

MANAGEMENT REPORT

Q2 2015



SOPHARMA AD

30 July 2015

General information about Sopharma AD

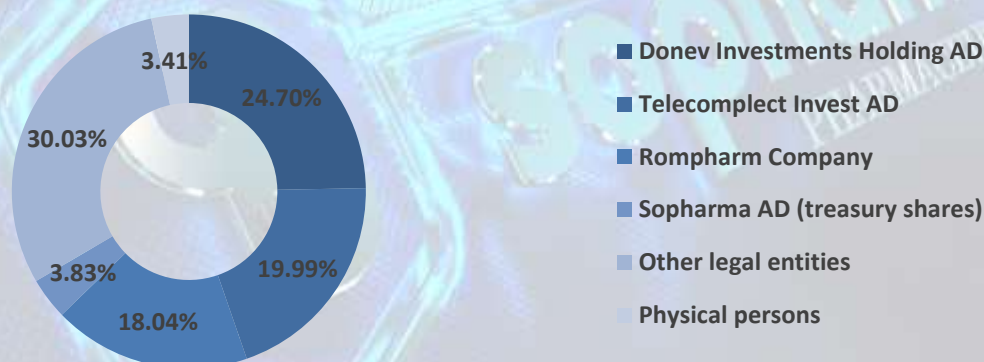
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko shose street No 16.

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 30 June 2015



Management Board

Sopharma AD has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD - Chairman and members Vessela Stoeva, Ognian Palaveev, Alexander Chaushev, Andrey Breshkov. The Company is represented and managed by the Executive Director Ognian Donev, PhD.

Industrial activity

Sopharma AD has ten manufacturing facilities, which are compliant with EU regulations and are located in Bulgaria. 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, 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

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

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

Employees

As at 30 June 2015 the average number of employees of Sopharma AD is 2 084 (2014: 2 093). The table below shows the detailed information on the staff of the Company.

	30.06.2015	Share %
Number of employees 30.06.2015	2 070	100%
Higher education	897	43%
Special education	53	3%
High school education	1 084	52%
Primary school education	36	2%
Up to 30 years of age	245	12%
Between 31 - 40 years of age	462	22%
Between 41 - 50 years of age	644	31%
Between 51 - 60 years of age	582	28%
Over 60 years of age	137	7%
Women	1 299	63%
Men	771	37%

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

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

Significant events in the six months of 2015

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. By Decision №216-E/25.3.2015 of the Financial Supervision Commission the emission is listed in the register of public companies of the FSC. From 9 April 2015 the emission of shares is admitted to trading on the BSE.

The installments on the share capital of the newly founded in 2014 subsidiary Sopharma Kazakhstan at the amount of BGN 258 thousand (EUR 132 thousand) were partially paid in the period 26 January – 19 March 2015. On 14 May 2015 the capital of the founded subsidiary Sopharma Kazakhstani at the end of 2014, at the amount of BGN 502 thousand (EUR 257 thousand) has been paid in full.

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 BGN 1,246 thousand (USD 673 thousand and EUR 4 thousand), 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 million, were transformed to their equivalent in Hryvnia - UAH 316,532 million. This right of receivable, in accordance with a Decision of the Board of Directors of Sopharma AD, dated 20 March 2015, was used as an additional contribution to the increase in the share capital of Sopharma Ukraine OOD, which at the end of March after the registration of the capital increase amounts to UAH 317 531 502.

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. On 28 May 2015 the Financial Supervision Commission approved the application. The period of the tender offer started on 2 June 2015 and continues for 28 days.

On 19 May 2015 Sopharma AD finalized the sale of 75% of the capital of the subsidiary Extab Corporation. After the completion of the transaction Sopharma AD retains a 5% share in the capital of the company.

In May, in order to achieve synergy in the Sopharma Group, optimization of the management of products in the domestic market and higher efficiency of resources, the team responsible for the products produced by Sopharma AD and for the free market (OTC products) was transferred to Sopharma Trading AD. The management of both companies believes that this is a logical step in improving the performance and quality of work of the Group.

