

# **PRELIMINARY MANAGEMENT REPORT 2014**



**SOPHARMA AD**

**30 January 2015**

## General information about Sopharma AD

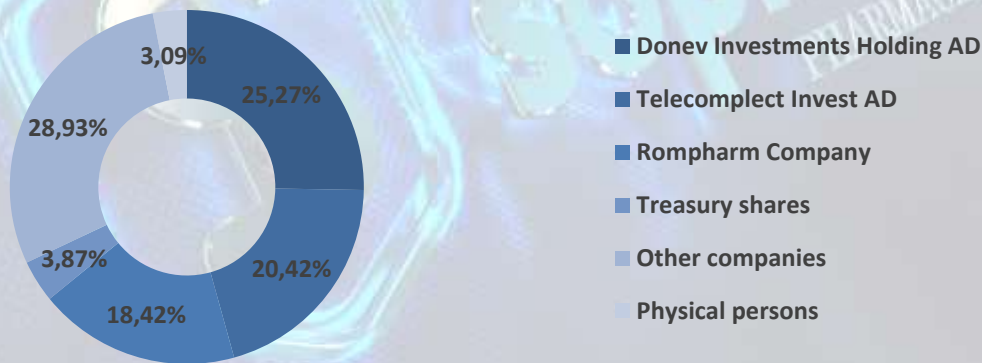
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko Shose Street No 16.

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 December 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 gynecology.

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

- ✚ Carsil - original product plant-based, used to treat gastroenterological disorders (liver disease);
- ✚ 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 31 December 2014 the average number of employees of Sopharma AD is 1,825 (2013: 1,793). The table below shows the detailed information on the staff of the Company.

	<b>31.12.2014</b>	<b>Share %</b>
Number of employees 31 December 2014	1869	100%
Higher education	850	47%
Special education	49	3%
High school education	910	50%
Primary school education	20	1%
Up to 30 years of age	233	13%
Between 31 - 40 years of age	432	24%
Between 41 - 50 years of age	564	31%
Between 51 - 60 years of age	497	27%
Over 60 years of age	103	5%
Women	1145	63%
Men	684	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 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. 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.

- ✚ 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.

On 11 September 2014 Sopharma AD commenced the payment of dividends for 2013 in accordance with a list of the entitled persons as at 4 July 2014, prepared by the Central Depository AD. The gross dividend, voted on the General Meeting of Shareholders, is 0.07 BGN /seven stotinki/ per share. The net amount of the dividend per share (only for shareholders - physical persons) is 0.0665 BGN.

On 4 November 2014 Sopharma AD bought 400,010 shares of the capital of Medika AD, through which transaction the share of Sopharma AD in the capital of Medika AD reached 23.20%.

On 7 November 2014 the Financial Supervision Commission approved the Contract for transformation through merger in accordance with the requirements of art. 262d and following of the Commercial Act (CA). As a result the assets of Bulgarian Rose – Sevtopolis AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Bulgarian Rose – Sevtopolis AD will be terminated without liquidation. According to the signed contract, in connection with the implementation of the merger the capital of the acquiring company Sopharma AD shall be increased from 132,000,000 BGN to up to 134,798,527 ordinary registered shares. As a result of the merger, all shareholders of the Acquiree Bulgarian Rose – Sevtopolis AD, with the exception of the Acquirer Sopharma AD, which is also a shareholder of the Acquiree, will receive shares of Sopharma AD and become shareholders of it. Against one share of Bulgarian Rose – Sevtopolis AD each shareholder pursuant to art. 261b, art. 1 of the CA shall receive 0.463768 shares of the capital of Sopharma AD.

