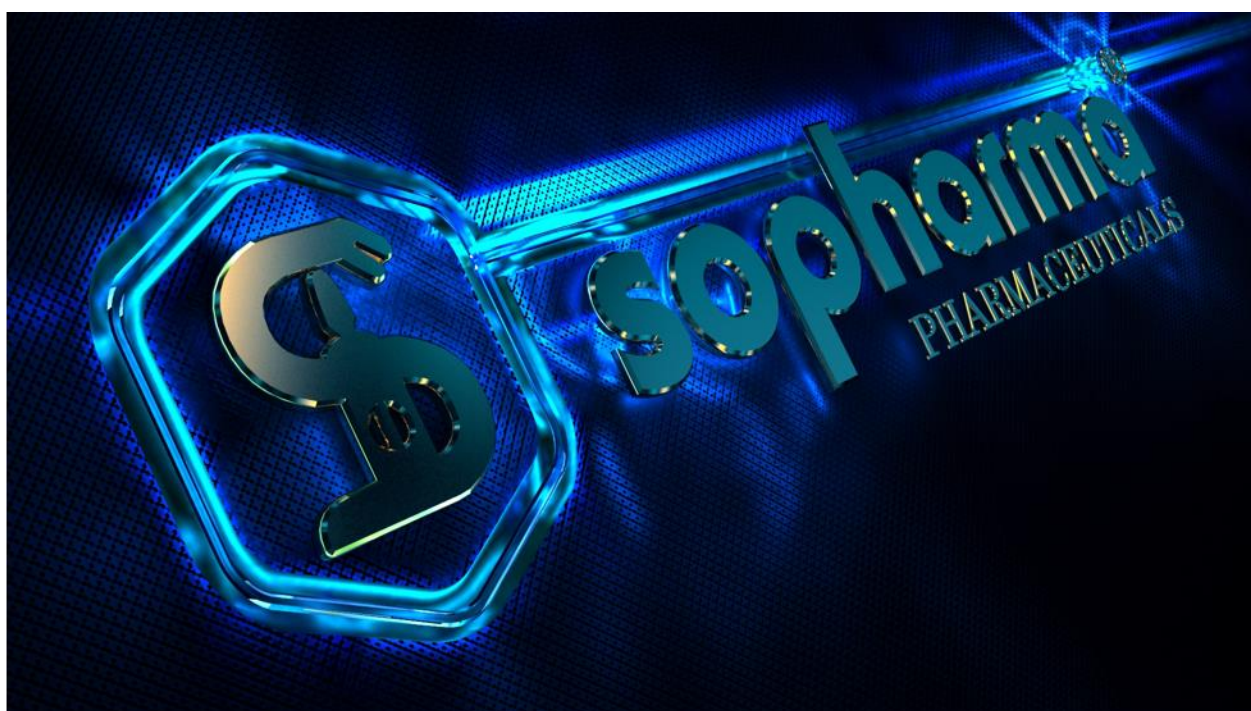


MANAGEMENT REPORT

2017



SOPHARMA COMPANY

27 March 2018

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I. General information about Sopharma AD

1. Registration and activity of the Company

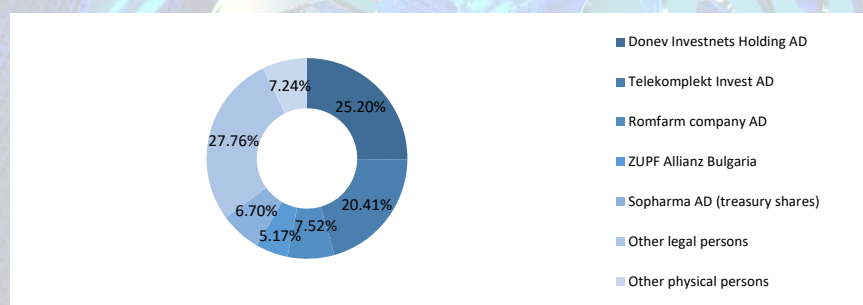
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16 Iliensko shose str.

Sopharma 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 pharmaceuticals. Sopharma Company provides services related to production, as well as to ancillary and supporting activities.

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

2. Shareholder structure as at 31 December 2017



3. Board of directors


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

II. Recent developments

1. Industrial activity

The company and its ten manufacturing facilities are compliant with EU regulations and are located in Bulgaria. The company is the largest Bulgarian manufacturer of ampoules and suppositories.

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

- 
- + substances and preparations based on vegetable raw materials (phytochemical production);
 - + Ready-to-use formulations, incl.
 - ✓ Hard tablets, coated tablets, film-coated tablets, capsules;
 - ✓ Galenic - suppositories, drops, syrups, ointments;
 - ✓ Parenteral - injection solutions, lyophilic powder for injection;
 - + Medical and cosmetic products, incl.
 - ✓ Plasters;
 - ✓ Dressing products;
 - ✓ Sanitary-hygiene products;
 - ✓ Herbal cosmetics.

2. Products

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

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

The most significant pharmaceutical products in terms of their contribution to the amount of revenue are:

- + Carlsil - an original plant-based product used to treat gastro-enterological diseases (liver diseases);
- + Tempalgin - an original analgesic (painkiller);
- + Tabex - an original plant-based smoking cessation drug;
- + Tribestan - an original plant-based product that stimulates the functions of the sexual system;
- + Broncholitin - an original plant-based product used to suppress cough;
- + Analgin - generic analgesic (pain reliever);
- + Nivalin - an original plant-based product used for diseases of the peripheral nervous system;
- + Methylprednisolone - a generic medicine for cases of severe allergies and certain life-threatening conditions.

III. Information under Article 39 of the Accountancy Act

1. An overview of the company's performance and main risks facing it (Article 39 (1) of the Accounting Act /

Key financial indicators

| Indicator | 1-12/2017 BGN '000 | 1-12/2016* BGN '000 | Change % |
|---------------------|-----------------------|------------------------|-------------|
| Revenues from sales | 205 259 | 182 396 | 12,5% |
| EBITDA | 58 085 | 43 849 | 32,5% |
| Operating profit | 41 847 | 28 363 | 47,5% |
| Net profit | 42 239 | 38 347 | 10,1% |
| CAPEX* | 14 686 | 10 078 | 45,7% |

| | 31.12.2017 | 31.12.2016* | |
|-------------------------|------------|-------------|--------|
| | BGN '000 | BGN '000 | |
| Non-current assets | 415 251 | 395 241 | 5,1% |
| Current assets | 175 054 | 177 774 | -1,5% |
| Owners' equity | 478 334 | 463 415 | 3,2% |
| Non-current liabilities | 32 346 | 39 550 | -18,2% |
| Current liabilities | 79 625 | 70 050 | 13,7% |

*Recalculated data as a result of the merger of Medica AD, based on consolidation of the financial statements of Sopharma AD and Medica AD

** tangible and intangible fixed assets acquired

| Indicator | 1-12/2017 | 1-12/2016* |
|-----------------------------------|-----------|------------|
| EBITDA/Sales revenues | 28,3% | 24,0% |
| Operating profit / Sales revenues | 20,4% | 15,6% |
| Net profit/Sales revenues | 20,6% | 21,0% |
| Attracted capital / Equity | 0,23 | 0,24** |
| Net debt/EBITDA on annual basis | 1,27x | 1,61x** |

* Recalculated data as a result of the merger of Medica AD, based on consolidation of the financial statements of Sopharma AD and Medica AD

** calculated on the basis of consolidated financial statements at 31.12.2016

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 Company operates

- ✚ The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Company's operations and position;
- ✚ The political environment in Bulgaria has a significant effect on the Company's operations and financial condition;
- ✚ The political environment in the Company's export markets, especially in Russia and Ukraine, has a significant effect on the Company's operations and financial condition.
- ✚ Risks related to the Bulgarian legal system;
- ✚ Developing legal frameworks in some countries in which the Company sells its products, in particular Russia and Ukraine, may negatively impact the Company'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 Company may change.