On the Annual General Meeting of Shareholder of Sopharma AD, conducted on 19 June 2015 in Sofia, 5 Lachezar Stanchev Str., were taken the following decisions:

- ✚ AGM approves the proposal by the Board of Directors for the distribution of the profit generated in 2014 and the undistributed profit from past periods as follows: net profit for 2014 amounts to 26 532 491.96 BGN /twenty-six million, five hundred and thirty-two thousand, four hundred and ninety-one leva and ninety-six stotinki/. The undistributed profit from past periods amounts to 2 620 712.71 /two million, six hundred and twenty thousand, seven hundred and twelve leva and seventy-one stotinki/. The total amount of the profit, subject to distribution, is 29 153 204.67 /twenty-nine million, one hundred and fifty-three thousand, two hundred and four leva and sixty-seven stotinki/. After the allocation of 10% to the statutory reserve, amounting to 2 915 320.46 BGN /two million, nine hundred and fifteen thousand, three hundred and twenty leva and forty-six stotinki/, from the remaining sum, amounting to 26 237 884.21 BGN /twenty-six million, two hundred and thirty-seven thousand, eight hundred and eighty-four leva and twenty-one stotinki/ shall be allocated to the additional reserves of the Company. No dividend shall be paid to the shareholders.
- ✚ AGM elects the audit company AFA OOD, with address of management Sofia, 38 Oborishte Str. for the audit and certification of the annual financial statements of the Company in 2015 in compliance with the proposal by the Audit Committee.
- ✚ Pursuant to art. 24, par. 3, letter B of the Articles of Association an additional fee of 1% /one percent/ of the net profit for 2014 according to the approved annual financial statements, shall be paid to the Executive Director of the Company.

- AGM approves the decision for the distribution of 2% /two percent/ of the net profit for 2014 among the members of the senior management of the Company in compliance with the requirements of art. 26a, item 12 of the Articles of Association of the Company.

In connection with the requirements of art. 37, par. 1 of Ordinance №13 for tender offers for the purchase and exchange of shares, Sopharma AD as a tender offeror, who has made a tender offer under art. 149, par. 6 of POSA to purchase all the shares of the other shareholders of Momina Krepost AD, informs on the following results of the tender offer:

- shareholders who have accepted the tender offer: 38 shareholders with a total number of shares: 211 991.
- as a result of the conducted tender offer and after completion of the transactions with shareholders who have accepted it, Sopharma AD holds directly 92.62% of the shares with voting right in the General Meeting of Momina Krepost AD.

On 16 July 2015 Sopharma AD bought 240 000 shares of the capital of Medica AD. After the transaction the share of Sopharma AD in the capital of Medica AD reached 36.10%.

New developments and products

New products with marketing authorizations in the period January-June 2015: Authorizations were received for the bringing to market of 3 new products for the Company – Paracedol suspension, Tuspan syrup, Desloratidin solution.

Expected in 2015
Three to five new products are expected to be introduced by the end of 2015.

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

Key financial indicators

Indicators	1-6/2015	1-6/2014	change
	BGN '000	BGN '000	
Sales revenues	87 999	104 983	-16,2%
EBITDA	21 353	27 506	-22,4%
Operating profit	13 814	18 308	-24,5%
Net profit	25 883	25 290	2,3%
CAPEX	7 846	4 341	80,7%
	30.06.2015	31.12.2014	

	BGN '000	BGN '000	
Non-current assets	398 774	375 678	6,1%
Current assets	193 443	196 239	-1,4%
Owners' equity	432 516	406 549	6,4%
Non-current liabilities	44 863	48 460	-7,4%
Current liabilities	114 838	116 908	-1,8%

Ratios	1-6/2015	1-6/2014
EBITDA / Sales revenues	24,3%	26,2%
Operating profit/ Sales revenues	15,7%	17,4%
Net profit/ Sales revenues	29,4%	24,1%
Borrowed capital/Owners' equity	0,37	0,41
Net debt/ EBITDA	3,8x	2,9x

Review of risk factors

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

- ✚ The Company faces significant competition.
- ✚ Reputation of the Company may be adversely affected by untrue or misleading information available on websites containing the name "Sopharma", including www.sopharma.com, 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;
- 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.

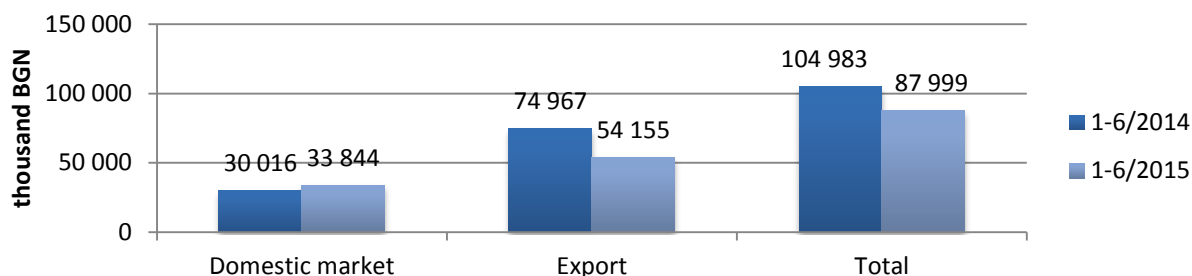
The Company's management currently monitors and analyses its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed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