On 19 December 2014 was held an Extraordinary General Meeting of Shareholders of Sopharma AD, which took the following decisions:

- ✚ due to lack of the necessary majority, required by the Articles of association and the law, the decisions under item 1 to 7 of the agenda, concerning the transformation of Sopharma AD through the merger of Bulgarian Rose – Sevtopolis AD, with seat in Kazanluk, UID 123007916, were not approved;
- ✚ approval of a Substantiated report on the terms and appropriateness of transactions under art. 114, par. 1 of the Public Offering of Securities Act (POSA), in which Sopharma AD is a party;

- ✚ authorization of the Board of Directors for executing a transaction, which falls within the scope of art. 114, par. 1 of the POSA – a contract, by the force of which Sopharma AD shall issue a corporate guarantee for the securing of a claim of DSK Bank EAD under credit contract with borrower Sopharma Properties REIT;
- ✚ authorization of the Board of Directors for executing a transaction, which falls within the scope of art. 114, par. 1 of the POSA – a contract, by the force of which Sopharma AD shall rent a property, owned by Sopharma Properties REIT;
- ✚ authorization of the Board of Directors for executing a transaction, which falls within the scope of art. 114, par. 1 of the POSA – a contract, by the force of which Sopharma AD shall become a co-debtor and will establish a pledge on assets, owned by it, for the securing of the claims of Raiffeisen Bank Bulgaria EAD, resulting from a credit contract with the borrower Sopharma Trading AD.

The Extraordinary General Meeting of Shareholders of Sopharma AD, held on 9 January 2015, approved a decision for transformation of Sopharma AD through the merger of Bulgarian Rose – Sevtopolis AD, with seat in Kazanluk, UID 123007916. As a result of the merger all assets of Bulgarian Rose – Sevtopolis AD shall be transferred to Sopharma AD under the terms of general succession. The merger procedure shall commence in accordance with the terms of the Contract for transformation through merger of Bulgarian Rose – Sevtopolis AD in Sopharma AD, signed on 19 June 2014, Annex №1 from 15 August 2014, Annex №2 from 10 October 2014, and Annex №3 from 25 November.

### New developments and products

- ✚ New with marketing authorizations in 2014

The Company has received marketing authorizations for 6 new products – Otofix drops, Softenzif delayed release tablets, Promerol injection solution, Fentoril injection solution, Ivadron injection solution, Tuspan syrup 100ml, and implemented one new product Glicerax suppository.

- ✚ Expected in 2015

The Company expects to introduce three to five new products by the end of 2015.



## ✚ Developments

Around twenty-four production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 17 new products for the Company.

## Key financial indicators

Indicators	2014	2013	Change %
	BGN '000	BGN '000	
Sales revenues	201 771	216 054	-6,6%
EBITDA	37 647	57 283	-34,4%
Operating profit	21 781	45 567	-52,2%
Net profit	25 164	33 661	-25,2%
CAPEX	10 652	24 301	-56,2%
	<b>31.12.2014</b>	<b>31.12.2013</b>	
	<b>BGN '000</b>	<b>BGN '000</b>	
Non-current assets	366 718	358 109	2,4%
Current assets	188 987	192 193	-1,7%
Owners' equity	388 591	370 852	4,8%
Non-current liabilities	47 847	57 987	-17,5%
Current liabilities	119 267	121 463	-1,8%
	<b>2014</b>	<b>2013</b>	
<b>Ratios</b>			
EBITDA / Sales revenues	18,7%	26,5%	
Operating profit/ Sales revenues	10,8%	21,1%	
Net profit/ Sales revenues	12,5%	15,6%	
Borrowed capital/Owners' equity	0,43	0,48	
Net debt/ EBITDA	3,5x	2,5x	

## 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 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 2014

#### Sales revenues

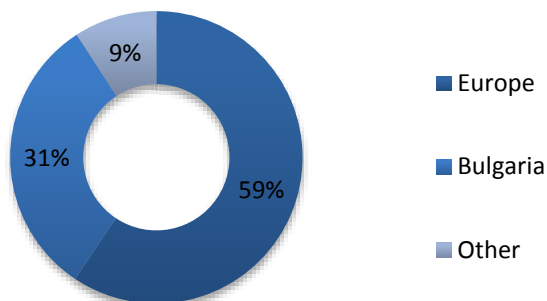
Sales revenues of goods in 2014 decrease by 14,3 million BGN or 6,6%, reaching 201,8 million BGN, compared to 216,1 million BGN in 2013.





