 million BGN as at 31 March 2015, compared to 10,4 million BGN as at 31 March 2014.



## Sopharma AD

*The operating profit* decreased by 1,1 million BGN or 13%, reaching 8 million BGN as at 31 March 2015, compared to 9,1 million BGN as at 31 March 2014.

*Net profit* decreased by 3,2 million BGN or 31% to 7,2 million BGN as at 31 March 2015 compared to 10,4 million BGN as at 31 March 2014.

### Assets

	<b>31.03.2015</b>	<b>31.12.2014</b>	<b>Change</b>	<b>Share</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>2015</b>
<b>Non-current assets</b>				<b>%</b>
Property, plant and equipment	208 947	211 056	-1%	52%
Intangible assets	3 076	3 210	-4%	1%
Investment property	22 368	22 368	0%	6%
Investments in subsidiaries	120 124	94 434	27%	30%
Investments in associated companies	9 908	7 015	41%	2%
Available-for-sale investments	4 477	4 439	1%	1%
Long-term receivables from related parties	33 547	33 150	1%	8%
Other long-term receivables	5	6	-17%	0%
	<b>402 452</b>	<b>375 678</b>	<b>7%</b>	<b>70%</b>
<b>Current assets</b>				
Inventories	62 966	57 360	10%	36%
Receivables from related parties	74 653	99 505	-25%	43%
Commercial receivables	20 300	23 397	-13%	12%
Other receivables and prepaid expenses	11 617	11 901	-2%	7%
Cash and cash equivalents	3 697	4 076	-9%	2%
	<b>173 233</b>	<b>196 239</b>	<b>-12%</b>	<b>30%</b>
<b>TOTAL ASSETS</b>	<b>575 685</b>	<b>571 917</b>	<b>1%</b>	<b>100%</b>

*Total assets* increased by 3,8 million BGN or 1%, reaching BGN 575,7 million compared to BGN 571,9 million as at 31 December 2014.

*Non-current assets* increased by 26,8 million BGN, or 7%, mainly due to an increase in investments in subsidiaries by BGN 25,7 million and investments in associated companies by BGN 2,9 million. There is a decrease in property, plant and equipment by 2,1 million BGN.

Property, plant and equipment	31.03.2015	31.12.2014	Change	Share
	BGN '000	BGN '000		%
Land and buildings	115 634	116 592	-1%	55%
Machines and equipment	77 255	79 152	-2%	37%
Other	7 537	8 124	-7%	4%
In process of acquisition	8 521	7 188	19%	4%
<b>Total</b>	<b>208 947</b>	<b>211 056</b>	<b>-1%</b>	<b>100%</b>

Property, plant and equipment has most substantially decreased in the portion of machines and equipment by 1,9 million BGN, other expenses by 0,6 million BGN, and land and buildings by 0,9 million BGN. The assets in process of acquisition increased by 1,3 million BGN. Intangible assets fell by 0,1 million BGN mainly in the part of intellectual property rights by 0,5 million BGN and software products by 0,5 million BGN.

Investments in subsidiaries increased by 25,7 million BGN mainly due to an increase in the capital of Sopharma Ukraine and Momina Krepost AD. Investments in associated companies increased by 2,9 million BGN in relation to the acquisition of shares of Medika AD. The available-for-sale investments remain at BGN 4 million. Long-term loans to related parties increases by BGN 4 million.

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* decreased by 23 million BGN or 12%, reaching 173,2 million BGN as at 31 March 2015 compared to 196,2 million BGN as at 31 December 2014.

Inventories	31.03.2015	31.12.2014	Change	Share
	BGN '000	BGN '000		%
Materials	26 486	25 754	3%	42%
Finished products	26 048	22 282	17%	41%
Work in progress	5 934	5 303	12%	9%
Semi-finished products	4 222	3 809	11%	7%
Goods	276	212	30%	0%
<b>Total</b>	<b>62 966</b>	<b>57 360</b>	<b>10%</b>	<b>100%</b>

Inventories increased by BGN 5,6 million or 10% compared to 31 March 2014, mainly in the part of finished products by 3,8 million BGN, materials by BGN 0,7 million, work in progress by BGN 0,6 million, and semi-finished products by BGN 0,4 million.

Receivables from related parties decreased by BGN 24,8 million as a result of a decrease in receivables from sales of finished products and materials by BGN 26,3 million.

Commercial receivables decreased by BGN 3,1 million, in the portion of receivables from customers and advance payments.

Other receivables and advance payments decreased by BGN 0,3 million.

Cash and cash equivalents decreased by BGN 0,4 million and as at 31 March 2015 amount to BGN 3,7 million, compared to 4,1 million BGN as at 31 December 2014.