Operating results in the second quarter of 2015

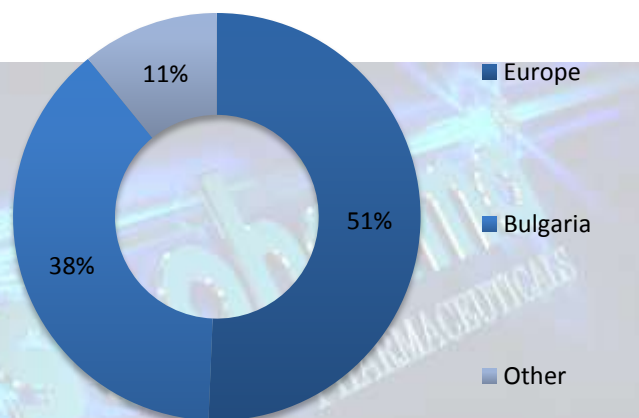
Sales revenues

Sales revenues of production decrease by BGN 17 million or 16%, reaching BGN 88 million at the end of the second quarter of 2015, compared to BGN 105 million at the end of the second quarter of 2014.

Sales revenues



Revenues by market	1-6/2015 BGN '000	1-6/2014 BGN '000	Change %
Europe	44 571	66 448	-33%
Bulgaria	33 844	30 016	13%
Other	9 584	8 519	13%
Total	87 999	104 983	-16%



Europe

Revenues from sales to European countries decreased by 33% compared to the second quarter of 2014 due to the decrease of sales in Ukraine by over 60%. 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 decreased due to the volatility of the ruble, which required the revision of the prices of the products intended for the Russian market, as a result of which the Company limited the export to Russia in the second quarter of 2015. Sales to the Baltics, Malta, Moldova have increased.

Bulgaria

The sales of Sopharma AD on the domestic market increased by BGN 3,8 million, or 13% and reached BGN 33,8 million at the end of the second quarter of 2015 compared to BGN 30 million at the end of the second quarter of 2014. The products with largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Flixotid, and Vitamin C. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 13% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Roche – 6,2% (0,3% in units), Novartis – 5% (1,8% in units), GlaxoSmithKline – 5% (2,5% in units), Actavis – 4,5% (10,7% in units), Astra Zeneca – 3,4% (0,8% in units), Bayer – 2,6% (1,7% in units), Merck – 2,4% (1,8% in units).

Other markets

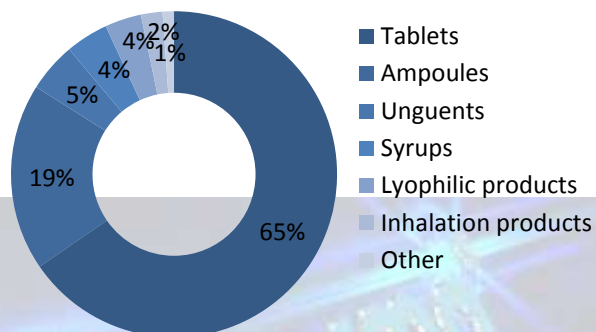
Revenues from other markets increased by 13% in the six months of 2015. These mainly include revenues from sales in the Caucasus and Central Asia, which increased by 14% compared to the six

months of 2014, due to an increase of sales in Kazakhstan. Sales revenue in Uzbekistan, Armenia, Turkmenistan, and Vietnam.

Sales by type of formulation

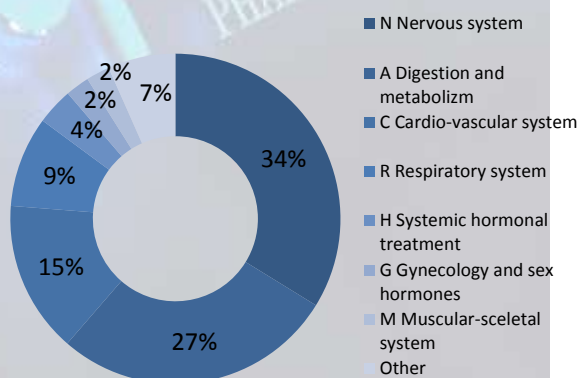
The highest share in the volume of sales are tablet forms, followed by ampoules, lyophilic products, unguents, syrups and others.