## Main markets

Revenues by market	2014 BGN'000	2013 BGN '000	Change %
Europe	119 790	130 332	-8%
Bulgaria	63 490	62 988	1%
Other	18 491	22 734	-19%
<b>Total</b>	<b>201 771</b>	<b>216 054</b>	<b>-7%</b>



### 📍 Europe

Revenues from sales to European countries decreased by 8% compared to 2013 due to the decrease of sales in Ukraine by 37%. Currently the normal access to the eastern territories is permanently restricted, with distributors having difficulties making sales there and only in much smaller quantities. Sales revenue in Russia increased, where five new products are in the process of registration. Sales in Poland, Serbia, Turkey, Malta, and Belarus increased.

### 📍 Bulgaria

The sales of Sopharma AD on the domestic market increased by 0,5 million BGN, or 1% and reached 63,5 million BGN at the end of 2014 compared to 63 million BGN at the end 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 12% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 6.6% (4.3% in units), Roche – 6% (0.4% in units), GlaxoSmithKline – 5.6% (2.5% in units), Actavis – 5.4% (14% in units), Sanofi-Aventis-Zentiva – 4.1% (3.2% in units), Astra Zeneca – 3.6% (1% in units), Pfizer – 3.3% (1.3% in units), Servier – 3% (1.7% in units), Bayer – 2.9% (1.7% in units).

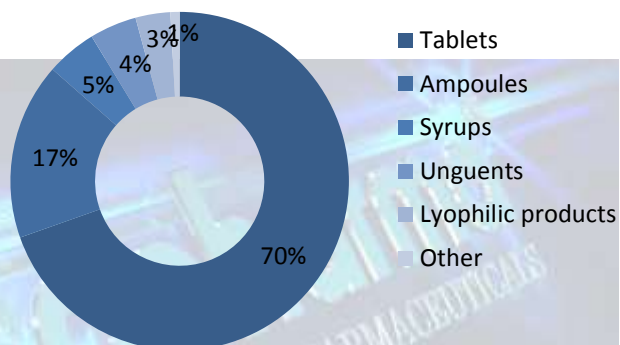
### 📍 Other markets

Sales revenues from other markets decreased by 19% in 2014. This mainly includes revenues from sales in the Caucasus and Central Asia, which decreased by 30% compared to 2013. This decrease is due to the economic and financial crisis in Kazakhstan at the beginning of the year, when the local currency devalued by 21% over the course of one day and practically froze the economy for more than two months. Currently, the situation in the country stabilizes slowly and Sopharma is recovering its business operations and positions. Sales revenues in Vietnam, Mongolia, and Tunis increased.

## Sales by type of formulation

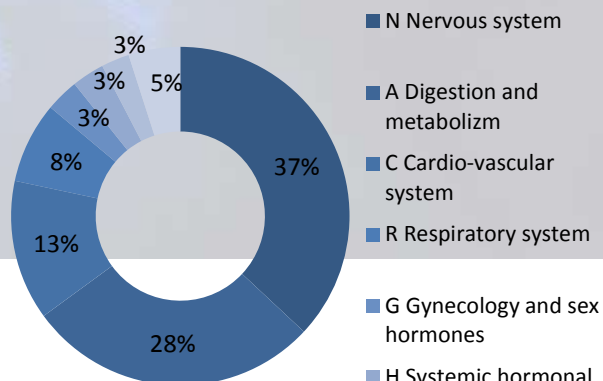
The highest share in the volume of sales have tablet formulations, followed by ampoules, syrups, unguents, and lyophilic products.

Revenues by type of formulation	2014 BGN '000	2013 BGN '000	Change %
Tablets	151 262	151 262	-7%
Ampoules	34 061	34 685	-2%
Syrups	9 731	13 143	-26%
Unguents	9 079	7 559	20%
Lyophilic products	6 700	6 371	5%
Other	1 785	3 034	-41%
<b>Total</b>	<b>201 771</b>	<b>216 054</b>	<b>-7%</b>



## Sales by therapeutic group

Revenues by therapeutic group	2014 BGN '000	2013 BGN '000	Changes %
N Nervous system	74 585	70 737	5%
A Digestion and metabolism	56 471	69 439	-19%
C Cardio-vascular system	27 015	21 744	24%
R Respiratory system	15 635	20 848	-25%
H Systemic hormonal treatment	6 366	6 484	-2%
G Gynecology and sex hormones	6 306	9 381	-33%
M Muscular-skeletal system	5 416	5 547	-2%
Other	9 977	11 874	-16%
<b>Total</b>	<b>201 771</b>	<b>216 055</b>	<b>-7%</b>



