

# MANAGEMENT REPORT

2015



**SOPHARMA AD**

30 March 2016

## General information about Sopharma AD

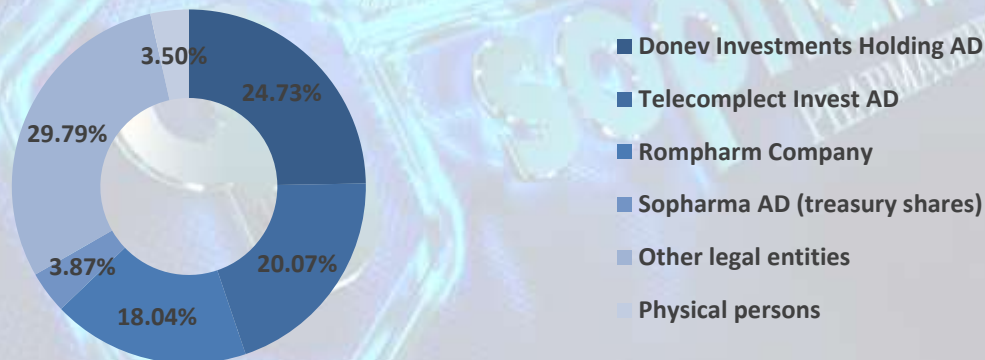
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16Iliensko shose str.

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 supporting activities.

The Company has marketing authorizations under the Law on Medicines and Pharmacies in Human Medicine for all products of its manufacturing portfolio.

### Shareholder structure as at 31 December 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.

The total remuneration of the Board of Directors for 2015 amounts to BNG 1 154 thousand.

Company shares, owned by members of the Board of Directors of the Company as at 31 December 2015 are as follows:

Ognian Palaveev – 102 585 shares;

Alexandar Chaushev - 97 976 shares.

## Sopharma AD

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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% owned by 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 headquarters in Sofia, 12 "Pozitano" Str.;
2. "Telecomplect" AD, UIC 831643753, with headquarters in Sofia, 5 "Lachezar Stanchev" Str., Building;
3. "Sopharma Buildings" REIT, UIC 175346309, with headquarters in Sofia, 5 "Lachezar Stanchev" Str.;
4. "Sopharma Properties" REIT, UIC 175059266, with headquarters in Sofia, 5 "Lachezar Stanchev" Str., Building A;
5. "Sofprint Group" AD, UIC 175413277 with seat and headquarters: Sofia, 12 "Pozitano" Str.;
6. "Sofconsult Group" AD, UIC 175413245, with seat and headquarters: Sofia, 12 "Pozitano" Str.;
7. "Sofia Inform" AD, UIC 121303553, with headquarters in Sofia, 12 "Pozitano" Str.;
8. "Elpharma" AD, UIC 130299513, with seat and headquarters: Sofia, 16 „Iliensko shose“ Str.;
9. "Sopharma Trading" AD, UIC 103267194, with seat and headquarters: Sofia, 5 "Lachezar Stanchev" Str. ;
10. "Sopharma" AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str;

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 headquarters: Sofia, 9 "P. R. Slaveykov" Square;
2. "Eco Solar Invest" OOD, UIC 201634905, with seat and headquarters: Sofia, 48 "Alabin" Str;
3. "Aquatex" OOD, UIC 203934379, with seat and headquarters: Sofia, 9 "P. R. Slaveykov" Square.

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

1. "Sofservice" OOD, UIC 131407109, with headquarters in Sofia, 339, "Tsar Boris III" Blvd;
2. "Alpha In" EOOD, UIC 131156322, with headquarters in Sofia, 1B "Dimcho Debelianov" Str.

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 headquarters in Plovdiv, 36 "Gladstone" Str.
2. "CFM" OOD, UIC 131304899, with headquarters 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 headquarters in Stefanovo Village, Lovech District.
2. "Sirius" OOD, UIC 110543305, with headquarters 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 headquarters: Sofia, 16 „Iliensko shose“ Str. – member of the Board of Directors and Executive Director.
2. "Sopharma Trading" AD, UIC 103267194, with headquarters in Sofia, 5 "Lachezar Stanchev" Str. – Chairman of the Board of Directors.
3. "Donev Investments Holding" AD, UIC 831915121, with headquarters in Sofia, 12 "Pozitano" Str. – Chairman of the Supervisory Board.
4. "Unipharm" AD, UIC 831537465, with headquarters in Sofia, 3 "Trajko Stanoev" Str. – Chairman of the Supervisory Board.
5. "Kaliman - RT" AD, UIC 121120513, with headquarters in Sofia, 5 "Lachezar Stanchev" Str. – Chairman of the Board of Directors.
6. "Telecomplex" 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 headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board, Vice-President.
8. "Doverie Capital" AD, UIC 130362127, with headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board.
9. "Medica" AD, UIC 000000993, with headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Board of Directors.
10. "Riton P" AD, UIC 822106398, with headquarters in Panagyurishte, 30 "Krastio Geshanov" Str. – Member of the Board of Directors.
11. "Momina Krepost" AD, UIC 104055543, with headquarters in Veliko Tarnovo, 23 "Magistralna" Str. – Member of the Board of Directors.
12. "Sopharma" AD, UIC 831902088, with seat and headquarters: 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 headquarters: Sofia, 16 „Iliensko shose“ Str. - member of the Board of Directors;
2. "VLS" AD, UIC 175082980, with headquarters in Sofia, Slaveikov Square 9 - member of the Board of Directors;

3. "VES elektroinvest systems" EOOD, UIC 201712700, with seat and headquarters: Sofia, 9 "P. R. Slaveykov" Square - Manager.
4. Sopharma AD, UIC 831902088, with seat and headquarters: 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 headquarters: 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 headquarters in Blagoevgrad, 3 "Georgy Izmirliev" Square – Chairman of the Board of Directors
2. "Vizaton" OOD, UIC 202235166, with seat and headquarters: Sofia, Sredets, 225A "Tsar Boris III" Blvd – Chairman of the Board;
3. ZAD "Energy", UIC 831040933, with seat and headquarters: Sofia, 33 "Knyaz Dondukov" Blvd - member of the Board of Directors.
4. "Sopharma" AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.
5. "Expat Beta" REIT, UIC 200059488, with seat and headquarters: Sofia, 96A Rakovski Str. – member of the Board of Directors.