Revenues by type of formulation	1-6/2015 BGN '000	1-6/2014 BGN '000	Change %
Tablets	57 556	74 403	-23%
Ampoules	16 344	16 355	0%
Unguent	4 321	4 003	8%
Syrups	3 727	4 571	-18%
Lyophilic products	3 182	3 318	-4%
Inhalation products	1 877	1 510	24%
Other	992	823	21%
Total	87 999	104 983	-16%



Sales by therapeutic group

Revenues by therapeutic group	1-6/2015 BGN '000	1-6/2014 BGN '000	Change %
N Nervous system	29 731	38 040	-22%
A Digestion and metabolism	24 270	31 987	-24%
C Cardio-vascular system	13 091	13 134	0%
R Respiratory system	7 819	7 757	1%
H Systemic hormonal treatment	3 152	3 089	2%
G Gynaecology and sex hormones	2 069	3 829	-46%
M Muscular-skeletal system	2 035	2 247	-9%
Other	5 833	4 899	19%
Total	87 999	104 983	-16%



Other operating revenues

Other operating revenues	1-6/2015 BGN '000	1-6/2014 BGN '000	Change %	Share 2015 %
Income from services rendered	1 589	1 862	-15%	87%
Income from sale of products	443	317	40%	24%
Income from sale of materials	38	77	-51%	2%
Net loss from exchange rate differences	(776)	(186)	317%	-43%
Other	525	212	148%	29%
Total	1 819	2 282	-20%	100%

Other operating income decreased by BGN 0,5 million or 20% from BGN 2,3 million in the second quarter of 2014 to BGN 1,8 million in the second quarter of 2015. The main contributors are net loss from exchange rate differences on commercial receivables, commercial liabilities, and current accounts, which increased by BGN 0,6 million, as well as income from services rendered, which decreased by BGN 0,3 million.

Operating expenses

Operating expenses	1-6/2015 BGN '000	1-6/2014 BGN '000	Change %	Share 2015 %
Changes in the finished goods and work-in-progress inventory	(4 865)	(6 628)	27%	-6%
Materials	31 029	36 006	-14%	41%
External services	21 862	29 134	-25%	29%
Personnel	19 643	19 500	1%	26%
Amortization	7 539	9 198	-18%	10%
Other operating income (expenses)	796	1 747	-54%	1%
Total	76 004	88 957	-15%	100%

The operating expenses decreased by BGN 13 million or 15% from BGN 89 million in the six months of 2014 to BGN 76 million in the six months of 2015, which is due to a decrease in material costs, hired services expense, amortization, and other costs.

	1-6/2015	1-6/2014	Change	Share
	BGN '000	BGN '000	%	2015
Materials expenses				
Main materials	23 185	27 093	-14%	75%
Spare parts, laboratory items and technical materials	2 616	3 277	-20%	8%
Electricity	2 018	1 949	4%	7%
Heat	1 697	2 174	-22%	5%
Fuels and lubricants	799	610	31%	3%
Work cloths	366	425	-14%	1%
Water	293	437	-33%	1%
Scraping of materials	55	41	34%	0%
Total	31 029	36 006	-14%	100%

Cost of materials (41% share) decreased by BGN 5 million or 14% from BGN 36 million in the six months of 2014 to BGN 31 million in six months of 2015. Costs of basic materials decreased by BGN 3,9 million, in the segments of substances, PVC and aluminum foil, liquid and solid chemicals.

	1-6/2015	1-6/2014	Change	Share 2015
	BGN '000	BGN '000	%	%
Hired services expenses				
Manufacturing of medicines	5 016	5 867	-15%	23%
Advertising	4 341	4 524	-4%	20%
Consultancy fees	2 321	8 477	-73%	11%
Logistics services on export and domestic market	1 323	1 390	-5%	6%
Transportation	1 315	1 399	-6%	6%
Rents	1 208	1 212	0%	6%
Maintenance of buildings and equipment	1 047	1 018	3%	5%
Registration services and clinical trials	888	953	-7%	4%
Local taxes and fees	628	605	4%	3%
Security	451	395	14%	2%
Medical services	408	422	-3%	2%
State and regulatory taxes and local taxes	380	338	12%	2%
Civil contracts	356	395	-10%	2%
Subscription fees	337	377	-11%	2%
Insurance	308	430	-28%	1%
Expense taxes	216	241	-10%	1%
Other	1 319	1 091	21%	6%
Other	21 862	29 134	-25%	100%

Hired services have a 29% share of operating expenses and decreased by BGN 7,2 million or 25%, to BGN 21,9 million in the current period of 2015 compared to BGN 29,1 million in the six months of 2014. The most significant impact have the decrease in consultancy services by BGN 6,2 million.

