

# MANAGEMENT REPORT

Q2 2014



**SOPHARMA AD**

30 July 2014

## General information about Sopharma AD

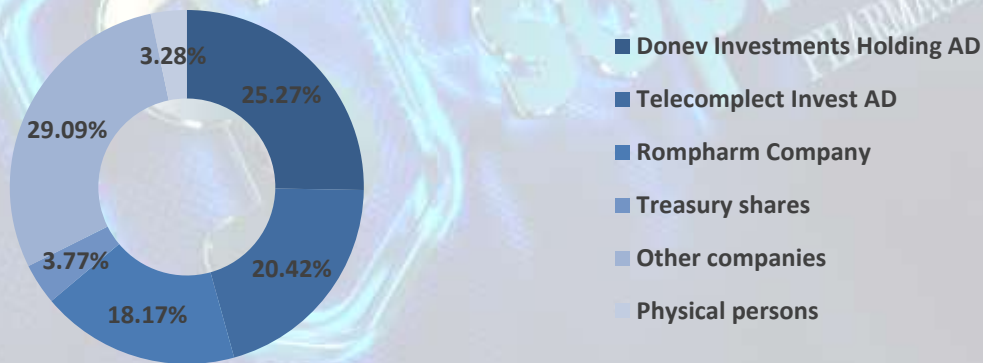
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko shose street No 16.

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 30 June 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 in-house-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 30 June 2014 the average number of employees of Sopharma AD is 1,863 (2013: 1,793). The table below shows the detailed information on the staff of the Company.

	<b>30.06.2014</b>	<b>Share %</b>
Number of employees 30 June 2014	1 870	100%
Higher education	844	45%
Special education	52	3%
High school education	949	51%
Primary school education	25	1%
Up to 30 years of age	238	13%
Between 31 - 40 years of age	438	23%
Between 41 - 50 years of age	562	30%
Between 51 - 60 years of age	523	28%
Over 60 years of age	109	6%
Women	1177	63%
Men	693	37%

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

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

### ***Significant events in the six months 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, through which transaction the share of Rompharm Company OOD in the capital of Sopharma AD reached 17.60%.

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.

On 19 June 2014 Sopharma AD and Bulgarian Rose – Sevtopolis AD signed a Contract for transformation through merger in accordance with the requirements of art. 262d and following of the Commercial Act (CA), as a result of which all assets of Bulgarian Rose – Sevtopolis AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Bulgarian Rose – Sevtopolis shall be terminated without liquidation. Pursuant to art. 124, par. 1 of the Public Offering of Securities Act (POSA) the Contract for merger, as well as reports of the management bodies of the companies involved in the transformation of the company under art. 262i of the CA and the report of the examiner under art. 262m of the CA must be approved by the deputy chairman of the Financial Supervision Commission, managing the "Investment Supervision" division. According to the signed contract, in connection with the implementation of the merger shall be carried out a capital increase of the receiving company Sopharma AD through issuing of new shares to be distributed among the shareholders of the transferring company Bulgarian Rose - Sevtopolis AD (except the shareholder Sopharma AD).

On the regular General Meeting of Shareholders of Sopharma AD, conducted on 20 June 2014 in Sofia, 5 Lachezar Stanchev Str., were taken the following decisions:

- ✚ Approval of the proposal by the Board of Directors for the distribution of the profit generated in 2013 and the undistributed profit from past periods as follows: net profit for 2013 amounts to 33 660 187.31 BGN /thirty-three million, six hundred and sixty thousand, one hundred and eighty-seven leva and thirty-one stotinki/. The undistributed profit from past periods amounts to 1 383 460.18 /one million, three hundred and eighty-three thousand, four hundred and sixty leva and eighteen stotinki/. The total amount of the profit, subject to distribution, is 35 043 647.49 /thirty-five million, forty-three thousand, six hundred and forty-seven leva and forty-nine stotinki/. After the allocation of 10% to the statutory reserve, amounting to 3 504 364.75 BGN /three million, five hundred and four thousand, three hundred and sixty-four leva and seventy-five stotinki/, from the remaining sum, amounting to 31 539 282.74 BGN /thirty-one million, five hundred and thirty-nine thousand, two hundred and eighty-two leva and

seventy-four stotinki/ shall be paid a gross dividend of 0.07 BGN /seven stotinki/ per share with dividend right. After the exact amount of the dividend has been determined, based on a list of shareholders, provided by the Central Depository AD, entitled to receive a dividend as per art.115c of POSA, the remainder of the net profit shall be allocated to the additional reserves of the Company. In accordance with the Regulations of the Central Depository, the dividend shall be paid out as follows: for shareholders with client accounts at an investment intermediary – through the investment intermediary, for shareholders without accounts at an investment intermediary - through the branches of Eurobank EFG - Bulgaria AD /Postbank/ in the country. Payment of dividend will commence within three months from the date of the AGM, on which the payment of dividend was approved;

- ✚ Election of AFA OOD with address of management in Sofia, 38 Oborishte Str. as a registered auditor for auditing and verification of the Annual financial statements of the Company for 2014, according to a proposal by the Audit Committee.
- ✚ Approval of decision for continuation of the mandate of the Audit Committee of the Company for a term of 3 /three/ years as of the date of the AGM.

