

MANAGEMENT REPORT

2014



SOPHARMA AD

27 March 2015

General information about Sopharma AD

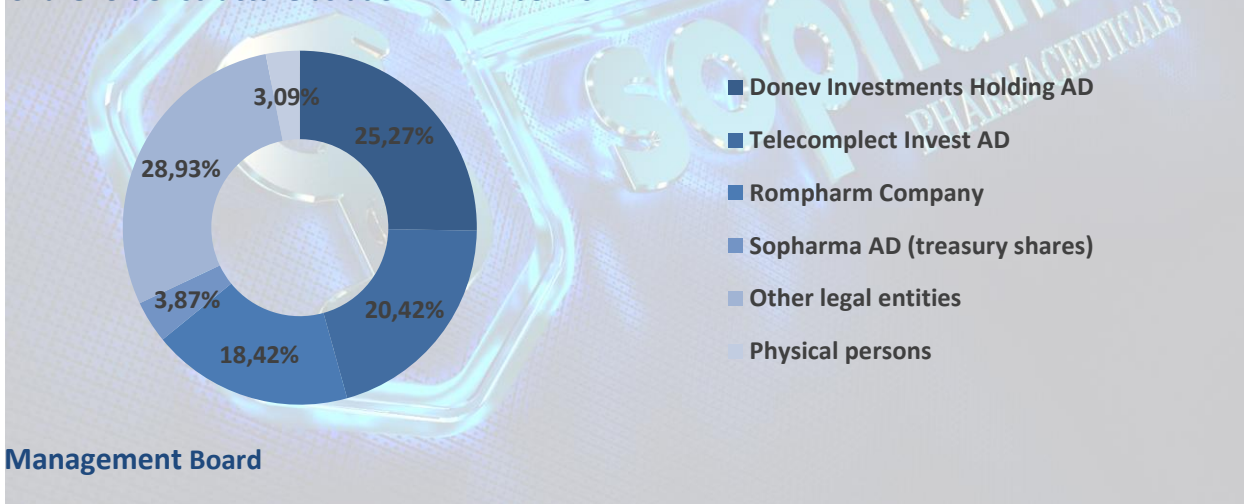
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko shose street No 16.

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



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.

Company shares, owned by members of the Board of Directors of the Company as at 31 December 2014 are as follows:

Ognian Palaveev – 102,320 shares;

Alexandar Chaushev - 87 414 shares.

The Articles of association of Sopharma AD do not provision any restrictions on the right of the members of the Board of Directors to acquire shares or bonds of the Company.

Share in the capital of other companies amounting to more than 25% of the members of the Board of

Directors:

Ognian Ivanov Donev controls or owns directly a significant share (more than 25%) of the capital of the following companies:

1. "Donev Investments Holding" AD, UIC 831915121, with address of management in Sofia, 12 "Pozitano" Str. – control through direct ownership of more than 50% of the capital of the company;
2. "Telecomplect Invest" AD, UIC 201653294, with address of management in Sofia, 9 "Slaveikov" Square – significant influence through direct ownership of more than 20% of the capital of the company;
3. "Telecomplect" AD, UIC 831643753, with address of management in Sofia, 5 "Lachezar Stanchev" Str., Building A – significant influence through direct ownership of more than 20% of the capital of the company;
4. "Sopharma Buildings" REIT, UIC 175346309, with address of management in Sofia, 5 "Lachezar Stanchev" Str. – significant influence through direct and indirect ownership of more than 20% of the capital of the company;
5. "Sopharma Properties" REIT, UIC 175059266, with address of management in Sofia, 5 "Lachezar Stanchev" Str., Building A – significant share through direct and indirect ownership of more than 20% of the capital of the company;
6. "Sofprint Group" AD, UIC 175413277 with seat and address of management: Sofia, 12 "Pozitano" Str. – control through indirect ownership of more than 50% of the capital of the company;
7. "Sofconsult Group" AD, UIC 175413245, with seat and address of management: Sofia, 12 "Pozitano" Str. – control through indirect ownership of more than 50% of the capital of the company.
8. "Sofia Inform" AD, UIC 121303553, with address of management in Sofia, 12 "Pozitano" Str. – control through indirect ownership of more than 50% of the capital of the company.
9. "Elpharma" AD, UIC 130299513, with seat and address of management: Sofia, 16 „Iliensko shose“ Str. - significant influence through indirect ownership of more than 25% of the capital of the company;
10. "Sopharma Trading" AD, UIC 103267194, with seat and address of management: Sofia, 5 "Lachezar Stanchev" Str. – direct and indirect ownership of more than 20% of the capital of the company and participation in the management.
11. Sopharma AD, UIC 831902088, with seat and address of management: 16 Iliensko Shousse Str. – indirect ownership of more than 20% of the capital of the company in participation in the management.

Vessela Liubenova Stoeva controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

1. "VES elektroinvest systems" EOOD, UIC 201712700, with seat and address of management: Sofia, 9 "P. R. Slaveykov" Square
2. "Eco Solar Invest" OOD, UIC 201634905, with seat and address of management: Sofia, 48 "Alabin" Str.

Alexandar Victorov Chaushev controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

1. "Sofsarvis" OOD, UIC 131407109, with address of management in Sofia, 339, "Tsar Boris III" Blvd

Andrey Liudmilov Breshkov controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

1. "Breshkov and Sons" OOD, UIC 115114555, with address of management in Plovdiv, 36 "Gladstone" Str.
2. "CFM" OOD, UIC 131304899, with address of management in Sofia, 2 "Nikolay Haitov" Str.

Ognian Kirilov Palaveev controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

1. "Mill Stefanovo Village" EOOD, UIC 201045146, with address of management in Stefanovo Village, Lovech District.
2. "Sirius" OOD, UIC 110543305, with address of management in Stefanovo Village, Lovech District, 7 "Apriltsi" Str.