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

1. "Sirius" OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 "Apriltsi" Str. – member of the Management Board;
2. "Sopharma" AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.
3. "Unipharm" AD, UIC 831537465, with headquarters in Sofia, Darvenitsa district, 3 Traiko Stanoev Str. – member of the Board of Directors.
4. "Melnitsa Stefanovo Village" EOOD, UIC 201045146, with headquarters: Stafanovo village, Lovech district.

There were no contracts under Art. 240b of CA in 2015.

The 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 sterile forms 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, sugar coated tablets, film coated tablets, capsules;
  - ✓ Galenical - suppositories, drops, syrups, unguents;
  - ✓ Parenteral - injectables, lyophilic powders for injections

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

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

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

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

### **Intellectual property**

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

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

In all the years of its existence, Sopharma AD generates and protects its intellectual property. As a result, the Company owns a large number of intellectual property assets, the majority being registered rights (trademarks, patents, designs) and few of which are unregistered items - mainly technologies.

These assets are the result of the policy of the Company towards product and technological improvement, and innovation in particular.

### **Research and development**

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

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

### **Employees**

As at 31 December 2015 the average number of employees of Sopharma AD is 2 010 (2014: 2 093). The table below shows the detailed information on the staff of the Company.

	<b>31.12.2015</b>	<b>Share %</b>
Number of employees 31.12.2015	1889	100%
Higher education	820	43%
Special education	44	2%
High school education	994	53%
Primary school education	31	2%
Up to 30 years of age	209	11%
Between 31 - 40 years of age	421	23%
Between 41 - 50 years of age	621	33%
Between 51 - 60 years of age	541	28%
Over 60 years of age	97	5%
Women	1182	63%
Men	707	37%

Training programs offered to employees of the Company, aim at increasing their competence levels. The training policy is specifically designed to provide high levels of 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 2015 are Sopharma Trading AD with a relative share of 37%, Delta Sales Limited – 19%, and Delta Sales Corporation – 18%.

- ✚ 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.
- ✚ Delta Sales 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.
- ✚ Delta Sales Corporation 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.

In 2015 there are no suppliers with a relative share exceeding 10% of the supplied services and materials.



### **Information regarding the execution of the Program for the Implementation of the Internationally Recognized Good Corporate Governance Standards for 2015**

The Board of Directors of Sopharma AD adheres to the Good Corporate Governance Program, which is in line with the effective regulation, the internationally recognized good corporate governance standards and the Bulgarian National Corporate Governance Code. The program is updated timely when a change in circumstances or in corporate strategy occurs.

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 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.

#### **Disclosure of information**

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 and manipulation of the market of financial instruments. Sopharma AD guarantees that the system for information disclosure provides complete, timely, accurate and understandable information that allows objective and informed decisions and evaluations. The Company maintains an English version of the corporate website with identical content.

In 2015 the corporate management of Sopharma disclosed regulated information to the Financial Supervision Commission and the public. Regulated information was disclosed to the public in a way that ensures that it reaches the widest possible range of people simultaneously, and in a way that does not discriminate them.

Sopharma uses the information system X3NEWS based on a contract with "Financial Markets Servicec" OOD, which ensured effective dissemination of regulated information to the public in all member states.

The Board of Directors of Sopharma prepared a Report on the implementation of the remuneration policy of the Board of Directors for 2015. 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 size and structure of the remuneration are determined by the General Meeting of Shareholders.

#### **General Meeting of Shareholders**

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

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

The materials related to the General Meeting of Shareholders are at the disposal of the shareholders from the day the invitation is filed with the Financial Supervision Commission, on the website of the Company: [www.sopharma.bg](http://www.sopharma.bg) at least 30 days prior to the GMS, and are provided at no cost to the shareholders upon request,.

Shareholders can exercise their voting right at the General Meeting personally or through a representative, as well as through correspondence or electronically. The procedure for participation of shareholders at the General Meeting is announced in the Invitation.

Sopharma AD presents Minutes of the General Meeting within 3 days after the Meeting to the Financial Supervision Commission, Bulgarian Stock Exchange-Sofia AD, the public and on the company's website: [www.sopharma.bg](http://www.sopharma.bg).

In 2015 Sopharma AD conducted one Annual General Meeting and one Extraordinary General Meeting of Shareholders.

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 2015***

On 9 January 2015 the Company held an Extraordinary General Meeting of Shareholders, 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 issuance 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-Sofia AD and the WSE respectively.

## Sopharma AD

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The merger of Bulgarian Rose - Sevtopolis AD (acquiree) in Sopharma AD (the acquiring company) is conducted through the legal form of transformation, regulated in the Commercial Act. It was entered in the Commercial Register to the Registry Agency on 26 February 2015. As a result of the transaction all assets of Bulgarian Rose - Sevtopolis AD were transferred into Sopharma AD, and Bulgarian Rose - Sevtopolis AD was terminated without liquidation. For accounting purposes as the date of the merger was accepted 1 January 2015. Until that date Bulgarian Rose - Sevtopolis AD was a subsidiary of Sopharma AD. The conducted transaction was treated as a restructuring of the activities of both companies. The merger is accounted for by applying the method of “pooling of participations”. According to the requirements and rules of this method the business and assets of the companies are presented in this management report as if they have always been a single entity, regardless of the legal events and procedures and their effects on the legal status and life of the acquiring company and the acquiree (see Main Financial Indicators). The effects of all business transactions between the acquiring company and the acquiree have been eliminated, including estimates between them, regardless whether they occurred before or after the restructuring. Any differences arising from the merger are recognized in equity – in the component “retained earnings”.

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 subsidiary Sopharma Kazakhstani has been paid in full (EUR 257 thousand).

On 28 January 2015 a hearing took place in Poland as part of the lawsuit, filed by Sopharma AD, for recognition and enforcement of a decision of the Arbitration Court in Paris against Service Pharma. 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 headquarters 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 compliance 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%.

