

# PRELIMINARY MANAGEMENT REPORT



**SOPHARMA AD**

**2012**

**30.01.2013**

## **General information about Sopharma AD**

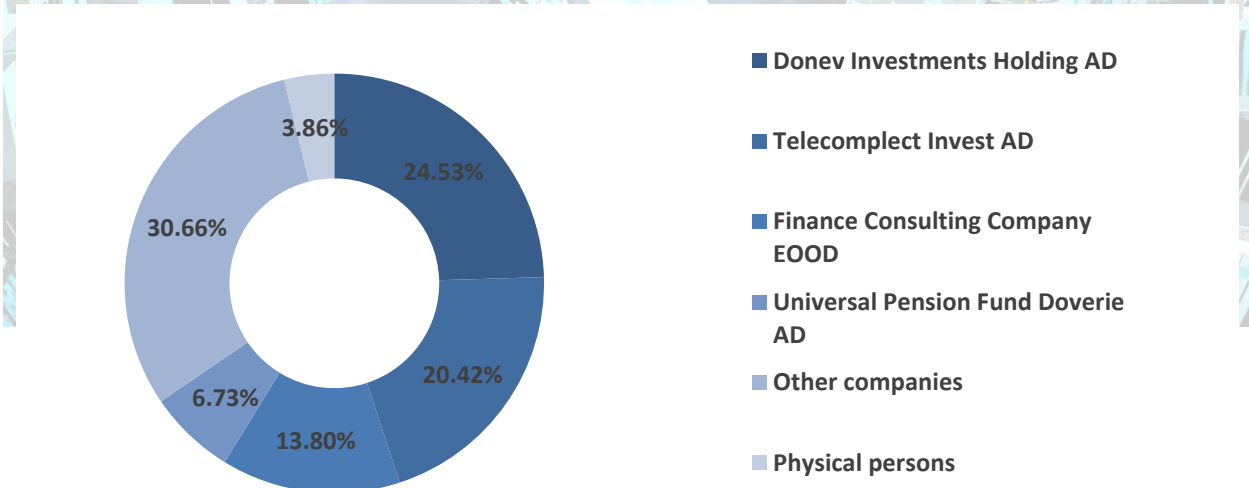
Sopharma AD is a trade company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko shoesse street No 16.

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

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

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

### **Shareholder structure as at 31.12.2012**



### **Management Board**

Sopharma AD has a one tier management system with a Board of Directors of five members as

follows: Ognian Donev, PhD - Chairman and members Vessela Stoeva, Ognian Palaveev, Alexander Tchaushev, Andrey Breshkov. The company is represented and managed by the Executive Director Ognian Donev, PhD.

### Industrial activity

Sopharma AD manufacturing facilities are compliant with EU regulations and are located in Bulgaria. In 2013 the company expects to complete the construction of a new production plant with annual capacity of 4 billion tablets in Sofia, which is currently under construction. Sopharma AD is the only Bulgarian producer of ampoules and suppositories.

The production of the company is carried out and developed in the following areas:

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

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

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

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

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

- ✚ Tempalgin - original analgesic (painkiller);
- ✚ Analgin - generic analgesic (painkiller);
- ✚ Broncholytin - original plant-based product used to suppress cough;
- ✚ Methylprednisolone - generic drugs for cases of severe allergies and certain life-threatening conditions;
- ✚ Tabex – original plant-based drug used for smoking secession
- ✚ Tribestan – original plant-based product, used for stimulation of the reproductive system

### Intellectual property

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

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

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

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

### Research and development

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

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

### Employees

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

	31.12.2012	Share %
Number of employees 31.12.2012	1837	100%
Higher education	815	44%
Special education	55	3%
High school education	967	53%
Up to 30 years of age	252	14%
Between 31 - 40 years of age	448	24%
Between 41 - 50 years of age	553	30%
Between 51 - 60 years of age	506	28%
Over 60 years of age	78	4%
Women	1154	63%
Men	683	37%

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

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

### ***Changes in 2012 and as at the date of publication of the management report***

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

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

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

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

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

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

In May the Board of Directors of Sopharma AD (the “Company”) took the decision to establish the Sopharma Ukraine OOD company with headquarters in Kiev, Ukraine and with share capital of 1,000,000 / one million / UAH. The aim of the company is to optimize the trading business in Ukraine.

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

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

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

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

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

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

The Board of Directors, pursuant to Article 223 of the Commercial Act, convenes an Extraordinary General Meeting of Shareholders of "Sopharma" AD, which will be held on 28 February 2013 at 11.00 AM at the Company's headquarters in Sofia, "Iliensko shosee" № 16 and in the absence of a quorum – on 15 March 2013 at the same place and time and according to the following agenda: “Amendment of the conditions for acquisition of treasury shares of the Company. Draft decision: AGM shall amend the conditions for share repurchase, determined by the decision on the regular AGM, held on 23 June 2010, and amended by decisions of the Extraordinary General Meeting of Shareholders from 30 November 2011 and the EGM from 1 November 2012, as follows: the repurchase of own shares representing the company’s capital, subject to the specific requirements of CA and POSA, shall be carried out at a minimal repurchase price not lower than the nominal value of one share of the capital of the Company.”