Ognian Ivanov Donev participates in the managing/controlling body in the following companies:

1. "Elpharma" AD, UIC 130299513, with seat and address of management: Sofia, 16 „Iliensko shose“ Str. – member of the Board of Directors and Executive Director.
2. "Sopharma Trading" AD, UIC 103267194, with address of management in Sofia, 5 "Lachezar Stanchev" Str. – Chairman of the Board of Directors.
3. "Donev Investments Holding" AD, UIC 831915121, with address of management in Sofia, 12 "Pozitano" Str. – Chairman of the Supervisory Board.
4. "Unipharm" AD, UIC 831537465, with address of management in Sofia, 3 "Trajko Stanoev" Str. – Chairman of the Supervisory Board.
5. "Kaliman - RT" AD, UIC 121120513, with address of management in Sofia, 5 "Lachezar Stanchev" Str. – Chairman of the Board of Directors.
6. "Telecomplect" AD, UIC 831643753, with address management in Sofia, 5 "Lachezar Stanchev" Str., Building A – Chairman of the Supervisory Board.
7. "Doverie United Holding" AD, UIC 121575489, with address of management in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board, Vice-President.
8. "Doverie Capital" AD, UIC 130362127, with address of management in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board.
9. "Medica" AD, UIC 000000993, with address of management in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Board of Directors.
10. "Riton P" AD, UIC 822106398, with address of management in Panagyurishte, 30 "Krastio Geshanov" Str. – Member of the Board of Directors.
11. "Momina Krepost" AD, UIC 104055543, with address of management in Veliko Tarnovo, 23 "Magistralna" Str. – Member of the Board of Directors.
12. "Alumni Association of International Economic Relations", UIC 175861145 – Chairman of the Management Board.
13. Sopharma AD, UIC 831902088, with seat and address of management: Sofia, 16 Iliensko Shousse Str. – member of the Board of Directors and Executive Director.

Vessela Liubenova Stoeva participates in the management/supervisory body for the following companies:

1. "Elpharma" AD, UIC 130299513, with seat and address of management: Sofia, 16 „Iliensko shose“ Str. - member of the Board of Directors;
2. "VLS" AD, UIC 175082980, with address of management in Sofia, Slaveikov Square 9 - member of the Board of Directors;

3. "VES elektroinvest systems" EOOD, UIC 201712700, with seat and address of management: Sofia, 9 "P. R. Slaveykov" Square - Manager.
4. Sopharma AD, UIC 831902088, with seat and address of management: 16 Iliensko Shousse Str. – Deputy Chairperson of the Board of Directors.

Alexandar Victorov Chaushev participates in the management/supervisory body of the following companies:

1. "Monbat" AD, UIC 111028849, with registered office in Sofia, Lozenets area, 4 "Golo Bardo" Str. – member of the Board of Directors;
2. "DK-Domostroene" AD, UIC 102148397, with registered office in Burgas, PO Box 8000, Pobeda area – member of the Board of Directors;
3. "Agency management and advertising in sport 'EAD, UIC 130969084, with registered office in Sofia, Vazrazhdane," Todor Alexandrov "№ 42 – Member of the Board of Directors.
4. Sopharma AD, UIC 831902088, with seat and address of management: 16 Iliensko Shousse Str. – member of the Board of Directors.

Andrey Liudmilov Breshkov participate in the management/supervisory body for the following companies:

1. "Simol" EAD, UIC 101795403, with address of management in Blagoevgrad, 3 "Georgy Izmirliiev" Square – Chairman of the Board of Directors
2. "Vizaton" OOD, UIC 202235166, with seat and address of management: Sofia, Sredets, 225A "Tsar Boris III" Blvd – Chairman of the Board;
3. ZAD "Energy", UIC 831040933, with seat and address of management: Sofia, 33 "Knyaz Dondukov" Blvd - member of the Board of Directors.
4. Sopharma AD, UIC 831902088, with seat and address of management: 16 Iliensko Shousse Str. – member of the Board of Directors.
5. Expat Beta REIT

Ognyan Kirilov Palaveev participates in the management/supervisory body of the following companies:

1. "Sirius" OOD, UIC 110543305, with address of management in Stefanovo Village, Lovech District, 7 "Apriltsi" Str. – member of the Management Board;
2. Sopharma AD, UIC 831902088, with seat and address of management: 16 Iliensko Shousse Str. – member of the Board of Directors.
3. Unipharm AD, UIC 831537465, with address of management in Sofia, Darvenitsa district, 3 Traiko Stanoev Str. – member of the Board of Directors.
4. Melnitsa S.Stefanovo

There were no contracts under Art. 240b of CA in 2014.

Investor Relations Director is Pelagia Viatcheva, tel. 8134 523, Sofia, 5 "Lachezar Stanchev" Str., Building A, Floor 11.

Industrial activity

Sopharma AD has ten manufacturing facilities, which are compliant with EU regulations and are located in Bulgaria. The Company is the largest Bulgarian producer of ampoules and suppositories.

The Company carries out and develops production in the following areas:

- ✚ Substances and preparations based on vegetable raw materials (phytochemical production);

- ✚ Finished dosage forms including
 - ✓ Solid tablets, coated tablets, coated tablets, capsules;
 - ✓ Galenical - suppositories, drops, syrups, unguents;
 - ✓ Parenteral - injectables, powders for injections lyophilic

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

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

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

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

Intellectual property

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

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

In all the years of its existence, Sopharma AD generates and protects its intellectual property. As a result, the Company owns a large number of intellectual property assets, the majority being 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.

	31.12.2014	Share %
Number of employees 31.12.2014	1829	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.

Major trading counterparts

The main clients of the Company with relative share in sales revenue exceeding 10% for 2014 are Delta Sales Corporation Limited with a relative share of 33%, Sopharma Trading AD – 32% and OAO Vitamini – 12%.

- ✚ Delta Sales Corporation Limited with a seat in Sofia, 20-22 “Zlaten Rog” Str. and principal activities: foreign trade of medicines. The relations are regulated through a contract for sale.
- ✚ Sopharma Trading AD with a seat in Sofia, Nadezhda Region, 16 “Rozhen” Str., with principal activities: wholesale and retail trading of medicines and sanitary and hygiene products.

Sopharma Trading AD is a subsidiary of Sopharma AD performing the functions of a "pre-wholesaler" in the process of its finished products realization;

- ✚ OAO Vitamini is a trading company, registered in Ukraine, with a seat and address of management: Ukraine, Cherkas Area, Uman, 31 "Leninski Iskri" Str., with principal activities: production of pharmaceutical products and medicines, wholesale and retail trade of pharmaceutical products, other types of wholesale trade and intermediary services in consumer goods trading. OAO Vitamini is a subsidiary of Sopharma AD.

Suppliers with a relative share exceeding 10% of the supplied services and materials for 2014:

- ✚ "Bulgarian Rose Sevtopolis" AD with a relative share of 12% and with a seat and address of management in Kazanluk, 110 "23 Pehoten shipchenski polk" Blvd is a subsidiary of Sopharma AD (in 2014).