## Other operating revenues

Other operating revenues	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Income from services	3 576	2 814	27%	89%
Income from sale of products	605	674	-10%	15%
Income from sale of materials	168	172	-2%	4%
Net loss from exchange rate differences	(304)	(538)	-43%	-8%
Other	(40)	(43)	-7%	-1%
<b>Total</b>	<b>4 005</b>	<b>3 079</b>	<b>30%</b>	<b>100%</b>

Other operating income increased by 0,9 million BGN from 3,1 million BGN in 2013 to 4 million BGN in 2014, the main contributor being services rendered, which increased by 0,8 million BGN compared to last year.

## Operating expenses

Operating expenses	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Changes in the finished goods and work-in-progress inventory	(6 226)	6 872	191%	-3%
Materials	60 244	54 932	10%	33%
External services	72 192	59 659	21%	39%
Personnel	34 382	32 328	6%	19%
Amortization	15 866	11 716	35%	9%
Other operating expenses	7 537	8 059	-6%	4%
<b>Total</b>	<b>183 995</b>	<b>173 566</b>	<b>6%</b>	<b>100%</b>

The operating expenses increased by 10,4 million BGN or 6% compared to 2013 reaching 184 million BGN, which is a result from an increase in raw material cost, external services expenses, personnel, and amortization cost.

	2014	2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Materials expenses</b>				
Main materials	44 744	40 118	12%	74%
Spare parts, laboratory items and technical materials	5 643	5 290	7%	9%
Electricity	3 614	3 496	3%	6%
Heating	3 390	3 235	5%	6%
Fuels and lubricants	1 020	1 254	-19%	2%
Work cloths	707	593	19%	1%
Water	663	733	-10%	1%
Scraping of materials	365	10		1%
Impairment of materials	98	203	-52%	0%
<b>Total</b>	<b>60 244</b>	<b>54 932</b>	<b>10%</b>	<b>100%</b>

*Cost of materials* (33% share) increased by 5,3 million BGN or 10% from 54,9 million BGN in 2013 to 60,2 million BGN in 2014. Costs for basic materials increased by 4,6 million BGN, in the segments packaging materials, liquid and hard chemicals, substances, and ampules. There was an increase in the cost of spare parts, laboratory and technical materials, heating, and electricity.

	2014	2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Hired services expenses</b>				
Manufacturing of medicines	27 571	25 337	9%	38%
Consultancy fees	12 140	9 522	27%	17%
Advertising	9 576	7 559	27%	13%
Transportation	3 285	2 264	45%	5%
Logistic services on export and domestic market	3 027	1 907	59%	4%
Maintenance of buildings and equipment	2 789	1 433	95%	4%
Rents	2 411	2 454	-2%	3%
Registration services and clinical trials	1 578	852	85%	2%
Local taxes and fees	1 104	667	66%	2%
Security	867	904	-4%	1%
Civil contracts	806	775	4%	1%
Insurance	804	475	69%	1%
State and regulatory taxes	769	809	-5%	1%
Medical services	744	659	13%	1%
Expense taxes	694	721	-4%	1%
Other	530	534	-1%	1%
<b>Other</b>	<b>3 497</b>	<b>2 787</b>	<b>25%</b>	<b>5%</b>



*Hired services* have a 39% share of operating expenses and increased by 12,5 million BGN or 21%, reaching 72,2 million BGN in 2014 compared to 59,7 million BGN in 2013. The most significant impact have the increase in consulting services by 2,6 million BGN, manufacturing by 2,2 million BGN, advertising by 2 million BGN, maintenance of buildings and equipment by 1,4 million BGN, logistics services by 1,1 million BGN. There is a decrease in state and regulatory taxes, taxes for services of current bank accounts, and others.