On 23 January 2013 Sopharma AD received a notification of disclosure of shareholdings under art. 145 of POSA from Financial Consulting Company EOOD for the selling of 4,053,002 shares of Sopharma, resulting in a decrease of its interest in the capital of Sopharma from 13.80% to 9.62%.

On 23 January 2013 Sopharma AD received a notification for disclosure of shareholdings under art. 145 of POSA from Donev Investments Holding AD for the purchasing of 2,982,666 shares of Sopharma, resulting in an increase of its participation in the capital of Sopharma from 24.53% to 26.78%.



## New developments and products

### New in 2012

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

### Expected in 2013

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

### Developments

Forty-eight production processes and technologies are in the process of transfer and optimization. Pharmaceutical development is carried out of 23 new products for the company.

## Key financial indicators

Indicators	01.-12.2012	01.-12.2011	Change %
	BGN '000	BGN '000	
Sales revenues	210 343	209 847	0.2%
EBITDA	49 881	52 424	-4.9%
Operating profit	40 940	43 970	-6.9%
Net profit	40 820	40 685	0.3%
CAPEX	62 064	29 974	107.1%
	<b>31.12.2012</b>	<b>31.12.2011</b>	
	<b>BGN '000</b>	<b>BGN '000</b>	
Non-current assets	323 748	279 199	16.0%
Current assets	260 501	243 744	6.9%
Owners' equity	350 738	320 668	9.4%
Non-current liabilities	57 638	24 174	138.4%
Current liabilities	175 873	178 131	-1.3%

Ratios	01.-12.2012	01.-12.2011
EBITDA / Sales revenues	23.7%	25.0%
Operating profit/ Sales revenues	19.5%	21.0%
Net profit/ Sales revenues	19.4%	19.4%
Borrowed capital/Owners' equity	0,67	0,63
Net debt/ EBITDA	4,2x	2,9x

## Review of risk factors

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

- ✦ The Company faces significant competition.
- ✦ Reputation of the Company may be adversely affected by untrue or misleading information available on websites containing the name "Sopharma", including [www.sopharma.com](http://www.sopharma.com), which have not been authorized by the Company.
- ✦ The Company is dependent on regulatory approvals.
- ✦ Government regulations affecting the Company's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- ✦ Part of the Company's revenues, in particular in Bulgaria, depend on the inclusion of the Company's medicines on reimbursement lists.
- ✦ The Company's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Company's operations.
- ✦ The Company's ability to pay dividends depends on a number of factors and there can be no assurance that the Company will be able to pay dividends in accordance with its dividend policy or at all in any given year.
- ✦ The Company is subject to operational risk which is inherent to its business activities.
- ✦ The Company is subject to numerous environmental and health and safety laws and regulations and is exposed to potential environmental liabilities.
- ✦ Litigation or other out-of-court proceedings or actions may adversely affect the Company's business, financial condition and results of operations.

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

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

### Currency risk

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

### Credit risk

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

In the years of its trade experience, the Company has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts. The Company works on its

main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

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

### **Liquidity risk**

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

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. 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:

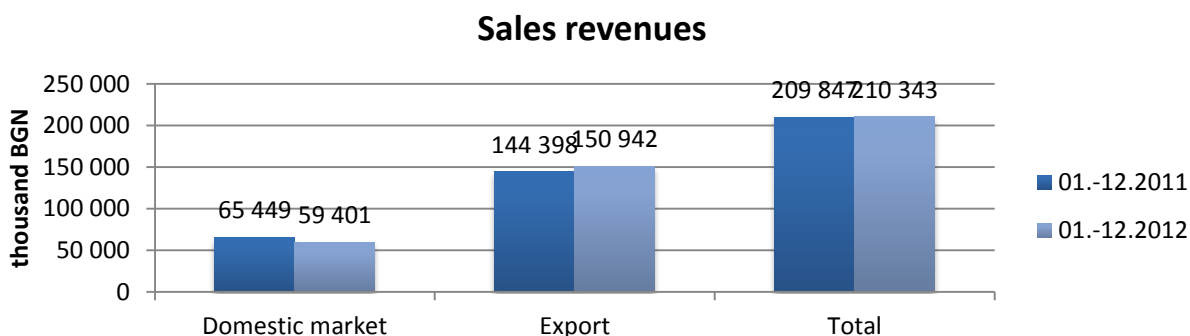
- a) optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and
- b) the combined structure of interest rates on loans, which consists of two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, 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 2012

#### Sales revenues

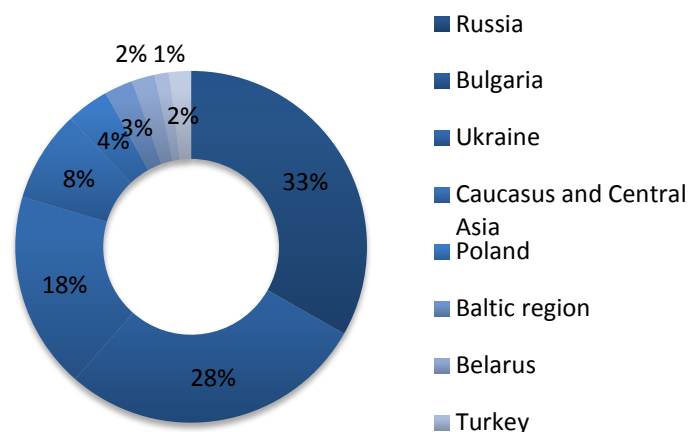
Sales revenues of production increase by 0,5 million BGN or 0,34%, reaching 210,3 million BGN as at the end of 2012, compared to 209,8 million BGN at the end of 2011.



