

REPORT

FROM THE BOARD OF DIRECTORS OF SOPHARMA AD, SOFIA

REGARDING: Payment of a 6-month dividend

This report was prepared and approved by the Board of Directors of Sopharma AD, Sofia, at a meeting held on 30 July 2018, subject to the provisions of Art. 115v, para. 2, item 1 of POSA.

The purpose of this report is to inform the shareholders of Sopharma AD that on the basis of the accounting information disclosed in the 6-month financial statement for 2018 the Company has sufficient funds to pay a six-month dividend and that its payment is not lead to indebtedness to creditors, personnel, budget and others.

1. PROPOSAL FOR DISTRIBUTION OF A 6-MONTH DIVIDEND

Sopharma AD is one of the first public companies in Bulgaria to pass amendments to its Articles of Association, in line with the new changes in POSA, allowing companies to distribute a 6-month dividend. The Company intends to realize this opportunity in the second half of 2018. This decision will be proposed for voting at an Extraordinary General Meeting of Shareholders on the basis of up-to-date financial information so that all interested parties have the opportunity to make an informed choice defending the maximum sustainable development of the Company and the interests of the shareholders.

The Board of Directors proposes to distribute a 6-month dividend of BGN 0.05 per share. The right to receive dividends shall be the persons entered in the registers of the Central Depository as shareholders on the 14th day following the day of the General Meeting where the dividend payment decision is taken. In this context, the exact number of outstanding shares that are entitled to a dividend cannot be specified at the date of preparation of this report, and hence the specific amount needed to pay it. As at 30 June 2018 the shares in circulation with the right to dividend are 125 658 322. Therefore, the amount that will be needed to pay a dividend while retaining the same number of outstanding shares will amount to BGN 6 282 916.10. The Board of Directors plans, regardless of the number of outstanding shares on the last day with the right to dividend, the total amount for distribution and repayment shall not exceed BGN 7 million. According to the legal provisions, a company is obliged to ensure the payment of the dividend voted to the general meeting within a 60-day term of its execution.

2. FINANCIAL INFORMATION AS AT 30 JUNE 2018

Key financial indicators

Indicators	1-6/2018 BGN '000
Sales revenues	93 664
EBITDA	25 973
Operating profit	17 868
Net profit	25 027
CAPEX	5 515
	30.06.2018 BGN '000
Non-current assets	414 213
Current assets	207 631
Owners' equity	488 143
Non-current liabilities	28 879
Current liabilities	104 822

Ratios	1-6/2018
EBITDA / Sales revenues	27,7%
Operating profit/ Sales revenues	19,1%
Net profit/ Sales revenues	26,7%
Borrowed capital/Owners' equity	0,27
Net debt/EBITDA on an annual ind. basis	1,6x
Net debt/EBITDA on an annual cons. basis*	3,0x

* The data are according to cons. report of Sopharma Group as at 31.03.2018

Ratios

	30.06.2018
ROE ¹	7,0%
ROA ²	5,7%
Asset turnover ³	0,32
Current liquidity ⁴	1,98
Quick ratio ⁵	1,26
Cash/current liabilities ⁶	0,03
Owners' equity/liabilities ⁷	3,65

- 1 Net profit per annum / average equity for the last five quarters
 2 Net profit on an annual basis / average value of total assets for the last five quarters
 3 Revenues from sales on an annual basis / arithmetic mean of total assets for the last five quarters
 4 Current assets / current liabilities
 5 Receivables + Cash / Current liabilities
 6 Cash / Current liabilities
 7 Equity / Liabilities

Categories of financial instruments:

Financial assets

BGN '000

<i>Available-for-sale financial assets</i>	<i>6,674</i>
<i>Available-for-sale investments (in shares)</i>	<i>6,674</i>
<i>Loans and receivables</i>	<i>149,991</i>
<i>Long-term receivables from related parties</i>	<i>22,971</i>
<i>Other long-term receivables</i>	<i>4,740</i>
<i>Short-term receivables from related parties</i>	<i>95,424</i>
<i>Commercial receivables</i>	<i>23,430</i>
<i>Other receivables</i>	<i>3,426</i>
Cash and cash equivalents	<u><i>2,886</i></u>
Total financial assets	<u><u><i>159,551</i></u></u>