Information regarding the execution of the Program for the Implementation of the Internationally Recognized Good Corporate Governance Standards

The Board of Directors of Sopharma AD complies with and implements the Code of Corporate Governance. The Company periodically discloses information about corporate governance in accordance with the "comply or explain" principle. In the event of non-compliance with the recommendations of the Code the Company provides an explanation.

The actions of the Management of Sopharma AD are directed towards affirming the principles for good corporate governance, increasing the trust of shareholders, investors and persons interested in the management and business of the Company.

The Board of Directors of Sopharma AD adheres to the Good Corporate Governance Program, which is in line with the effective legal regulation, the internationally recognized good corporate governance standards and the Bulgarian National Code for Corporate Governance.

The Board of Directors approves disclosure policies in accordance with the legal requirements and organizational acts. The system for information disclosure guarantees equality of the addressees (shareholders, stakeholders, investors) and prevents misuse of inside information.

The corporate governance guarantees that the system for information disclosure provides complete, timely, accurate and understandable information that allows objective and informed decisions and evaluations.

The Board of Directors of Sopharma AD prepared a Remuneration policy for the members of the Board of Directors, approved by the Annual General Meeting of Shareholders on 21 June 2013. The Remuneration policy has been prepared in accordance with Ordinance №48 from 20 March 2013 of the Financial Supervision Commission and with the Public Offering of Securities Act. The size and structure of the remuneration are approved by the AGM of the Company.

The Board of Directors of Sopharma prepared a Report on the implementation of the remuneration policy of the Board of Directors for 2014. The report reveals the way the Remuneration policy is applied, paying particular attention to the prevention of incentives for taking excessive risk, conflict of interest or other behavior, resulting in adverse effects.

The Company maintains an English version of the corporate website with identical content.

The processes and procedures for conducting of General Meetings of Shareholders guarantee equal treatment of all shareholders – including minority and foreign ones, and protect their interests.

The materials related with the General Meeting of Shareholders are at the disposal of the shareholders as from the day of the invitation announcement in the Commercial Register, on the website of the Company: www.sopharma.bg, and upon request, are provided at no cost to the shareholders.

Shareholders with a voting right can exercise their voting right at the General Meeting personally or through a representative, as well as through correspondence or electronically.

The corporate management takes actions to promote participation of the shareholders in the Annual General Meeting of Shareholders, incl. by providing options for distant attendance through technical means (incl. Internet) in the cases, when this is possible and necessary and does not unnecessarily raise the cost of voting.

The Board of Directors believes that prerequisites have been established for sufficient transparency in the relations with investors, financial media and capital market analysts.

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.

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.

No major contracts or contracts with a substantial influence on the business of the Company have been concluded during the reporting period.

Transactions between the Company and related parties during the reporting period are presented in the "Related Party Transactions" annex to the annual financial statements. The

Company has no transactions outside the ordinary course of its business, and ones which deviate from the market conditions.

During the reporting period there are no unusual events or indicators for the Company.

Information regarding transactions, not listed in the balance sheet is presented in the “Contingencies and commitments” annex to the annual financial statements.

Important events after the date of the preparation of the financial statement

On 9 January 2015 was held an Extraordinary General Meeting of Shareholders of Sopharma AD, which approved a decision for transformation of Sopharma AD through the merger of Bulgarian Rose – Sevtopolis AD into Sopharma AD, as well as for the capital increase of Sopharma AD from 132 000 000 BGN to 134 798 527 BGN through the issuance of 2 798 527 new shares with a nominal value of 1 BGN and an emission value of 4.14 BGN, equal to the fair value of one share of Sopharma AD in relation to the merger of Bulgarian Rose – Sevtopolis AD. The entry in the Commercial Register was conducted on 26 February 2015. As at 6 March 2015 the new capital of 134 797 899 BGN was registered in the Central Depository AD. The entry in the register of the Financial Supervision Commission and trading on the Bulgarian Stock Exchange are pending.

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

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

On 17 March 2015 was concluded an extrajudicial agreement between Sopharma AD (as guarantor under a supply contract and universal successor of Bulgarian Rose – Sevtopolis AD, terminated due to its merger into Sopharma AD) and a company supplier of the merged subsidiary. The agreement settles all disputes between the parties, including the related collateral court cases. On the same date (17 March 2015), according to the agreements between the parties, Sopharma AD has paid the company supplier of Bulgarian Rose – Sevtopolis AD the amount of 1,246 thousand BGN (673 thousand USD and 4 thousand EUR), representing the residue after a netting made between the parties. On 19 March 2015, each of the parties withdrew their appeals against court decisions on the cases and requested revocation of the collaterals imposed on them as well as repayment of guarantees given in connection with the collaterals.

On 19 March 2015, a contract was concluded between Sopharma AD and PAO Vitamini based on which the trade receivables of Sopharma AD, amounting to EUR 12,774 thousand, were transformed to their equivalent in Hryvnia - UAH 316,532 thousand. This right of receivable, in accordance with a Decision of the Board of Directors of Sopharma AD, dated 20 March 2015, will be used as an additional contribution to the increase in the share capital of Sopharma Ukraine OOD. The capital increase process is expected to be finalised not later than 10 April 2015.

On 23 March 2015 the Board of Directors of Sopharma AD took a decision for the conducting of the procedure, required by POSA, for a tender offer under Art. 149, para. 6 of POSA for the purchasing all shares of the other shareholders Momina Krepost AD, Veliko Tarnovo, UIC 104055543 by the majority shareholder Sopharma AD. The application for the tender offer was submitted to the Financial Supervision Commission on 24 March 2015. The Financial Supervision Commission has not yet taken a decision on the current draft tender offer.

New developments and products

✚ New products with marketing authorizations in 2014:

Authorizations were received for the bringing to market of 6 new products for the Company – Otofix drops, Softenzif tablets with delayed release, Promerol injection solution, Fentoril injection solution, Ivadron injection solution, Tuspan syrup 100 ml., and one new product Glicerax suppository was brought to market.

✚ Expected in 2015

Three to five new products are expected to be introduced 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.

Planned development

- ✚ Sopharma AD will continue its development as a company producing high quality medicines that comply with international standards.
- ✚ Through upgrading scales, aggressive marketing policy and competitive prices, the Company aims at expanding the market share of its products on the national market.
- ✚ With regard to foreign markets, the efforts are focused on retaining and increasing the share of the Company on the main markets (Russia, Ukraine and Poland) as well as establishing and extending of its market position in other countries (USA, Central and East European countries, and the Caucasian region).
- ✚ Continuing the policy of active partnership with recognized international pharmaceutical

companies, with new companies as well as broadening the product range of already established collaborations.