#### Main markets

Revenues by market	01.-12.2012 BGN '000	01.-12.2011 BGN '000	Change %
Russia	69 868	77 968	-10%
Bulgaria	59 401	65 448	-9%
Ukraine	38 120	33 372	14%
Caucasus and Central Asia	17 670	15 937	11%
Poland	8 274	1 698	387%
Baltic region	5 515	5 717	-4%
Belarus	4 459	3 546	26%

Turkey	2 745	2 968	-8%
Other	4 292	3 192	34%
<b>Total</b>	<b>210 343</b>	<b>209 847</b>	<b>0%</b>



## ✚ Russia

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

## ✚ Bulgaria

The sales of Sopharma AD on the domestic market decreased by 6,0 million BGN, or 9% and reached 59,4 million BGN in 2012 compared to 66,4 million BGN in 2011. The products with largest share of sales in the country are Analgin, Vicetin, Methylprednizolon, Flixotide, Vitamin C. Sopharma AD has a 5% share of total Bulgarian pharmaceutical market in value and 13 % of sales in volume. The positions of the main competitors of the company in the country are as follows: Novartis - 7% (5% in units), Actavis - by value 6% (14% in units), Roche-6% (1% in units), Glaxosmithkline - 6% (3% in units), Sanofi-Aventis-Zentiva - 5% (3% in units), Servier - 4% (2% in units), Astra Zeneca - 3% (1% in units), Pfizer - 3% (2% in units), Bayer -3% (2% in units),

## ✚ Ukraine

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

## Caucasus and Central Asia

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

## Poland

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

## Baltic region

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

## Belarus

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

## Turkey

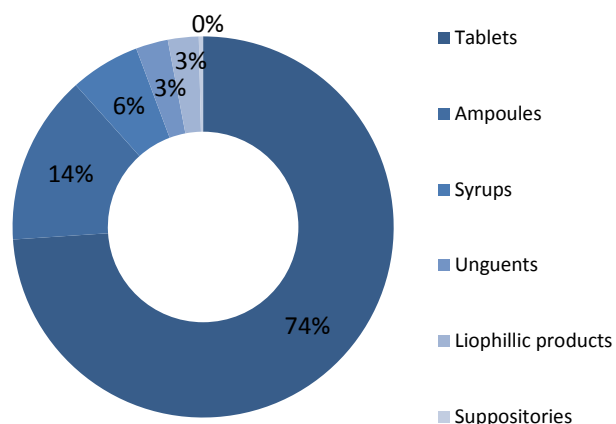
In Turkey sales decreased by 0.2 million BGN from 2,9 million BGN in 2011 to 2,7 million BGN in 2012. The main product, which is sold on this market is Methylprednisolone.

## Sales by type of formulation

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

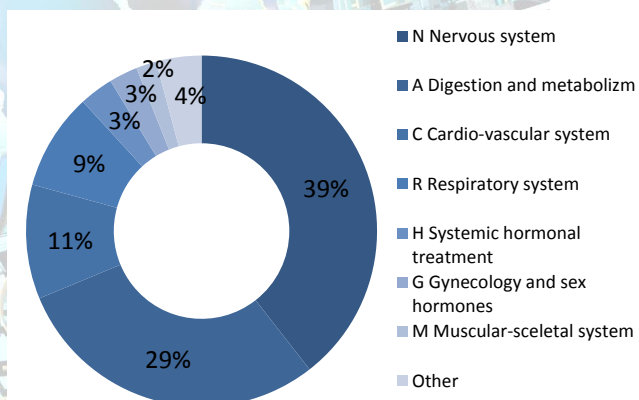
Revenues by type of	01.-12.2012 BGN '000	01.-12.2011 BGN '000	Change %
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formulation	2012	2011	Change %
Tablets	154 817	155 089	0%
Ampoules	30 167	27 812	8%
Syrups	12 415	13 923	-11%
Unguents	5 720	4 984	15%
Liophilic products	5 471	6 262	-13%
Suppositories	762	746	2%
Drops	587	869	-32%
Infusions	40	158	-75%
Other	364	4	
<b>Total</b>	<b>210 343</b>	<b>209 847</b>	<b>0.24%</b>