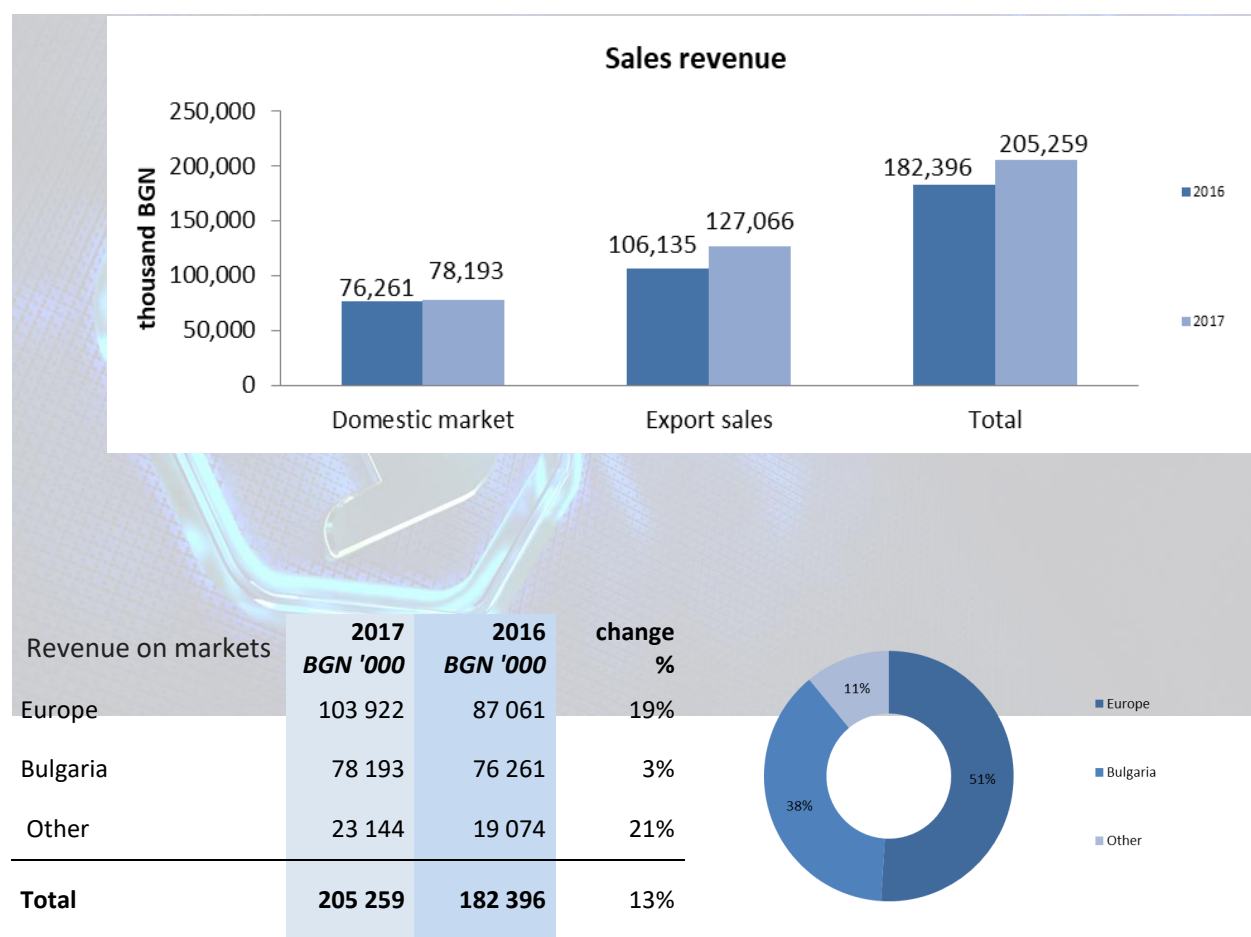
Currency risk

The company carries out its activities in active exchange with foreign suppliers and customers. Therefore, it is exposed to currency risk, mainly against the US dollar. The company supplies part of its main raw materials in US dollars. The currency risk is related to the negative movement of the US dollar exchange rate against the Bulgarian lev in the future business operations, the recognized foreign currency assets and liabilities and the net investments in foreign companies. The rest of the company's operations are usually denominated in Bulgarian leva and / or in euro. The company realizes part of its finished production in Russia in euros and thus eliminates the currency risk associated with the depreciation of the Russian ruble. In euro are also dominated the estimates with the subsidiaries in Ukraine. However, in order to minimize currency risk, the Company conducts through its subsidiaries a monetary policy that includes the application of advance payments and the reduction of deferred payment terms and immediate currency conversion of local currency earnings as well as betting on higher trade mark-ups to offset possible future impairment of the hryvnia.

In order to control the foreign currency risk in the company, a system of planning of import deliveries, for foreign currency sales as well as procedures for daily monitoring of movements in the dollar exchange rate and control of forthcoming payments is introduced.

2. Analysis of financial and non-financial key performance indicators of Sopharma (Article 39, item 2 of the Accountancy Act), as well as a description of the company's status and explanation of the annual financial statement (Article 247 (1) of the Commercial Law/

Revenue from the sale of production in 2017 increased by BGN 22.9 million or by 13% to BGN 205.3 million compared to BGN 182.4 million in 2016.



European market

Sales revenue for European countries increased by 19% compared to 2016, mainly due to an increase in sales revenue in Russia by 16% and Ukraine by 18%, as well as an increase in sales in Poland, Moldova, Belarus, Serbia and others. Sales in the Russian market in 2017 confirm the upward trend since the end of last year and are a real indicator of improving the economic situation in the country.

Bulgarian market

Sales of Sopharma AD on the domestic market increased by BGN 1.9 million or by 3% to BGN 78.2 million in 2017 compared to BGN 76.3 million (according to recalculated data after merger with Medica) in 2016. The products with the largest share of sales in the country are Analgin, Methylprednisolone, Vicetine, Vitamin C, Nivalin, medical supplies - gauzes, compresses. The company accounts for nearly 4% of the total volume of the Bulgarian pharmaceutical market in value and 13% of sales in natural terms. The positions of the main competitors of the company on the territory of the country are as follows: Novartis-7% (4% in units), Roche - 6 (0.3% in units), Actavis - 6% (11% in units), Glaxosmithkline - 4% (3% in units), Abbvie - 4% (0% in units), Sanofi-Aventis - 4% (4% in units), Astra Zeneca - 3%.(1% in units), Pfizer - 3% (1% in units), Bayer - 3% (2% in units).

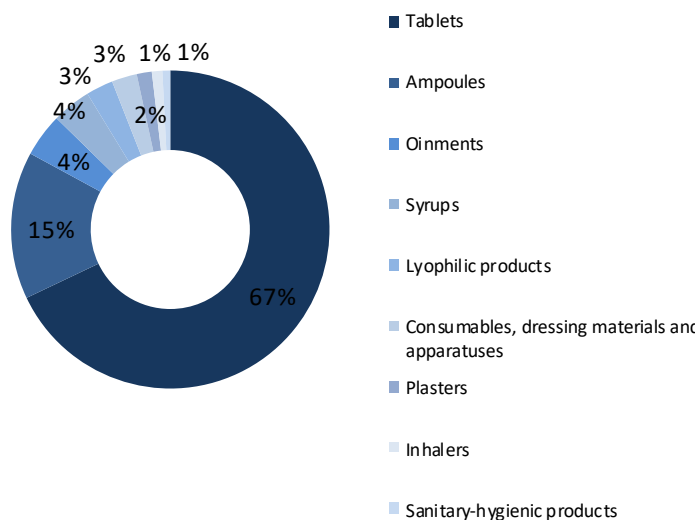
Other Markets

Revenue from other markets increased by 21% compared to 2016. This includes sales revenue in the Caucasus and Central Asia, which grew by 6% compared to 2016. Sales in Vietnam increased by 84%.

Sales by type of formulation

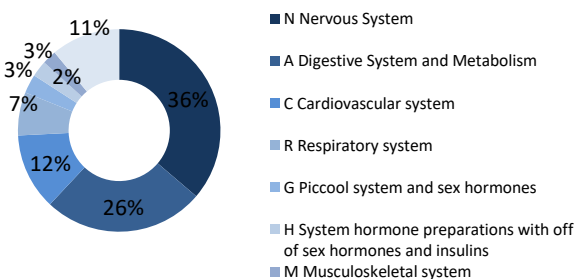
With the highest relative share in the volume of sales proceeds are tablets, followed by ampoules, ointments, syrups, lyophilic products and others.

| Revenue from medical forms | 2017 BGN '000 | 2016 BGN '000 | Change % |
|---|------------------|------------------|-------------|
| Tablets | 137 509 | 119 221 | 15% |
| Ampoules | 30 344 | 27 460 | 11% |
| Ointments | 8 925 | 5 794 | 54% |
| Syrups | 8 014 | 8 061 | -1% |
| Lyophilic products | 5 591 | 5 586 | 0% |
| Consumables, dressing materials and apparatuses | 5 196 | 6 227 | -17% |
| Plasters | 3 093 | 2 973 | 4% |
| Inhalers | 2 161 | 2 572 | -16% |
| Sanitary-hygienic products | 1 607 | 1 628 | -1% |
| Other | 2 819 | 2 874 | -2% |
| Total | 205 259 | 182 396 | 13% |



Sales by therapeutic groups

| Revenues by therapeutic groups | 2017 BGN '000 | 2016 BGN '000 | change % |
|---|------------------|------------------|-------------|
| N Nervous System | 74 408 | 62 780 | 19% |
| A Digestive System and Metabolism | 52 814 | 45 892 | 15% |
| C Cardiovascular system | 25 092 | 21 594 | 16% |
| R Respiratory system | 14 181 | 13 894 | 2% |
| G Piccool system and sex hormones | 6 202 | 5 656 | 10% |
| H System hormone preparations with off of sex hormones and insulins | 5 317 | 5 435 | -2% |
| M Musculoskeletal system | 4 616 | 3 613 | 28% |
| Other | 629 | 23 532 | -4% |
| Total | 205 259 | 182 396 | 13% |



Other operating profit

| Other operating profit | 2017 | 2016 | change | Relative share 2017 |
|--|--------------|--------------|------------|---------------------|
| | BGN '000 | BGN '000 | % | % |
| Services rendered | 3 600 | 3 429 | 5% | 80% |
| Revenue from European funding | 508 | 508 | 0% | 11% |
| Income from sale of materials | 165 | 127 | 30% | 4% |
| Income from sales of LTA | 111 | 122 | -9% | 2% |
| Profit from sale of goods | 67 | 77 | -13% | 1% |
| Net exchange loss on trade receivables and payables and current accounts | (275) | (255) | 8% | -6% |
| Loss from revaluation of investment properties at fair value | (34) | (233) | -85% | -1% |
| Other (see Notes to the financial statements) | 358 | 290 | 23% | 8% |
| Total other operating income | 4 500 | 4 065 | 11% | 100% |

Other operating income increased by BGN 0.4 million, or by 11%, from BGN 4.1 million in 2016 to BGN 4.5 million in 2017, mainly in the part of revenue generated from services and reduction loss from revaluation of investment property to fair value.