	1-6/2015	1-6/2014	Change	Share 2015
	BGN '000	BGN '000	%	%
Personnel expenses				
Salaries	14 165	13 913	2%	72%
Social insurance	2 602	2 647	-2%	13%
Social benefits and payments	979	949	3%	5%
Performance-based bonuses	793	834	-5%	4%
Other	1 104	1 157	-5%	6%
Total	19 643	19 500	1%	100%

Personnel costs (with a share of 26% of operating expenses) increased by BGN 0,1 million, or 1% from BGN 19,5 million in the six months of 2014 to BGN 19,6 million in the six months of 2015. Current salaries increased by BGN 0,3 million.

	1-6/2015	1-6/2014	Change	Share 2015
	BGN '000	BGN '000	%	%
Other expenses				
Entertainment expenses	846	1 032	-18%	106%
Business trips	304	395	-23%	38%
Donations	285	91	213%	36%
Scrapping of finished good and unfinished products	217	50	334%	27%
Other taxes and payments to the budget	168	73	130%	21%
Training	108	48	125%	14%
Accrued impairment of receivables, net	(1 230)	28		-155%
Other (see FS notes)	98	30	227%	12%
Total	796	1 747	-54%	100%

Other operating expenses (with a relative share of 1% of operating expenses) decreased by 0,9 million from BGN 1,7 million in the six months of 2014 to BGN 0,8 million in the six months of 2015, which is mostly due to recovered impairment of receivables, net by BGN 1,3 million.

Costs of amortization (with a relative share of 10% of operating expenses) decreased by BGN 1,7 million of 18% from BGN 9,2 million in the six months of 2014 to BGN 7,5 million in the six months of 2015.

Financial income and expenses

	1-6/2015	1-6/2014	Change	Share 2015
	BGN '000	BGN '000	%	%
Financial income				
Income from share participations	6 987	6 359	9.9%	45%
Net gain from operations with securities	6 835	3 135	118.0%	44%
Income from interest on loans granted	1 615	1 489	8.5%	10%
Total	15 437	10 983	41%	100%

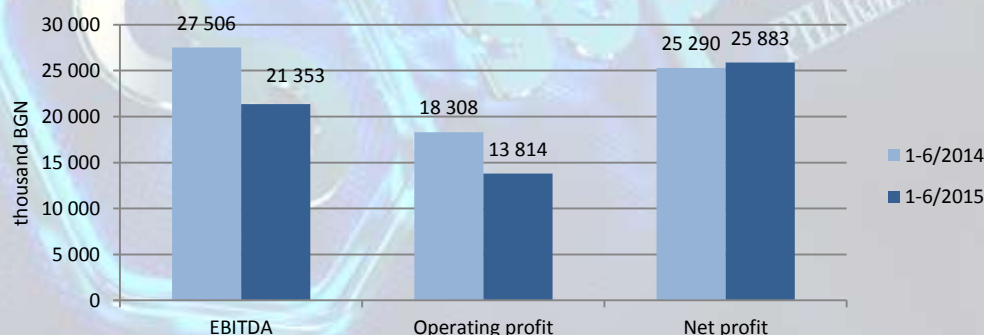
Financial expenses				
Expenses for interest on loans received	1 674	2 137	-22%	95%
Bank fees for loans and guarantees	106	111	-5%	5%
Financial leasing expenses	7	10	-30%	0%
Impairment of available-for-sale investments	-	2	-100%	0%
Total	1 787	2 260	-21%	100%

Financial income increased by BGN 4,4 million, or 41%, to BGN 15,4 million in the six months of 2015 compared to BGN 11 million in the six months of 2014. This is a result of an increase in net gain from operations with securities by BGN 3,7 million. Income from interest on loans granted increased by BGN 0,1 million and income from share participations by BGN 0,6 million.

Financial expenses decreased by BGN 0,5 million or 21% to BGN 1,8 million in the six months of 2015 compared to BGN 2,3 million in the six months of 2014. This decrease is mainly due to the change in expenses for interest on loans received by BGN 0,5 million.

Net financial income (expense) increased by BGN 4,9 million reaching BGN 13,6 million in the second quarter of 2015, compared to BGN 8,7 million in the second quarter of 2014.