	2014	2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Personnel expenses</b>				
Salaries	25 916	23 925	8%	75%
Social insurance	4 843	4 267	13%	14%
Social benefits and payments	1 952	2 179	-10%	6%
Performance-based bonuses	801	1 105	-28%	2%
Other	870	852	2%	3%
<b>Total</b>	<b>34 382</b>	<b>32 328</b>	<b>6%</b>	<b>100%</b>

*Personnel costs* (a share of 19%) increased by 2,1 million BGN, or 6% from 32,3 million BGN in 2013 to 34,4 million BGN in 2014. Current salaries increased by 2 million BGN, social security contributions - by 0,6 million BGN, and social benefits and current accruals decreased by 0,2 million BGN, as well as performance-based bonuses by 0,3 million BGN.

	2014	2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Other operating expenses</b>				
Accrued impairment of finished goods and work in progress	2 462	933	164%	33%
Entertainment expenses	2 363	2 560	-8%	31%
Business trips	804	696	16%	11%
Scrapping and losses of long-term assets	378	128	195%	5%
Accrued impairment of receivables, net	408	1 646	-75%	5%
Donations	192	311	-38%	3%
Scrapping of finished goods and work in progress	183	437	-58%	2%
Other taxes and payments to the budget	51	776	-93%	1%
Other (see FS notes)	696	572	22%	9%
<b>Total</b>	<b>7 537</b>	<b>8 059</b>	<b>-6%</b>	<b>100%</b>

*Other operating expenses* (with a share of 4%) decreased by 0,5 million BGN or 6% from 8,1 million BGN in 2013 to 7,5 million BGN in 2014, which is mostly due to a decrease in accrued impairment of receivables net by 1,4 million BGN, other taxes and payments to the budget by 0,7 million BGN, entertainment expenses by 0,2 million BGN, and scrapping and losses of

materials by 0,3 million BGN. Accrued impairment of finished goods and work in progress increased by 1,5 million BGN.

*Amortization costs* increased by 4,2 million BGN or 35% from 11,7 million BGN in 2013 to 15,9 million BGN in 2014.

### Financial income and expenses

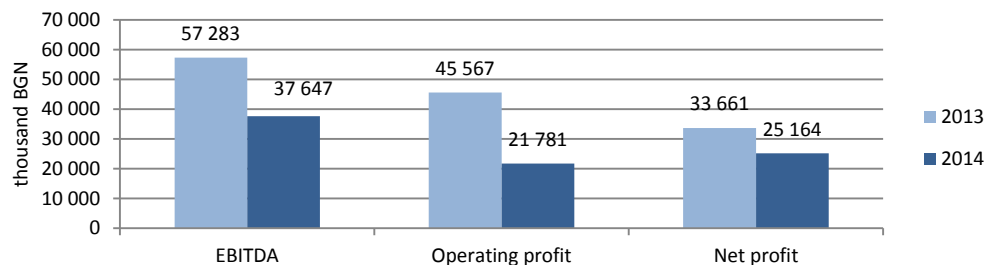
Financial income	2014	2013	Change	Share 2014
	<i>BGN '000</i>	<i>BGN '000</i>	%	%
Income from participations	6 361	5 889	8.0%	49%
Income from interest on loans granted	3 373	-	-	26%
Net gain from operations with securities	3 127	3 989	-21.6%	24%
Income from liquidation shares in subsidiaries	-	109	-100%	0%
<b>Total</b>	<b>12 861</b>	<b>9 987</b>	29%	100%
Financial expenses	2014	2013	Change	Share 2014
	<i>BGN '000</i>	<i>BGN '000</i>	%	%
Expenses for interest on loans received	4 325	5 676	-24%	33%
Bank fees for loans and guarantees	223	289	-23%	2%
Impairment of available-for-sale investments	88	6 746	-99%	39%
Interest expenses on finance lease	18	49	-63%	0%
Net loss from operations with securities	-	4 510	-100%	26%
Net loss from exchange rate differences on loans	-	68	-100%	0%
<b>Total</b>	<b>4 654</b>	<b>17 338</b>	-73%	100%
Financial income (expenses), net	8 207	(7 351)	-212%	-42%

*Financial income* increased by 2,9 million BGN, or 29%, to 12,9 million BGN in 2014 compared to 10 million BGN in 2013. This is a result of an increase in net gain from operations with securities by 3,4 million BGN. Income from interest on loans granted decreased by 0,9 million BGN.