Operating expenses

| Operating expenses | 2017 | 2016 | change | relative share of expenses in 2017 |
|---|----------------|----------------|-----------|------------------------------------|
| | BGN '000 | BGN '000 | % | % |
| Changes in inventories of finished goods and work in progress | (6 451) | 283 | -2380% | -4% |
| Materials | 68 983 | 61 918 | 11% | 41% |
| Hired services | 38 769 | 36 486 | 6% | 23% |
| Personnel | 43 804 | 38 263 | 14% | 26% |
| Depreciation and amortization | 16 238 | 15 486 | 5% | 10% |
| Other operating expenses | 6 569 | 5 662 | 16% | 4% |
| Total | 167 912 | 158 098 | 6% | 100% |

Operating expenses increased by BGN 9.8 million or by 6% from BGN 158.1 million in 2016 to BGN 167.9 million in 2017, which is connected to an increase in sales from early 2017 and an increase in inventories of finished goods and semi-finished goods.

The cost of materials (with a 41% share) increased by BGN 7.1 million or by 11% from BGN 61.9 million in 2016 to BGN 69 million in 2017, with the biggest impact being the increase of the basic materials by BGN 4.9 million, mainly due to the liquid and solid chemicals, herbs, packaging materials and vials.

External services expenses account for 23% relative share of operating expenses and increased by BGN 2.3 million or by 6% to BGN 38.8 million for 2017 compared to BGN 36.5 million for 2016. The most significant impact is the increase of the cost of manufacturing of medicines by BGN 1.1 million, the cost of maintenance of buildings and equipment by BGN 0.4 million, the cost of logistics services by BGN 0.2 million and transport costs by BGN 0.5 million.

Personnel costs (with a share of 26%) increased by BGN 5.5 million or by 14% from BGN 38.3 million in 2016 to BGN 43.8 million in 2016, mainly in the part of business trips, scrapping of finished goods and work in progress and accrued impairment of finished goods and work in progress.

Depreciation costs (with a 10% share) increased by BGN 0.7 million or 5% from BGN 15.5 million in 2016 to BGN 16.2 million in 2017.

Changes in inventories of finished goods and work in progress increased with BGN 6.7 million.

| Finance income | 2017 | 2016 | change | relative share of revenue for 2017 |
|---|----------|----------|--------|------------------------------------|
| | BGN '000 | BGN '000 | % | % |
| Income from equity share | 7 539 | 7 923 | -5% | 63% |
| Interest income on granted loans | 1 699 | 2 126 | -20% | 14% |
| Impairment of receivables from commercial loans granted | (504) | (688) | -27% | -4% |
| Recovered impairment of receivables on commercial loans granted | 1 929 | - | 100% | 16% |
| Net change in impairment of receivables from commercial loans granted | 1 425 | (688) | -307% | 12% |
| Net gains on securities and share investments | 1 257 | 12 741 | -90% | 11% |

| | | | | |
|---|---------------|---------------|-------------|-------------|
| <i>including profit from sale of subsidiaries</i> | 1 | 12 714 | -100% | 0% |
| Revenue from liquidation of subsidiaries | 7 | - | 100% | 0% |
| Net gain on exchange differences on receivables from sale of subsidiary | - | 131 | -100% | 0% |
| Total | 11 927 | 22 233 | -46% | 100% |

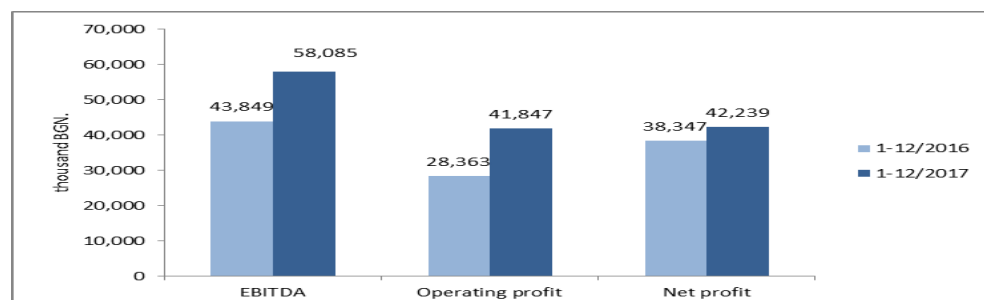
| Finance costs | | | change | relative share of expenses in 2017 |
|--|--------------|--------------|---------------|---|
| Interest expenses on loans | 1 358 | 2 091 | -35% | 83% |
| Net loss on exchange differences on the disposal of a subsidiary | 443 | - | - | 0% |
| Bank fees on loans and guarantees | 217 | 303 | -28% | 12% |
| Effects of derivatives | 74 | 109 | -32% | 4% |
| Impairment of available-for-sale investments | 4 | 4 | 0% | 0% |
| Impairment of cash | - | 8 | -100% | 0% |
| Interest expense on finance leasing | - | 3 | -100% | 0% |
| Total | 2 096 | 2 518 | -17% | 100% |

Financial income decreased by BGN 10.3 million or by 46%, to BGN 11.9 million in 2017 compared to BGN 22.2 million in 2016. The reason is the decrease in net profit from operations with investments in securities and shares with BGN 11.5 million, which is the result of the sale of the Company's participation in Ivanchic and sons, reported in 2016.

Financial expenses decreased by BGN 0.4 million or by 17% to BGN 2.1 million in 2017 compared to BGN 2.5 million in 2016. This is mainly due to a decrease in the cost of interest on loans received by BGN 0.7 million.

Net financial revenues (expenses) decreased by BGN 9.9 million to BGN 9.8 million in 2017 compared to BGN 19.7 million in 2016.

Financial results



Profit before interest, taxes and depreciation (EBITDA) in 2017 increased by BGN 14.2 million or 33% to BGN 58.1 million compared to BGN 43.8 million in 2016.

Operating profit increased by BGN 13.5 million or 48% to BGN 41.8 million in 2017 compared to BGN 28.3 million in 2016.

Net profit increased by BGN 3.9 million or by 10% to BGN 42.2 million in 2017 compared to BGN 38.3 million in 2016.

| <i>Assets</i> | | | | |
|--|----------------|----------------|--------|---------------------|
| | 31.12.2017 | 31.12.2016 | change | Relative share 2017 |
| | BGN '000 | BGN '000 | % | % |
| Non-current assets | | | | |
| Property, plant and equipment | 223 097 | 225 470 | -1% | 54% |
| Intangible assets | 6 471 | 6 280 | 3% | 2% |
| Investment property | 24 799 | 22 840 | 9% | 6% |
| Investments in subsidiaries | 120 145 | 115 442 | 4% | 29% |
| Investments in associated companies | 7 740 | 5 219 | 48% | 2% |
| Available-for-sale investments | 7 206 | 5 229 | 38% | 2% |
| Long-term receivables from related parties | 21 583 | 11 047 | 95% | 5% |
| Other long-term receivables | 4 210 | 3 714 | 13% | 1% |
| | 415 251 | 395 241 | 5.1% | 70% |
| Current assets | | | | |
| Inventories | 66 433 | 61 711 | 8% | 38% |
| Receivables from related parties | 74 920 | 73 596 | 2% | 43% |
| Trade receivables | 22 527 | 25 411 | -11% | 13% |
| Loans granted to third parties | 3 201 | 2 445 | 31% | 2% |
| Other receivables and prepayments | 4 757 | 5 336 | -11% | 3% |
| Cash and cash equivalents | 3 216 | 9 275 | -65% | 2% |
| | 175 054 | 177 774 | -2% | 30% |
| TOTAL ASSETS | 590 305 | 573 015 | 3% | 100% |

Total assets increased by BGN 17.3 million or by 3% to BGN 590.3 million, compared to BGN 573 million as at 31.12.2016.

Non-current assets increased by BGN 20 million, or 5%, mainly due to an increase in investments in subsidiaries of BGN 4.7 million related to the acquisition of Rap Pharma

International OOD, Veta Pharma AD, a tender offer to the remaining shareholders of the subsidiary Unipharm AD and an increase of the long-term receivables from related parties by BGN 10.5 million. Property, plant and equipment decreased net by BGN 2.4 million mainly due to a decrease in the balance of machines, equipment and other fixed assets with BGN 4.3 million and an increase in the carrying amount of assets under construction with BGN 1.9 million.

