

# MANAGEMENT REPORT

for Q1 2014



## SOPHARMA GROUP

30 May 2014

## General information

Sopharma Group (the Group) is a leading Bulgarian producer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and South-eastern Europe, offering a wide range of prescription medicines and OTC products.

The Group operates in the following areas:

- ✚ production of pharmaceutical products including medicines, primarily generics, herbal-based substances and food supplements, which is primarily done by Sopharma AD (the Company) and to a lesser extent by its production subsidiaries including Bulgarian Rose - Sevtopolis AD and Unipharm AD in Bulgaria, OAO Vitamins in Ukraine and Ivanchich and Sons D.O.O. in Serbia;
- ✚ distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements and cosmetics, which is mainly performed by Sopharma Trading in Bulgaria and Briz SIA in Latvia;
- ✚ production and distribution of non-pharmaceutical products, primarily medical supplies such as syringes and other disposables used in medicine, which is mainly performed by Momina Krepost AD, and other complementary activities to the production of pharmaceutical products and distribution of pharmaceutical products.

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 with a court registration of the company from 15.11.1991, decision No 1 / 1991 of Sofia City Court. Sopharma AD is a public company under the Public Offering of Securities Act (POSA).

The Company performs the production and marketing of medicinal substances and finished dosage forms; research and development, 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.

## Controlled companies

Sopharma Group consists of Sopharma AD and 31 legal entities, including 28 subsidiaries, directly or indirectly controlled by the Company, and three joint ventures.

Company	Interest as at 31.03.2014 in %
Sopharma Trading AD, Sofia, Bulgaria	72.42
Bulgarian Rose Sevtopolis AD, Kazanluk, Bulgaria*	49.99
Biopharm Engineering AD, Sliven, Bulgaria	97.15
Pharmalogistica AD, Sofia, Bulgaria	76.54

## Sopharma Group

Elektroncommerce EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	42.89
Momina Krepost AD, Veliko Tarnovo, Bulgaria*	53.27
Unipharm AD, Sofia, Bulgaria	51.78
Phyto Palauzovo AD, Kazanluk, Bulgaria**	47.49
OAO Vitamini, Uman, Ukraine	99.56
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Ivanchich and Sinovi DOO., Belgrade, Serbia	51.00
Sopharma Warsaw Sp. z. o. o, Warsaw, Poland	100.00
Sopharma USA Corp., Los Angeles, USA	100.00
Extab Corporation USA, Wilmington, USA	80.00
Extab Pharma Limited, Henley on Thames, Great Britain**	80.00
Briz Ltd, Riga, Latvia	66.13
Brititrade SOOO, Minsk, Belarus**	65.14
Tabina SOOO, Minsk, Belarus **	58.86
Brizpharm SOOO, Minsk, Belarus**	39.02
ZAO Interpharm, Vitebsk, Belarus**	36.97
Alean ODO, Minsk, Belarus**	46.95
Sopharma Ukraine, Kiev, Ukraine	100.00
Vivaton OOO, Grodno, Belarus***	50.00
OOO Med-dent, Bobruisk, Belarus***	50.00
OOO Pharmacist Plus, Minsk, Belarus **	33.73
Vestpharm ODO **	59.52
NPK Biotest OOO **	46.29
BelAgroMed ODO **	44.31
BOOO SpetzApharmacia, Bobruisk, Belarus***	50.00
ZAO TBS Pharma, Vilnius, Lithuania**	33.73

\*effective interest in percent

\*\*indirect interest

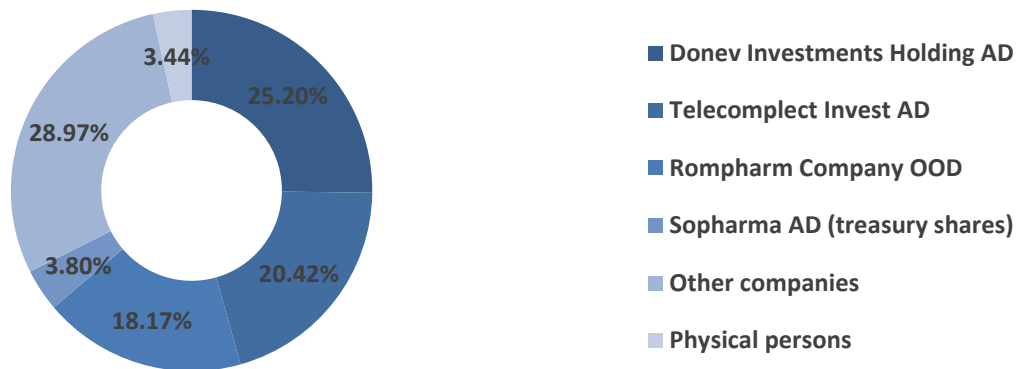
\*\*\*joint venture

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



## Shareholding structure of Sopharma AD as at 31 March 2014



### Industrial activity

Sopharma AD and its production subsidiaries have 15 pharmaceutical plants in Bulgaria, compliant with EU requirements - GMP, one plant in Ukraine, certified by the local authorities with a certificate recognized in all CIS Member States, and two in Serbia. With the exception of the plant in Ukraine, all production facilities have undergone procedures for certification to the European GMP.

The production activities of the Group are carried out and developed in the following areas:

- + Production of pharmaceutical products;
- + Substances and preparations based on vegetable raw materials (phytochemical production);
- + Veterinary vaccines;
- + Infusion solutions;
- + Concentrates for hemodialysis;
- + Medical disposable products for human and veterinary medicine;
- + Injection molded products for the industry, agriculture and households.