*Financial expenses* decreased by 12,7 million BGN or 73% from 17,3 million BGN in 2013 to 4,6 million BGN in 2014. This decrease is mainly due to the change in net loss from operations with securities by 4,5 million BGN and impairment of available-for-sale investments by 6,7 million BGN.

*Net financial income (expense)* increased by 15,6 million BGN, reaching 8,2 million BGN in 2014, compared to (7,4) million BGN in 2013.

## Operating result



*Profit before interest, taxes, depreciation and amortization (EBITDA)* fell by 19,6 million BGN or 34,3%, amounting to 37,6 million BGN as at 31 December 2014, compared to 57,3 million BGN as at 31 December 2013.

*The operating profit* decreased by 23,8 million BGN or 52,2% to 21,8 million BGN as at 31 December 2014, compared to 45,6 million BGN as at 31 December 2013.

*Net profit* decreased by 8,5 million BGN or 25,2% reaching 25,2 million BGN as at 31 December 2014 compared to 33,7 million BGN as at 31 December 2013.

## Assets

	31.12.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	192 656	198 158	-3%	53%
Intangible assets	2 442	3 661	-33%	1%
Investment property	22 368	22 555	-1%	6%
Investments in subsidiaries	104 642	101 207	3%	29%
Investments in associated companies	7 015	-	-	2%
Available-for-sale investments	4 439	6 862	-35%	1%
Long-term receivables from related parties	33 150	25 649	29%	9%
Other long-term receivables	6	17	-65%	0%
	<b>366 718</b>	<b>358 109</b>	2%	66%

<b>Current assets</b>				
Inventories	49 862	50 083	0%	26%
Receivables from related parties	101 430	103 350	-2%	54%
Commercial receivables	24 267	22 155	10%	13%
Other receivables and prepaid expenses	10 487	7 241	45%	6%
Cash and cash equivalents	2 941	8 198	-64%	2%
	<b>188 987</b>	<b>191 027</b>	-1%	34%
<b>TOTAL ASSETS</b>	<b>555 705</b>	<b>549 136</b>	1%	100%

*Total assets* increased by 6,6 million BGN or 1%, reaching 555,7 million BGN compared to 549,1 million BGN as at 31 December 2013.

*Non-current assets* increased by 8,6 million BGN, or 2%, due to the increase in long-term receivables from related parties by 7,5 million BGN, investments in associated companies by 7 million BGN and investments in subsidiaries by 3,4 million BGN. Property, plant and equipment decreased by 5,5 million BGN compared to 31 December 2013.

<b>Property, plant and equipment</b>	<b>31.12.2014</b>	<b>31.12.2013</b>	<b>Change</b>	<b>Share 2014</b>
	<b>BGN '000</b>	<b>BGN '000</b>		
Land and buildings	103 457	106 621	-3%	54%
Machines and equipment	75 015	80 237	-7%	39%
Other	7 047	10 317	-32%	4%
In process of acquisition	7 137	983	626%	4%
<b>Total</b>	<b>192 656</b>	<b>198 158</b>	-3%	100%

Property, plant and equipment most substantially decreased in the portion of plant and equipment by 5,2 million BGN, in the portion of other by 3,3 million BGN, and in the portion of land and buildings by 3,2 million BGN. The assets in process of acquisition increased by 6,2 million BGN. Intangible assets fell by 1,2 million BGN mainly in the portion of intellectual property rights and in software products by 0,5 million BGN.

Investments in subsidiaries increased by 3,4 million BGN in relation to a capital increase in Briz, Latvia. Investments in associated companies increased in relation to the acquisition of shares in Medika AD. The available-for-sale investments decreased by 2,4 million BGN as a result of reclassification of Medika AD. Long-term loans to related parties increases by 7,5 million BGN.

*Current assets* decreased by 2 million BGN or 1%, reaching 189 million BGN as at 31 December 2014 compared to 191 million BGN as at 31 December 2013.