## Sales by therapeutic group

Revenues by therapeutic group	2012 BGN '000	2011 BGN '000	Change %
N Nervous system	82 966	90 347	-8%
A Digestion and metabolism	61 618	56 969	8%
C Cardio-vascular system	22 152	19 283	15%
R Respiratory system	18 762	17 056	10%
G Gynaecology and sex hormones	6 591	7 544	-13%
H Systemic hormonal treatment	5 550	6 279	-12%
M Muscular-skeletal system	3 914	4 113	-5%
Other	8 791	8 256	6%
<b>Total</b>	<b>210 343</b>	<b>209 847</b>	<b>0%</b>





## Other operating revenues

Other operating revenues	2012 BGN '000	2011 BGN '000	Change %	Share 2012 %
Income from services	2 625	2 634	0%	61%
Income from sale of materials	330	398	-17%	8%
Net income from sale of long-term assets	159	18	783%	4%
Income from sale of products	587	651	-10%	14%
Income from forfeits	704	782	-10%	16%
Net loss from exchange rate differences	(341)	(526)	-35%	-8%
Other	255	(134)	-290%	6%
<b>Other operating income</b>	<b>4 319</b>	<b>3 823</b>	<b>13%</b>	<b>100%</b>

Other operating income increased by 0,5 million BGN from 3,8 million BGN in 2011 of 4,3 million BGN in 2012. Main contributors to the increase are sales of long-term assets with 0,1 million BGN, net loss from exchange rate differences on commercial receivables, liabilities and current accounts, which decreased by 0.2 million BGN, and the awards on litigations with a decrease of 0,3 million BGN. Income from forfeits and income from sale of materials have an effect in the opposite direction.

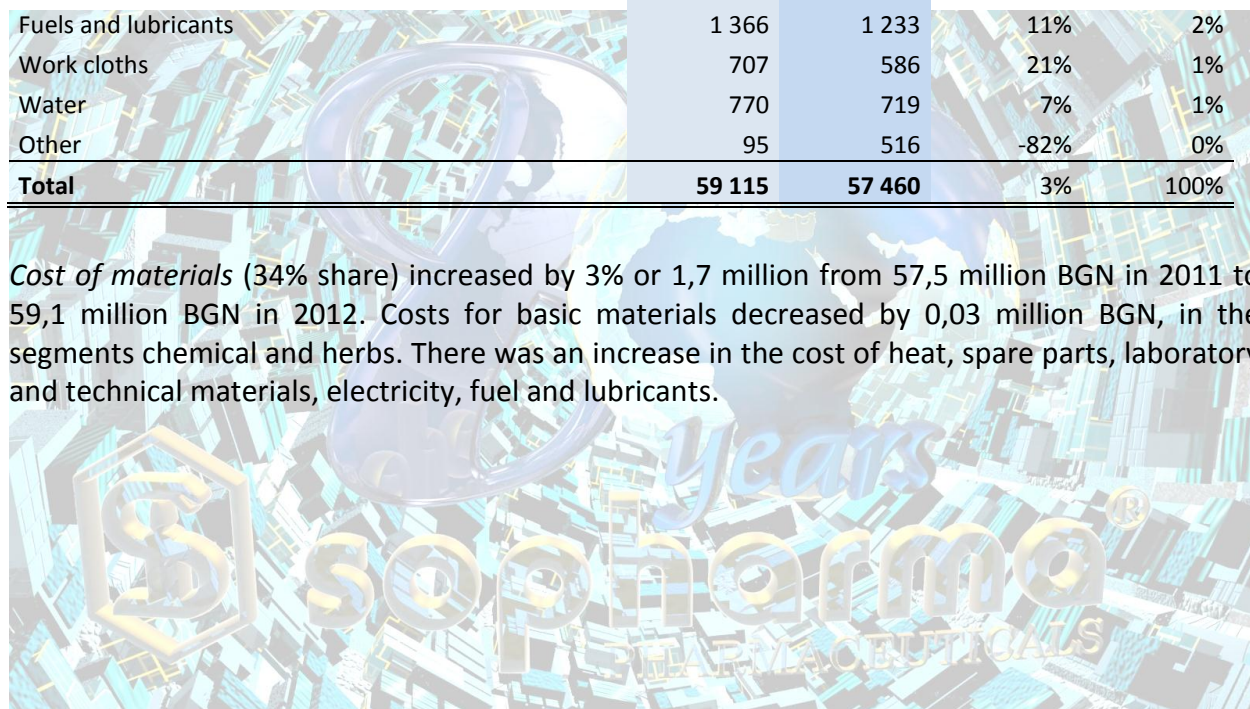
## Operating expenses

Operating expenses	2012 BGN'000	2011 BGN'000	Change %	Share2012 %
Changes in the finished goods and work-in-progress inventory	(1 056)	(4 341)	-76%	-1%
Materials	59 115	57 460	3%	34%
External services	65 715	68 972	-5%	38%
Personnel	34 763	34 051	2%	20%
Amortization	8 941	8 454	6%	5%
Other operating expenses	6 244	5 104	22%	4%
<b>Total operating expenses</b>	<b>173 722</b>	<b>169 700</b>	<b>2%</b>	<b>100%</b>

The operating expenses increased by 4 million BGN, or 2%, from 169,7 million BGN in 2011 to 173,7million BGN in 2012, which is due to the increase in the cost of materials, personnel, amortization and other operating expenses.