Current assets decreased by BGN 2.7 million or by 2% to BGN 175.1 million as at 31.12.2017 compared to BGN 177.8 million as at 31.12.2016. Inventories increased by BGN 4.7 million or 8% compared to 31.12.2016 mainly due to an increase in inventories of finished goods by BGN 3.4 million. Receivables from related parties increased by BGN 1.3 million, mainly in the part of receivables of sales of production and materials by BGN 7.9 million. Commercial loans granted to related parties decreased by BGN 6.6 million. Trade receivables decreased by BGN 2.9 million. Cash and cash equivalents decreased with BGN 6.1 million and as at 31.12.2017 are BGN 3.2 million compared to 9.3 million as at 31.12.2016.

| <i>Liabilities and owners' equity</i> | | | | |
|---|-------------------|-------------------|---------------|---------------------------------|
| EQUITY | 31.12.2017 | 31.12.2016 | change | From owners' equity 2017 |
| | BGN '000 | BGN '000 | % | % |
| Share capital | 134 798 | 134 798 | 0% | 28% |
| Treasury shares | (33 834) | (18 809) | 80% | -7% |
| Reserves | 330 683 | 304 403 | 9% | 69% |
| Retained earnings | 46 687 | 43 023 | 9% | 10% |
| | 478 334 | 463 415 | 3% | 100% |
| LIABILITIES | 31.12.2017 | 31.12.2016 | change | % total liabilities 2017 |
| | BGN '000 | BGN '000 | % | |
| Non-current liabilities | | | | |
| Long-term bank loans | 16 691 | 24 064 | -31% | 15% |
| Deferred tax liabilities | 6 553 | 6 570 | 0% | 6% |
| Government grants | 5 478 | 5 986 | -8% | 5% |
| Long-term liabilities to personnel | 3 624 | 2 930 | 24% | 3% |
| | 32 346 | 39 550 | -18% | 29% |
| Current liabilities | | | | |
| Short-term bank loans | 53 088 | 48 291 | 10% | 47% |
| Current portion of long-term bank loans | 7 392 | 7 461 | -1% | 7% |
| Trade payables | 7 569 | 5 767 | 31% | 7% |

| | | | | |
|---|----------------|----------------|------|------|
| Payables to related parties | 1 752 | 375 | 367% | 2% |
| Tax payables | 1 429 | 833 | 72% | 1% |
| Payables to the personnel and for social security | 7 172 | 5 771 | 24% | 6% |
| Other current liabilities | 1 223 | 1 552 | -21% | 1% |
| | 79 625 | 70 050 | 14% | 71% |
| TOTAL LIABILITIES | 111 971 | 109 600 | 2% | 100% |
| TOTAL EQUITY AND LIABILITIES | 590 305 | 573 015 | 3% | |

The equity of Sopharma Company increased by BGN 14.9 million or 3%, reaching BGN 478.3 million as at 31.12.2017 compared to BGN 463.4 million as at 31.12.2016, mainly due to an increase in retained earnings with BGN 26.3 million.

Non-current liabilities decreased by BGN 7.2 million, or 18% to BGN 32.3 million at the end of 2017, compared to BGN 39.5 million at the end of 2016, mainly from a decrease in long-term bank loans with BGN 7.4 million.

Current liabilities increased by BGN 9.5 million to BGN 79.6 million at the end of 2017 compared to BGN 70.1 million at the end of 2016. Short-term bank loans increased by BGN 4.8 million, commercial payables by BGN 1.8 million, payables to related parties with BGN 1.4 million and personnel and social security liabilities increased by BGN 1.4 million. Other current liabilities decreased with BGN 0.3 million. Total bank exposure to the Company as at 31.12.2017 decreased by BGN 2.6 million compared to 31.12.2016.

Ratios

| | 31.12.2017 | 31.12.2016 | Change |
|----------------------------|------------|------------|--------|
| ROE | 8,8% | 7,8% | 1.0% |
| ROA | 7,1% | 5,9% | 1,2% |
| Asset turnover | 0,35 | 0,29 | 0,06 |
| Current liquidity | 2,20 | 2,54 | -0,34 |
| Quick ratio | 1,36 | 1,66 | -0,30 |
| Cash/current liabilities | 0,04 | 0,13 | -0,09 |
| Owners' equity/liabilities | 4,27 | 4,23 | 0,04 |

- 1 Net profit on an annual basis / arithmetic mean of equity for the last five quarters
- 2 Net profit on an annual basis / arithmetic mean of total assets for the last five quarters
- 3 Revenue 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

Cash flow

| | 1-12/2017 BGN '000 | 1-12/2016 BGN '000 |
|---|-----------------------|-----------------------|
| Net cash flow from/(used in) operations | 44 915 | 31 441 |
| Net cash flow used in investment activities | (19 749) | 11 228 |
| Net cash flow (used in)/from financial operations | (31 225) | (39 348) |
| Net increase/(decrease) of cash and cash equivalents | (6 059) | 3 321 |
| Cash and cash equivalents on 1 January | 9 275 | 5 954 |
| Cash and cash equivalents on 31 December | 3 216 | 9 275 |

* Recalculated data as a result of the merger of Medica AD, based on consolidation of the financial statements of Sopharma AD and Medica AD

Net cash flows in 2017 generated by operating activities amounted to BGN 44.9 million inflow, from investment activity amounted to BGN 19.7 million outflow and from financial activity amounted of BGN 31.2 million outflow. As a result of these activities, the cash and cash equivalents net decreased by BGN 6.1 million and as at 31.12.2017 amounted to BGN 3.2 million compared to BGN 9.3 million at 01.01.2017.

Ecology and environmental protection

Sopharma AD maintains and observes its commitments in compliance with the national legislation in the field of environmental protection. The company applies measures to:

- separate collection of waste, minimization, recovery and recycling of production and household waste;
- providing appropriate personnel training on environmental and pollution prevention issues;
- responsibly fulfills the imperative requirements of the Council of Ministers Decree 137 and the Packaging and Waste Ordinance;
- annual emissions of waste gases into the ambient air from the Phytochemical Plant and the Solid Form Factory are measured;
- Monthly Sofiyska Voda measures the emissions in waste water on production sites A and B.

In 2017 the separately collected waste was increased by 2.5% compared to the previous year. Production waste is handed over to licensed recyclers. The annual emissions of waste gases into the ambient air as well as the emissions in the wastewater are within the required

standards. The conditions of the Discharge Permit are met. Once a month, a report is made on the packaging imported and / or marketed by type of material for which a monthly installment is paid to EcoBulpak AD, with which Sopharma AD has concluded a contract for the recovery of packaging waste.

Personnel

As at 31.12.2017, the average number of employees of Sopharma AD is 1 953 (compared to 2 076 in 2016). The table below provides more detailed information about the company's personnel.

| | 31.12.2017 | relative share % |
|--------------------------------------|-------------------|---------------------------------|
| Number of employees as at 31.12.2017 | 2069 | 100% |
| Higher education | 893 | 43% |
| College education | 46 | 2% |
| Secondary education | 1099 | 53% |
| Primary education | 31 | 2% |
| Employees up to 30 years | 210 | 10% |
| Employees 31 - 40 years | 435 | 21% |
| Employees 41 - 50 years | 662 | 32% |
| Employees 51 - 60 years | 628 | 30% |
| Employees over 60 years | 134 | 7% |
| Women | 1291 | 62% |
| Men | 778 | 38% |

The training programs offered to employees of the Company aim to develop employee competencies. The training policy is specifically aimed at providing high professional knowledge as well as in relation to the requirements for health and safety at work.

Employees are entitled to the higher additional remuneration required by applicable law on overtime, night shifts and work on Saturdays, Sundays and holidays. Employees who work under specific, harmful or dangerous conditions receive personal protective equipment and allowances.

3. Significant events occurring after the date of preparation of the annual financial statements / Article 39, paragraph 3 of the Accounting Act /

✚ On 30 January 2018, Sopharma AD received a notification for disclosure of shareholding under Art. 145 of the Public Offering of Securities Act from ZUPF Allianz Bulgaria for the sale of 250 000 shares representing 0.19% with which the share participation of ZUPF Allianz Bulgaria in the capital of Sopharma AD reached 4.99%.

✚ An Extraordinary General Meeting of Shareholders of Sopharma AD took place on 23 February 2018, where the following decisions were taken: The GMS took a decision for the transformation through merger of Unipharm AD into Sopharma AD. As a result of the merger, the entire property of Unipharm AD will be transferred to Sopharma AD under the terms of a general succession; The Transformation Agreement was approved for the transformation through the merger of Unipharm AD in Sopharma AD, concluded on 14.09.2017 and of Additional Agreement No 1 of 08.11.2017 to it; The Report of the Board of Directors of Sopharma AD to the shareholders of the company regarding the merger of Unipharm AD into Sopharma AD was approved; The GMS approved the Auditor's Report under Art. 262m of the Commercial Act on the transformation through merger of Unipharm AD into Sopharma AD; The GMS adopted amendments to the Articles of Association of the Company which allow the payment of an interim dividend on the basis of a 6-month financial statement pursuant to the Public Offering of Securities Act; The GMS has adopted a resolution for the buyback of its own shares, on the grounds of Art.187b of the Commerce Act and Art.111, para 5 of POSA under the following conditions: Up to 10% of the total number of shares issued by the Company but not more than 3% each calendar year; term of the treasury shares buyback - no longer than 5 (five) years; minimum buyback price - not less than the nominal value per share of the company's capital; maximum redemption price - BGN 5.50 per share;

4. Future development of Sopharma AD (article 39, item 4 of the Accountancy Act) and planned economic policy in the following year (Article 247 (3) of the Commercial Law)

✚ On the local market, the company aims to provide patients with more affordable treatment by registering new generic products in shorter terms;

✚ On the foreign markets, efforts are focused on preserving and increasing the share of the company in the main markets (Russia, Ukraine and Poland), as well as establishing and expanding market positions in other countries (USA, Middle and Eastern Europe and Caucasus region).