### New developments and products

- ✚ New with marketing authorizations in the six months 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	1-6/2014	1-6/2013	Change %
	BGN '000	BGN '000	
Sales revenues	104 983	111 217	-5,6%
EBITDA	26 223	31 334	-16,3%
Operating profit	17 591	26 396	-33,4%
Net profit	24 560	24 983	-1,7%
CAPEX	4 341	18 336	-76,3%
	30.06.2014	31.12.2013	
	BGN '000	BGN '000	
Non-current assets	364 933	358 109	1,9%
Current assets	213 135	191 027	11,6%
Owners' equity	387 616	369 686	4,9%
Non-current liabilities	54 705	57 987	-5,7%
Current liabilities	135 747	121 463	11,8%
	1-6/2014	1-6/2013	
	Ratios		
EBITDA / Sales revenues	25,0%	28,2%	
Operating profit/ Sales revenues	16,8%	23,7%	
Net profit/ Sales revenues	23,4%	22,5%	
Borrowed capital/Owners' equity	0,49	0,49	
Net debt/ EBITDA	2,9x	3,6x	

## Review of risk factors

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

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



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

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

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

Since the end of 2013 and as at the date of these consolidated condensed interim statement Ukraine is still in the process of political crisis. As a result, for the period ending June 2014, the exchange rate of the Ukrainian hryvnia fell by over 35% compared to the Bulgarian Lev and there is a growth rate of 3% of interest rates compared to the end of 2013. The expected inflation by the Ukrainian National Bank for the year is about 15%. The purchasing power of the population shows a negative trend. This phenomenon continues to have a certain impact on the pharmaceutical market, but the products of the Group are in a relatively good position, located in the middle price range (refusal to purchase medicines mainly affect the higher price range). Also the assets of PAO Vitamini are located in the town of Uman, in the western part of Ukraine, where there is currently no indication that any development of the conflict will affect this part of Ukraine. The Management of the Sopharma Group closely monitors events occurring in

Ukraine, as well as the movements of the Ukrainian pharmaceutical market. It constantly revises the applied prices and trade terms. Additionally, the presence of a local company-distributor for the Group (OOO Sopharma Ukraine) in Ukraine reduces the risk of uncollectible receivables from third parties, and the commercial policy of the subsidiary is primarily a sale of goods to other distributors after payment of their previous obligations.

### **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 recognized 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) optimization 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 unfavorable change of cash flows is reduced to a minimum.

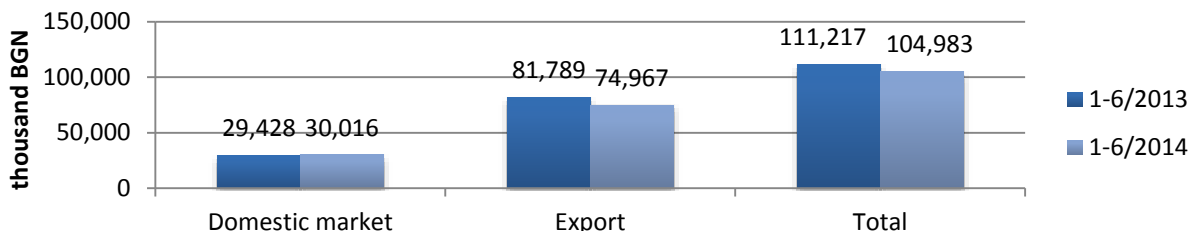
The Company's management currently monitors and analyses its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed 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 six months of 2014***