Key financial indicators

Indicators	1-12/2014 BGN '000	1-12/2013 BGN '000	change %
Sales revenues	201 456	216 054	-6,8%
EBITDA	39 698	57 149	-30,5%
Operating profit	23 832	45 433	-47,5%
Net profit	26 531	33 540	-20,9%
CAPEX	10 819	24 785	-56,3%

	31.12.2014 BGN '000	31.12.2013 BGN '000	
Non-current assets	365 216	358 109	2,0%
Current assets	190 779	192 193	-0,7%
Owners' equity	389 706	370 735	5,1%
Non-current liabilities	47 571	58 104	-18,1%
Current liabilities	118 718	121 463	-2,3%

Ratios	1-12/2014	1-12/2013	Change
EBITDA / Sales revenues	19,7%	26,5%	-6,8%
Operating profit/ Sales revenues	11,8%	21,0%	-9,2%
Net profit/ Sales revenues	13,2%	15,5%	-2,3%
Borrowed capital/Owners' equity	0,43	0,48	-0,05
Net debt/ EBITDA	3,36x	2,51x	0,85x

Review of risk factors

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

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

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

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

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

Currency risk

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Company supplies part of its raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The remaining part of Company operations are usually denominated in BGN and/or EUR. The Company sells some of its finished products in Russia in euro and thus eliminates the currency risk associated with the depreciation of the Russian ruble in the recent months. The accounts with subsidiaries in Ukraine are also denominated in euro. However, in connection with the instability in the country and the continued depreciation of the Ukrainian hryvnia, in order to minimize currency risk, the company conducts through its subsidiaries a currency policy, which includes the implementation of advance payments and shortening of the periods of delayed payments and immediate exchange of revenues in local currency in euros, as well as raising of the price mark-ups on products in order to compensate for possible future devaluation of the hryvnia. To control foreign currency risk, the Company has introduced a system for planning import supplies,

sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

Credit risk

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

In the years of its trade experience, the Company has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts. The Company works on its main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

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

Liquidity risk

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

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the Company implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Risk of interest-bearing cash flows

Interest-bearing assets are presented in the structure of Company's assets by cash and loans granted, which are with fixed interest rate. On the other hand, Company's borrowings in the form of long-term and short-term loans are usually with a floating interest rate. This circumstance makes the cash flows of the Company partially dependent on interest risk. This risk is covered in two ways:

- a) optimisation of the sources of credit resources for achieving relatively lower price of attracted funds; and

- b) the combined structure of interest rates on loans, which consists of two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and maintained in a proportion favourable for the Company. The permanent component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavourable change of cash flows is reduced to a minimum.

The Company's management currently monitors and analyses its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

Information about the main characteristics of the internal control system applied by the Company in the process of financial statements preparation

According to the Bulgarian legislation, the management is required to prepare a report on the activities as well as financial statements for each financial year, which should give a true and fair view of the Company's financial position and performance as at end of the period, and for the cash flows in accordance with the applicable accounting framework. The responsibility of the Management also includes the application of internal control system for preventing, revealing and elimination of errors and misstatement resultant from the operation of the accounting system. In this respect, the Management observes the following main principles in its activities:

- + adherence to a specific management and accounting policy disclosed in the financial statements;
- + execution of all operations in accordance with the legal and regulatory provisions;
- + reflection of all events and operations in a timely manner, at their accurate amount in the appropriate accounts and for the corresponding reporting period so as to allow the preparation of financial statements in line with the relevant accounting framework;
- + adherence to the principle of prudence in the valuation of assets, liabilities, income and expenses;
- + identification and elimination of fraud and errors;
- + completeness and accuracy of accounting information;
- + preparation of reliable financial information; compliance with international financial reporting standards and adherence to the going concern principle.

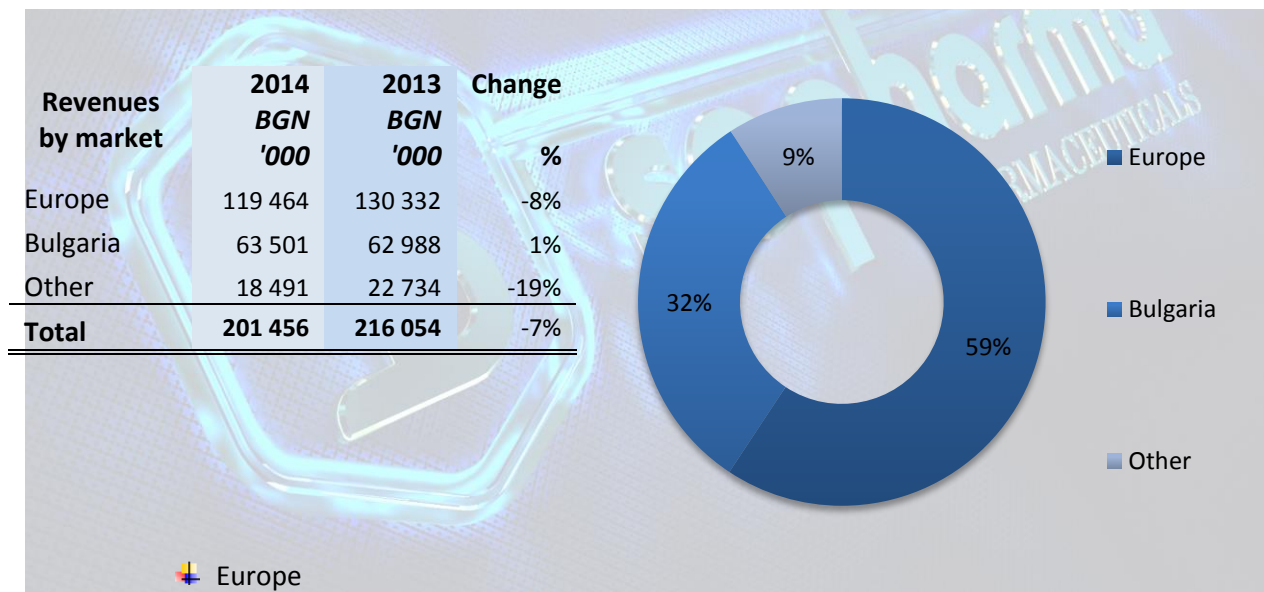
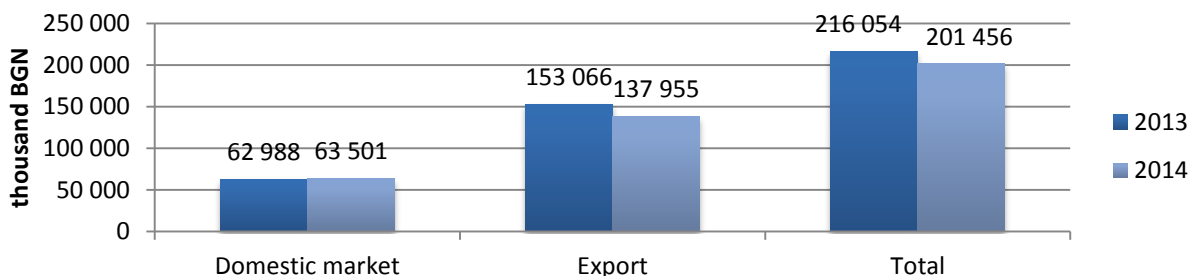
No changes occurred in the main principles of governance of Sopharma AD and its economic group during the reporting period.