Inventories	31.12.2014	31.12.2013	change	Share 2014
	BGN '000	BGN '000	%	%
Materials	24 414	28 045	-13%	49%
Finished products	19 668	16 606	18%	39%
Semi-finished products	3 212	2 392	34%	6%
Work in progress	2 355	4 001	-41%	5%
Goods	213	205	4%	0%
<b>Total</b>	<b>49 862</b>	<b>51 249</b>	<b>-3%</b>	<b>100%</b>

Inventories decreased by 1,4 million BGN compared to 31 December 2013, mainly in the portion of materials by 3,6 million BGN and unfinished products by 0,5 million BGN. Finished and semi-finished products increased respectively by 1,9 million BGN and 0,8 million BGN. Receivables from related parties decreased by 1,9 million BGN a result of a decrease granted commercial loans by 2,1 million BGN. Commercial receivables increased by 2,1 million BGN in the portion of receivables from customers compared to 31 December 2013.

Other receivables and advance payments increased by 3,2 million BGN. Mainly this is due to an increase in refundable taxes by 2 million BGN, and prepayments by 1,3 million BGN. Cash and cash equivalents decreased by 5,2 million BGN and as at 31 December 2014 amount to 2,9 million BGN compared to 8,2 million BGN as at 31 December 2013.

## Liabilities and owners' equity

OWNERS' EQUITY	31.12.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
Share capital	132 000	132 000	0%	34%
Treasury stock	(17 203)	(18 105)	-5%	-4%
Reserves	246 397	220 935	12%	63%
Retained earnings	27 397	36 022	-24%	7%
<b>TOTAL OWNERS' EQUITY</b>	<b>388 591</b>	<b>370 852</b>	<b>5%</b>	<b>100%</b>

	31.12.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	37 972	48 723	-22%	23%
Liabilities on deferred taxes	4 264	3 826	11%	3%
Long-term liabilities to personnel	2 219	1 855	20%	1%
Financial leasing liabilities	34	49	-31%	0%
Government financing	3 358	3 534	-5%	2%
	<b>47 847</b>	<b>57 987</b>	<b>-17%</b>	<b>29%</b>
<b>Current liabilities</b>				
Short-term bank loans	90 761	98 878	-8%	54%
Short-term part of long-term bank loans	7 391	3 822	93%	4%
Liabilities to related parties	7 871	7 836	0%	5%
Commercial liabilities	7 146	4 973	44%	4%
Liabilities for taxes	935	1 243	-25%	1%
Liabilities to the personnel and for social insurance	4 199	3 736	12%	3%
Other current liabilities	964	975	-1%	1%
	<b>119 267</b>	<b>121 463</b>	<b>-2%</b>	<b>71%</b>
<b>TOTAL LIABILITIES</b>	<b>167 114</b>	<b>179 450</b>	<b>-7%</b>	<b>100%</b>
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>555 705</b>	<b>550 302</b>	<b>1%</b>	

*Equity* increased by 17,7 million BGN compared to 31 December 2013 as a result of increase in reserves by 25,5 million BGN. At the end of 2014 the treasury stock amounts to 5 114 130. During the reporting period no new issue of shares was conducted.

*Non-current liabilities* decreased by 10,1 million BGN, from 58 million BGN at the end of 2013 to 47,9 million BGN at the end of 2014 mainly due to a decrease of long-term bank loans by 10,7 million BGN.

*Current liabilities* decreased by 2,2 million BGN compared to 31 December 2013. This is mainly due to a decrease in short-term bank loans by 8,1 million BGN. The short-term part of long-term bank loans and commercial liabilities increased by 3,6 million BGN and 2,2 million BGN respectively. The total exposition to bank loans of the Company as at 31 December 2014 decreased by 15,3 million BGN compared to 31 December 2013.

Liabilities to related parties decreased and other current liabilities remain the same and liabilities to personnel and for social security increased by 0,5 million BGN.