On 28 July 2015 Sopharma AD bought 937,000 shares of the capital of Doverie United Holding AD. After the transaction the share of Sopharma AD in the capital of Doverie United Holding AD reached 14.898%.

On 3 August 2015 Sopharma AD received a notice of disclosure of shareholdings under art. 145 of the POSA from Telecomplex Invest AD for the purchase of 108 700 shares. After the transaction the share of Telecomplex Invest AD in the capital of Sopharma AD reached 20.07%. The date of registration of the transaction in the Central Depository AD is 31 July 2015.

On 3 August 2015 Sopharma AD received a notice of disclosure of shareholdings under art. 145 of the POSA from Telso AD for the sale of 397 057 shares. After the transaction the share of Telso AD in the capital of Sopharma AD fell below 5%. The date of registration of the transaction in the Central Depository AD is 31 July 2015.

On a meeting on 18 September 2015 The Board of Directors took a decision to start a procedure of transformation of Sopharma AD under the conditions of Chapter XVI of the Commercial Act

und art. 122 and following of the Public Offering of Securities Act, which shall be executed by merging in Sopharma AD of Momina Krepost AD and chose investment intermediary Elana Trading AD as a consultant in relation to the executing of the procedure of transformation. On 30 September 2015 Sopharma AD and Momina Krepost 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 Momina Krepost AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Momina Krepost AD shall be terminated without liquidation.

The Board of Directors decided to appoint Ivan Badinski, MPharm, director of Cooperation and Licenses, Sopharma AD as procurator of the company. Mr. Badinski has been working in Sopharma AD since 1997. This fact was registered with the Commercial Register on 25 September 2015.

On 22 October 2015 Sopharma AD bought 3 080 000 shares of the capital of Medica AD. After the transaction the share of Sopharma AD in the capital of Medica AD reached 66.72%.

For the reporting period no large or significant transactions were concluded.

A list of transactions between the Company and related parties during the reporting period is provided in the Notes to the annual financial statements "Related Party Transactions". The Company has no transactions outside the usual activity and such that deviate from the market conditions.

During the reporting period, there are no events and indicators of unusual nature for the Company.

Information on contingent liabilities and commitments are listed in the annual financial statements in the Notes to the annual financial statements "Contingent liabilities and commitments."

### **Important events after the date of preparation of the annual financial statements.**

At the start of the financial year Sopharma's Commercial Director has left the management of the Company. The Executive Director of the company will temporarily be responsible for the export markets.

On 15 January 2016 Sopharma AD made a tender offering to acquire all shares of the remaining shareholders in Medica AD until 12 February 2016. The period of the offering started on 18 January, after the offering was published in two daily newspapers. The Company currently owns 6 717 544 shares, representing 66.72% of the capital and voting rights in the General Meeting of

Shareholders of Medica AD. Sopharma AD offers a price of 3.50 BGN per share to the shareholders of Medica AD, which is the highest price, paid by the offeror, their related parties or by parties under art. 149, par. 2 of POSA in the last six months. The investment firm that serves the tender offer is ELANA Trading. Shareholders of Medica AD may submit a written statement of acceptance of the tender offer to any investment intermediary until 15 February. The offeror shall pay the price of the shares within 7 working days after the date of acceptance of the tender offer.

On 21 January 2016 Sopharma AD submitted to the Financial Supervision Commission an agreement for termination by mutual agreement of the contract for transformation through merger between Sopharma AD and Momina Krepost AD. The decision to end the procedure was taken in the interest of both companies in order to safeguard their good market positions.

### New developments and products

✚ New products with marketing authorizations in the period January – December 2015:

Authorizations were received for the bringing to market of 5 new products for the Company – Paracedol suspension, Tuspan syrup, Desloratidin solution, Phynoten drops, and Videral drops.

✚ Expected in 2016

Three to five new products are expected to be introduced by the end of 2016.

✚ Developments

Around 25 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.

### Planned development

✚ On the local market the Company aims to make treatment more accessible to patients through the faster development and registration of generic products.

✚ 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 presence in other countries (USA, Central and East European countries, and the Caucasian region).

✚ The Company continues 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	1-12/2015	1-12/2014	change
	BGN '000	BGN '000	%
Sales revenues	173 803	201 461	-13,7%
EBITDA	39 686	41 687	-4,8%
Operating profit	25 137	24 698	1,8%
Net profit	25 354	27 291	-7,1%
CAPEX	16 143	11 589	39,3%
	<b>31.12.2015</b>	<b>31.12.2014</b>	
	<b>BGN '000</b>	<b>BGN '000</b>	
Non-current assets	398 781	375 678	6,1%
Current assets	171 828	196 239	-12,4%
Owners' equity	431 626	406 524	6,2%
Non-current liabilities	44 316	48 485	-8,6%
Current liabilities	94 667	116 908	-19,0%
	<b>2015</b>	<b>2014*</b>	
<b>Ratios</b>			
EBITDA / Sales revenues	22,8%	20,7%	
Operating profit/ Sales revenues	14,5%	12,3%	
Net profit/ Sales revenues	14,6%	13,5%	
Borrowed capital/Owners' equity	0,32	0,41	
Net debt/ EBITDA	2,6x	3,2x	

\* combined metrics resulting from the merger



### ***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 recognized assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The remaining part of Company operations are usually denominated in BGN and/or EUR. 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) optimization 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 favorable for the Company. The permanent component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavorable change of cash flows is reduced to a minimum.