- ✚ The company continues the policy of active partnership with established international pharmaceutical companies, with new companies, as well as expanding the product range of already established collaborations.
- ✚ Sopharma AD plans to build a new lyophilic plant in Sofia, which will start in the first half of 2018. With the construction of the plant, the Company will double the capacity of its current production facilities, which will ensure the production of sufficient quantities of the life-saving hospital product Methylprednisolone and create additional jobs. The whole project is expected to cost around BGN 30 million.

5. Research and development (article 39, item 5 of the Accounting Act)

Sopharma AD focuses its research and development mainly on generic products. Research and development projects are focused on finding and developing new formulas and composition or physical properties (such as medicine form or tablet form) of a product in order to adapt it to current market needs. The strategic goal of Sopharma AD is to achieve in the future a stable result of developing eight to ten new products per year.

The company mainly submits applications for new product authorizations including new product forms in Bulgaria and / or export markets and for existing products in new markets.

Intellectual Property

Although oriented towards generic pharmaceutical products, Sopharma AD has been known for years with the traditional production of several unique products based on plant extracts obtained from own-produced technologies. These products are protected not only by trademark, but also by patent or company know-how. Regarding the generic products it produces, for their market distinctiveness, Sopharma AD relies on brand names, all of which are registered trademarks of the company.

Throughout its years of existence, Sopharma AD has generated and defended its industrial property. As a result, the company owns a large number of industrial property sites, the majority of which - registered rights (trademarks, patents, designs) and fewer unregistered objects - mainly technology. These assets are the result of the company's special policy towards product and technological innovation, and in particular innovation.

New developments and products

- ✚ New Products for the period January - December 2017

Authorizations have been obtained for new product destinations Amlodipine Tablets 5 mg, Amlodipine Tablets 10 mg and Doporizone Ointment.

New medicinal products introduced into production

For the period January - December, Analgin drops for children were introduced, Softensif 1.5 mg prolonged-release tablets, Desloratidine solution, Desloratidine tablets, Amlodipine Sopharma tablets, Otophyx drops and Dexpanthene ointment.

By the end of 2018, 3 to 6 new medicinal products are expected to be implemented.

New registrations and re-registrations / changes

New registrations

Permissions for use for new destinations of 14 medicinal products have been received - Zondarone ampoules, Vitamin C ampoules, Silden 50 mg tablets, Silden 100mg tablets, Thallert syrup, Thallert tablets, Methylprednisolone 40 mg, Phenobarbital ampoules, Indomethacin tablets, Digoxin ampoules, Allergozan ointment, Templagin trio tablets, Ambixol syrup, Tuspan syrup.

Documents for the registration of 41 medicinal products have been submitted to agencies of new destinations.

Re-registrations / changes

Submitted to agencies for re-registrations of 67 medicinal products. Submitted to agencies of 238 changes for medicinal products.

Developments

There is a pharmaceutical development of 4 new medicinal products and one active substance. 30 manufacturing processes and technologies have been transferred and validated / optimized.

6. Information on the acquisition of own shares required by Article 187d of the Commercial Code / Article 39, Item 6 of the Accountancy Act /

In the current year 3,971,799 shares (2016: 443,418 shares) were purchased and 419,931 shares were sold (2016: 27,873 shares). The treasury shares purchased during the year amount to 3% of the company's share capital and the average acquisition price is BGN 4.27 per share.

| | Shares | Equity, net of treasury shares |
|---------------------------------|-------------|--------------------------------|
| | Number | BGN '000 |
| Balance at 1 January 2017 | 129 135 485 | 115 989 |
| Effects of merging a subsidiary | 181 302 | 602 |
| Treasury shares sold | 419 931 | 1 399 |
| Treasury shares bought back | (3 971 799) | (16 974) |
| Expense on treasury shares | | (52) |
| Balance at 31 December 2017 | 125 764 919 | 100 964 |

The Board of Directors is authorized to buy treasury shares under certain conditions, according to the decisions of the GMS, held on 23.06.2010, of the EGMS from 30.11.2011, of the EGMS from 01.11.2012, of the EGMS from 28.02.2013 and of the EGMS from 23.02.2018.

Number and nominal value of the own shares held and the proportion of the capital they represent

Sopharma holds 9,032,980 own shares, representing 6.70% of the company's capital.

7. Existence of branches of the enterprise / Article 39, item 7 of the Accounting Act /

Sopharma AD has no branches.

8. Used financial instruments / Article 39, item 8 of the Accountancy Act /

Overall risk management focuses on the difficulties in predicting financial markets and minimizing potential negative effects that may affect the financial performance and the company's performance. Financial risks are currently identified, measured and monitored by various control mechanisms introduced to determine adequate prices for the company's products and services and borrowed capital and to adequately assess the market circumstances of the company investments and forms of maintenance of the free liquid assets, without allowing undue concentration of a risk.

Risk management is currently conducted by the management of the company in accordance with the policy defined by the Board of Directors. The latter has adopted basic principles for general financial risk management, on the basis of which specific procedures have been

developed for the management of individual specific risks, such as currency, price, interest, credit and liquidity, and the risk of using non-derivative instruments.

Credit risk

The credit risk is the risk that the clients of the company will not be able to pay fully and within the usual time limits the amounts due from them under the trade receivables. The latter are presented in the statement of financial position in net amount after deducting the accrued impairment for doubtful and bad debts. Such impairments are made where and when there are events identifying loss of uncollectability under previous experience.

In its commercial practice, the company has applied different distribution schemes until it achieves the current effective approach tailored to the market situation of business, the various forms of payment, and the inclusion of commercial rebates. The company works with contractors with a history of relationships in its core markets, partnering with more than 70 Bulgarian and foreign licensed drug dealers.

Work with NHIF and state hospitals also requires a policy of deferred payments. In this sense, although there is a concentration of credit risk, it is controlled through selection, ongoing monitoring of liquidity and financial stability of the trading partners as well as direct communication with them and the search for rapid measures at first indicators of problems.

Liquidity risk

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.

The Company generates and maintains a sufficient volume of liquidity. An internal source of liquidity for the company is its core business generating sufficient operational flows. External sources of funding are banks and other permanent partners. In order to isolate potential liquidity risk, the company operates a system of alternative mechanisms of action and forecasts, the ultimate effect of which is the maintenance of good liquidity, respectively the ability to finance its business activity. This is complemented by ongoing monitoring of the maturity of assets and liabilities and control of outgoing cash flows.

Risk of interest-bearing cash flows

In the structure of the Company's assets, interest-bearing assets are represented by the cash at floating rate and the loans granted at a fixed interest rate. On the other hand, the borrowed funds of the company in the form of long-term and short-term loans are usually variable

interest rates. This circumstance partly puts the cash flows of the company in line with interest rate risk. The coverage of this risk is achieved in two ways:

- (a) optimizing sources of credit resources to achieve a relatively lower cost of borrowed funds;
- (b) combined structure of interest rates on loans, which contains two components - permanent and variable, the ratio between which and their absolute value can be achieved and maintained at a favorable rate for the company. The permanent component has a relatively low absolute value and a large enough relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rates with a possible update of the variable component. This also minimizes the probability of a change in the unfavorable direction of cash flows.

The management of the Company is currently monitoring and analyzing its exposure to changes in interest rates. Different scenarios of refinancing, renewal of existing positions and alternative financing are simulated. Based on these scenarios, the effect on financial result and equity is measured when changing with certain points or percentages. For each simulation, the same assumption of interest rate change applies to all major currencies. Calculations are made for significant interest-bearing items.

IV. Information under Article 247 and Art. 240b of the Commercial Code

1. Information under Art. 247 of the Commercial Code

Information concerning the course of activity and the condition of the Company and explanations regarding the annual financial statements

Section II, item 2 describes the activity and the state of the Company and explains the annual financial statement.

Remuneration received during the year by members of the Board of directors

The remuneration and other short-term income of the Board of Directors for 2017 amounted to BGN 1,321 thousand. (2016: BGN 1,368 thousand) are as follows:

✚ Current - BGN 922 thousand (2016: BGN 1,092 thousand);

✚ Tantiems - BGN 399 thousand (2016: BGN 276 thousand).