	2012	2011	Change	share 2012
	BGN '000	BGN '000	%	%
<b>Materials expenses</b>				
Main materials	44 212	44 246	0%	75%
Spare parts, laboratory items and technical materials	5 687	4 633	23%	10%
Heat	3 528	3 126	13%	6%
Electricity	2 750	2 401	15%	5%
Fuels and lubricants	1 366	1 233	11%	2%
Work cloths	707	586	21%	1%
Water	770	719	7%	1%
Other	95	516	-82%	0%
<b>Total</b>	<b>59 115</b>	<b>57 460</b>	<b>3%</b>	<b>100%</b>

Cost of materials (34% share) increased by 3% or 1,7 million from 57,5 million BGN in 2011 to 59,1 million BGN in 2012. Costs for basic materials decreased by 0,03 million BGN, in the segments chemical and herbs. There was an increase in the cost of heat, spare parts, laboratory and technical materials, electricity, fuel and lubricants.



	2012	2011	Change	Share 2012
	BGN '000	BGN '000	%	%
<b>Hired services expenses</b>				
Manufacturing	31 519	35 991	-12%	48%
Advertising	9 407	8 788	7%	14%
Consultancy fees	4 804	3 862	24%	7%
Transportation	3 297	2 495	32%	5%
Logistics	2 322	2 283	2%	4%
Rents	2 140	794	170%	3%
Maintenance of buildings and equipment	1 954	2 105	-7%	3%
State and regulatory taxes and local taxes	1 044	1 324	-21%	2%
Civil contracts	1 076	1 020	5%	2%
Insurance	887	928	-4%	1%
Security	855	769	11%	1%
Subscription fees	749	483	55%	1%
Local taxes and fees	692	697	-1%	1%
Registration services and clinical trials	1 173	1 267	-7%	2%
Translations	601	493	22%	1%
Communications	523	408	28%	1%
Commission fees	208	2 974	-93%	0%
Other	2 464	2 291	8%	4%
<b>Other</b>	<b>65 715</b>	<b>68 972</b>	<b>-5%</b>	<b>100%</b>

*Hired services* have a 38% share of operating expenses and decreased by 3,3 million BGN or 5%, reaching 65,7 million BGN in 2012 compared to 69 million BGN in 2011. The most significant impact have the decrease in manufacturing cost by 4,4 million BGN and cost for commission fees by 2,8 million BGN. There is an increase in advertising cost by 0,6 million BGN, consultancy services by 0,9 million BGN, rents by 1,3 million BGN, transportation by 0,8 million BGN and others.

	2012	2011	Change	Share 2012
	BGN '000	BGN '000	%	%
<b>Personnel expenses</b>				
Salaries	25 293	25 046	1%	73%
Social insurance	5 085	5 046	1%	15%
Royalties	1 224	1 217	1%	4%
Social benefits and payments	2 284	2 014	13%	7%
Other	877	728	20%	3%
<b>Total</b>	<b>34 763</b>	<b>34 051</b>	<b>2%</b>	<b>100%</b>

*Personnel costs* (a share of 20%) increased by 0,7 million BGN, or 2% from 34,1 million BGN in 2011 to 34,8 million BGN in 2012. Salaries increased by 0,2 million BGN, social security contributions increased by 0.04 million BGN and social benefits increased by 0,3 million BGN.

	2012	2011	Change	Share 2012
	BGN '000	BGN '000	%	%
<b>Other expenses</b>				
Entertainment expenses	2 166	2 075	4%	35%
Accrued depreciation	1 882	1 023	84%	30%
Business trips	933	812	15%	15%
Awarded amounts	286	42	581%	5%
Donations	226	266	-15%	4%
Other	751	886	-15%	12%
<b>Total</b>	<b>6 244</b>	<b>5 104</b>	<b>22%</b>	<b>100%</b>

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

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

## Financial income and expenses

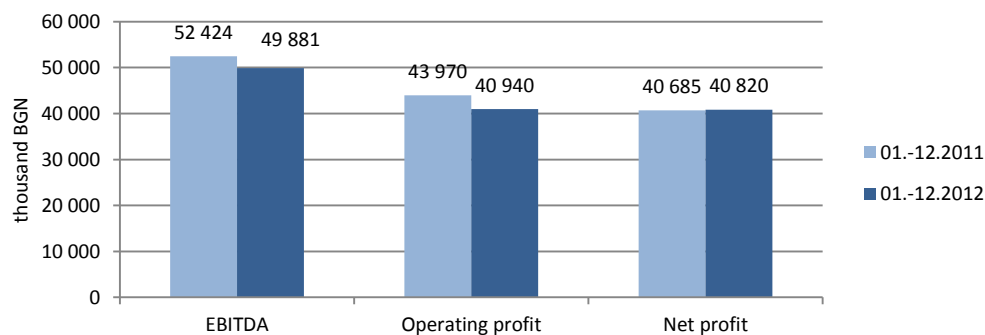
Financial income	2012 BGN '000	2011 BGN '000	Change %	Share 2012 %
Income from interests in other companies	6 108	5 444	12.2%	52%
Income from interest on loans granted	5 078	5 264	-3.5%	43%
Net gain from exchange rate differences on loans	451	222	103.2%	4%
Income from operations with securities	41	230	-82.2%	0%
Income from interest on deposits	3	283	-98.9%	0%
<b>Total</b>	<b>11 681</b>	<b>11 443</b>	<b>2%</b>	<b>100%</b>
Financial expenses				
Expenses for interest on loans received	5 472	6 287	-13%	67%
Impairment of available-for-sale investments	1 091	2 624	-58%	28%
Bank fees for loans and guarantees	245	300	-18%	3%
Financial leasing expenses	264	233	13%	2%
<b>Total</b>	<b>7 072</b>	<b>9 444</b>	<b>-25%</b>	<b>100%</b>