Financial liabilities

BGN '000

<i>Bank loans</i>	<i>85,348</i>
<i>Long-term bank loans</i>	<i>13,120</i>
<i>Short-term bank loans</i>	<i>65,000</i>
<i>Current portion of long-term bank loans</i>	<i>7,228</i>
<i>Other liabilities</i>	<i>20,864</i>
<i>Commercial payables to related parties</i>	<i>8,386</i>
<i>Commercial payables</i>	<i>5,145</i>
<i>Other liabilities</i>	<u><i>7,333</i></u>
Total financial liabilities at amortised value	<u><u><i>106,212</i></u></u>

Below are the financial assets (except for available-for-sale investments) and liabilities of the Company grouped by residual maturity, determined on the maturity date as of the date of the statement of financial position. The amounts include principals and interests.

	Up to 1 month	Up to 1 to 3 months	Up to 3 to 6 months	Up to 6 to 12 months	Up to 1 to 2 years	Up to 2 to 5 years	Total
	<i>BGN</i> <i>'000</i>	<i>BGN</i> <i>'000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Trade receivables	9,059	12,390	629	1,074	1,053	-	24,205
Short-term receivables from related enterprises from sales of products	13,303	18,420	29,401	13,047	193	-	74,363
Accrued impairment on trade receivables	-	-	-	-	-	-	(1,617)
Loans receivable	-	-	16,992	792	24,140	-	41,924
Dividend receivables	-	7,347	-	-	-	-	7,347
Receivables on deposited deposits	-	-	-	198	213	-	411
Other receivables	-	-	-	-	-	3,358	3,358
Total liabilities	22,362	38,157	47,022	15,111	25,599	3,358	149,991

	Up to 1 month	Up to 1 to 3 months	Up to 3 to 6 months	Up to 6 to 12 months	Up to 1 to 2 years	Up to 2 to 5 years	Total
	<i>BGN</i> <i>'000</i>	<i>BGN</i> <i>'000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Bank loans	718	1,399	27,545	43,587	7,370	6,048	86,667
Other liabilities	5,061	15,286	-	517	-	-	20,864
Total financial liabilities	5,779	16,685	27,545	44,104	7,370	6,048	107,531

The Company's liabilities also include the following liabilities:

Tax obligations:

	<i>BGN '000</i>
Taxes on income of individuals	460
Taxes on costs	173
Dividend Tax	97
Income tax	-
Total	730

Payables to personnel and for social security are as follows:

BGN '000

Payables to personnel, including:

	8,856
<i>tantieme</i>	4,526
<i>accruals on unused compensated leaves</i>	1,960
<i>current liabilities</i>	1,199
<i>share payments (Appendix 26)</i>	1,171
Payables for social security/health insurance, including:	1,165
<i>current liabilities</i>	816
<i>accruals on unused compensated leaves</i>	349
Total	10,021

SHORT-TERM BANK LOANS

<i>Currency</i>	<i>Contracted amount</i>	<i>Maturity</i>	<i>30.06.2018</i>
	<i>'000</i>		<i>BGN'000</i>
<i>Bank loans (overdrafts)</i>			
BGN	20,000	21.05.2019	19,873
BGN	10,000	31.05.2019	10,002
BGN	10,000	31.12.2018	10,000
BGN	9,779	01.06.2019	9,729
EUR	10,000	31.10.2018	7,301
			56,905
<i>Extended credit lines</i>			
BGN	10,000	30.10.2018	8,095
EUR	5,000	31.08.2019	-
			8,095
Total			65,000

The Company currently monitors capital availability and structure on the basis of the gearing ratio. This ratio is calculated between the net debt capital to the total amount of employed capital. Net debt capital is calculated as the difference between total borrowings, as presented in the statement of financial position, and cash and cash equivalents. Total employed capital is calculated as the sum of equity and net debt.