Operating results in 2014

Sales revenues

Sales revenues of production decrease by 14,6 million BGN or 6.8%, reaching 201,5 million BGN as at the end of 2014, compared to 216,1 million BGN at the end of 2013.

Sales revenues



Revenues from sales to European countries decreased by 8% compared to 2013 due to the decrease of sales in Ukraine by 37%. Currently the access to the eastern territories is permanently restricted and sales there are difficult to conduct by the distributors and are in much smaller quantities. The revenue from sales in Russia increased, where five new products are in the process of registration. Sales to Poland, Serbia, Turkey, Malta and Belarus have 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. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 12% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis –

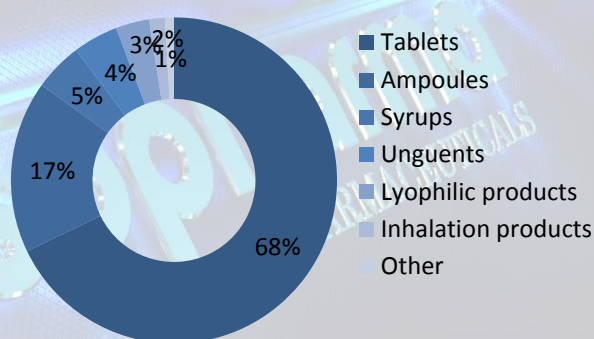
6.6% (4.3% in units), Roche – 6% (0.4% in units), GlaxoSmithKline – 5.6% (2.5% in units), Actavis – 5.4% (14% in units), Sanofi-Aventis-Zentiva – 4.1% (3.2% in units), Astra Zeneca – 3.6% (1% in units), Pfizer – 3.3% (1.3% in units), Servier – 3% (1.7% in units), Bayer – 2.9% (1.7% in units).

Other markets

Revenues from other markets decreased by 19% in 2014. These mainly include revenues from sales in the Caucasus and Central Asia, which decreased by 30% compared to 2013. This decrease was due to the economic and financial crisis in Kazakhstan early the year when the local currency devalued by 21% in one day and practically froze the economy for more than two months. Currently, the situation in the country stabilizes slowly and Sopharma recovers its business operations and positions. Sales revenue in Vietnam, Mongolia, and Tunisia increased.

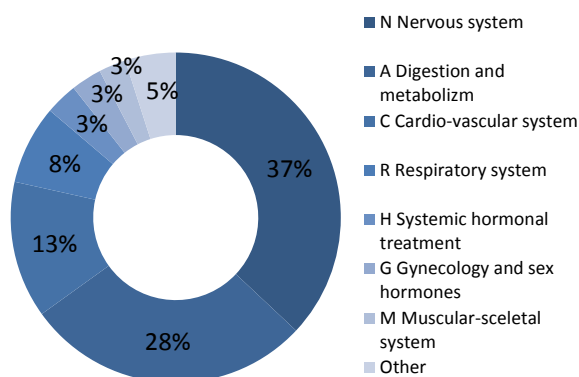
Sales by type of formulation

Revenues by type of formulation	2014 BGN '000	2013 BGN '000	Change %
Tablets	136 700	147 808	-8%
Ampoules	34 405	34 685	-1%
Syrups	9 682	13 143	-26%
Unguents	9 029	7 559	19%
Lyophilic products	6 700	6 371	5%
Inhalation products	3 155	3 454	-9%
Other	1 785	3 034	-41%
Total	201 456	216 054	-7%



Sales by therapeutic group

Revenues by therapeutic group	2014 BGN '000	2013 BGN '000	Change %
N Nervous system	74 538	70 737	5%
A Digestion and metabolism	56 552	69 439	-19%
C Cardio-vascular system	27 014	21 744	24%
R Respiratory system	15 585	20 848	-25%
H Systemic hormonal treatment	6 366	6 484	-2%
G Gynaecology and sex hormones	6 063	9 381	-35%
M Muscular-skeletal system	5 365	5 547	-3%
Other	9 973	11 874	-16%
Total	201 456	216 054	-7%



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	(305)	(538)	-43%	-8%
Other	(31)	(43)	-28%	-1%
Total	4 013	3 079	30%	100%

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

Operating expenses

Operating expenses	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Changes in the finished goods and work-in-progress inventory	(10 296)	7 006	247%	-6%
Materials	60 600	54 932	10%	33%
External services	71 347	59 659	20%	39%
Personnel	34 403	32 328	6%	19%
Amortization	15 866	11 716	35%	9%
Other operating expenses	9 717	8 059	21%	5%
Total	181 637	173 700	5%	100%

The operating expenses increased by 7,9 million BGN or 5% compared to 2013, reaching 181,6 million BGN, which is due to an increase in material costs, hired services expense, personnel, and amortization costs.

Materials expenses	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Main materials	44 417	40 118	11%	73%
Spare parts, laboratory items and technical materials	5 709	5 290	8%	9%
Electricity	3 615	3 496	3%	6%
Heat	3 395	3 235	5%	6%
Fuels and lubricants	1 007	1 254	-20%	2%
Impairment of materials	737	203	263%	1%
Work cloths	692	593	17%	1%
Water	665	733	-9%	1%
Scraping of materials	363	10		1%
Total	60 600	54 932	10%	100%

Cost of materials (33% share) increased by 5,7 million BGN or 10% from 54,9 million BGN in 2013 to 60,6 million BGN in 2014. Costs of basic materials increased by 4,3 million BGN, in the segments of packaging materials, liquid, and hard chemicals, substances, and ampules. There was an increase in the cost of spare parts, laboratory and technical materials, heat, electricity, and impairment of materials.