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

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

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

### **Distribution**

Sopharma Trading is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 23% (according to IMS). Sopharma Trading is the only distributor on the Bulgarian market of particular pharmaceutical products for several leading international pharmaceutical and other companies the field of healthcare such as Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk.

The company offers more than 7000 products (particularly pharmaceutical products, medical equipment and devices, accessories, cosmetics, vitamins and food supplements) in its portfolio, including the brands of Sopharma, and holds exclusive rights for Bulgaria over brands of strategic partners such as Aboca, Colief, Jamieson, Planter's, Premax, Skincode, SVR Laboratories, US Pharmacia and Wyeth, specialized services (such as software solutions for pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and 3,870 customers.

### **Intellectual property**

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

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

For all the years of its existence, Sopharma AD has been generating and protecting 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 Company's policy 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 concentrated on finding and developing new formulas and composition or physical properties (such as formulation or tablets) of products in order to adapt them to current market needs. A strategic goal of Sopharma AD in the future is to achieve a stable result in the development of eight to ten new products per year.

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

### **Employees**

As at 31 March 2014 the average number of employees in the Sopharma Group is 4 179 (4 122 in 2013). The average number of employees in Sopharma AD as at 31 March 2014 is 1 796 (1 793 in 2013), and in Sopharma Trading AD it is 677 (668 in 2013).

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

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

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

On 14 January 2014 Sopharma AD made the final payment for the capital increase of Briz Ltd, Latvia. The interest in the capital of the company, held by Sopharma AD, reached 66.13% after the increase (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 the region.

In 2013 Briz Ltd. 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 20 January 2014 the Group has completed the purchase of 12% of the shares of BOOO SpetsApharmatsiya (via Breeze Ltd, Latvia), the status of the company changed from an associate of the Group to a joint venture.

On 28 January 2014, and on 26 February 2014 the Group has completed the purchase and sale of shares of OOO NPK Biotest-Belarus (via Breeze Ltd, Latvia), resulting in a net increase of its share by 6.91%.

On 04 February 2014, and on 27 February 2014 the Group has completed the purchase and sale of shares of ODO Vestpharm-Belarus (via Breeze Ltd, Latvia), resulting in a net increase of its share by 7.44%.

On 5 February 2014 and on 26 February 2014 the Group has completed the purchase and sale of shares of ODLO BelAgroMed-Belarus (via Breeze Ltd, Latvia), resulting in a net increase of its share by 5.31%.

On 6 February 2014 the Company 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 to 73.99%.

On 7 February 2014 the Company received a notification for the acquisition of 4,230,000 shares, representing 3.20 % of its capital, by Rompharm Company OOD. After the transaction the interest of Rompharm Company OOD in the capital of Sopharma AD reached 17.60%. The registration date of the transaction in the Central Depository AD, Sofia is 6 February 2014.

On 7 February 2014, Bulgarian Rose Sevtopolis received a notification for disclosure of participation per art. 145 of POSA from Rompharm Company ODD for the purchase of 1,689,440 shares, representing 14.00%. After the transaction the interest of Rompharm Company OOD in the capital of Bulgarian Rose Sevtopolis AD reached 20.22%. The registration date of the transaction in the Central Depository is 6 February 2014.

On 11 February 2014 the Company received a notification for the sale of 3,424,005 shares by UPF Doverie. After the transaction the interest of UPF Doverie in the capital of Sopharma AD decreased to 4.155 %. The registration date of the transaction in the Central Depository AD, Sofia is 6 February 2014.

On 12 February 2014, Bulgarian Rose Sevtopolis received a notification for disclosure of participation per art. 145 of POSA from UPF Doverie for the selling of 794,317 shares, representing 6.58%. After the transaction the interest of UPF Doverie in the capital of Bulgarian Rose Sevtopolis AD reached 0.00%. The registration date of the transaction in the Central Depository is 6 February 2014.

On 3 April 2014 the Board of Directors of Momina Krepost AD decided to convene an Annual General Meeting of Shareholders on 4 June 2014 at 11:00 at the headquarters of the company in Veliko Tarnovo, 23 Magistralna Str..

On 29 April 2014 the Board of Directors of Bulgarian Rose Sevtopolis AD decided to convene an Annual General Meeting of Shareholders on 17 June 2014 at 11:00 at the headquarters of the company in Kazanlak, 11 23<sup>rd</sup> Shipchenski Polk Blvd..

The management board of Unipharm AD convenes an Annual General Meeting of Shareholders on 18 June 2014 at 11:00 in the headquarters of the company in Sofia, 3 Traiko Stanoev Str..

The board of directors of Sopharma Trading AD convenes an Annual General Meeting of Shareholders on 20 June 2014 at 13:30 in Sofia, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building B, level 3.

The board of directors of Sopharma AD convenes an Annual General Meeting of Shareholders on 20 June 2014 at 11:00 in Sofia, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building B, level 3.

### **New developments and products**

#### New with marketing authorizations in the first quarter of 2014

The Company received marketing authorizations for 4 new products in its portfolio – Ofofix drops, Softensif tablets with delayed release, Promerol injection solution, Fentoril injection solution.

#### Expected in 2014

Three to five new products are expected to be introduced by the end of 2014.