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

### **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;

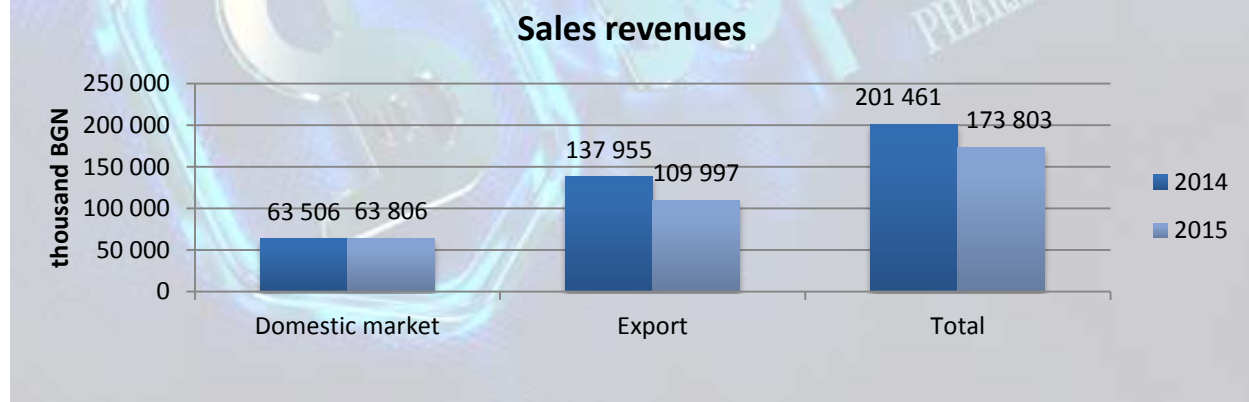
- ✚ execution of all operations in accordance with the legal and regulatory provisions;
- ✚ reflection of all events and operations in a timely manner, at their accurate amount in the appropriate accounts and for the corresponding reporting period so as to allow the preparation of financial statements 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 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.

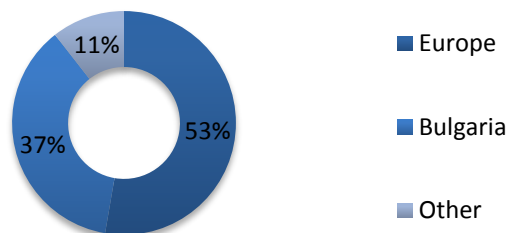
### Operating results in 2015

#### Sales revenues

Sales revenues of production decrease by BGN 27,7 million or 14%, reaching BGN 173,8 million at the end of 2015, compared to BGN 201,5 million at the end of 2014.



Revenues by market	2015 BGN '000	2014 BGN '000	Change %
Europe	91 608	119 464	-23%
Bulgaria	63 806	63 506	0,5%
Other	18 389	18 491	-0,6%
<b>Total</b>	<b>173 803</b>	<b>201 461</b>	<b>-14%</b>



#### ✚ Europe

Revenues from sales to European countries decreased by 23% compared to 2014 due to the decrease of sales in Ukraine by over 60%. The unstable political and economic situation in Ukraine determined the extremely conservative approach to the market. Sopharma AD reduced its sales there to levels that allow retention of market share, but at the same time limit currency

and other risks. The volatility of the ruble disrupted the rhythm of sales in the Russian market because of the frequent need for price updates. Sales to the Romania, Malta, Moldova have increased.

### Bulgaria

The sales of Sopharma AD on the domestic market increased by BGN 0,3 million, or 0,5% and reached BGN 63,8 million at the end of 2015 compared to BGN 63,5 million at the end 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 14% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0,3% in units), GlaxoSmithKline – 6% (3% in units), Actavis – 4,8% (12% in units), Sanofi-Aventis – 4,3% (3% in units), Astra Zeneca – 3,3% (0,9% in units), Bayer – 2% (1,9% in units).

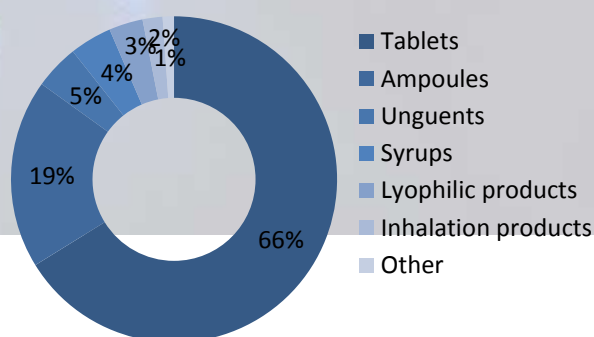
### Other markets

Revenues from other markets remain at the same level from 2014. These mainly include revenues from sales in the Caucasus and Central Asia. Sales revenue in Kazakhstan, Uzbekistan, Turkmenistan, and Vietnam.

### Sales by type of formulation

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

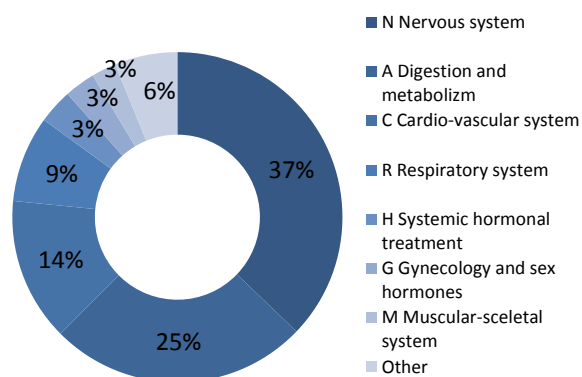
Revenues by type of formulation	2015 BGN '000	2014 BGN '000	Change %
Tablets	115 033	136 700	-16%
Ampoules	32 579	34 405	-5%
Unguents	7 673	9 029	-15%
Syrups	7 282	9 682	-25%
Lyophilic products	5 846	6 700	-13%
Inhalation products	3 433	3 155	9%
Other	1 957	1 790	9%
<b>Total</b>	<b>173 803</b>	<b>201 461</b>	<b>-14%</b>



### Sales by therapeutic group

Revenues by therapeutic group	2015 BGN '000	2014 BGN '000	Change %
N Nervous system	64 609	74 538	-13%
A Digestion and metabolism	44 102	56 552	-22%
C Cardio-vascular	24 370	27 014	-10%

system			
R Respiratory system	14 697	15 585	-6%
H Systemic hormonal treatment	5 882	6 366	-8%
G Gynecology and sex hormones	5 257	6 063	-13%
M Muscular-skeletal system	4 189	5 365	-22%
Other	10 698	9 978	7%
<b>Total</b>	<b>173 803</b>	<b>201 461</b>	<b>-14%</b>