	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Hired services expenses				
Manufacturing of medicines	27 571	25 337	9%	39%
Consultancy fees	12 140	9 522	27%	17%
Advertising	9 275	7 559	23%	13%
Logistics services on export and domestic market	3 258	1 907	71%	5%
Transportation	3 100	2 264	37%	4%
Maintenance of buildings and equipment	2 800	1 433	95%	4%
Rents	2 411	2 454	-2%	3%
Registration services and clinical trials	1 581	852	86%	2%
Local taxes and fees	1 106	667	66%	2%
Security	867	904	-4%	1%
Civil contracts	806	775	4%	1%
State and regulatory taxes and local taxes	774	809	-4%	1%
Subscription fees	749	721	4%	1%
Medical services	744	659	13%	1%
Insurance	617	475	30%	1%
Expense taxes	548	534	3%	1%
Other	3 000	2 787	8%	4%
Other	71 347	59 659	20%	100%

Hired services have a 39% share of operating expenses and increased by 11,6 million BGN or 20%, reaching 71,3 million BGN in 2014 compared to 59,7 million BGN in 2013. The most significant impact have the increase in consultancy services by 2,6 million BGN, manufacturing cost by 2,2 million BGN, advertising cost by 1,7 million BGN, maintenance of buildings and equipment by 1,4 million BGN, logistic services by 1,4 million BGN. There is a decrease in state and regulatory taxes, servicing fees of current bank accounts and other expenses.

	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Personnel expenses				
Salaries	25 931	23 925	8%	75%
Social insurance	4 858	4 267	14%	14%
Social benefits and payments	1 952	2 179	-10%	6%
Performance-based bonuses	801	1 105	-28%	2%
Other	861	852	1%	3%
Total	34 403	32 328	6%	100%

Personnel costs (with a share of 19% of operating expenses) 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.

Other expenses	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Accrued impairment of receivables, net	2 651	1 646	61%	27%
Entertainment expenses	2 363	2 560	-8%	24%
Accrued impairment of finished good and unfinished products	2 266	933	143%	23%
Business trips	804	696	16%	8%
Scrapping and loss of long-term assets	378	128	195%	4%
Donations	191	311	-39%	2%
Scrapping of finished good and unfinished products	183	437	-58%	2%
Written-off receivables	158	155	2%	2%
Other (see FS notes)	723	1 193	-39%	7%
Total	9 717	8 059	21%	100%

Other operating expenses (with a relative share of 5% of operating expenses) increased by 1,6 million or 21% from 8,1 million BGN in 2013 to 9,7 million BGN in 2014, which is mostly due to an increase in accrued impairment of receivables, net by 1 million BGN and accrued impairment of finished goods and unfinished products by 1,3 million BGN. There is a decrease in other taxes and payments to the budget by 0,7 million BGN, included on line "Other".

Costs of amortization (with a relative share of 9% of operating expenses) increased by 4,2 million BGN of 35% from 11,7 million BGN in 2013 to 15,9 million BGN in 2014.

Financial income and expenses

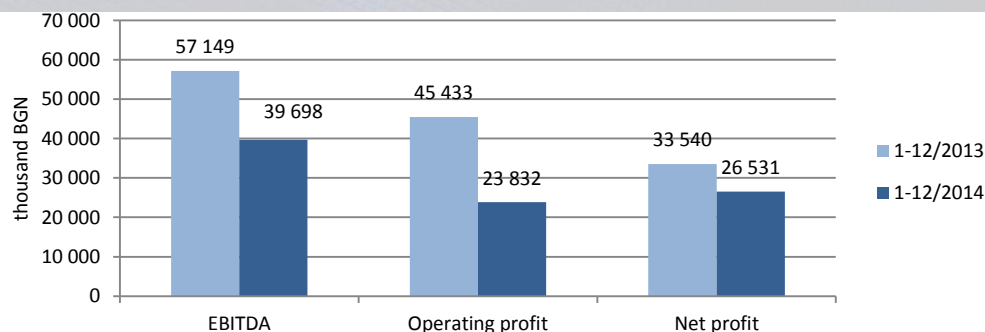
Financial income	2014 BGN '000	2013 BGN '000	Change %	Share 2014 %
Income from participations	6 361	5 889	8.0%	49%
Net gain from operations with securities	3 509	-	-	27%
Income from interest on loans granted	3 127	3 989	-21.6%	24%
Income from liquidation shares in subsidiaries	-	109	-100.0%	0%
Total	12 997	9 987	30%	100%
Financial expenses				
Impairment of available-for-sale investments	4 326	5 676	-24%	33%
Expenses for interest on loans received	240	289	-17%	2%
Net loss on from operations with securities	88	6 746	-99%	39%
Bank fees for loans and guarantees	18	49	-63%	0%
Net loss from exchange rate differences on loans	-	4 510	-100%	26%
Financial leasing expenses	-	68	-100%	0%
Total	4 672	17 338	-73%	100%

Financial income increased by 3 million BGN, or 30%, to 13 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 3,5 million BGN. Income from interest on loans granted decreased by 0,9 million BGN.

Financial expenses decreased by 12,6 million BGN or 73% to 4,7 million BGN in 2014 compared to 17,3 million BGN in 2013. 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 15,7 million BGN, reaching 8,3 million BGN in 2014, compared to (7,4) million BGN in 2013.

Financial result



Profit before interest, taxes, depreciation and amortization (EBITDA) decreased by 17,4 million BGN or

31%, amounting to 39,7 million BGN as at 31 December 2014, compared to 57,1 million BGN as at 31 December 2013.

The operating profit decreased by 21,6 million BGN or 48%, reaching 23,8 million BGN as at 31 December 2014, compared to 45,4 million BGN as at 31 December 2013.

Net income decreased by 7 million BGN or 21% to 26,5 million BGN as at 31 December 2014 compared to 33,5 million BGN as at 31 December 2013.