#### Developments

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



## Key financial indicators

Indicators	1-3/2014 BGN '000	1-3/2013 BGN '000	change %
Sales revenue	214 292	187 608	14,2%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	28 634	27 138	5,5%
Operating profit	21 022	21 728	-3,2%
Net profit	12 931	18 610	-30,5%
Capital expenditures	8 363	15 734	-46,8%
	<b>31.03.2014</b>	<b>31.12.2013</b>	
	<b>BGN '000</b>	<b>BGN '000</b>	
Non-current assets	384 073	384 502	-0,1%
Current assets	415 085	398 286	4,2%
Equity	430 055	412 775	4,2%
Non-current liabilities	71 507	72 245	-1,0%
Current liabilities	297 596	297 768	-0,1%
	<b>1-3/2014</b>	<b>1-3/2013</b>	
<b>Ratios</b>			
EBITDA / Sales revenue	13,4%	14,5%	
Operating profit/ Sales revenue	9,8%	11,6%	
Net profit/ Sales revenue	6,0%	9,9%	
Borrowed capital/ Equity	0,86	0,90	
Net debt/ EBITDA, annualized	3,1x	3,7x	

## Review of risk factors

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

- ✚ The Group faces significant competition.
- ✚ Part of Sopharma Trading's revenue in Bulgaria is generated by sales to hospitals, which involve a higher degree of business risk.
- ✚ Reputation of the Group may be adversely affected by untrue or misleading information, including such available on website [www.sopharma.com](http://www.sopharma.com), which has not been authorized by the Company.
- ✚ The Group is dependent on regulatory approvals.

- ✦ Government regulations affecting the Group's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- ✦ Part of the Group's revenue, in particular in Bulgaria, depends on the inclusion of the Company's medicines on reimbursement lists.
- ✦ The production facilities and processes of the Company and the Group companies are subject to strict requirements and regulatory approvals that may delay or disrupt the Group's operations.
- ✦ 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 in any given year.
- ✦ The Group is subject to operational risk which is inherent to its business activities.
- ✦ The Group 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 Group's business, financial position and performance.

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

- ✦ The macroeconomic environment, particularly in Bulgaria, Russia, Belarus 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 position.
- ✦ The political environment in the Group's export markets, especially in Russia, Belarus and Ukraine, has a significant effect on the Group's operations and financial position.

Starting from the end of 2013, including at the date of issue of these consolidated condensed interim financial statements, Ukraine continues to be in a process of political crisis.

As a result, for the period until April 2014 the exchange rate of the Ukrainian Hryvnia to the Bulgarian Lev has dropped by more than 30% while the interest rates have increased by 3% compared to the rates at the end of 2013. Inflation of about 15% is expected for the year by the Ukrainian National Bank. The purchasing power of the population shows is in a downturn.

This situation continues to have an effect on the pharmaceutical market but the products of the Group are in a comparatively favorable position by being in the moderate price segment (the refrain from purchase of medicinal products refers mostly to the high price segment). Furthermore, the assets of PAO Vitamini are

located in the town of Uman, in the western part of Ukraine, where no present indications exist that any possible development of the conflict would progress in that part of Ukraine.

The management of Sopharma Group closely monitors the events in Ukraine as well as the movements in the Ukrainian pharmaceutical market. The applied prices and the terms of trade are persistently revised. In addition, the existence of a local distributor (OOO Sopharma Ukraine) for the Group in Ukraine decreases the risk of receivables uncollectability from third parties and the trade policy of this subsidiary is primarily focused on sales of goods to other distributors after their previous obligations have been paid.

- ✚ Risks related to the Bulgarian legal system.
- ✚ The development in the legislation of some of the countries in which the Company sells its products, in particular Russia, Belarus and Ukraine, could adversely affect the Group's operations in these 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 Group companies perform their operations with active exchange with foreign suppliers and clients and therefore, they are exposed to currency risk.

The Group through its subsidiaries in Belarus and Ukraine conducts business operations in these countries and respectively has a substantial exposition in Belarusian Ruble (BYR) and Ukrainian Hryvnia (UAH). The currency risk is related to the adverse floating of the exchange rate of these currencies 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 rest of the companies abroad conduct sales mainly to the local markets, which leads to currency risk to their currencies - Serbian Dinar (RSD), Polish Zloty (PLN), Lithuanian Litas (LTL).

There is a currency risk control system implemented throughout the whole Group for the planning of imports, the sale in foreign currencies, as well as procedures for daily monitoring of USD exchange rate movements and control over pending payments. The exposure of the subsidiaries in Bulgaria to currency risk is insignificant, because almost all sales are conducted on the local market in BGN. The import of goods is entirely performed in EUR. The loans in foreign currencies are denominated mainly in EUR.

### Credit risk

Credit risk is the risk that any of the Group's clients will fail to discharge in full and within the normally envisaged terms the amounts due under trade receivables. The latter are presented in the statement of financial position at net value after deduction of impairments related to



doubtful and bad debts. Such impairments are made where and when events have existed identifying loss due to uncollectability as per the previous experience.

The Group has developed policy and procedures to assess the creditworthiness of its counterparts and to assign credit rating and credit limits to clients by group.

The financial resources of the Group as well as the settlement operations are concentrated in different first-class banks. When distributing the cash flows among them, the management of the parent company and the subsidiaries take into consideration a variety of factors, as the amount of capital, reliability, liquidity, the credit potential and rating of the bank etc.

### **Liquidity risk**

Liquidity risk is an adverse situation where the Group encounters difficulty in unconditionally meeting its obligations within their maturity, including in the case of hyperinflation and recalculation of trade estimates for companies operating in such environment.

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is the main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. Another significant source of risk is the net position in BYR and the hyperinflation on that market.

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

Interest-bearing assets are presented in the structure of Group's assets as cash, bank deposits and fixed interest rate loans granted. On the other hand, the Group'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 Group partially dependent on interest risk. This risk is covered in two ways:

- (a) optimization of sources and structure of credit resources for achieving relatively lower price of attracted funds; and
- (b) combined structure of interest rates on loans comprising two components – a fixed one and a variable one, the correlation between which, as well as their absolute value, can be achieved and maintained in a proportion favorable for the Group companies. The fixed 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.