## Cash flow

	<b>31.12.2014</b>	<b>31.12.2013</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flow from/(used in) operations	25 883	91 443
Net cash flow used for investment activities	(6 991)	(13 890)
Net cash flow used in/from financial operations	(24 220)	(72 477)
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(5 328)</b>	<b>5 076</b>
Cash and cash equivalents on 1 January	7 671	2 595
Cash and cash equivalents on 31 December	2 343	7 671

*Net cash flows* as at 31 December 2014 generated from operating activities amounted to 25,8 million BGN, net cash from investing activities (7) million BGN and finance activities (24,2) million BGN. As a result of these activities cash and cash equivalents mark a net decrease by 5,3 million BGN and as at 31 December 2014 amount to 2,3 million BGN compared to 7,7 million as at 1 January 2014.

## Ratios

	<b>31.12.2014</b>	<b>31.12.2013</b>
ROE	6,5%	9,3%
ROA	4,5%	5,8%
Asset turnover	0,36	0,37
Current liquidity	1,58	1,57
Quick ratio	1,17	1,16
Cash/current liabilities	0,02	0,07
Owners' equity/liabilities	2,33	2,06

## Information about the shares of Sopharma AD

The total number of outstanding shares at 31 December 2014 of Sopharma AD is 132 million with a nominal value of 1 BGN per share. All issued shares are registered, dematerialized, registered and indivisible. All issued shares are of one class. Each share gives equal rights to its owner, proportionate to the nominal share value. Shares of Sopharma AD are listed on the official market of the Bulgarian Stock Exchange - Sofia and the official market of the Warsaw Stock Exchange. Shares participate in the formation of the indices SOFIX, BGBX40 and BGTR30 of the Bulgarian Stock Exchange - Sofia.

The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of

## Sopharma AD

---

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.

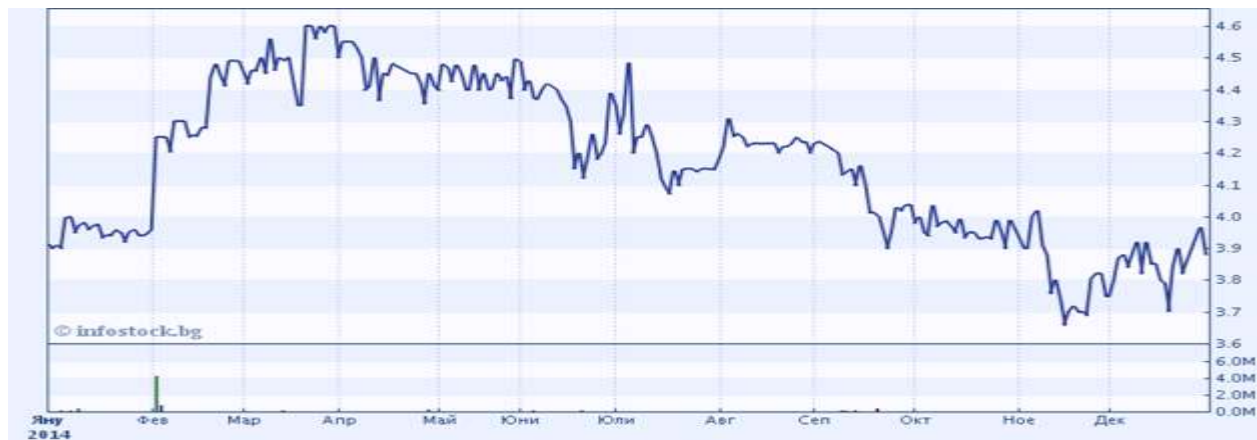
### Key indicators of the shares of Sopharma AD

	31.12.2014	31.12.2013
Total number of issued shares	132 000 000	132 000 000
Average-weighted number of outstanding shares for the last four quarters	126 913 907	127 422 985
Number of shares outstanding at the end of the period	126 885 870	126 539 324
Earnings per share in BGN	0,198	0,264
Price per share at the end of the period in BGN	3,880	3,914
Price/Earnings ratio (P/E)	19,57	14,83
Book value per share in BGN	3,063	2,922
Price/Book value ratio (P/B)	1,27	1,34
Sales per share in BGN	1,590	1,707
Price per share / Sales per share(P/S)	2,44	2,293
Market capitalization in BGN	512 160 000	516 648 000



## Sopharma AD

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



Ognian Donev, PhD  
/Executive Director/