Acquired, held and transferred by the members of the Board during the year shares and bonds of the company

The shares acquired, held, and transferred by the members of the Board of directors in 2017 are as follows:

| Members of the Board of directors | 31.12.2017 | | 31.12.2016 | | Acquired in 2017 | Transferred in 2017 | Change |
|-----------------------------------|------------|---------------------------------|------------|---------------------------------|------------------|---------------------|---------|
| | Shares | Relative share of the capital % | Shares | Relative share of the capital % | | | |
| Ognian Ivanov Donev | 910 000 | 0,68% | 246 600 | 0,18% | 668 700 | 5 300 | 663 400 |
| Vessela Lyubenova Stoeva | - | - | - | - | - | - | - |
| Andrey Lyudmilov Breshkov | - | - | - | - | - | - | - |
| Ognian Kirilov Palaveev | 160 430 | 0,12% | 120 430 | 0,09% | 40 000 | - | 40 000 |
| Alexander Viktorov Tchaushev | 111 042 | 0,08% | 59 462 | 0,04% | 51 580 | - | 51 580 |

The company has no issued bonds.

Rights of members of Board to acquire shares and bonds of the company

The Articles of Association of Sopharma AD do not contain any restrictions on the right of the members of the Board of directors to acquire shares and bonds of the company.

Participation of members of the Board of directors in commercial companies as unlimited liability partners, the holding of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or co-operatives, such as procurators, managers or board members

Participation of the members of the Board of Directors by more than 25 per cent of the capital of other companies:

Ognian Ivanov Donev has a direct / indirect significant share (over 25%) of the capital of the following companies:

- ✚ Donev Investments Holding AD, UIC 831915121, with headquarters in Sofia, 12 Pozitano Str.;
- ✚ Telecomplect invest AD, UIC 201653294, with headquarters in Sofia, 9 Slaveikov Str.

- ✚ Telecomplex AD, UIC 831643753, with headquarters in Sofia, 5 Lachezar Stanchev Str.
- ✚ Sopharma Buildings REIT, UIC 175346309, with headquarters in Sofia, 5 Lachezar Stanchev Str.;
- ✚ Sopharma Properties REIT, UIC 175059266, with headquarters in Sofia, 5 Lachezar Stanchev Str., Building A;
- ✚ Sofprint Group AD, UIC 175413277 with seat and headquarters: Sofia, 12 Pozitano Str.;
- ✚ Sofconsult Group AD, UIC 175413245, with seat and headquarters: Sofia, 12 Pozitano Str.;
- ✚ Sofia Inform AD, UIC 121303553, with headquarters in Sofia, 12 Pozitano Str.;
- ✚ Elpharma AD, UIC 130299513, with seat and headquarters: Sofia, 16 Iliensko shose Str.;
- ✚ Sopharma Trading AD, UIC 103267194, with seat and headquarters: Sofia, 5 Lachezar Stanchev Str. ;
- ✚ Sopharma AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str.;

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

- ✚ VES elektroinvest systems EOOD, UIC 201712700, with seat and headquarters: Sofia, 9 P. R. Slaveykov Square;
- ✚ Eco Solar Invest OOD, UIC 201634905, with seat and headquarters: Sofia, 48 Alabin Str.;
- ✚ Aquatex OOD, UIC 203934379, with seat and headquarters: Sofia, 9 P. R. Slaveykov Square.

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

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

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

- ✚ Breshkov and Sons OOD, UIC 115114555, with headquarters in Plovdiv, 36 Gladstone Str.
- ✚ 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:

- ✚ Mill Stefanovo Village EOOD, UIC 201045146, with headquarters in Stefanovo Village, Lovech District.

- ✚ Sirius OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 Apriltsi Str.
- ✚ OKP Investments OOD, UIC 204361991, with headquarters in Sofia, 15 Krushova gradina Str.

Participation of Board members in the management of other companies or cooperatives as procurators, managers or board members:

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. – Member of the Board of directors.
4. Kaliman - RT AD, UIC 121120513, with headquarters in Sofia, 5 Lachezar Stanchev Str. – Chairman of the Board of Directors.
5. Telecomplect AD, UIC 831643753, with address management in Sofia, 5 Lachezar Stanchev Str., Building A – Chairman of the Supervisory Board.
6. Doverie Capital AD, UIC 130362127, with headquarters in Sofia, 82 Knyaz Dondukov Blvd – Member of the Supervisory Board.
7. Unipharm AD, UIC 831537465, with headquarters in Sofia, 3 Trajko Stanoev Str. – Chairman of the Supervisory Board.
8. Sopharma AD, UIC 831902088, with seat and headquarters: Sofia, 16 Iliensko Shousse Str. – member of the Board of Directors and Executive Director.

Vessela Lyubenova 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 Tchaushev 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 Lyudmilov Breshkov participate in the management/supervisory body for the following companies:

1. Simol EAD, UIC 101795403, with headquarters in Blagoevgrad, 3 Georgy Izmirliiev 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 Stanoiev Str. – member of the Board of Directors.
4. Melnitsa Stefanovo Village EOOD, UIC 201045146, with headquarters: Stafanovo village, Lovech district.
5. OKP Investments OOD, UIC 204361991, with headwuarters in Sofia, 15 Krushova gradina Str.

Planned economic policy in the next year (Article 247, paragraph 3 of the Commercial Code)

The information is reflected in Section III, paragraph 4 of this Report - Future development of the Company (Article 39, paragraph 4, of the Accounting Act).

- 2. Information under art. 240b of the Commercial Code on the obligation of Board members to notify in writing the Board of Directors or the Management Board when they or their related parties conclude contracts with the company that go beyond its usual activity or substantially deviate from market conditions**

In 2017, there are no contracts that go beyond the ordinary business of the company or significantly deviate from market conditions.

V. Information on Annex 10 to art. 32, para 1, item 2 of Regulation 2 of POSA

- 1. Information given in value or quantitative terms about the main categories of goods, products and / or services provided, including their share in sales revenue of Sopharma AD in general and changes in the reporting year**

The information is included in Section III, item 2 of this document. The Company does not publish quantitative information due to the specifics of the production.

- 2. Information about the revenues allocated by separate categories of activities, domestic and foreign markets and information on sources for supply of materials needed for production of goods or the provision of services with the degree of dependence on any individual seller or buyer / user, in case their share exceeds 10 per cent of the expenses or sales revenue, provide information for each person for his share in sales or purchases and links with the issuer**

Information about the revenues allocated by separate categories of activities, domestic and foreign markets are provided in Section III item 2 of this report.

Major customers of the company with a share over 10% in sales revenues for 2017 are Sopharma Trading AD with 38% share, Delta Sales Ltd. with 36% share and OOO Sopharma Ukraine with a relative share of 10%.

- Sopharma Trading AD is headquartered in Sofia district Nadezhda, bul. Rozhen № 16, its main activity is wholesale and retail of medicines and sanitary products. Sopharma Trading AD is a subsidiary of Sopharma AD, acting as a "pre-wholesaler" in the process of realization of its production.
- Delta Sales Ltd. With headquarters 45 PALL Mall London UK, with main activity trade with medicines abroad. Relations between the company and Sopharma AD are governed by a sales agreement.
- OOO Sopharma Ukraine has its headquarters and address of management - Ukraine, Kiev, Obolonski area, Prospect Moskovskii № 9, hull 4, fl. 2, office 4-203. Sopharma Ukraine is a subsidiary of Sopharma AD.

Materials used exceed 3500 items which have a dynamic structure and diverse origin (synthetic, vegetable), physical state (liquid, solid, gaseous).

The largest share of the cost of the basic materials are active substances - 41%, followed by packaging materials - 19%, liquid and solid chemicals - 16%, herbs – 8%, ampoules - 4% and others.

The main share of raw materials are secured by imports. Sources of supply are validated manufacturers, which is in line with regulatory requirements and aims to maintain consistency and traceability in terms of quality. Respective companies contractors operate according to the requirements of GMP, GDP and other industry standards. Sopharma is working with a number of Bulgarian and foreign suppliers as their selection is done according to procedure developed in-house and aims to provide an alternative security in the supply and competitive flexibility in trade relations. Non-negotiable conditions that Sopharma AD implies in the negotiation process are: consistent quality, competitive prices and attractive payment terms, rhythmic and timely deliveries which prevent the accumulation of inventories on the one hand, while guaranteeing the regularity of the production process.

2017 none of the suppliers' share exceeds 10% of the total cost of services rendered and materials.

3. Information on significant transactions concluded

The Company has adopted that significant transactions are those that result or may be reasonably assumed that will lead to favorable or unfavorable change in the amounts of 5 or more percent of sales revenues or net profit. There are no such transactions in 2017.

4. Information regarding transactions between the issuer and related parties during the reporting period, proposals for concluding such transactions as well as transactions that are outside its usual activity or substantially deviate from market conditions when, the issuer or its subsidiary is party, indicating the value of the transactions, the nature of relatedness and any information necessary to assess the impact on the financial position of the issuer

Information regarding the transactions between Sopharma AD and related parties during the period is specified in Notes to the Financial Statements "Related Party Transactions".

On an EGM which will take place on 24 April 2017 the Board of Directors has proposed for voting the following transactions:

- ✚ Rental contract under which Sopharma AD will rent property from Sopharma properties REIT owned by the latter, representing an Office-1B-B18, on floor 18 +in building B, of the

administrative-commercial centre with garages „Sopharma Business Towers“, based on 5, Lachezar Stanchev, Str. Office-1B-B18 with gross area of 189.91 sq.m., 165.14 sq.m. rental area 24.77 sq.m. common area.