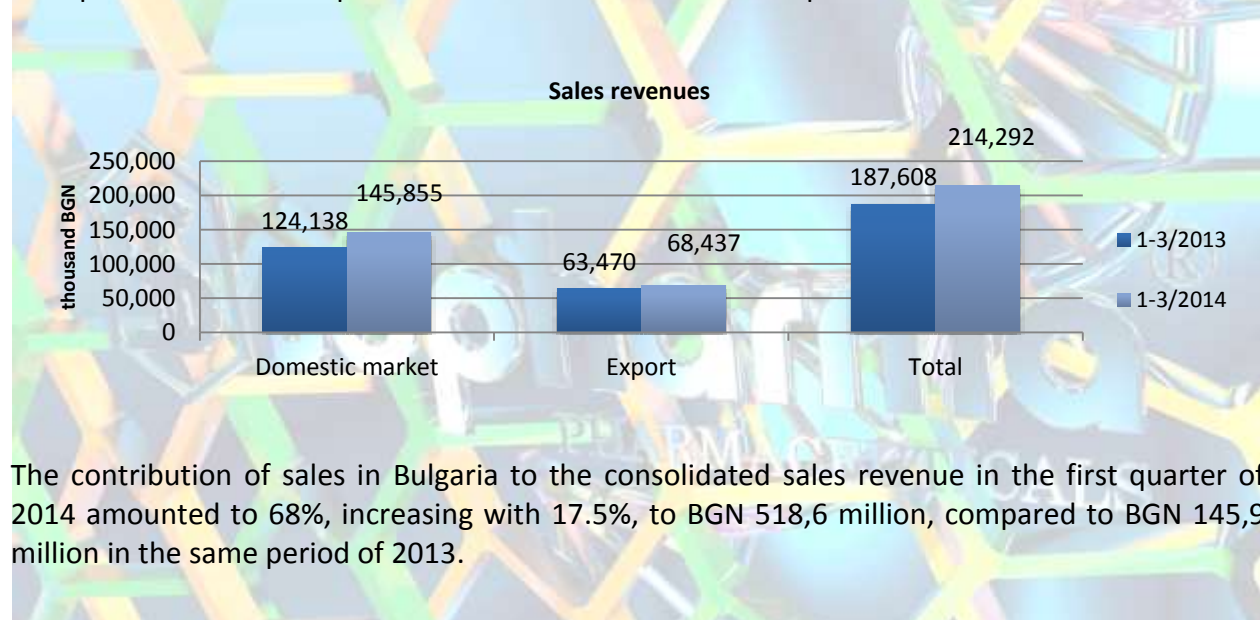
The management of the Group companies together with that of the parent company currently monitor and analyze the exposure of the respective company to the changes in interest levels. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest

rate shift, expressed in points or %age, on the financial result and equity is calculated. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

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

#### **Sales revenue**

Revenue from sales of the Group increased by BGN 26,7 million or 14%, reaching BGN 214,3 million in the first quarter of 2014 compared to BGN 187.6 million in the first quarter of 2013. The increase is due to an increase in sales of goods by BGN 23,3 million, reaching BGN 139,9 million in the first quarter of 2014 compared to BGN 109,6 million in the first quarter of 2013 and growth of BGN 3,4 million in sales of finished products, which reach BGN 81,4 million in the first quarter of 2014 compared to BGN 78 million in the first quarter of 2013.



The contribution of sales in Bulgaria to the consolidated sales revenue in the first quarter of 2014 amounted to 68%, increasing with 17.5%, to BGN 518,6 million, compared to BGN 145,9 million in the same period of 2013.

Sopharma has a 4% share of the Bulgarian pharmaceutical market in terms of value and a 13% share in terms of sold quantity (units). The positions of the main competitors of the Company in the country are as follows: Novartis – 6.4% (4.5% in units), Roche – 6% (1% in units), GlaxoSmithKline – 5.7% (2.8% in units), Actavis – 5.3% (14% in units), Sanofi-Aventis-Zentiva – 4.4% (3.4% in units), Astra Zeneca – 3.5% (1 % in units), Pfizer – 3.4% (1.4% in units), Servier – 3.1% (1.8% in units), Bayer – 2.5% (1.5% in units). The Group products with the highest share in sales in the country include Analgin, Vicetin, Vitamin C, Flixostid, and Carsil.

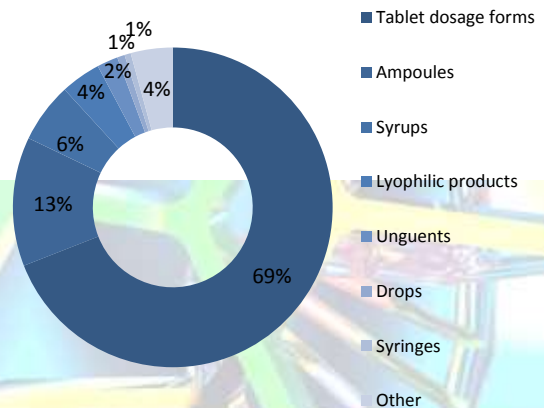
Export sales grew by BGN 4,9 million or 7.8%, reaching BGN 68,4 million in the first quarter of 2014 compared to BGN 63,5 million in the first quarter of 2014.

## Revenue by group of products

Reported revenue of the Group includes the following items: revenue from the sale of finished products and revenue from the sale of goods.