Financial result



Profit before interest, taxes, depreciation and amortization (EBITDA) decreased by BGN 6,2 million or 22%, amounting to BGN 21,4 million as at 30 June 2015, compared to BGN 27,5 million as at 30 June 2014.

The operating profit decreased by BGN 4,5 million or 25%, reaching BGN 13,8 million as at 30 June 2015, compared to BGN 18,3 million as at 30 June 2014.

Net profit increased by BGN 0,6 million or 2% to BGN 7,2 million as at 30 June 2015 compared to BGN 10,4 million as at 30 June 2014.

Assets

	30.06.2015	31.12.2014	Change	Share
	BGN '000	BGN '000	%	2015
Non-current assets				
Property, plant and equipment	211 606	211 056	0%	53%
Intangible assets	2 912	3 210	-9%	1%
Investment property	22 365	22 368	0%	6%
Investments in subsidiaries	120 123	94 434	27%	30%
Investments in associated companies	10 190	7 015	45%	3%
Available-for-sale investments	4 636	4 439	4%	1%
Long-term receivables from related parties	26 937	33 150	-19%	7%
Other long-term receivables	5	6	-17%	0%
	398 774	375 678	6%	67%
Current assets				
Inventories	61 816	57 360	8%	32%
Receivables from related parties	93 946	99 505	-6%	49%
Commercial receivables	27 339	23 397	17%	14%
Other receivables and prepaid expenses	6 999	11 901	-41%	4%
Cash and cash equivalents	3 343	4 076	-18%	2%
	193 443	196 239	-1%	33%
TOTAL ASSETS	592 217	571 917	4%	100%

Total assets increased by BGN 20,3 million or 4%, reaching BGN 592,2 million compared to BGN 571,9 million as at 31 December 2014.

Non-current assets increased by BGN 23,1 million, or 6%, mainly due to an increase in investments in subsidiaries by BGN 25,7 million and investments in associated companies by BGN 3,2 million. There is an increase in property, plant and equipment by BGN 0,5 million.

	30.06.2015	31.12.2014	Change	Share
	BGN '000	BGN '000	%	2015
Property, plant and equipment				
Land and buildings	114 528	116 441	-2%	54%
Machines and equipment	82 434	79 303	4%	39%
Other	6 931	8 124	-15%	3%
In process of acquisition	7 713	7 188	7%	4%
Total	211 606	211 056	0%	100%

Property, plant and equipment increased in the portion of machines and equipment by BGN 3,1 million, in the portion in the process of acquisition by BGN 0,5 million, and decreased in land and buildings by 1,9 million and in the portion of other by 1,2 million BGN. Intangible assets decreased by BGN 0,3 million mainly in the part of intellectual property rights by BGN 0,5 million and software products by BGN 0,4 million.

Investments in subsidiaries increased by BGN 25,7 million mainly due to an increase in the capital of Sopharma Ukraine and Momina Krepost AD. Investments in associated companies increased by BGN 3,2 million in relation to the acquisition of shares of Medika AD. The available-for-sale investments increased by BGN 0,2 million reaching BGN 4,6 million. Long-term loans to related parties decreased by BGN 6,2 million.

Current assets decreased by BGN 2,8 million or 1%, reaching BGN 193,4 million as at 30 June 2015 compared to BGN 196,2 million as at 31 December 2014.

Inventories	30.06.2015	31.12.2014	Change	Share
	BGN '000	BGN '000	%	%
Materials	27 828	25 754	8%	45%
Finished products	27 249	22 282	22%	44%
Work in progress	4 107	3 809	8%	7%
Semi-finished products	2 262	5 303	-57%	4%
Goods	370	212	75%	1%
Total	61 816	57 360	8%	100%

Inventories increased by BGN 4,5 million or 8% compared to 30 June 2014. There is an increase in finished products by BGN 5 million, materials by BGN 2,1 million, goods by BGN 0,2 million, and semi-finished products by BGN 0,3 million. Semi-finished products decreased by BGN 3 million.

Receivables from related parties decreased by BGN 5,6 million as a result of a decrease in receivables from sales of finished products and materials by BGN 16,2 million.

Commercial receivables increased by BGN 3,9 million, in the portion of receivables from customers and advance payments by BGN 0,4 million and receivables from investment transactions by BGN 3,6 million.

Other receivables and advance payments decreased by BGN 4,9 million.

Cash and cash equivalents decreased by BGN 0,7 million and as at 30 June 2015 amount to BGN 3,4 million, compared to BGN 4,1 million as at 31 December 2014.