Assets

	31.12.2014	31.12.2013	Change	Share
	BGN '000	BGN '000	%	2014
Non-current assets				
Property, plant and equipment	192 728	198 158	-3%	53%
Intangible assets	2 442	3 661	-33%	1%
Investment property	22 368	22 555	-1%	6%
Investments in subsidiaries	103 068	101 207	2%	28%
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%
	365 216	358 109	2%	66%
Current assets				
Inventories	54 047	51 249	5%	28%
Receivables from related parties	99 505	103 350	-4%	52%
Commercial receivables	23 268	22 155	5%	12%
Other receivables and prepaid expenses	11 024	7 241	52%	6%
Cash and cash equivalents	2 935	8 198	-64%	2%
	190 779	192 193	-1%	34%
TOTAL ASSETS	555 995	550 302	1%	100%

Total assets increased by 5,7 million BGN or 1%, reaching 556 million BGN compared to 550,3 million BGN as at 31 December 2013.

Non-current assets increased by 7,1 million BGN, or 2%, mainly due to the net effect of: an increase in long-term receivables from related parties by 7,5 million BGN, an increase in investments in associated companies by 7 million BGN and a decrease in property, plant and equipment by 5,4 million BGN and intangible assets by 1,2 million BGN compared to 31 December 2013.

Property, plant and equipment	31.12.2014	31.12.2013	Change	Share
	BGN '000	BGN '000	%	2014
Land and buildings	103 457	106 621	-3%	54%
Machines and equipment	75 065	80 237	-6%	39%
Other	7 047	10 317	-32%	4%
In process of acquisition	7 159	983	628%	4%
Total	192 728	198 158	-3%	100%

Property, plant and equipment has most substantially decreased in the portion of machines and equipment by 5,2 million BGN, other expenses by 3,3 million BGN, and 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 part of intellectual property rights by 0,5 million BGN and software products by 0,5 million BGN.

Investments in subsidiaries increased by 1,9 million BGN mainly due to the net effect from: an increase in the capital of Briz, Latvia by 5,9 million BGN, accrued impairment of investments in Vitamina AD, amounting to 2,6 million BGN, as well as a decrease of investments in Sopharma Trading AD due to a sale of 1,6 million BGN. Investments in associated companies increased by 7 million BGN in relation to the acquisition of shares of Medika AD. The available-for-sale investments decreased by 2,4 million BGN mainly as a result of the reclassification of Medika AD as an investment in associated company.

Long-term loans to related parties increases by 7,5 million BGN. Long-term loans to related parties as at 31 December 2014 are to companies related through key management personnel:

- ✚ Contracted amount: 3,272 thousand EUR, interest rate — 5% , maturity — 1 December 2016, balance as at 31 December 2014 — 6,819 thousand BGN;
- ✚ Contracted amount: 11 831 thousand EUR, interest rate — 5% , maturity — 1 December 2016, balance as at 31 December 2014 — 26,038 thousand BGN;

Information on shareholdings and key investments in the country and abroad of Sopharma is presented in the notes to the financial statements - "Investments in subsidiaries" and "Available-for-sale Investments".

Current assets decreased by 1,4 million BGN or 1%, reaching 190,8 million BGN as at 31 December 2014 compared to 192,2 million BGN as at 31 December 2013.

Inventories	31.12.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
Materials	24 793	28 045	-12%	46%
Finished products	21 888	16 606	32%	40%
Semi-finished products	3 809	2 392	59%	7%
Work in progress	3 345	4 001	-16%	6%
Goods	212	205	3%	0%
Total	54 047	51 249	5%	100%

Inventories increased by 2,8 million BGN compared to 31 December 2013, mainly in the part of finished products and semi-finished products respectively by 5,3 million BGN and 1,4 million BGN. Materials decreased by 3,2 million BGN and unfinished products by 0,7 million BGN.

Receivables from related parties decreased by 3,8 million BGN as a result of both a decrease in provided commercial loans by 2,1 million BGN and receivables from sale of finished products and materials by 1,8 million BGN.

Current commercial loans granted to related companies:

To companies under common indirect control:

- ✚ Contractual amount: 7,661 thousand EUR; interest rate – 4,50%; maturity – 31 December 2015; balance at 31 December 2014 – 7,632 thousand BGN;

To companies related through key management personnel:

- ✚ Contractual amount: 10,824 thousand EUR; interest rate – 4,50%; maturity – 31 December 2015; balance at 31 December 2014 – 9,537 thousand BGN;
- ✚ Contractual amount: 34,020 thousand BGN, interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2014 – 3,097 thousand BGN;
- ✚ Contractual amount: 6,000 thousand BGN; interest rate – 5,50%; maturity – 22 July 2015; balance at 31 December 2014 – 1,236 thousand BGN.
- ✚ Contractual amount: 1 300 thousand BGN; interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2014 – 477 thousand BGN.
- ✚ Contractual amount: 190 thousand BGN; interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2014 – 128 thousand BGN.

To subsidiaries:

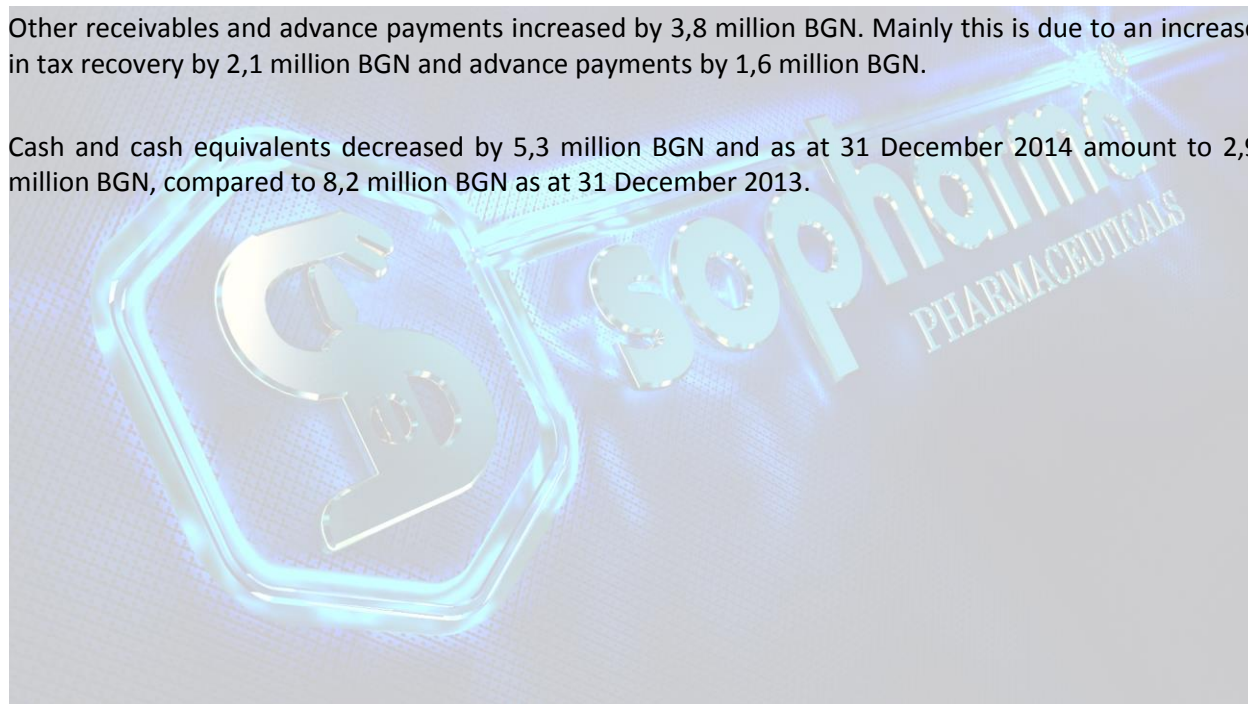
- ✚ Contractual amount: 2 770 thousand EUR; interest rate – 6,10%; maturity – 31 December 2015; balance at 31 December 2014 – 6,711 thousand BGN;
- ✚ Contractual amount: 2,460 thousand BGN; interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2014 – 2,903 thousand BGN.