## Other operating revenues

Other operating revenues	2015 BGN '000	2014 BGN '000	Change %	Share 2015 %
Income from services rendered	3 364	3 567	-6%	92%
Income from sale of products	263	192	37%	7%
Income from financing under European programs	397	297	34%	11%
Income from fines and penalties	204	109	87%	6%
Income from sale of materials	117	118	-1%	3%
Net loss from exchange rate differences	(800)	(431)	86%	-22%
Other	106	(292)	-136%	3%
<b>Total</b>	<b>3 651</b>	<b>3 560</b>	<b>3%</b>	<b>100%</b>

Other operating income increased by BGN 0,1 million or 3% from BGN 3,6 million in 2014 to BGN 3,7 million in 2015. The main contributors are profit from sale of goods, which increased by BGN 0,1 million, an increase in income from financing on European projects by BGN 0,1 million, other income by BGN 0,4 million, profit from sale of long-term assets by BGN 0,1 million. Other operating income is decreased by net loss from exchange rate differences on commercial receivables, commercial liabilities, and current accounts, which increased by BGN 0,4 million, as well as income from services rendered, which decreased by BGN 0,2 million.

## Operating expenses

Operating expenses	2015	2014	Change	Share
	BGN '000	BGN '000		
Changes in the finished goods and work-in-progress inventory	(6 667)	(14 039)	53%	-4%
Materials	61 619	73 507	-16%	40%
External services	41 275	56 396	-27%	27%
Personnel	35 331	37 605	-6%	23%
Amortization	14 549	16 989	-14%	10%
Other operating expenses	6 210	9 865	-37%	4%
<b>Total</b>	<b>152 317</b>	<b>180 323</b>	<b>-16%</b>	<b>100%</b>

The operating expenses decreased by BGN 28 million or 16% from BGN 180,3 million in 2014 to BGN 152,3 million in 2015, which is due to a decrease in material costs, hired services expenses, amortization, personnel and other costs.

Materials expenses	2015	2014	Change	Share
	BGN '000	BGN '000		
Main materials	47 075	56 076	-16%	76%
Electricity	3 934	3 650	8%	6%
Heat	3 227	4 042	-20%	5%
Laboratory items	1 498	2 113	-29%	2%
Auxiliary items	1 253	1 221	3%	2%
Spare parts	1 211	1 431	-15%	2%
Technical materials	1 028	1 229	-16%	2%
Fuels and lubricants	672	1 137	-41%	1%
Work cloths and personal safety equipment	654	741	-12%	1%
Water	494	752	-34%	1%
Impairment of materials	401	737	-46%	1%
Scraping of materials	172	378	-54%	0%
<b>Total</b>	<b>61 619</b>	<b>73 507</b>	<b>-16%</b>	<b>100%</b>

Cost of materials (40% share) decreased by BGN 11,9 million or 16% from BGN 73,5 million in 2014 to BGN 61,6 million in nine months of 2015. The largest effect has the decrease of cost of basic materials by BGN 9 million, in the segments of substances, packaging materials, ampules, PVC and aluminum foil, liquid and solid chemicals.

	2015	2014	Change	Share 2015
	BGN '000	BGN '000	%	%
<b>Hired services expenses</b>				
Manufacturing of medicines	8 967	12 041	-26%	22%
Advertising	7 902	9 285	-15%	19%
Maintenance of buildings and equipment	3 030	3 076	-1%	7%
Consultancy fees	2 963	12 206	-76%	7%
Logistics services on export and domestic market	2 662	3 258	-18%	6%
Transportation	2 623	3 101	-15%	6%
Rents	2 233	2 411	-7%	5%
Registration services and clinical trials	2 082	1 581	32%	5%
Local taxes and fees	1 142	1 148	-1%	3%
Security	976	867	13%	2%
Medical services	789	744	6%	2%
Subscription fees	756	848	-11%	2%
Civil contracts	699	806	-13%	2%
State and regulatory taxes and local taxes	646	774	-17%	2%
Insurance	595	654	-9%	1%
Expense taxes	467	559	-16%	1%
Other	2 743	3 037	-10%	7%
<b>Total</b>	<b>41 275</b>	<b>56 396</b>	<b>-27%</b>	<b>92%</b>

*Hired services* have a 27% share of operating expenses and decreased by BGN 15 million or 27%, to BGN 41,3 million in 2015 compared to BGN 56,4 million in 2014. The most significant impact have the decrease in consultancy services by BGN 9,2 million, as well as manufacturing of medicines and advertising.

	2015	2014	Change	Share 2015
	BGN '000	BGN '000	%	%
<b>Personnel expenses</b>				
Salaries	26 557	28 312	-6%	75%
Social insurance	4 960	5 291	-6%	14%
Social benefits and payments	2 123	2 254	-6%	6%
Performance-based bonuses	792	801	-1%	2%
Other	899	947	-5%	3%
<b>Total</b>	<b>35 331</b>	<b>37 605</b>	<b>-6%</b>	<b>100%</b>

*Personnel costs* (with a share of 23% of operating expenses) decreased by BGN 2,3 million, or 6% from BGN 37,6 million in 2014 to BGN 35,3 million in 2015. Current salaries decreased by



## Sopharma AD

BGN 1,8 million mainly due to the transfer of the team, responsible for the products, produced by Sopharma AD and intended for the free market (OTC products), to Sopharma Trading AD.

	2015	2014	Change	Share 2015
	BGN '000	BGN '000	%	%
<b>Other expenses</b>				
Accrued impairment of finished and unfinished products	2 421	2 266	7%	39%
Entertainment expenses	2 073	2 421	-14%	33%
Business trips	697	831	-16%	11%
Donations	373	191	95%	6%
Scrapping of long-term assets	270	388	-30%	4%
Other taxes and payments to the budget	243	51	376%	4%
Training	205	136	51%	3%
Scrapping of finished and unfinished products	2	183	-99%	0%
Accrued (recovered) impairment of receivables, net	(234)	2 651	-109%	-4%
Other (see FS notes)	160	747	-79%	3%
<b>Total</b>	<b>6 210</b>	<b>9 865</b>	<b>-37%</b>	<b>100%</b>

*Other operating expenses* (with a relative share of 4% of operating expenses) decreased by 3,7 million from BGN 9,9 million in 2014 to BGN 6,2 million in 2015, which is mostly due to recovered impairment of receivables, net by BGN 2,9 million.