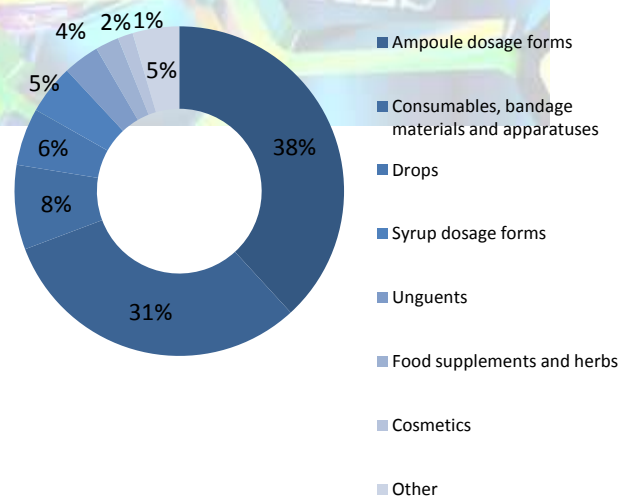
Revenues from the sale of finished products include revenue from the sale of products manufactured by the Company and the Group companies.

Revenue earned from sale of finished products by type	1-3/2014 BGN '000	1-3/2013 BGN '000	change %
Tablet dosage forms	56 208	51 945	8%
Ampoules	10 628	10 740	-1%
Syrups	4 932	6 832	-28%
Lyophilic products	3 302	1 047	215%
Unguents	1 730	1 670	4%
Drops	624	1 229	-49%
Syringes	515	1 336	-61%
Other	3 453	3 244	6%
<b>Total</b>	<b>81 392</b>	<b>78 043</b>	<b>4%</b>



Revenue from the sale of goods include revenue from the sale of goods to third parties, which are distributed primarily by Sopharma Trading AD and Briz Ltd.

Revenue earned from sale of goods by type	1-3/2014 BGN '000	1-3/2013 BGN '000	change %
Tablet dosage forms	50 741	54 611	13%
Ampoule dosage forms	41 315	31 007	17%
Consumables, bandage materials and apparatuses	11 028	5 906	33%
Drops	7 486	5 690	22%
Syrup dosage forms	6 461	3 069	31%
Unguents	4 732	2 278	20%
Food supplements and herbs	3 077	1 925	13%
Cosmetics	1 985	1 277	61%
Other	6 076	3 802	14%
<b>Total</b>	<b>132 900</b>	<b>109 565</b>	<b>17%</b>





## Other operating income

Other revenues from operations	1-3/2014	1-3/2013	change	relative
	BGN '000	BGN '000		share
			%	2014
				%
Services rendered	1 080	1 398	-23%	34%
Net losses from exchange rate differences under trade receivables and payables and current accounts	907	431	110%	29%
Rents	264	257	3%	8%
Income from penalties	248			8%
Government financing	137	97	41%	4%
Services of social activities and events	125	123	2%	4%
Gain/(loss) on sale of non-current assets	33	(3)	1204%	1%
Loss from sale of materials	(22)	(22)	2%	-1%
Other	361	80	351%	12%
<b>Total</b>	<b>3 133</b>	<b>2 361</b>	<b>33%</b>	<b>100%</b>

Other operating income increased by BGN 0.7 million reaching BGN 3,1 million in the first quarter of 2014, compared to BGN 2.4 million in the first quarter of 2013. The most significant influence have net losses from exchange rate differences under trade receivables and payables and current accounts with BGN 0.5 million, penalties income with BGN 0.2 million, and other income with BGN 0.2 million. There is a decrease in services rendered by BGN 0.3 million.

## Operating expenses

Operating expenses	1-3/2014	1-3/2013	change	relative
	BGN '000	BGN '000		share of
			%	expenses for
				2014
				%
Changes in inventories of finished goods and work in progress	311	484	36%	0%
Carrying amount of goods sold	126 283	105 935	19%	64%
Materials	23 733	21 484	10%	12%
Hired services	18 181	14 219	28%	9%
Personnel	19 326	17 276	12%	10%
Depreciation and amortization	7 612	5 410	41%	4%
Other operating expenses	957	3 433	-72%	0%
<b>Total</b>	<b>196 403</b>	<b>168 241</b>	<b>17%</b>	<b>100%</b>

The operating expenses in the first quarter of 2014 increased by BGN 28,2 million or 17% from BGN 168,2 million in the first quarter of 2013 to BGN 196,4 million in the first quarter of 2014. The change is due to growth in sales and therefore the carrying amount of goods sold to the

internal market, the increase in materials, hired services, personnel, and depreciation and amortization.

	1-3/2014	1-3/2013	change	relative share of expenses for 2014
	BGN '000	BGN '000	%	%
<b>Expenses on materials</b>				
Basic materials	17 242	15 258	13%	73%
Spare parts, laboratory and technical materials	1 625	1 276	27%	7%
Heating	1 610	1 768	-9%	7%
Electricity	1 316	1 345	-2%	6%
Fuels and lubricating materials	922	866	6%	4%
Water	281	243	16%	1%
Other	737	728	1%	3%
<b>Total</b>	<b>23 733</b>	<b>21 484</b>	<b>10%</b>	<b>100%</b>

*Cost of materials* (12% share) increased by BGN 2,2 million or 10% to BGN 23,7 million in the first quarter of 2014 compared to BGN 21,5 million in the first quarter of 2013. The cost of basic materials grew by BGN 2 million, or 13%, the most significant impact is defined as the cost of substances, ampoules, aluminum foil, and herbs, which increased respectively by BGN 1.4 million, BGN 0.2 million, BGN 0.2 million, and BGN 0.1 million. The cost of heating, electricity, and merchandising goods decreased.