In 2018, the strategy of the Company management is to maintain the ratio within 10% – 15% (2017: 10% – 15%).

The table below shows the gearing ratios based on capital structure:

	<i>2018</i>
	<i>BGN '000</i>
Total borrowings, including:	85,348
<i>bank loans</i>	<i>85,348</i>
Less: Cash and cash equivalents	(2,886)
Net debt	82,462
Total equity	488,143
Total capital	570,605
Gearing ratio	
Total borrowings, including:	0.14

3. JUSTIFICATION

Sopharma AD has as main activity the production of medicinal products. Income and profit for the Company from the realization of this object of activity are directly related to the realization of the production produced by the Company on the local and foreign market. By adhering to the world's highest quality standards, the company achieves high efficiency in the production of pharmaceuticals and succeeds not only as a leader in the Bulgarian pharmaceutical market but also as a competitive player in a regional aspect.

On the basis of the financial information provided in item 2 of this report, the Board of Directors considers that the Company has the necessary funds and that there is no liquidity risk after payment of the planned amount for distribution of dividend amounting to BGN 7 million. The liquidity risk is expressed in the negative situation that the company will not be able to meet unconditionally all its obligations according to their maturity. For the first half of 2018, the Company earned a net profit of BGN 25 million. The management's forecast is for the Company to maintain the same profit and earnings growth rate in the second half of this year. The Company generates and maintains a sufficient volume of liquidity. An internal source of liquidity is the main business activity generating sufficient operational flows. The management intends to use the current proceeds from this activity to pay the planned 6-month dividend. External sources of funding are banks and other permanent partners. The Company operates on a credit-by-bank basis and for this reason a significant portion of the proceeds automatically repay existing obligations on working loans and are not accounted for to a large extent as cash on current accounts, which is also the reason for the relatively small amount of cash funds and equivalents in the balance sheet (at 30 June 2018 amounting to BGN 2.9 million). At the end of the half year of 2018, the Company has unsecured and unused working credit lines amounting to BGN 31.4 million. At the same time, the current debt exposure to banks is in a range that allows the Company, if necessary, to take advantage of this additional free resource without causing difficulties in servicing the debt. Bank loan agreements contain clauses with requirements to maintain certain financial ratios. The management of the Company is currently monitoring the implementation of these financial ratios in communication with the respective creditor bank and as to 30 June 2018 all commitments are respected and are far from the required financial ratios:

- Net debt/EBITDA<5 on an annual ind. basis;
- Net debt/EBITDA<4 on an annual cons. basis;




- a current liquidity ratio of at least 1.10x;

The Company carries out ongoing monitoring of the maturity of assets and liabilities and control of outgoing cash flows. According to the financial data with maturity analysis, in the next year, the expected mature receipts from financial assets considerably exceed future payments on financial liabilities for the periods, which will further improve the liquidity and solvency ratios of the Company. Data on these indicators currently indicates the Company's ability to repay all required short-term liabilities without causing financial difficulties for its operations.

The Board of Directors of Sopharma AD, Sofia, considers taking into account the level of leverage of the Company, the satisfaction of the financial commitments and limitations, its liquidity position and the expected future investments and financial results that the proposed amount for repayment of the 6-month dividend will not cause difficulties in servicing the current and forthcoming obligations of the company.

This report is made up by the Board of Directors of Sopharma AD, approved by a Minutes of 30 July 2018 and is part of the materials on the agenda of the General meeting of Shareholders convened on 14 September 2018.

Board of Directors of Sopharma AD:

1. Ognian Ivanov Donev: 
2. Vessela Lyubenova Stoeva: 
3. Alexandar Victorov Tchaoushev: 
4. Ognian Kirilov Palaveev: 