Liabilities and owners' equity

	30.06.2015	31.12.2014	Change	Share
	BGN '000	BGN '000	%	2015
OWNERS' EQUITY				
Share capital	134 798	134 798	0%	31%
Treasury stock	(17 398)	(17 203)	1%	-4%
Reserves	284 209	255 028	11%	66%
Retained earnings	30 907	33 926	-9%	7%
TOTAL OWNERS' EQUITY	432 516	406 549	6%	100%
	30.06.2015	31.12.2014	Change	Share
	BGN '000	BGN '000	%	2015
LIABILITIES				
Non-current liabilities				
Long-term bank loans	34 379	37 972	-9%	22%
Liabilities on deferred taxes	4 046	4 099	-1%	3%
Government financing	3 818	3 968	-4%	2%
Long-term liabilities to the personnel	2 602	2 387	9%	2%
Financial leasing liabilities	18	34	-47%	0%
	44 863	48 460	-7%	28%
Current liabilities				
Short-term bank loans	90 659	90 761	0%	57%
Short-term part of long-term bank loans	7 329	7 431	-1%	5%
Liabilities to related parties	2 990	4 154	-28%	2%
Commercial liabilities	6 131	7 909	-22%	4%
Liabilities for taxes	464	938	-51%	0%
Liabilities to the personnel and for social insurance	5 835	4 564	28%	4%
Other current liabilities	1 430	1 151	24%	1%
	114 838	116 908	-2%	72%
TOTAL LIABILITIES	159 701	165 368	-3%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	592 217	571 917	4%	

Equity increased by BGN 26 million or 6%, reaching BGN 432,5 million as at 30 June 2015 compared to BGN 406,5 million as at 31 December 2014 mainly as a result of an increase in reserves by BGN 29,2 million.

Non-current liabilities decreased by BGN 3,6 million or 7% to BGN 44,9 million at the end of the second quarter of 2015 compared to BGN 48,5 million as at the end of 2014 mainly due to a decrease of long-term bank loans by BGN 3,6 million.

Current liabilities decreased by BGN 2,1 million or 2% to BGN 114,8 million at the end of the second quarter of 2015 compared to BGN 116,9 million as at the end of 2014. This is mainly due to a decrease in commercial liabilities by BGN 1,8 million and liabilities to related parties by BGN 1,2 million. The total exposition to bank loans of the Company as at 30 June 2015 decreased by BGN 3,8 million compared to 31 December 2014.

Tax liabilities decreased by BGN 0,5 million. Liabilities to personnel and for social security increased by BGN 1,3 million.

Cash flow

	30.06.2015 BGN '000	31.12.2014 BGN '000
Net cash flow from/(used in) operations	6 756	2 758
Net cash flow used in investment activities	(3 061)	(11 721)
Net cash flow (used in)/from financial operations	(4 479)	3 375
Net increase/(decrease) of cash and cash equivalents	(784)	(5 588)
Cash and cash equivalents on 1 January	3 478	8 693
Cash and cash equivalents on 30 June	2 694	3 105

Net cash flows as at 30 June 2015 generated from operating activities amounted to BGN 6,5 million, net cash from investing activities BGN (3,1) million and financing activities BGN (4,5) million. As a result of these activities cash and cash equivalents mark a net decrease of BGN 0,8 million and as at 30 June 2015 amount to BGN 2,7 million compared to 3,5 million as at 1 January 2015.

Ratios

	30.06.2015	31.12.2014	Change
ROE	6,7%	8,9%	-2,2%
ROA	4,7%	5,8%	-1,1%
Asset turnover	0,32	0,37	-0,05
Current liquidity	1,68	1,57	0,11
Quick ratio	1,15	1,17	-0,02
Cash/current liabilities	0,03	0,02	0,01
Owners' equity/liabilities	2,71	2,04	0,67

Information about the shares of Sopharma AD

The total number of issued shares at 30 June 2015 of Sopharma AD is 134 797 899 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.

Sopharma 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.