- ✚ Contractual amount: 205 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2014 – 355 thousand BGN;
- ✚ Contractual amount: 600 thousand BGN; interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2014 – 151 thousand BGN;
- ✚ Contractual amount: 25 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2014 – 46 thousand BGN;
- ✚ Contractual amount: 20 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2014 – 37 thousand BGN;

Commercial receivables increased by 1,1 million BGN, in the portion of receivables from customers compared to 31 December 2013.

Other receivables and advance payments increased by 3,8 million BGN. Mainly this is due to an increase in tax recovery by 2,1 million BGN and advance payments by 1,6 million BGN.

Cash and cash equivalents decreased by 5,3 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

	31.12.2014	31.12.2013	Change	Share 2014
	BGN '000	BGN '000	%	%
OWNERS' EQUITY				
Share capital	132 000	132 000	0%	34%
Treasury stock	(17 203)	(18 105)	-5%	-4%
Reserves	246 243	220 935	11%	63%
Retained earnings	28 666	35 905	-20%	7%
TOTAL OWNERS' EQUITY	389 706	370 735	5%	100%
LIABILITIES				
Non-current liabilities				
Long-term bank loans	37 972	48 723	-22%	23%
Liabilities on deferred taxes	3 988	3 943	1%	2%
Long-term liabilities to the personnel upon retirement	2 219	1 855	20%	1%
Government financing	3 358	3 534	-5%	2%
Financial leasing liabilities	34	49	-31%	0%
	47 571	58 104	-18%	29%
Current liabilities				
Short-term bank loans	90 761	98 878	-8%	55%
Short-term part of long-term bank loans	7 391	3 822	93%	4%
Liabilities to related parties	7 929	7 836	1%	5%
Commercial liabilities	6 553	4 973	32%	4%
Liabilities for taxes	902	1 243	-27%	1%
Liabilities to the personnel and for social insurance	4 213	3 736	13%	3%
Other current liabilities	969	975	-1%	1%
	118 718	121 463	-2%	71%
TOTAL LIABILITIES	166 289	179 567	-7%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	555 995	550 302	1%	

Equity increased by 19 million BGN or 5%, reaching 389,7 million BGN as at the end of 2014 compared to 370,7 million BGN as at the end of 2013 mainly as a result of the net effect of an increased reserves by 25,3 million BGN and a decrease of undistributed profit by 7,2 million BGN. At the end of 2014 the treasury shares amount to 5,114,130. During the reporting period no new issue of securities was conducted.

Non-current liabilities decreased by 10,5 million BGN or 18% to 47,6 million BGN as at the end of 2014 compared to 58,1 million BGN as at the end of 2013 mainly due to a decrease of long-term bank loans by 10,8 million BGN.

Current liabilities decreased by 2,7 million BGN or 2% to 118,7 million BGN as at the end of 2014 compared to 121,4 million BGN as at the end of 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 1,6 million BGN. 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 increased by 0,1 million BGN. Tax liabilities decreased by 0,3 million BGN. Liabilities to personnel and for social security increased by 0,5 million BGN.

Cash flow

	31.12.2014 BGN '000	31.12.2013 BGN '000
Net cash flow from operations	30 151	91 443
Net cash flow used for investment activities	(11 252)	(13 890)
Net cash flow used in financial operations	(24 233)	(72 477)
Net (decrease)/increase of cash and cash equivalents	(5 334)	5 076
Cash and cash equivalents on 1 January	7 671	2 595
Cash and cash equivalents on 31 December	2 337	7 671

Net cash flows as at 31 December 2014 generated from operating activities amounted to 30,2 million BGN, net cash from investing activities (11,3) million BGN and financing activities (24,2) million BGN. As a result of these activities cash and cash equivalents mark a net decrease of 5,3 million BGN and as at 31 December 2014 amount to 2,3 million BGN compared to 7,7 million as at 31 December 2013.

Ratios

	31.12.2014	31.12.2013	Change
ROE	6,8%	9,2%	-2,4%
ROA	4,7%	5,8%	-1,1%
Asset turnover	0,36	0,37	-0,01
Current liquidity	1,61	1,58	0,03
Quick ratio	1,15	1,16	-0,01
Cash/current liabilities	0,02	0,07	-0,05
Owners' equity/liabilities	2,34	2,06	0,28

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 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	Change
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	-509 078
Number of shares outstanding at the end of the period	126 885 870	126 539 324	346 546
Earnings per share in BGN	0,209	0,264	-0,055
Price per share at the end of the period in BGN	3,880	3,914	-0,034
Price/Earnings ratio (P/E)	18,56	14,83	3,73
Book value per share in BGN	3,071	2,922	0,149
Price/Book value ratio (P/B)	1,26	1,34	-0,08
Sales per share in BGN	1,588	1,707	-0,119
Price per share / Sales per share(P/S)	2,44	2,293	0,147
Market capitalization in BGN	512 160 000	516 648 000	4 488 000

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