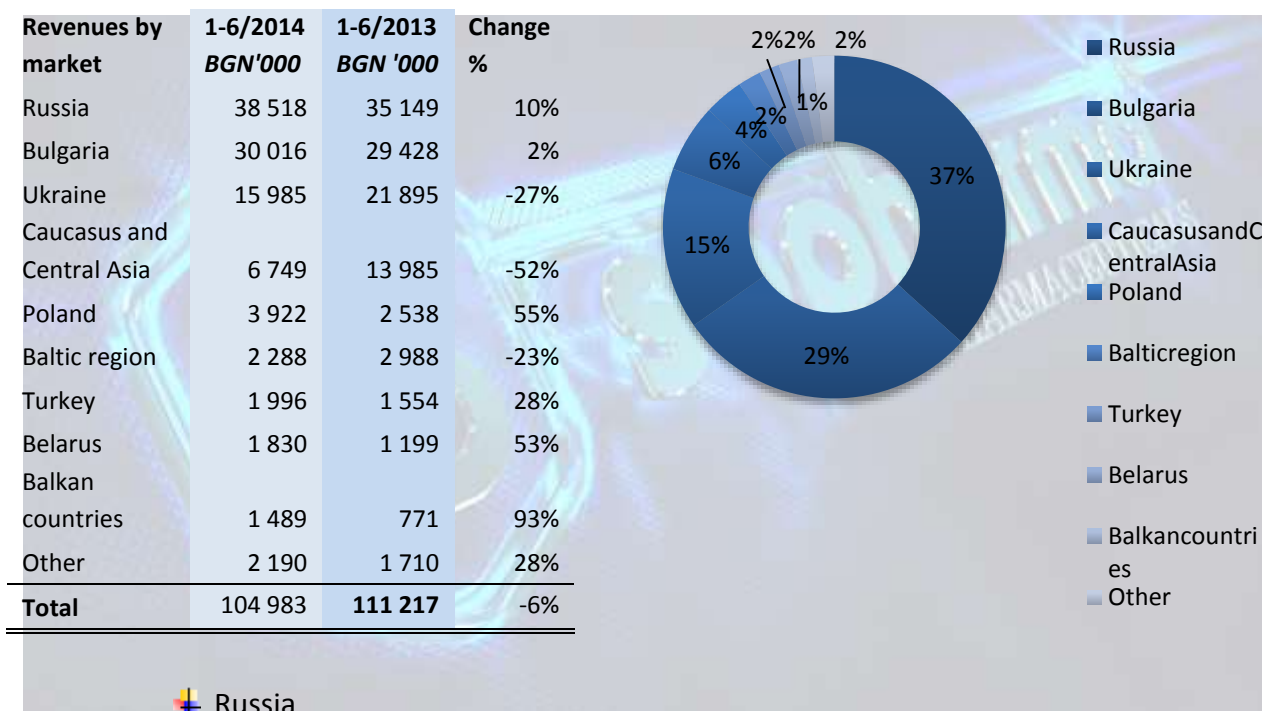
### **Sales revenues**

*Sales revenues of goods* decrease by 6,2 million BGN or 6%, reaching 105 million BGN as at the end of the six months of 2014, compared to 111,2 million BGN at the end of the six months of 2013.

Sales revenues



Main markets



The marketed production in Russia increased by 3.4 million BGN, or 10% to 38,5 million BGN in the six months of 2014 compared to 35,1 million BGN in the six months of 2013. The main products that are sold on the Russian market are Carsil, Tempalgin, Tabex, Sidnopharm, and Troxerutin.

Bulgaria

The sales of Sopharma AD on the domestic market increased by 0,6 million BGN, or 2% and reached 30 million BGN at the end of the six months of 2014 compared to 29,4 million BGN at the end of the six months of 2013. The products with largest share of sales in the country are Analgin, Vicetin, Flixotid, Vitamin C, and Methylprednisolone. 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 – 6.5% (4.5% in units), Roche – 6% (0.5% in units), GlaxoSmithKline – 5.4% (2.6% in units), Actavis – 5.3% (14% in units), Sanofi-Aventis-Zentiva – 4.3% (3.4% in units), Astra Zeneca – 3.6% (1% in units), Pfizer – 3.4% (1.4% in units), Servier – 3.1% (1.8% in units), Bayer – 2.7% (1.7% in units).

### Ukraine

Sales in the Ukraine decreased by 5,9 million BGN or 27% to 16 million BGN in the six months of 2014 from 21,9 million BGN in the six months of 2013. The main products exported to the Ukrainian market are Carsil, Spasmalgon, Tempalgin, Broncholitina, and Sidnopharm.

### Caucasus and Central Asia

Sales in the Caucasus and Central Asia (including Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan, Georgia, Azerbaijan and Armenia) fell by 7,2 million BGN or 52% to 6,7 million BGN in the six months of 2014, compared to 13,9 million BGN in the six months of 2013. The largest share of revenues in this region have sales in Azerbaijan (25%), followed by Kazakhstan (24%) where the decrease of sales is by 5.8 million BGN in comparison to the same period of the previous year. The main products Sopharma AD exported to this region are Analgin, Cinarizin, Tempalgin, Indometacin, Broncholitina.

### Poland

Sopharma AD increased its sales in Poland by 55% or 1,4 million BGN from 2,5 million BGN in the six months of 2013 to 3,9 million BGN in the six months of 2014. The main products on this market are Tabex, Nivalin, Buscolisin, and Tribestan.