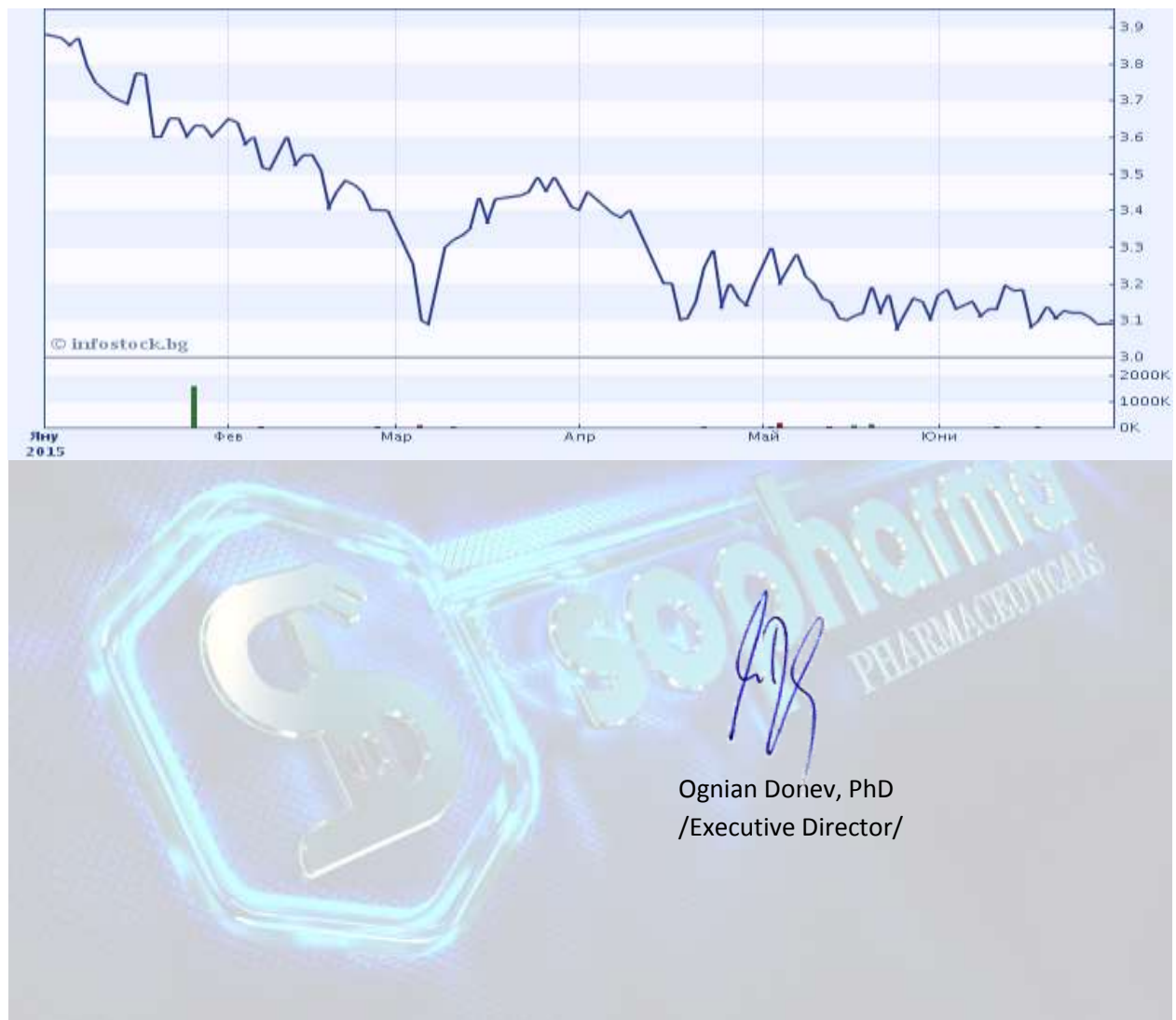
Sopharma AD is one of the three Bulgarian companies included in an index for Central and Eastern Europe (CEE), which the Warsaw Stock Exchange started to calculate on 30 May 2012. The name of the index is WIG-CEE and it is the third one after WIG-Poland and WIG-Ukraine, which is based on the origin of companies by country. WIG-CEE is calculated based on total return and includes income from dividends and subscription rights.

Key indicators of the shares of Sopharma AD

	30.06.2015	31.12.2014
Total number of issued shares	134 797 899	132 000 000
Average-weighted number of outstanding shares for the last four quarters	129 676 166	126 839 286
Number of shares outstanding at the end of the period	129 628 567	127 018 988
Earnings per share in BGN	0,200	0,262
Price per share at the end of the period in BGN	3,056	4,318
Price/Earnings ratio (P/E)	15,28	16,48
Book value per share in BGN	3,337	3,052
Price/Book value ratio (P/B)	0,92	1,41
Sales per share in BGN	1,423	1,652
Price per share / Sales per share(P/S)	2,148	2,614
Market capitalization in BGN	411 942 379	569 976 000

Sopharma AD

Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2015 – 30 June 2015



Ognian Donev, PhD
/Executive Director/