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

*Financial expenses* decreased by 2,3 million BGN or 25%, from 9,4 in 2011 to 7,1 million BGN in 2012. This decrease is mainly due to the smaller amount of expenses for interest on loans received with 0,8 million BGN, as well as to the impairment of available-for-sale investments with 1,5 million BGN

*Net financial income (expense)* increased by 2,6 million BGN, reaching 4,6 million BGN by the end of 2012, compared to 2 million BGN at the end of 2011.

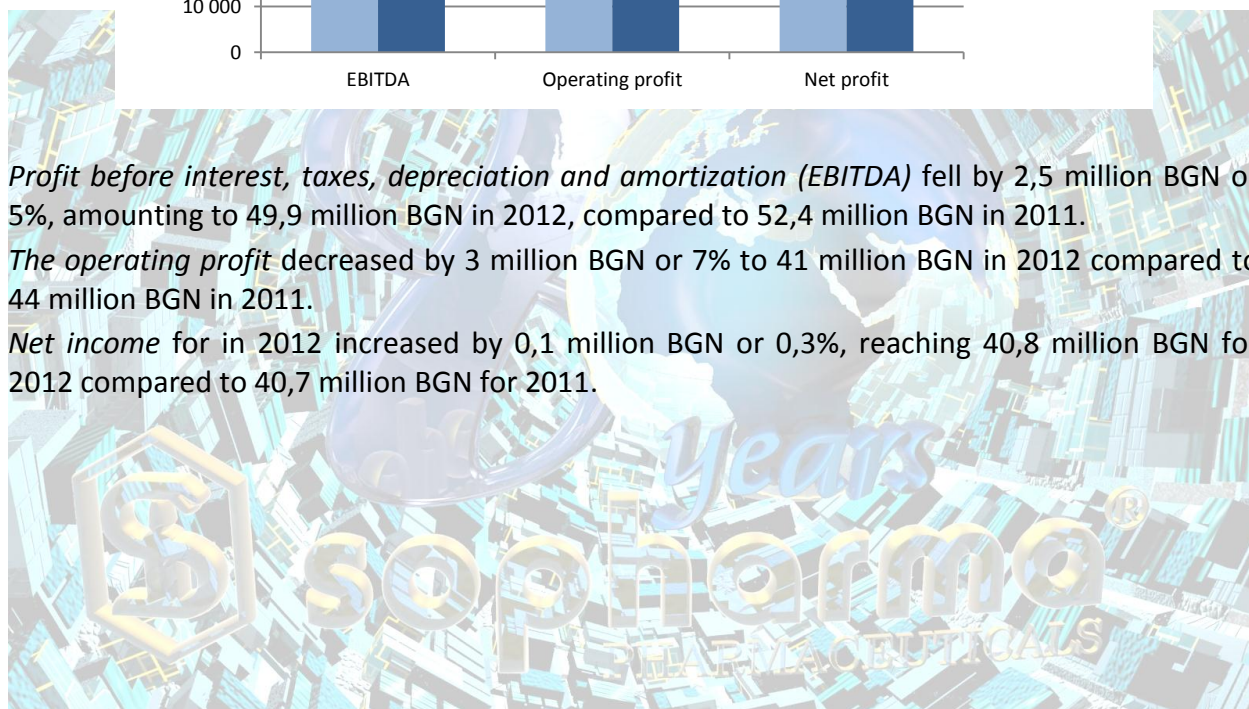
## Operating result



*Profit before interest, taxes, depreciation and amortization (EBITDA)* fell by 2,5 million BGN or 5%, amounting to 49,9 million BGN in 2012, compared to 52,4 million BGN in 2011.

*The operating profit* decreased by 3 million BGN or 7% to 41 million BGN in 2012 compared to 44 million BGN in 2011.

*Net income* for in 2012 increased by 0,1 million BGN or 0,3%, reaching 40,8 million BGN for 2012 compared to 40,7 million BGN for 2011.