### Turkey

In Turkey, sales increased by 0,4 million BGN from 1,6 million BGN in the six months of 2013 to 2 million BGN in the six months of 2014. The main product sold on this market is Methylprednisolone.

### Baltic region

Sales to the Baltic region have decreased by 0,7 million BGN or 23%, from 3 million BGN in the six months of 2013 to 2.3 million BGN in the six months of 2014. The main products are Carsil, Tribestan, and ampoules.



### Balkan countries

Sales in the Balkan countries in the six months of 2014 amount to 1,5 million BGN compared to 0,8 million BGN in the six months of 2013. The main products, sold on these markets are Furosemide, Paracetamol, Sidnopharm, Tribestan, and Carsil.

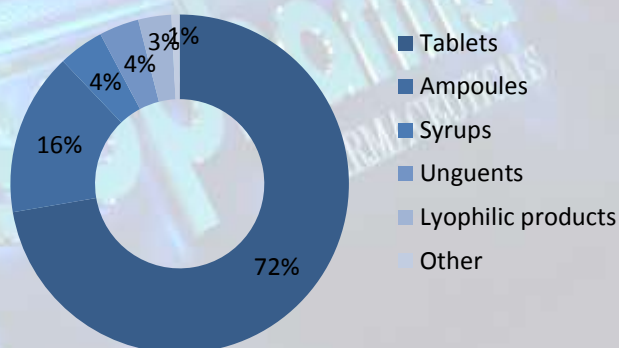
### Belarus

Sales in Belarus in the six months of 2014 amount to 1,8 million BGN, compared to 1,2 million BGN in the six months of 2013. The main products sold on this market are Carsil, Tempalgin, Sidnopharm, Allergosan, and Tabex.

### Sales by type of formulation

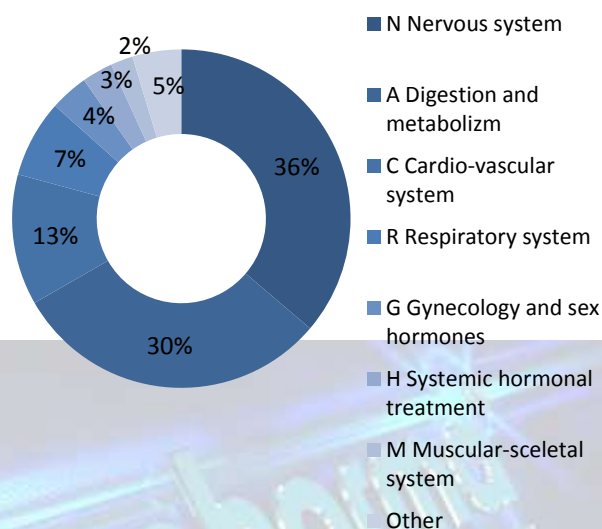
The highest share in the volume of sales have tablet formulations, followed by ampoules, syrups, unguents, and lyophilic products.

Revenues by type of formulation	1-6/2014 BGN '000	1-6/2013 BGN '000	Change %
Tablets	75 913	78 291	-3%
Ampoules	16 355	17 061	-4%
Syrups	4 571	6 456	-29%
Unguents	4 003	3 644	10%
Lyophilic products	3 318	3 967	-16%
Other	823	1 798	-54%
<b>Total</b>	<b>104 983</b>	<b>111 217</b>	<b>-6%</b>



## Sales by therapeutic group

Revenues by therapeutic group	1-6/2014 BGN '000	1-6/2013 BGN '000	Changes %
N Nervous system	38 040	35 154	8%
A Digestion and metabolism	31 987	38 877	-18%
C Cardio-vascular system	13 134	9 563	37%
R Respiratory system	7 757	11 180	-31%
G Gynaecology and sex hormones	3 829	4 332	-12%
H Systemic hormonal treatment	3 089	3 986	-23%
M Muscular-skeletal system	2 247	2 269	-1%
Other	4 898	5 855	-16%
<b>Total</b>	<b>104 982</b>	<b>111 217</b>	<b>-6%</b>



## Other operating revenues

Other operating revenues	1-6/2014 BGN '000	1-6/2013 BGN '000	Change %	Share 2014 %
Income from services	1 872	1 324	41%	82%
Income from sale of products	317	324	-2%	14%
Income from sale of materials	60	239	-75%	3%
Net loss from exchange rate differences	(177)	(326)	-46%	-8%
Other	200	7	2757%	9%
<b>Total</b>	<b>2 272</b>	<b>1 568</b>	<b>45%</b>	<b>100%</b>

Other operating income increased by 0,7 million BGN from 1,6 million BGN in the six months of 2013 to 2,3 million BGN in the six months of 2014, the main contributor being services rendered, which increased by 0,5 million BGN compared to the same period of last year.