**Liabilities and owners' equity**

	<b>31.03.2015</b>	<b>31.12.2014</b>	<b>Change</b>	<b>Share</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>2015</b>
<b>OWNERS' EQUITY</b>				
Share capital	134 798	134 798	0%	33%
Treasury stock	(17 378)	(17 203)	1%	-4%
Reserves	255 065	255 028	0%	62%
Retained earnings	41 128	33 926	21%	10%
<b>TOTAL OWNERS' EQUITY</b>	<b>413 613</b>	<b>406 549</b>	<b>2%</b>	<b>100%</b>
	<b>31.03.2015</b>	<b>31.12.2014</b>	<b>Change</b>	<b>Share</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>2015</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	36 175	37 972	-5%	22%
Liabilities on deferred taxes	4 021	4 099	-2%	2%
Government financing	3 903	3 968	-2%	2%
Long-term liabilities to the personnel	2 469	2 387	3%	2%
Financial leasing liabilities	25	34	-26%	0%
	<b>46 593</b>	<b>48 460</b>	<b>-4%</b>	<b>29%</b>
<b>Current liabilities</b>				
Short-term bank loans	92 357	90 761	2%	57%
Short-term part of long-term bank loans	7 330	7 431	-1%	5%
Liabilities to related parties	3 108	4 154	-25%	2%
Commercial liabilities	5 821	7 909	-26%	4%
Liabilities for taxes	578	938	-38%	0%
Liabilities to the personnel and for social insurance	5 016	4 564	10%	3%
Other current liabilities	1 269	1 151	10%	1%
	<b>115 479</b>	<b>116 908</b>	<b>-1%</b>	<b>71%</b>
<b>TOTAL LIABILITIES</b>	<b>162 072</b>	<b>165 368</b>	<b>-2%</b>	<b>100%</b>
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>575 685</b>	<b>571 917</b>	<b>1%</b>	

Equity increased by 7,1 million BGN or 2%, reaching 413,6 million BGN at the end of the first quarter of 2015 compared to 406,5 million BGN as at the end of 2014 mainly as a result of the increase in undistributed profit by 7,2 million BGN.

*Non-current liabilities* decreased by 1,9 million BGN or 4% to 46,6 million BGN at the end of the first quarter of 2015 compared to 48,5 million BGN as at the end of 2014 mainly due to a decrease of long-term bank loans by 1,8 million BGN.

*Current liabilities* decreased by BGN 1,4 million or 1% to BGN 115,5 million at the end of the first quarter of 2015 compared to BGN 116,9 million as at the end of 2014. This is mainly due to a decrease in commercial liabilities by BGN 2,1 million and liabilities to related parties by BGN 1,6 million. The total exposition to bank loans of the Company as at 31 March 2015 decreased by 0,3 million BGN compared to 31 December 2014.

Tax liabilities decreased by BGN 0,4 million. Liabilities to personnel and for social security increased by BGN 0,5 million.

### Cash flow

	31.03.2015 BGN '000	31.12.2014 BGN '000
Net cash flow from/(used in) operations	6 052	3 432
Net cash flow used in investment activities	(5 836)	(4 717)
Net cash flow (used in)/from financial operations	(672)	(2 690)
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(456)</b>	<b>(3 975)</b>
Cash and cash equivalents on 1 January	3 478	8 693
Cash and cash equivalents on 31 March	3 022	4 718

*Net cash flows* as at 31 March 2015 generated from operating activities amounted to BGN 6,1 million, net cash from investing activities BGN (5,8) million and financing activities (0,7) million BGN. As a result of these activities cash and cash equivalents mark a net decrease of BGN 0,5 million and as at 31 March 2015 amount to BGN 3 million compared to 3,5 million as at 1 January 2015.

### Ratios

	31.03.2015	31.12.2014	Change
ROE	5,8%	9,4%	-3,6%
ROA	4,0%	6,0%	-2,0%
Asset turnover	0,33	0,38	-0,05
Current liquidity	1,50	1,64	-0,14
Quick ratio	0,95	1,19	-0,24
Cash/current liabilities	0,03	0,04	-0,01
Owners' equity/liabilities	2,55	2,17	0,38

## Information about the shares of Sopharma AD

The total number of issued shares at 31 March 2015 of Sopharma AD is 134 797 899 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 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

	31.03.2015	31.12.2014
Total number of issued shares	134 797 899	132 000 000
Average-weighted number of outstanding shares for the last four quarters	129 724 984	127 028 999
Number of shares outstanding at the end of the period	129 634 743	126 977 445
Earnings per share in BGN	0,177	0,273
Price per share at the end of the period in BGN	3,409	4,599
Price/Earnings ratio (P/E)	19,26	16,85
Book value per share in BGN	3,190	3,007
Price/Book value ratio (P/B)	1,07	1,53
Sales per share in BGN	1,472	1,725
Price per share / Sales per share(P/S)	2,316	2,666
Market capitalization in BGN	459 526 038	607 068 000

## Sopharma AD

Trade with shared of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2015 – 31 March 2015