## Assets

	31.12.2011	31.12.2011	Change	Share 2012
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	185 982	135 048	38%	57%
Intangible assets	4 098	3 386	21%	1%
Investment property	19 391	19 170	1%	6%
Investments in subsidiaries	93 460	88 462	6%	29%
Available-for-sale investments	18 712	16 792	11%	6%
Long-term loans to related parties	748	16 069	-95%	0%
Other non-current assets	1 357	272	399%	0%
	<b>323 748</b>	<b>279 199</b>	<b>16%</b>	<b>55%</b>
<b>Current assets</b>				
Inventories	53 819	50 916	6%	21%
Receivables from related parties	169 717	135 104	26%	65%
Commercial receivables	22 583	29 383	-23%	9%
Other receivables and prepaid expenses	11 423	10 333	11%	4%
Cash and cash equivalents	2 959	18 038	-84%	1%
	<b>260 501</b>	<b>243 774</b>	<b>7%</b>	<b>45%</b>
<b>TOTAL ASSETS</b>	<b>584 249</b>	<b>522 973</b>	<b>12%</b>	<b>100%</b>

Total assets increased by 61,3 million BGN or 12%, reaching 584,2 million BGN compared to 523 million BGN as at 31 December 2011 as a consequence of the increase of both current and non-current assets.

Non-current assets increased by 44,5 million BGN, or 16%, due to the increase in property, plant and equipment by 51 million BGN, the growth of intangible assets by 0,7 million BGN, the increase in investments in subsidiaries by 5 million BGN, the increase in the available-for-sale investments by 1,9 million BGN, as well as other non-current assets by 1,1 million BGN. Long-term loans to related parties decreased by 15,3 million BGN compared to 31 December 2011.

	31.12.2011	31.12.2011	Change	Share
Property, plant and equipment	BGN '000	BGN '000	%	%
Land and buildings	63 257	63 416	0%	34%
Machines and equipment	33 525	31 392	7%	18%
Other	11 524	7 348	57%	6%
In process of acquisition	77 676	32 892	136%	42%
<b>Total</b>	<b>185 982</b>	<b>135 048</b>	<b>38%</b>	<b>100%</b>

Property, plant and equipment has substantially increased in the proportion of assets in process of acquisition, which grew by 44,8 million BGN, as a result primarily of investments in the new plant for tablet forms, which for 2012 amounts to 50,1 million BGN, and the total funds invested in it since the beginning of the project amount to 75,6 million BGN. Additional funds are spent on acquisition of laboratory and production equipment.

Intangible assets also showed growth of 0,7 million BGN as a result of implementing an integrated information system, which should be completed in 2013.

Investments in subsidiaries increased due to an increase in the capital of Biopharm Engineering AD.

The available-for-sale investments increased in relation to an increase in the capital of Doverie United Holding AD.

Long-term loans to related parties have decreased by 15,3 million BGN as a consequence of paying up of principals and interests amounting to 9,6 million BGN, as well as the transformation of loans amounting to 5,7 million BGN to short-term receivables from related parties.

*Current assets* increased by 16,7 million BGN or 7%, reaching 260,5 million BGN as at 31 December 2012 compared to 243,8 million BGN as at 31 December 2011.



	30 September 2011	31 December 2011	change	share
Inventories	BGN '000	BGN '000	%	%
Materials	24 651	21 949	12%	46%
Finished products	22 457	22 054	2%	42%
Semi-finished products	3 182	3 813	-17%	6%
Work in progress	3 162	3 054	4%	6%
Goods	367	46	698%	1%
<b>Total</b>	<b>53 819</b>	<b>50 916</b>	<b>6%</b>	<b>100%</b>

Inventories increased by 2,9 million BGN compared to 31 December 2011, mainly in the part of materials and work in progress respectively by 2,7 million BGN and 0,1 million BGN. Finished products increased by 0,4 million BGN, as well as goods, which grew by 0,3 million BGN. Mid-products decreased by 0.6 million BGN.

Receivables from related parties increased by 34,6 million BGN. The greatest contribution to this increase have income from sale of products and materials with 32,2 million BGN, commercial loans with an increase of 3,3 million BGN. Income from dividends fell by 0,8 million BGN.

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

Other receivables and advance payments increased by 1,1 million BGN. Mainly this is due to refundable taxes by 1,7 million BGN and provided funds to investment intermediary by 0,5 million BGN.

Advance payments decreased by 0,4 million BGN, as well as the awards on litigations – by 0,3 million BGN and loans granted to third parties increased by 0,5 million BGN. Cash and cash equivalents decreased by 15 million BGN and as at 31 December 2012 amount to 3 million BGN compared to 18 million BGN as at 31 December 2011.