## Operating expenses

Operating expenses	1-6/2014 BGN '000	1-6/2013 BGN '000	Change %	Share2012 %
Changes in the finished goods and work-in-progress inventory	(7 070)	5 941	219%	-8%
Materials	30 945	26 847	15%	35%
External services	37 415	27 951	34%	42%
Personnel	18 038	17 843	1%	20%
Amortization	8 632	4 938	75%	10%
Other operating expenses	1 704	2 869	-41%	2%
<b>Total</b>	<b>89 664</b>	<b>86 389</b>	<b>4%</b>	<b>100%</b>

The operating expenses increased by 3,3 million BGN or 4% compared to the six months of 2013 reaching 89,7 million BGN, which is a result from an increase in raw material cost, external services expenses, and amortization cost.

Materials expenses	1-6/2014 BGN '000	1-6/2013 BGN '000	Change %	Share 2014 %
Main materials	22 870	20 599	11%	74%
Spare parts, laboratory items and technical materials	3 134	2 021	55%	10%
Heat	1 816	1 649	10%	6%
Electricity	1 741	1 412	23%	6%
Fuels and lubricants	541	536	1%	2%
Water	406	320	27%	1%
Work cloths	397	310	28%	1%
Scraping of materials	40			0%
<b>Total</b>	<b>30 945</b>	<b>26 847</b>	<b>15%</b>	<b>100%</b>

Cost of materials (35% share) increased by 4,1 million BGN or 15% from 26,8 million BGN in the six months of 2013 to 30,9 million BGN in the six months of 2014. Costs for basic materials increased by 2,3 million BGN, in the segments substances, packaging materials, liquid, and hard chemicals, ampules, and herbs. There was an increase in the cost of electricity, fuels, and lubricants.

	1-6/2014	1-6/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Hired services expenses</b>				
Manufacturing	14 568	11 629	25%	39%
Consultancy fees	8 437	4 159	103%	23%
Advertising	4 520	4 091	10%	12%
Transportation	1 398	1 420	-2%	4%
Logistic services on export and domestic market	1 390	878	58%	4%
Rents	1 212	1 195	1%	3%
Registration services and clinical trials	953	380	151%	3%
Maintenance of buildings and equipment	832	435	91%	2%
Local taxes and fees	564	326	73%	2%
Insurance	403	366	10%	1%
Security	394	446	-12%	1%
Civil contracts	389	329	18%	1%
Subscription fees	377	305	24%	1%
Medical services	369	290	27%	1%
State and regulatory taxes	338	459	-26%	1%
Car repairs and maintenance	226	168	35%	1%
Other	1 045	1 075	-3%	3%
<b>Other</b>	<b>37 415</b>	<b>27 951</b>	<b>34%</b>	<b>100%</b>

*Hired services* have a 42% share of operating expenses and increased by 9,5 million BGN or 34%, reaching 37,4 million BGN in the six months of 2014 compared to 27.9 million BGN in the six months of 2013. The most significant impact have the increase in consulting services by 4,3 million BGN, manufacturing by 2,9 million BGN, advertising by 0,4 million BGN, registration services by 0,6 million BGN. There is a decrease in state and regulatory taxes, taxes for services of current bank accounts, and others.

	1-6/2014	1-6/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Personnel expenses</b>				
Salaries	12 746	12 469	2%	71%
Social insurance	2 438	2 079	17%	14%
Social benefits and payments	863	988	-13%	5%
Performance-based bonuses	834	1 235	-32%	5%
Other	1 157	1 072	8%	6%
<b>Total</b>	<b>18 038</b>	<b>17 843</b>	<b>1%</b>	<b>100%</b>

*Personnel costs* (a share of 20%) increased by 0,2 million BGN, or 1% from 17,8 million BGN in the six months of 2013 to 18 million BGN in the six months of 2014. Current salaries increased by 0,3 million BGN, social security contributions - by 0,4 million BGN, and social benefits and current accruals decreased by 0,1 million BGN, as well as performance-based bonuses by 0,4 million BGN.

	<b>1-6/2014</b>	<b>1-6/2013</b>	<b>Change</b>	<b>Share 2014</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>Other operating expenses</b>				
Entertainment events expenses	1 007	846	19%	59%
Business trips	383	291	32%	22%
Donations	91	129	-29%	5%
Scrapping of finished goods and unfinished products	73	185	-61%	4%
Other taxes and payments to the budget	50	624	-92%	3%
Trainings	48	42	14%	3%
Accrued impairments	28	622	-95%	2%
Other (see FS notes)	24	130	-82%	1%
<b>Total</b>	<b>1 704</b>	<b>2 869</b>	<b>-41%</b>	<b>100%</b>

*Other operating expenses* (with a share of 2%) decreased by 1,2 million BGN or 41% from 2,9 million BGN in the six months of 2013 to 1,7 million BGN in the six months of 2014, which is mostly due to a decrease in accrued impairment of receivables net by 0,6 million BGN, other taxes and payments to the budget by 0,6 million BGN, and scrapping of finished goods and unfinished products by 0,1 million BGN. Entertainment events expenses increased by 0,2 million BGN.