	1-3/2014	1-3/2013	change	relative share of expenses for 2014
	BGN '000	BGN '000	%	%
<b>Hired services expense</b>				
Advertising	5 988	3 684	63%	33%
Rentals and insurance	1 971	1 783	11%	11%
Consulting services	1 436	957	50%	8%
Forwarding and transportation services	1 109	1 030	8%	6%
Manufacturing of medicines	908	838	8%	5%
Buildings and equipment maintenance	756	565	34%	4%
Bank and regulatory charges	497	556	-11%	3%
Local taxes and fees	474	228	108%	3%
Services related to the registration of medicines	386	255	51%	2%
Subscription fees	385	347	11%	2%
Services under civil contracts with physical persons	334	305	10%	2%
Security	331	306	8%	2%
Car repairs	255	194	31%	1%
Communications	218	199	10%	1%
Other	3 133	2 972	5%	17%
<b>Total</b>	<b>18 181</b>	<b>14 219</b>	<b>28%</b>	<b>100%</b>

*Hired services* have an 9% share of operating expenses and increased by BGN 4 million or 28%, reaching BGN 18,2 million in the first quarter of 2014 compared to BGN 14,2 million in the first quarter of 2013. The most significant increase comes from advertising by BGN 2.3 million and rents and consulting services by BGN 0.5 million.

	1-3/2014	1-3/2013	change	relative share of expenses for 2014
	BGN '000	BGN '000	%	%
<b>Personnel costs</b>				
Current wages and salaries	14 774	13 147	12%	76%
Social security/health insurance contributions	3 223	2 711	19%	17%
Social benefits and payments	733	803	-9%	4%
Accruals for unused paid leaves	505	423	9%	3%
Accruals for social security on unused paid leaves	91	88	3%	0%
Accrued provisions for long-term benefits to personnel upon retirement	-	104	-100%	0%
Current wages and salaries	<b>19 326</b>	<b>17 276</b>	<b>12%</b>	<b>100%</b>
<b>Total</b>	<b>1-3/2014</b>	<b>1-3/2013</b>	<b>12%</b>	<b>76%</b>



*Personnel costs* (with an 10% share) grew by BGN 2 million, or 12%, reaching BGN 19,3 million in the first quarter of 2014 compared to BGN 17,3 million in the first quarter of 2013. The general growth of these costs is due to both the increase of salaries of the personnel, as well as to the growth of the number of employees in the Group as a result of the consolidation of new companies.

Other operating expenses	1-3/2014	1-3/2013	change	relative share of expenses for 2014
	BGN '000	BGN '000	%	%
Entertainment allowances	574	432	33%	60%
Business trips	330	325	2%	34%
Training	73	70	4%	8%
Donations	62	107	-42%	6%
Payments to the budget for taxes and interest on taxes	38	66	-42%	4%
Scrapping of finished products and work in progress	24	265	-91%	3%
Scrapping and shortages of goods	22	149	-85%	2%
Charged/(reversed) impairment of current assets, net	(243)	393	-162%	-25%
Other	77	1 626	-95%	8%
<b>Total</b>	<b>957</b>	<b>3 433</b>	<b>-72%</b>	<b>100%</b>

*Other operating expenses* (with a share of 1%) increased by BGN 2.4 million or 72% from BGN 3.4 million in the first quarter of 2013 to BGN 1 million in the first quarter of 2014. The most significant part in the increase results from recovered impairment of current assets, net with BGN 0.6 million and a decrease in other operating expenses with BGN 1.5 million. Entertainment allowances increased by BGN 0.1 million.

*Depreciation and amortization expense* (with a share of 4 %) increased by BGN 2.2 million or 41% from BGN 5.4 million in the first quarter of 2013 to BGN 7.6 million in the first quarter of 2014.

Finance income and costs

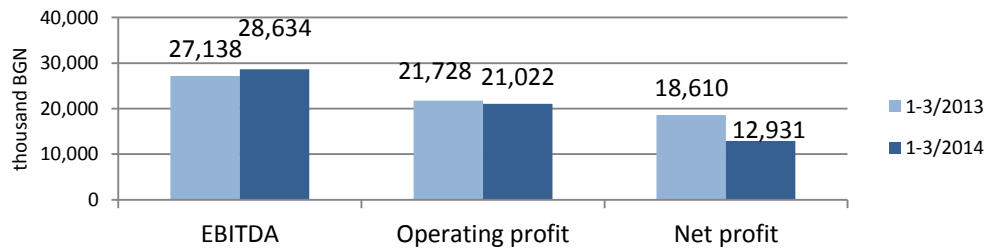
	1-3/2014	1-3/2013	change	relative share of income for 2014
	BGN '000	BGN '000	%	%
<b>Finance income</b>				
Interest income on loans granted	599	952	-37%	53%
Interest income on overdue receivables	458	658	-30%	41%
Interest on receivables from special contracts	48	50	-4%	4%
Income from shares	10	6	67%	1%
Interest income from deposits	7	16	-56%	1%
Income from investment transactions	1	-		0%
Net income from exchange rate differences on loans	-	176	-100%	0%
<b>Total</b>	<b>1 123</b>	<b>1 858</b>	<b>-40%</b>	<b>100%</b>
			<b>change</b>	<b>relative share of costs for 2014</b>
<b>Finance costs</b>				
Interest expense on loans received	2 116	1 713	24%	84%
Net loss from exchange rate differences on loans	4 650	173	2588%	8%
Bank fees and charges on loans and guarantees	133	114	17%	6%
Investment operations expenses	78	38	105%	2%
Interest expense on finance lease	83	13	538%	1%
<b>Total</b>	<b>7 060</b>	<b>2 051</b>	<b>244%</b>	<b>100%</b>

*Finance income* decreased by BGN 0,8 million or 40%, to BGN 1,1 million in the first quarter of 2014 compared to BGN 1.9 million in the first quarter of 2013. This is due to a decrease in interest income on granted loans by BGN 0.3 million and interest income on overdue payments by BGN 0.2 million, as well as a decrease in net gain from exchange rate differences on loans with BGN 0.2 million.