*Costs of amortization* (with a relative share of 10% of operating expenses) decreased by BGN 2,4 million of 14% from BGN 17 million in 2014 to BGN 14,6 million in 2015.

Impairment charges on non-current assets amounted to BGN 8.6 million and are a result of impairment of investments in subsidiaries.

## Financial income and expenses

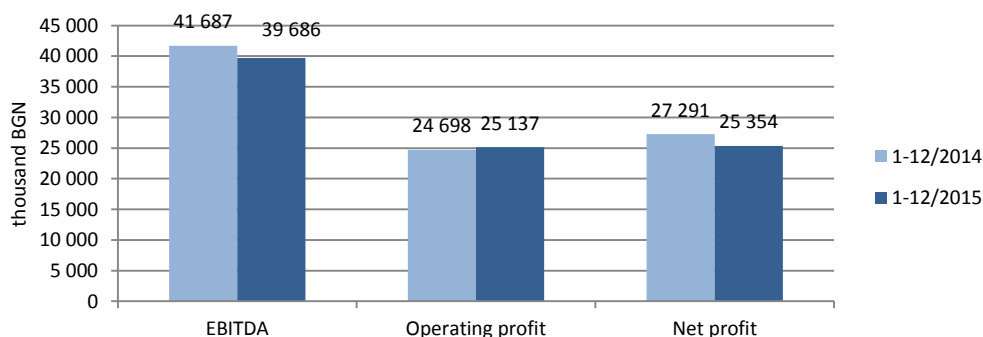
Financial income	2015	2014	Change	Share 2015
	BGN '000	BGN '000		
Income from share participations	7 881	6 361	23,9%	44%
Net gain from operations with securities and shares (including BGN 6 851 thousand gain from sale of a subsidiary)	6 908	3 509	96,9%	39%
Income from interest on loans granted	3 120	3 131	-0,4%	17%
Net gain from exchange rate differences on loans	13	-		0%
<b>Total</b>	<b>17 922</b>	<b>13 001</b>	<b>38%</b>	<b>100%</b>
Financial expenses				
Expenses for interest on loans received	3 510	4 344	-19%	56%
Impairment of receivables on provided commercial loans	1 955	37	5181%	31%
Impairment of available-for-sale investments	398	88	352%	6%
Bank fees for loans and guarantees	270	240	13%	4%
Impairment of cash	165	-		3%
Financial leasing expenses	14	-		0%
Net loss from exchange rate differences on loans	-	18	-100%	0%
<b>Total</b>	<b>6 312</b>	<b>4 727</b>	<b>34%</b>	<b>100%</b>

*Financial income* increased by BGN 4,9 million, or 38%, to BGN 17,9 million in 2015 compared to BGN 13 million in 2014. This is a result of an increase in net gain from operations with securities by BGN 3,4 million. Income from share participations increases by BGN 1,5 million.

*Financial expenses* increased by BGN 1,6 million or 34% to BGN 6,3 million in 2015 compared to BGN 4,7 million in 2014. This increase is mainly due to an increase in impairment of receivables on provided commercial loans by BGN 1,9 million.

*Net financial income (expense)* increased by BGN 3,3 million reaching BGN 11,6 million in 2015, compared to BGN 8,3 million in 2014.

## Financial result



*Profit before interest, taxes, depreciation and amortization (EBITDA)* decreased by BGN 2 million or 5%, amounting to BGN 39,7 million as at 31 December 2015, compared to BGN 41,7 million as at 31 December 2014.

*The operating profit* increased by BGN 0,4 million or 2%, reaching BGN 25,1 million as at 31 December 2015, compared to BGN 24,7 million as at 31 December 2014.

*Net profit* decreased by BGN 1,9 million or 7% to BGN 25,4 million as at 31 December 2015 compared to BGN 27,3 million as at 31 December 2014.

### Assets

	31.12.2015	31.12.2014	Change	Share
	BGN '000	BGN '000	%	2015
				%
<b>Non-current assets</b>				
Property, plant and equipment	211 943	211 056	0%	53%
Intangible assets	2 507	3 210	-22%	1%
Investment property	22 160	22 368	-1%	6%
Investments in subsidiaries	132 899	94 434	41%	33%
Investments in associated companies		7 015	-100%	0%
Available-for-sale investments	5 510	4 439	24%	1%
Long-term receivables from related parties	20 505	33 150	-38%	5%
Other long-term receivables	3 257	6	54183%	1%
	<b>398 781</b>	<b>375 678</b>	6%	70%
<b>Current assets</b>				
Inventories	61 701	57 360	8%	36%
Receivables from related parties	78 035	99 505	-22%	45%
Commercial receivables	21 466	23 397	-8%	12%
Other receivables and prepaid expenses	6 881	11 901	-42%	4%
Cash and cash equivalents	3 745	4 076	-8%	2%
	<b>171 828</b>	<b>196 239</b>	-12%	30%
<b>TOTAL ASSETS</b>	<b>570 609</b>	<b>571 917</b>	0%	100%

*Total assets* decreased by BGN 1,3 million or 0,2% to BGN 570,6 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 38,5 million and other long-term receivables by BGN 3,3 million. There is a decrease in intangible assets, investment property, investments in associated companies and long-term receivables from related parties.

Property, plant and equipment	31.12.2015	31.12.2014	Change	Share
	BGN '000	BGN '000		%
Land and buildings	113 865	116 593	-2%	54%
Machines and equipment	78 808	79 372	-1%	37%
Other	5 868	7 903	-26%	3%
In process of acquisition	13 402	7 188	86%	6%
<b>Total</b>	<b>211 943</b>	<b>211 056</b>	<b>0,4%</b>	<b>100%</b>

Property, plant and equipment increased by BGN 0,9 million mainly in the portion of in the process of acquisition by BGN 6,2 million and decreased in land and buildings by 2,7 million, in other by BGN 2 million, and in machines and equipment by BGN 0,6 million.