✚ Sales transaction with medicinal products between Sopharma AD as a producer and seller of the products and TOO Sopharma Kazakhstan as a buyer, under which the Company will incur a receivable from a subsidiary totalling 20,269 thousand EUR. The transaction will be concluded for a term of 5 years.

Sopharma AD has not concluded transactions outside of its main activities or that substantially deviate from the market conditions.

5. Information about events and indicators unusual for the issuer that have a significant impact on its activity and realized income and expenses; assessment of their impact on the current year results

In 2017 there were no events and indicators of unusual nature.

6. Information on off-balance sheet transactions - nature and business purpose, the financial impact of transactions on the activity, if the risks and benefits of these transactions are material to the issuer and the disclosure of this information is essential for assessing the financial position of the issuer

The off-balance transactions as at December 31, 2017 are listed in the annual report in the “Contingent liabilities and commitments” section.

7. Information on shares of the issuer, its major investments in the country and abroad (in securities, financial instruments, intangible assets and real estate), as well as investments in equity securities outside its group of companies under Accounting Law and the sources / methods of financing

Information on shareholdings and major investments, domestic and foreign, of Sopharma AD are listed in the Notes to the annual financial statements - "Investments in subsidiaries", "Investments available for sale" and "Investments in associates". Information regarding investments in intangible assets and real estate is presented in the Notes “Intangible assets”, “Property, plant and equipment” and “Investment property”.

8. Information about the concluded by the issuer, its subsidiary or parent company in their capacity as borrowers, loan contracts specifying the terms and conditions, including the deadlines for repayment as well as information about guarantees and commitments

Information on concluded by Sopharma loan agreements are listed in the annual report in an Notes to the annual financial report "Long-term bank loans" and "Short-term bank loans."

Information on the loans of subsidiaries will be available in the consolidated financial statements.

9. Information about the concluded by the issuer, its subsidiary or parent company in their capacity of lenders, loan agreements, including the provision of guarantees of any kind, including related parties, and the specific terms, including the deadlines for payment and the purpose for which they were granted

Long-term loans by Sopharma AD to associated companies:

- Contractual amount 29 384 thousand EUR; interest rate - 3.5%; maturity – 31 December 2019; balance at 31 December 2017 – 16 538 thousand BGN.

Long-term loans to subsidiaries:

- Contractual amount 500 thousand EUR; interest rate - 6.6%; maturity – 1 March 2019; Balance at 31 December 2017 - 984 thousand BGN.

Long-term loans to other related parties:

- Contractual amount 13 900 thousand BGN; interest rate - 3.0%; maturity – 11 June 2019; Balance at 31 December 2017 - 3 thousand BGN.

Long-term loans to related parties were granted to assist in financing the activities of these Companies for strategic purposes. They are secured by pledges of securities (shares).

Long-term loans provided by Sopharma to other parties:

- Contractual amount of EUR 480 thousand; interest rate - 3.05%; maturity - 12 October 2022; Balance at 31 December 2017 - BGN 945 thousand;

Provided current loans by Sopharma AD to related companies:

Companies related through key management:

- Contractual amount 12 807 thousand EUR; interest rate - 3.05%; maturity – 31 December 2017; Balance at 31 December 2017 - 0 thousand BGN;
- Contractual amount 8 154 thousand EUR; interest rate - 4.10%; maturity - 31.12.2017; Balance at 31.12.2017 – 0 thousand BGN;
- Contractual amount 66 700 thousand BGN; interest rate - 2.81%; maturity - 31.12.2018; balance at 31.12.2017 – 2 956 thousand BGN

Subsidiaries:

- Contractual amount 2 770 thousand EUR; interest rate - 4.70%; maturity - 31.12.2018; balance at 31.12.2017 – 4 702 thousand BGN;
- Contractual amount 11 979 BGN; interest rate - 4.10%; maturity - 31.12.2018; balance at 31.12.2017 – 3 369 thousand BGN;

- Contractual amount 850 thousand BGN; interest rate - 3.50%; maturity - 31.12.2018; balance at 31.12.2017 – 300 thousand BGN.
- Contractual amount 375 thousand BGN; interest rate - 3.95%; maturity - 10.05.2018; balance at 31.12.2017 – 748 thousand BGN.

Other related parties:

- Contractual amount 190 thousand BGN; interest rate - 3.50%; maturity - 31.12.2018; balance at 31.12.2017 - 62 thousand BGN;
- Contractual amount 300 thousand BGN; interest rate - 3.10%; maturity - 31.08.2018; balance at 31.12.2017 – 305 thousand BGN.

Provided short-term loans to related parties are to help finance the activities of these companies for achieving their strategic purposes. They are secured by pledges of shares and securities.

Information on the loans of subsidiaries will be available in the consolidated financial statements.

The commercial loans provided by Sopharma AD to third parties are as follows:

- + Contractual amount BGN 3 057 thousand; interest rate – 4,30%; maturity – 31.12.2018; balance as at 31.12.2017 – BGN 2 846 thousand;
- + Contractual amount BGN 949 thousand; interest rate – 4,70%; maturity – 31.12.2018; balance as at 31.12.2017 – BGN 104 thousand;
- + Contractual amount BGN 532 thousand; interest rate – 4,50%; maturity – 31.12.2018; balance as at 31.12.2017 – BGN 251 thousand.

10. Information on the use of funds from the issuance of new securities during the reporting period

During the reporting period, the company did not issue securities.

11. Analysis of the relationship between the financial results reflected in the financial statements for the financial year and earlier published forecasts for these results

There are no published forecasts of financial results.

12. Analysis and evaluation of the policy on the management of financial resources, including the ability to meet its obligations, possible threats and measures that the issuer has taken or will take to resolve them

The Company's management currently controls the collection of receivables, the implementation of financial ratios of bank contracts concluded and regularly services its

obligations. Financial risk management is fully disclosed in the "Financial Risk Management" as part of the individual financial statements of the Company.

13. Assessment of the feasibility of investment intentions, indicating the amount of available funds and possible changes in the financing structure of this activity

The planned investment program for 2018 includes investments of 13 million BGN for the acquisition of buildings, machinery, equipment and software. Sources of funding are its own funds from regular business. The Company is not experiencing difficulties in carrying out its investment intentions and payments for operating activity thanks to the generated positive thanks to cash flow and good liquidity.

14. Information about changes in the reporting period in the basic principles of management of the issuer and its group of companies under accounting the Law

During the reporting period there were no changes in the basic management principles of Sopharma AD and its economic group.

15. Information about the main characteristics applied by the issuer in the process of preparing the financial statements, internal control system and risk management

The information is provided in item 3 of the Corporate Governance Declaration pursuant to Art. 100m para. 8 of POSA published together with the management report.

16. Information about changes in management and supervisory boards during the accounting year

In 2017 there is no change in the management bodies of Sopharma AD.

17. Information on the amount of remuneration, rewards and / or benefits of each of the members of the management and supervisory bodies for the financial year, paid by the issuer and its subsidiaries, regardless of whether they have been included in the expenses of the issuer, or arising from profit distribution, including:

- amount of accrued by the Company remuneration of the Board of Directors and the Procurator

| | Remuneration BGN | Tantiems BGN | Total |
|-------------------------|-----------------------------|-------------------------|--------------|
| Ognian Ivanov Donev | 331 663 | 377 699 | 709 362 |
| Vesela Lyubenova Stoeva | 120 400 | - | 120 400 |

| | | | |
|---|---------|---|---------|
| Andrey Lyudmilov Breshkov | 126 222 | - | 126 222 |
| Ognian Kirilov Palaveev | 120 400 | - | 120 400 |
| Alexander Victorov Tchaushev | 120 400 | - | 120 400 |
| Ivan Venetzkov Badinski - Procurator | 60 000 | - | 60 000 |

- amount of paid by the Company remuneration of the Board of Directors and the Procurator

| | Remuneration BGN | Tantiems BGN | Total |
|---|---------------------|-----------------|---------|
| Ognian Ivanov Donev | 331 663 | 280 476 | 612 139 |
| Vesela Lyubenova Stoeva | 120 400 | - | 120 400 |
| Andrey Lyudmilov Breshkov | 126 222 | - | 126 222 |
| Ognian Kirilov Palaveev | 120 400 | - | 120 400 |
| Alexander Victorov Tchaushev | 120 400 | - | 120 400 |
| Ivan Venetzkov Badinski - Procurator | 60 000 | - | 60 000 |

Information about the amount of remuneration of the Board of Directors of Sopharma AD is referred to in Section IV of this report - information under Art. 247 of the Commercial Law, para 2.

- + deferred or contingent remuneration during the year, even if the remuneration is due at a later time

On the grounds of Art. 24 para. 3, part B of the Articles of Association of the Company to the Executive director of the company is entitled to an additional remuneration to 1% of the profit according to the approved on the General meeting of shareholders relevant Annual Financial Report. According to Article 7.2, para. 3 of the Remuneration policy, 40% of the additional remuneration to the CEO is as follows:

- BGN 101 415,43 has a maturity of 2019;
- BGN 96 151.96 has a maturity of 2020;
- BGN 151 046.79 has a maturity of 2021.