*Finance costs* increased by BGN 5 million from BGN 2.1 million in the first quarter of 2013 to BGN 7.1 million in the first quarter of 2014. The most significant influence is due to net loss from exchange rate differences on loans with BGN 4.5 million. This is a result of revaluation of a bank loan at the amount of BGN 7 million of Vitamini, Ukraine due to devaluing of the Ukrainian currency at the beginning of the year. Interest expense on loans received increased by BGN 4 million of 24%.

*Net financial costs* increased by BGN 5,7 million, reaching BGN (5,9) million as at 31 March 2014 compared to BGN (0.2) million as at 31 March 2013.

Financial performance



Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by BGN 1.5 million or 6%, amounting to BGN 28,6 million as at 31 March 2014, compared to BGN 27,1 million as at 31 March 2013 .

Operating profit decreased by BGN 0.7 million or 3%, to BGN 21 million as at 31 March 2014, compared to BGN 21,7 million as at 31 March 2013.

Net profit decreased by BGN 5.7 million, or 31%, reaching BGN 12,9 million as at 31 March 2014, compared to BGN 18,6 million as at 31 March 2013.

Assets

	31.03.2014	31.12.2013	change	relative share 2014
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	304 109	306 781	-1%	79%
Intangible assets	15 118	15 848	-5%	4%
Goodwill	11 807	12 890	-8%	3%
Investment property	10 528	10 526	0%	3%
Investments in associated companies	1 679	1 002	68%	0%
Available-for-sale investments	8 754	8 187	7%	2%
Long-term receivables from related parties	27 143	25 656	6%	7%
Other non-current assets	688	585	18%	0%
Deferred taxes	4 247	3 027	40%	1%
	<b>384 073</b>	<b>384 502</b>	0%	48%
<b>Current assets</b>				
Inventories	140 484	139 596	1%	34%
Trade receivables	207 588	191 132	9%	50%
Receivables from related parties	28 464	28 763	-1%	7%
Other receivables and prepayments	11 943	11 639	3%	3%
Cash and cash equivalents	26 606	27 156	-2%	6%
	<b>415 085</b>	<b>398 286</b>	4%	52%
<b>TOTAL ASSETS</b>	<b>799 158</b>	<b>782 788</b>	2%	100%



*Total assets* increased by BGN 16.4 million, or 2%, reaching BGN 799,2 million, compared to BGN 782,8 million as at 31 December 2013 as a result of the increase in non-current assets.

*Non-current assets* decreased by BGN 0.4 million, or 0.1%, mainly due to the decrease in property, plant and equipment by BGN 2.7 million.

Intangible assets decreased by BGN 0.7 million, mostly due to a decrease in goodwill by BGN 1.1 million as a result of effects of currency and hyperinflationary recalculations.

Investments in associated companies increased by BGN 0.7 million compared to 31 March 2014 as a result of acquired shares by Briz in Belarusian companies for trade with pharmaceutical products.

The available-for-sale investments increased by BGN 0.6 million.

Long-term receivables from related parties increased by BGN 1.5 million or 6% to BGN 27.1.

*Current assets* increased by BGN 16.8 million or 4%, reaching BGN 415,1 million as at 31 March 2014 compared to BGN 398,3 million as at 31 December 2013.

Inventories comprise 34% of current assets and increased by BGN 0.9 million compared to 31 December 2013, mainly in the portion of goods by BGN 0.6 million, materials by BGN 0.5 million, and unfinished products by BGN 0.9 million. There is a decrease in finished products by BGN 0.9 million and semi-finished products by BGN 0.1 million.

Commercial receivables, which have a relative share of 50% of current assets, increased by BGN 16.4 million, both in the portion of receivables from customers with BGN 9.1 million and in advance payments with BGN 7.3 million.

Receivables from related parties have a relative share of 7% in current assets and decreased by BGN 0.3 million. The most significant contribution to this decrease have commercial loans with BGN 0.6 million.

Other receivables and prepayments comprise 3% of current assets and increased by BGN 0.3 million, as a result of a decrease in recovered taxes and other receivables.

Cash and cash equivalents decreased by BGN 0.6 million compared to 31 December 2013. As at the end of the current period there are deposits amounting to BGN 3.9 million.

## Equity and liabilities

EQUITY	31.03.2014	31.12.2013	change	relative share of equity for 2014
	BGN '000	BGN '000		%
<b>Equity attributable to owners of the parent</b>				
Share capital	132 000	132 000	0%	31%
Reserves	32 244	32 013	1%	7%
Retained earnings	206 224	194 585	6%	48%
	<b>370 468</b>	<b>358 598</b>	3%	86%
<b>NON-CONTROLLING INTEREST</b>	<b>59 587</b>	<b>54 177</b>	10%	14%
<b>TOTAL EQUITY</b>	<b>430 055</b>	<b>412 775</b>	4%	100%
LIABILITIES	31.03.2014	31.12.2013	change	relative share of total liabilities for 2014
	BGN '000	BGN '000		%
<b>Non-current liabilities</b>				
Long-term bank loans	53 949	55 992	-4%	15%
Deferred tax liabilities	6 644	4 647	43%	2%
Long-term liabilities to personnel	3 349	3 557	-6%	1%
Finance lease liabilities	2 006	2 382	-16%	1%
Government grants	5 474	5 612	-2%	1%
Other non-current liabilities	85	55	55%	0%
	<b>71 507</b>	<b>72 245</b>	-1%	19%
<b>Current liabilities</b>				
Short-term bank loans	210 244	208 643	1%	57%
Current portion of long-term bank loans	6 340	7 083	-10%	2%
Trade payables	61 832	61 712	0%	17%
Payables to related parties	2 066	3 828	-46%	1%
Payables to the personnel and for social security	7 472	6 757	11%	2%
Tax payables	4 331	4 410	-2%	1%
Other current liabilities	5 311	5 335	0%	1%
	<b>297 596</b>	<b>297 768</b>	0%	81%
<b>TOTAL LIABILITIES</b>	<b>369 103</b>	<b>370 013</b>	0%	100%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>799 158</b>	<b>782 788</b>	2,1%	