Intangible assets decreased by BGN 0,7 million mainly in the part of intellectual property rights by BGN 0,4 million and software products by BGN 0,3 million.

Investments in subsidiaries increased by BGN 38,5 million mainly due to an increase in the capital of Sopharma Ukraine and an increase in the share of the capital of Medika AD and Momina Krepost AD. Investments in associated companies decreased by BGN 7 million in relation to the transformation of Medika AD from an associated company to a subsidiary. The available-for-sale investments increased by BGN 1 million reaching BGN 5,5 million. Long-term loans to related parties decreases by BGN 12,6 million. Long-term loans to related parties as at 31 December 2015 are to companies related through key management personnel:

- + Contracted amount EUR 3 272 thousand; interest rate - 5%; maturity – 1 December 2018; balance at 31 December 2015 - BGN 7 139 thousand;
- + Contracted amount EUR 16 177 thousand; interest rate - 5%; maturity – 1 December 2018; balance at 31 December 2015 - BGN 13 074 thousand.

Information about participations and major investments of Sopharma in the country and abroad is presented in the note to the Financial Statements - "Investments in subsidiaries" and "Available-for-sale Investments".

Receivables under securities transactions amounted to BGN 3,2 million.

*Current assets* decreased by BGN 24,4 million or 12% from BGN 171,8 million as at 31 December 2015 compared to BGN 196,2 million as at 31 December 2014.

Inventories	31.12.2015	31.12.2014	Change	Share
	BGN '000	BGN '000	%	2015 %
Materials	27 868	25 754	8%	45%
Finished products	22 841	22 282	3%	37%
Semi-finished products	5 262	3 809	38%	9%
Work in progress	5 255	5 303	-1%	9%
Goods	475	212	124%	1%
<b>Total</b>	<b>61 701</b>	<b>57 360</b>	<b>8%</b>	<b>100%</b>

Material inventories increased by BGN 4,3 million or 8% compared to 31 December 2014. There is an increase in materials by BGN 2,1 million, finished products by BGN 0,6 million, goods by BGN 0,3 million, semi-finished products by BGN 1,4 million. Work in progress decreased.

Receivables from related parties decreased by BGN 21,5 million as a result of a decrease in receivables from sales of finished products and materials by BGN 17,4 million and a decrease in provided commercial loans by BGN 4,1 million.

Current commercial loans granted to related companies:

To companies related through key management personnel:

- ✚ Contractual amount: 12 577 thousand EUR; interest rate – 4,50%; maturity – 31 December 2016; balance at 31 December 2015 – 8 310 thousand BGN;
- ✚ Contractual amount: 7 845 thousand EUR; interest rate – 4,50%; maturity – 31 December 2016; balance at 31 December 2015 – 7 982 thousand BGN;
- ✚ Contractual amount: 34,020 thousand BGN, interest rate – 5,50%; maturity – 31 December 2015; balance at 31 December 2015 – 0;
- ✚ Contractual amount: 6,000 thousand BGN; interest rate – 5,50%; maturity – 31 December 2016; balance at 31 December 2015 – 4 636 thousand BGN.
- ✚ Contractual amount: 1 300 thousand BGN; interest rate – 5,50%; maturity – 31 December 2016; balance at 31 December 2015 – 503 thousand BGN.
- ✚ Contractual amount: 190 thousand BGN; interest rate – 5,50%; maturity – 31 December 2016; balance at 31 December 2015 – 114 thousand BGN.

To subsidiaries:

- ✚ Contractual amount: 2 770 thousand EUR; interest rate – 6,10%; maturity – 31 December 2016; balance at 31 December 2015 – 5,087 thousand BGN;
- ✚ Contractual amount: 3 552 thousand BGN; interest rate – 5,50%; maturity – 31 December 2016; balance at 31 December 2015 – 1 568 thousand BGN;
- ✚ Contractual amount: 600 thousand BGN; interest rate – 5,50%; maturity – 31 December 2016; balance at 31 December 2015 – 50 thousand BGN;

## Sopharma AD

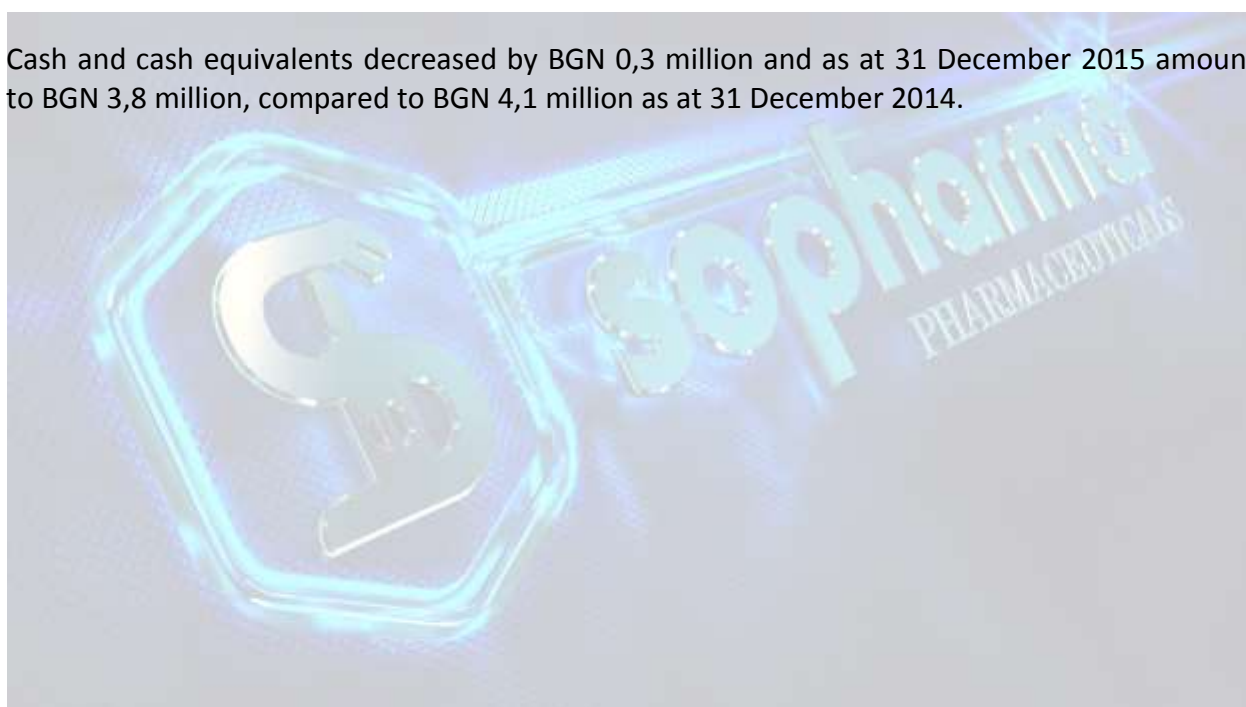
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- ✚ Contractual amount: 205 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2015 – 0;
- ✚ Contractual amount: 25 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2015 – 0;
- ✚ Contractual amount: 20 thousand USD; interest rate – 3,50%; maturity – 31 December 2015; balance at 31 December 2015 – 0;