*Amortization costs* increased by 3,7 million BGN or 75% from 4,9 million BGN in the six months of 2013 to 8,6 million BGN in the six months of 2014.

### Financial income and expenses

	<b>1-6/2014</b>	<b>1-6/2013</b>	<b>Change</b>	<b>Share 2014</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>Financial income</b>				
Income from participations	6 359	5 888	8.0%	58%
Income from interest on loans granted	3 135	-		29%
Net gain from operations with securities	1 487	2 068	-28.1%	14%
<b>Total</b>	<b>10 981</b>	<b>7 956</b>	<b>38%</b>	<b>100%</b>



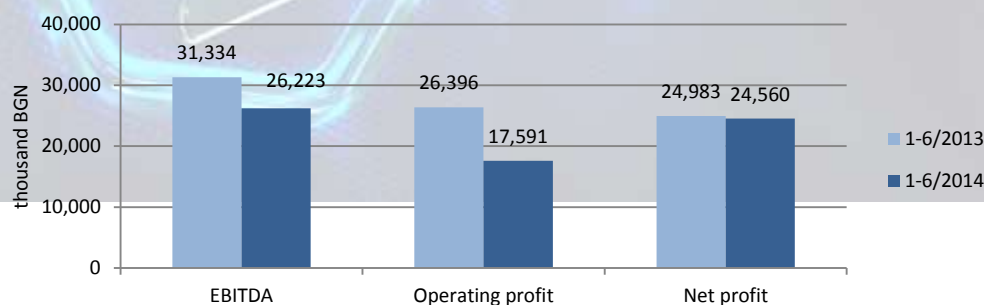
Financial expenses	1-6/2014	1-6/2013	Change	Share 2014
	BGN '000	BGN '000	%	%
Expenses for interest on loans received	2 125	2 174	-2%	31%
Bank fees for loans and guarantees	111	208	-47%	3%
Interest expenses on finance lease	10	38	-74%	1%
Impairment of available-for-sale investments	2	-		0%
Net loss from operations with securities	-	4 596	-100%	65%
Net loss from exchange rate differences on loans	-	51	-100%	1%
<b>Total</b>	<b>2 248</b>	<b>7 067</b>	<b>-68%</b>	<b>100%</b>

*Financial income* increased by 3 million BGN, or 38%, to 11 million BGN in the six months of 2014 compared to 8 million BGN in the six months of 2013. This is a result of an increase in net gain from operations with securities by 3 million BGN. Income from interest on loans granted decreased by 0,6 million BGN.

*Financial expenses* decreased by 4,8 million BGN or 68% from 7,1 million BGN in the six months of 2013 to 2,2 million BGN in the six months of 2014. This decrease is mainly due to the change in net loss from operations with securities by 4,6 million BGN.

*Net financial income (expense)* increased by 7,8 million BGN, reaching 8,7 million BGN in the six months of 2014, compared to 0,9 million BGN in the six months of 2013.

## Operating result



*Profit before interest, taxes, depreciation and amortization (EBITDA)* fell by 5,1 million BGN or 16,3%, amounting to 26,2 million BGN as at 30 June 2014, compared to 31,3 million BGN as at 30 June 2013.

*The operating profit* decreased by 8,8 million BGN or 33,4% to 17,6 million BGN as at 30 June 2014, compared to 26,4 million BGN as at 30 June 2013.

*Net profit* decreased by 0,4 million BGN or 1,7% reaching 24,6 million BGN as at 30 June 2014 compared to 25 million BGN as at 30 June 2013.

### Assets

	30.06.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	194 087	198 158	-2%	53%
Intangible assets	3 183	3 661	-13%	1%
Investment property	22 555	22 555	0%	6%
Investments in subsidiaries	105 554	101 207	4%	29%
Available-for-sale investments	7 608	6 862	11%	2%
Long-term receivables from related parties	31 938	25 649	25%	9%
Other long-term receivables	8	17	-53%	0%
	<b>364 933</b>	<b>358 109</b>	2%	63%
<b>Current assets</b>				
Inventories	54 930	50 083	10%	26%
Receivables from related parties	121 849	103 350	18%	57%
Commercial receivables	26 823	22 155	21%	13%
Other receivables and prepaid expenses	6 936	7 241	-4%	3%
Cash and cash equivalents	2 597	8 198	-68%	1%
	<b>213 135</b>	<b>191 027</b>	12%	37%
<b>TOTAL ASSETS</b>	<b>578 068</b>	<b>549 136</b>	5%	100%

*Total assets* increased by 28,9 million BGN or 5%, reaching 578,1 million BGN compared to 549,1 million BGN as at 31 December 2013.