## Sopharma Group

The equity of Sopharma Group increased by BGN 17.3 million compared to 31 December 2013 mainly due to the achieved net profit for the current period. Equity attributable to owners of the parent comprise 46% of total equity and liabilities, with certain improvement of the financial autonomy of the Group.

Non-current liabilities decreased by BGN 0,7 million or 1%, from BGN 72.2 million at the end of 2013 to BGN 71.5 million at the end of the first quarter of 2014 mainly due to a decrease in long-term bank loans.

Deferred tax liabilities increased by BGN 2 million. There is a decrease in finance lease liabilities by BGN 0.4 million and long-term liabilities to personnel by BGN 0.2 million.

Current liabilities decreased by BGN 0.2 million or 0.1% compared to 2013, mainly in the portion of payables related parties by BGN 1.8 million. There is an increase in payables to personnel and for social security by BGN 0.7 million and short-term bank loans by BGN 1.6 million.

The Group's total liabilities under bank loans and leases decreased by BGN 1.6 million compared to the end of 2013, while net debt, after subtracting cash and cash equivalents, decreased by BGN 1 million.

### Cash flows

	31.03.2014 BGN '000	31.03.2013 BGN '000
Net cash flows from operating activities	6 374	3 150
Net cash flows used in investing activities	(5 827)	(16 945)
Net cash flows (used in)/from financing activities	(1 101)	22 760
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(554)</b>	<b>9 028</b>
Cash and cash equivalents at 1 January	26 633	15 767
Cash and cash equivalents at 31 March	26 079	24 795

Net cash flows generated from operating activities as at 31 March 2014 amount to BGN 6.4 million, those from investing activities – BGN (5.8) million and from financing activities – BGN (1,1) million. As a result of these activities the cash and cash equivalents mark a net decrease of BGN 0.5 million and as at 31 March 2014 amounting to BGN 26,1 million compared to BGN 26.6 million as at 1 January 2014.



## Financial ratios

	31.03.2014	31.03.2013
ROE <sup>1</sup>	6,6%	12,1%
ROA <sup>2</sup>	3,0%	5,6%
Asset turnover <sup>3</sup>	1,00	0,95
Current ratio <sup>4</sup>	1,39	1,39
Quick ratio <sup>5</sup>	0,92	0,97
Cash ratio <sup>6</sup>	0,09	0,08
Solvency ratio <sup>7</sup>	1,17	1,09

<sup>1</sup> Net profit belonging to the equity holders of the Company, annualized / arithmetic mean of the equity less minority interests for the last five quarters

<sup>2</sup> Net profit belonging to the equity holders of the Company, annualized / arithmetic mean of total assets for the last five quarters

<sup>3</sup> Revenue from sales, annualized / arithmetic mean of total assets for the last five quarters

<sup>4</sup> Current assets / current liabilities

<sup>5</sup> Receivables + cash/current liabilities

<sup>6</sup> Cash/current liabilities

<sup>7</sup> Equity/Liabilities

## Information about the shares of Sopharma AD

The total number of shares issued by Sopharma AD as at 31 March 2014 is 132 million with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, common and indivisible, under the Articles of Association. All issued shares are of one class. Each share gives equal rights to its holder, in proportion to its nominal value. The shares of Sopharma AD are traded on the official market of Bulgarian Stock Exchange - Sofia AD and the official market of the Warsaw Stock Exchange. The shares are part of the indices SOFIX, BGBX40 and BGTR30 on the BSE – Sofia AD.

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 index for Central and Eastern Europe (CEE) that WSE started to calculate as of 30 May 2012. The index is called WIG-CEE and is the third after the WIG-Poland and WIG-Ukraine, which is based on the origin of the companies by country. WIG-CEE is calculated based on total return and includes also dividend income and subscription rights to shares.

## Important information for the shares of Sopharma AD

	31.03.2014	31.03.2013
Total number of issued shares	132 000 000	132 000 000
Number of shares outstanding at the end of the period	126 786 279	127 969 149
Earnings per share in BGN <sup>1</sup>	0,19	0,32
Price per share at the end of the period in BGN	4,599	2,373
Price/Earnings ratio (P/E)	24,21	7,42
Book value per share in BGN <sup>2</sup>	2,92	2,84
Price/Book value ratio (P/B)	1,58	0,84
Income from sale of one share in BGN <sup>3</sup>	6,23	5,49
Price of one share / Income from sale of one share (P/S)	0,74	0,43
Market capitalization in BGN	607 068 000	313 236 000

<sup>1</sup> Net profit of the company for the last four quarters excluding earnings from non-controlling interest/ average outstanding number of shares

<sup>2</sup> Common equity of the company as per the last financial report excluding non-controlling interest / number of shares outstanding at the end of the period

<sup>3</sup> Income from sales in the last four months / number of outstanding shares as at the end of the period.

## Trade in shares of Sopharma AD on the Bulgarian Stock Exchange – Sofia AD for the period 1 January – 31 March 2014



Signature:

Ognian Donev, PhD  
Executive Director, Sopharma AD