Commercial receivables decreased by BGN 1,9 million, in the portion of receivables from customers by BGN 1,8 million.

Other receivables and advance payments decreased by BGN 5 million mainly in the portion of refundable taxes and advance payments.

Cash and cash equivalents decreased by BGN 0,3 million and as at 31 December 2015 amount to BGN 3,8 million, compared to BGN 4,1 million as at 31 December 2014.



**Liabilities and owners' equity**

	<b>31.12.2015</b>	<b>31.12.2014</b>	<b>Change</b>	<b>Share</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>2015</b>
<b>OWNERS' EQUITY</b>				
Share capital	134 798	132 000	2%	31%
Treasury stock	(17 597)	(17 203)	2%	-4%
Reserves	284 227	246 243	15%	66%
Retained earnings	30 198	45 484	-34%	7%
<b>TOTAL OWNERS' EQUITY</b>	<b>431 626</b>	<b>406 524</b>	<b>6%</b>	<b>100%</b>
	<b>31.12.2015</b>	<b>31.12.2014</b>	<b>Change</b>	<b>Share</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>2015</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	30 819	37 972	-19%	22%
Liabilities on deferred taxes	4 697	4 124	14%	3%
Government financing	6 371	3 968	61%	5%
Long-term liabilities to the personnel	2 426	2 387	2%	2%
Financial leasing liabilities	3	34	-91%	0%
	<b>44 316</b>	<b>48 485</b>	<b>-9%</b>	<b>32%</b>
<b>Current liabilities</b>				
Short-term bank loans	68 961	90 761	-24%	50%
Short-term part of long-term bank loans	7 380	7 431	-1%	5%
Commercial liabilities	8 014	7 909	1%	6%
Liabilities to related parties	3 070	4 154	-26%	2%
Liabilities for taxes	965	938	3%	1%
Liabilities to the personnel and for social insurance	4 769	4 564	4%	3%
Other current liabilities	1 508	1 151	31%	1%
	<b>94 667</b>	<b>116 908</b>	<b>-19%</b>	<b>68%</b>
<b>TOTAL LIABILITIES</b>	<b>138 983</b>	<b>165 393</b>	<b>-16%</b>	<b>100%</b>
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>570 609</b>	<b>571 917</b>	<b>0%</b>	

*Equity* increased by BGN 25,1 million or 6%, reaching BGN 431,6 million as at 31 December 2015 compared to BGN 406,5 million as at 31 December 2014 mainly as a result of an increase in reserves by BGN 38 million.

*Non-current liabilities* decreased by BGN 4,2 million or 9% to BGN 44,3 million at the end 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 7,2 million.

*Current liabilities* decreased by BGN 22,2 million or 19% to BGN 94,7 million at the end of 2015 compared to BGN 116,9 million as at the end of 2014. This is mainly due to a decrease in short-term bank loans by BGN 21,8 million and liabilities to related parties by BGN 1,1 million. The total exposition to bank loans of the Company as at 31 December 2015 decreased by around BGN 29 million compared to 31 December 2014.

Commercial liabilities increased by BGN 0,1 million. Other current liabilities increased by 0,4 million in the portion of fines and penalties and government financing.

### Cash flow

	<b>31.12.2015</b>	<b>31.12.2014</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flow from/(used in) operations	28 398	31 533
Net cash flow used in investment activities	(410)	(12 018)
Net cash flow (used in)/from financial operations	(27 721)	(24 730)
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>267</b>	<b>(5 215)</b>
Cash and cash equivalents on 1 January	3 478	8 693
Cash and cash equivalents on 31 December	3 745	3 478

*Net cash flows* as at 31 December 2015 generated from operating activities amounted to BGN 28,4 million, net cash from investing activities BGN (0,4) million and financing activities BGN (27,7) million. As a result of these activities cash and cash equivalents mark a net increase of BGN 0,3 million and as at 31 December 2015 amount to BGN 3,7 million compared to 3,5 million as at 1 January 2015.

### Ratios

	<b>31.12.2015</b>	<b>31.12.2014</b>	<b>Change</b>
ROE	6,0%	6,5%	-0,5%
ROA	4,4%	4,5%	-0,1%
Asset turnover	0,30	0,36	-0,06
Current liquidity	1,82	1,68	0,14
Quick ratio	1,16	1,19	-0,03
Cash/current liabilities	0,04	0,03	0,01
Owners' equity/liabilities	3,11	2,46	0,79



### *Information about the shares of Sopharma AD*

The total number of issued shares at 31 December 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.

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

	31.12.2015	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	129 379 961	126 913 907
Number of shares outstanding at the end of the period	129 578 603	126 885 870
Earnings per share in BGN	0,196	0,209
Price per share at the end of the period in BGN	2,72	3,880
Price/Earnings ratio (P/E)	13,88	18,56
Book value per share in BGN	3,331	3,071
Price/Book value ratio (P/B)	0,82	1,26
Sales per share in BGN	1,341	1,588
Price per share / Sales per share(P/S)	2,03	2,44
Market capitalization in BGN	366 650 285	512 160 000

## Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2015 – 31 December 2015