*Non-current assets* increased by 6,8 million BGN, or 2%, due to the increase in long-term receivables from related parties by 6,3 million BGN and investments in subsidiaries by 4,3 million BGN. Property, plant and equipment decreased by 4,1 million BGN compared to 31 December 2013.

	30.06.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Property, plant and equipment</b>				
Land and buildings	105 071	106 621	-1%	54%
Machines and equipment	77 203	80 237	-4%	40%
Other	8 222	10 317	-20%	4%
In process of acquisition	3 591	983	265%	2%
<b>Total</b>	<b>194 087</b>	<b>198 158</b>	-2%	100%

Property, plant and equipment most substantially decreased in the proportion of plant and equipment by 3 million BGN, in the portion of other by 2,1 million BGN, and in the portion of land and buildings by 1,5 million BGN and property. The assets in process of acquisition increased by 2,6 million BGN. Intangible assets fell in the portion of intellectual property rights and software products.

Investments in subsidiaries increased by 11,6 million BGN in relation to a capital increase in Briz, Latvia. The available-for-sale investments increased by 0,7 million BGN.

Long-term loans to related parties increases by 6,4 million BGN.

*Current assets* increased by 22,1 million BGN or 12%, reaching 213,1 million BGN as at 30 June 2014 compared to 191 million BGN as at 31 December 2013.

Inventories	30.06.2014	31.12.2013	change	Share 2014
	BGN '000	BGN '000	%	%
Materials	26 397	28 045	-6%	48%
Finished products	22 226	16 606	34%	40%
Semi-finished products	3 410	2 392	43%	6%
Work in progress	2 688	2 835	-5%	5%
Goods	209	205	2%	0%
<b>Total</b>	<b>54 930</b>	<b>50 083</b>	10%	100%

Inventories increased by 4,8 million BGN compared to 31 December 2013, mainly in the portion of finished and semi-finished products respectively by 5,6 million BGN and 1 million BGN. Material and unfinished products inventories decreased by 1,6 million BGN and 0,1 million BGN.

Receivables from related parties increased by 18,5 million BGN. This is a result of an increase of income from sale of finished products and materials by 12,3 million BGN and receivables from dividends by 5,7 million BGN.

Commercial receivables increased by 4,7 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 0,9 million BGN.

Cash and cash equivalents decreased by 5,6 million BGN and as at 30 June 2014 amount to 2,6 million BGN, compared to 8,2 million BGN as at 31 December 2013.

## Liabilities and owners' equity

	30.06.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>OWNERS' EQUITY</b>				
Share capital	132 000	132 000	0%	34%
Treasury stock	-16 621	-18 105	-8%	-4%
Reserves	246 675	220 935	12%	64%
Retained earnings	25 562	34 856	-27%	7%
<b>TOTAL OWNERS' EQUITY</b>	<b>387 616</b>	<b>369 686</b>	<b>5%</b>	<b>100%</b>
	30.06.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	45 130	48 723	-7%	24%
Liabilities on deferred taxes	4 049	3 826	6%	2%
Long-term liabilities to personnel	2 034	1 855	10%	1%
Financial leasing liabilities	48	49	-2%	0%
Government financing	3 444	3 534	-3%	2%
	<b>54 705</b>	<b>57 987</b>	<b>-6%</b>	<b>29%</b>
<b>Current liabilities</b>				
Short-term bank loans	104 841	98 878	6%	55%
Short-term part of long-term bank loans	3 765	3 822	-1%	2%
Liabilities to related parties	11 295	7 836	44%	6%
Commercial liabilities	4 943	4 973	-1%	3%
Liabilities for taxes	431	1 243	-65%	0%
Liabilities to the personnel and for social insurance	5 304	3 736	42%	3%
Other current liabilities	5 168	975	430%	3%
	<b>135 747</b>	<b>121 463</b>	<b>12%</b>	<b>71%</b>
<b>TOTAL LIABILITIES</b>	<b>190 452</b>	<b>179 450</b>	<b>6%</b>	<b>100%</b>
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>578 068</b>	<b>549 136</b>	<b>5%</b>	

Equity increased by 17,9 million BGN compared to 31 December 2013 as a result of increase in retained earnings by 25,7 million BGN. At the end of the six months of 2014 the treasury stock amounts to 4 981 012. During the reporting period no new issue of shares was conducted.

*Non-current liabilities* decreased by 3,3 million BGN, from 58 million BGN at the end of 2013 to 54,7 million BGN at the end of the six months of 2014 mainly due to a decrease of long-term bank loans by 3,6 million BGN.