## Liabilities and owners' equity

	31.12.2011	31.12.2011	Change	Share 2012
	BGN '000	BGN '000	%	%
<b>OWNERS' EQUITY</b>				
Share capital	132 000	132 000	0%	38%
Treasury stock	(12 156)	(10 036)	21%	-3%
Reserves	189 759	157 913	20%	54%
Retained earnings	41 135	40 791	1%	12%
<b>TOTAL OWNERS' EQUITY</b>	<b>350 738</b>	<b>320 668</b>	9%	100%
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	51 779	18 737	176%	22%
Liabilities on deferred taxes	3 806	3 864	-2%	2%
Liabilities to the personnel upon retirement	1 371	1 269	8%	1%
Financial leasing liabilities	682	304	124%	0%
<b>Total non-current liabilities</b>	<b>57 638</b>	<b>24 174</b>	138%	25%
<b>Current liabilities</b>				
Short-term bank loans	95 689	112 008	-15%	41%
Short-term part of long-term bank loans	62 977	40 735	55%	27%
Commercial liabilities	6 679	16 544	-60%	3%
Liabilities to related parties	5 630	5 236	8%	2%
Liabilities for taxes	208	262	-21%	0%
Liabilities to the personnel and for social insurance	3 684	2 748	34%	2%
Other current liabilities	1 006	598	68%	0%
<b>Total current liabilities</b>	<b>175 873</b>	<b>178 131</b>	-1%	75%
<b>TOTAL LIABILITIES</b>	<b>233 511</b>	<b>202 305</b>	15%	100%
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>584 249</b>	<b>522 973</b>	12%	

Equity increased by 30,1 million BGN compared to 31 December 2011 as a result of increased reserves by 31,8 million BGN. At the end of 2012 the treasury stock amounts to 3 486 231. During the reporting period no new issue of securities was conducted.

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

*Current liabilities* decreased by 2,3 million BGN compared to the end of 2011. The main reason is the decrease in short-term bank loans and commercial payables by 16,3 million BGN and 9,9 million BGN. The short-term part of long-term bank loans increased by 22,2 million BGN.

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

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

Liabilities to related parties increased by 0,4 million BGN, mainly as a result of liabilities for services rendered amounting to 0,3 million BGN, as well as payables for supply of long-term assets and inventories.

Obligations to employees and social security increased by 0,9 million BGN mostly due to increases in the payment of royalties by 0,8 million BGN

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

## Cash flow

	<b>2012</b> <b>BGN '000</b>	<b>2011</b> <b>BGN '000</b>
Net cash flow from operations	(5 783)	24 051
Net cash flow from investment activities	(35 945))	(43 286)
Net cash flow used in financial operations	26 380	6 291
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(15 348)</b>	<b>(12 944)</b>
Cash and cash equivalents on 1 January	18 038	30 982
Cash and cash equivalents on 31 December	2 690	18 038

*Net cash flows* as at 31 December 2012 generated from operating activities amounted to (5,8) million BGN, net cash from investing activities (35,9) million BGN and financing activities 26,3 million BGN. As a result of these activities cash and cash equivalents mark a net decrease by 15,3 million BGN and the end of 2012 amounted to 2,7 million BGN compared to 18 million at the end of 2011.

## Ratios

	<b>31.12.2012</b>	<b>31.12.2011</b>
ROE	12.1%	13.2%
ROA	7.4%	8.2%
Asset turnover	0.38	0.43
Current liquidity	1.48	1.37
Quick ratio	1.18	1.08
Cash/current liabilities	0.02	0.10
Owners' equity/liabilities	1.50	1.73

## Information on shares of Sopharma AD

The total number of outstanding shares at 31 December 2011 of Sopharma AD is 132 million with a nominal value of 1 BGN per share. All issued shares are registered, dematerialized, registered and indivisible. All issued shares are of one class. Each share gives equal rights to its owner, proportionate to the nominal share value. Shares of Sopharma AD are listed on the official market of the Bulgarian Stock Exchange - Sofia and the official market of the Warsaw

Stock Exchange. Shares participate in the formation of the indices SOFIX, BG40 and BGTR30 of the Bulgarian Stock Exchange - Sofia.

The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds and the certificate ABN AMRO SOFIX - Open-end-certificate and the new blue-chip index Dow Jones STOXX Balkan 50 Equal Weighted Index.

Sopharma AD is one of the three Bulgarian companies included in a new index for Central and Eastern Europe (CEE), which the Warsaw Stock Exchange started to calculate on 30 May. The name of the index is WIG-CEE and it is the third one after WIG-Poland and WIG-Ukraine, which is based on the origin of companies by country. WIG-CEE is calculated based on total return and includes income from dividends and subscription rights.

### Important information for the shares of Sopharma AD

	31.12.2012	31.12.2011
Total number of issued shares	132 000 000	132 000 000
Average outstanding number of shares	128 924 868	130 330 455
Number of shares outstanding at the end of the period	128 513 769	129 431 391
Earnings per share in BGN	0,317	0,312
Price per share at the end of the period in BGN	2,139	3,175
Price/Earnings ratio (P/E)	6,75	10,24
Book value per share in BGN	2,729	2,478
Price/Book value ratio (P/B)	0,78	1,28
Sales per share in BGN	1,637	1,622
Price per share / Sales per share(P/S)	1,307	1,957
Market capitalization in BGN	282 348 000	419 100 000

Trade with shared of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January – 31 December 2012



The preliminary management report for 2012 is not audited.

Signature:



Ognian Donev, PhD  
Executive Director, Sopharma AD