*Current liabilities* decreased by 14,3 million BGN compared to 31 December 2013. This is mainly due to an increase in short-term bank loans, liabilities to related parties, other current liabilities, and liabilities to personnel and for social security respectively by 5,9 million BGN, 3,5 million BGN, 4,2 million BGN, and 1,6 million BGN. There is a decrease in commercial and tax liabilities.

The total exposition to bank loans of the Company as at 30 June 2014 increased by 2,3 million BGN compared to 31 December 2013.

Commercial liabilities decreased by 0,03 million BGN compared to 31 December 2013 due to a decrease in received advance payments.

Liabilities to related parties increased by 3,5 million BGN, mainly in liabilities for dividends by 4,7 million BGN and as at 30 June 2014 amount to 11,3 million BGN. Liabilities to personnel and for social security increased by 1,6 million BGN.

Other current liabilities increased mainly in the portion of liabilities for dividends by 4,4 million BGN.

### Cash flow

	<b>30.06.2014</b>	<b>30.06.2013</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flow from/(used in) operations	2 075	21 588
Net cash flow used for investment activities	(11 308)	(9 631)
Net cash flow used in/from financial operations	(3 627)	6 362
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(5 606)</b>	<b>5 595</b>
Cash and cash equivalents on 1 January	7 671	2 595
Cash and cash equivalents on 30 June	2 065	8 190

*Net cash flows* as at 30 June 2014 generated from operating activities amounted to 2,1 million BGN, net cash from investing activities (11,3) million BGN and finance activities (3,6) million BGN. As a result of these activities cash and cash equivalents mark a net decrease by 5,6 million BGN and as at 30 June 2014 amount to 2,1 million BGN compared to 7,7 million as at 1 January 2014.



## Ratios

	30.06.2014	30.06.2013
ROE	8,9%	11,7%
ROA	5,8%	7,0%
Asset turnover	0,37	0,36
Current liquidity	1,57	1,51
Quick ratio	1,17	1,23
Cash/current liabilities	0,02	0,05
Owners' equity/liabilities	2,04	1,53

## *Information about the shares of Sopharma AD*

The total number of outstanding shares at 30 June 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.

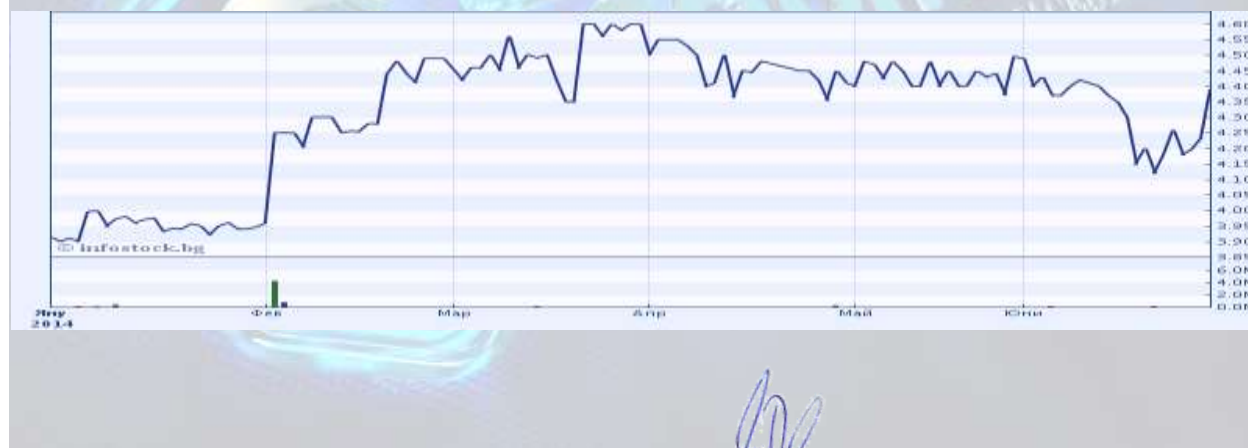
The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds and the certificate ABN AMRO SOFIX - Open-end-certificate and the new blue-chip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

	30.06.2014	30.06.2013
Total number of issued shares	132 000 000	132 000 000
Average-weighted number of outstanding shares for the last four quarters	126 839 286	128 393 174
Number of shares outstanding at the end of the period	127 018 988	127 593 418
Earnings per share in BGN	0,262	0,319
Price per share at the end of the period in BGN	4,318	3,115
Price/Earnings ratio (P/E)	16,48	9,76
Book value per share in BGN	3,052	2,859
Price/Book value ratio (P/B)	1,41	1,09
Sales per share in BGN	1,652	1,648
Price per share / Sales per share(P/S)	2,614	1,890
Market capitalization in BGN	569 976 000	411 180 000

## Trade with shared of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2014 – 30 June 2014



Ognian Donev, PhD  
/Executive Director/