- + the amount of accrued and paid remunerations to the members of the Audit Committee

| Members of the Audit Committee | Remuneration BGN |
|--------------------------------|---------------------|
| Tzvetanka Zlateva | 12 000 |
| Vasil Naidenov | 12 000 |
| Vasil Piralkov | 5 045 |
| Kristina Atanasova | 8 253 |

18. **Information on held by members of management and supervisory bodies, the procurators and the senior management of the issuer shares, including the shares held by each of them individually and as a percentage of shares of each class and provided by the issuer options on its securities - type and amount of securities on which options have been set, exercise price of the options, purchase price, if any, and the term of the options.**

Information held by members of the Board of Directors shares of Sopharma AD is listed in section IV of this report - information Art.247a paragraph 2 of the Commercial Law.

| Members of the Audit Committee | 31.12.2017 | | 31.12.2016 | | change |
|--------------------------------|------------------|------------------|------------------|------------------|--------|
| | Number of shares | % of the capital | Number of shares | % of the capital | |
| Tzvetanka Zlateva | - | - | - | - | - |
| Vasil Naidenov | 186 | 0,00007% | 100 | 0,00007% | 86 |
| Kristina Atanasova | - | - | - | - | - |

19. **Arrangements (including after the end of the financial year) as a result of which future changes may occur in the holding of shares or bonds by current shareholders or bondholders**

There are no such arrangements.

20. **Information about pending legal, administrative or arbitration proceedings relating to liabilities or receivables of the issuer of at least 10 percent of its equity; if total liabilities or receivables of the issuer in all proceedings exceeds 10 per cent of its equity, provide information about each case separately**

There are no pending legal, administrative or arbitration proceedings relating to liabilities or receivables.

21. Information about the Investor Relations Director, including telephone number and mailing address

Director of Investor Relations is Pelagiya Viyacheva, tel. +359 2 8134 523, correspondence address - Sofia, 5 Lachezar Stanchev str., Building A, fl. 11.

1. Information Appendix 11 to Article 32, paragraph 1, item 4 of Ordinance 2 of POSA

1. Structure of the capital of the Company, including securities not admitted to trading on a regulated market in Bulgaria or another Member State, indication of the different classes of shares, the rights and obligations of each class of shares and the portion of the total capital represented by each class.

The capital of the Company is divided into 134 797 899 registered dematerialized shares each with a nominal value of 1.00 BGN. Each share entitles to one vote at a General Meeting of Shareholders, right to dividends and a liquidation share in proportion to its nominal value.

Structure of the capital of Sopharma AD as at 31 December 2017:

- + Physical persons: 5 801 - 9 753 379 shares - 7,24%
- + Legal persons: 191 - 125 044 520 shares - 92,76%

The capital of the Company may be increased by a decision of the General Meeting of Shareholders adopted by majority as required by law.

In case of capital increase, each Shareholder has the right to acquire shares of the new emission, which correspond to their share in the capital before the increase.

A shareholder cannot participate in person or by proxy in voting related to:

- claims against them.
- taking action or refusal to act, related to the fulfillment of obligations to the Company.
- taking of decision under art. 114, par. 1 of POSA, in case they are an interested party within the meaning of POSA.

Sopharma AD

The shares of the Company are traded on the Bulgarian Stock Exchange – Sofia AD, Main Market (BSE), Segment PREMIUM and on the official market of Warsaw Stock Exchange. Shares participate in the formation of the indices SOFIX, BGBX40 and BGTR30 of BSE - 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

| | 31.12.2017 | 31.12.2016 |
|--|-------------|-------------|
| Total number of issued shares | 134 797 899 | 134 797 899 |
| Average-weighted number of outstanding shares for the last four quarters | 129 039 942 | 129 393 992 |
| Number of shares outstanding at the end of the period | 125 764 919 | 129 135 485 |
| Earnings per share in BGN ¹ | 0,327 | 0,296 |
| Price per share at the end of the period in BGN | 4,282 | 2,992 |
| Price/Earnings ratio (P/E) | 13,09 | 10,10 |
| Book value per share in BGN ² | 3,803 | 3,589 |
| Price/Book value ratio (P/B) | 1,13 | 0,83 |
| Sales per share in BGN ³ | 1,632 | 1,412 |
| Price per share / Sales per share(P/S) | 2,62 | 2,12 |
| Market capitalization in BGN | 577 204 604 | 403 315 314 |

¹Net profit for the last four quarters / weighted average number of shares in the same period

²Equity/number of shares outstanding at the end of the period

³Sales revenue for the last four quarters / number of shares outstanding at the end of the period

Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2017 – 31 December 2017.



2. Restrictions on transfer of securities, such as restrictions for possession of securities or the need to obtain approval of the Company or another shareholder

There is no restriction on the ownership of shares or need to obtain approval from Sopharma AD or another shareholder. No information has been received by the Company, which gives reason to believe that there are any restrictions on the transfer of shares.

The replacement of dematerialized registered shares with bearer shares and placement of restrictions on their transfer is allowed after removal of the Company from the register of the Financial Supervision Commission.

Transactions with dematerialized shares of the Company may be made only on the regulated markets of securities by investment intermediaries, as well as in other way, regulated by law.

The transfer of registered dematerialized shares, issued by the Company, is effective at the time of entering of the transaction in the register of the Central Depository, proving the rights to these shares. The transfer of registered shares is in accordance with the requirements of current legislation.

3. Information regarding the direct and indirect ownership of 5 percent or more of the voting rights at the General Meeting of the Company, including details of the Shareholders, the size of their shareholding and the type of shareholding

Shareholders holding more than 5 percent of the Company's capital as at 31 December 2017 are

as follows:

| Shareholders | 31.12.2017 | | 31.12.2016 | |
|--|------------------|------------------|------------------|------------------|
| | Number of shares | % of the capital | Number of shares | % of the capital |
| Donev Investment Holding AD , UIC 0831915121, Sofia, 12 Positano Str. | 33 968 289 | 25,20% | 33 404 466 | 24,78% |
| Telecomplect invest AD , UIC 201653294, Sofia, 9 Slaveikov Square | 27 516 752 | 20,41% | 27 156 752 | 20,15% |
| Rompharm Company OOD , UIC 200732874, Sofia, Mladost, 7 Boian Damianov Str. | 10 131 347 | 7,52% | 24 313 355 | 18,04% |
| ZUPF Aliantz Bulgaria , UIC 130477720, Sofia, 42 Damian Gruev Str. | 6 970 395 | 5,17% | 6 970 395 | 5,17% |
| Sopharma AD , UIC 831902088, Sofia, 16 Iliensko Shose Str. | 9 032 980 | 6,70% | 5 662 414 | 4,20% |

4. Information about shareholders with special control rights

The Articles of Association of Sopharma AD do not provide special control rights.

5. System for control of exercising votes when employees of the Company are also its shareholders and when the control is not exercised directly by them

There is no special system for control of voting in the event that employees of the Company are also its shareholders and when the control is not exercised directly by them.

The Shareholders may attend the General Meeting either personally or through an authorized representative. Several Shareholders may authorize a joint representative.

To participate in the General Meeting of Shareholders the Shareholders shall identify themselves with the statutory document certifying their rights on the shares they own. Representatives of the General Meeting of Shareholders shall identify themselves with an explicit written authorization having a minimum content set by Decree.

The voting right shall be exercised by persons who acquired shares not later than 14 days prior to the General Meeting.

- 6. Restrictions on the voting rights, such as limitations on the voting rights of Shareholders by a certain percentage or number of votes, deadlines for exercising the voting rights or systems in which with the cooperation of the Company the financial rights attached to shares are separated from the ownership of shares.**

There are no such restrictions.

- 7. Agreements between Shareholders which are known to the Company and which may lead to restrictions on the transfer of shares or voting right.**

There are no such agreements.

- 8. The provisions concerning the appointment and dismissal of members of the governing bodies of the Company and on the making of amendments to the Articles of Association.**

Members of the Board of Directors may be physical or legal persons meeting the requirements of Article 234 of the Commercial Law and Article 116a, paragraph 2 of the Public Offering of Securities.

When a member of the Board of Directors is a legal entity, it shall designate a representative / and / for the performance of duties in the Board. The legal entity is jointly and unlimitedly liable with the other members of the Board for the obligations arising from the actions of his representative.

Physical persons who represent legal persons - members of the Board of Directors must meet the requirements of Art. 234, para 2 of the Commercial Law.

Members of the Board of Directors cannot be persons who were members of management or supervisory body of a company terminated due to bankruptcy in the last two years preceding the date of the declaration of insolvency, if unsatisfied creditors.

A person who has been governor, member of the management or supervisory body of a company, which was established by an effective penalty decree defaulting on creation and preservation of its defined levels of stocks under the Law on stocks of oil and oil products cannot be a member of the Board.

At least one third of members of the Board of Directors must be independent. The independent member of the Board cannot be:

- an employee of the public company;

- a shareholder, who owns directly or through related parties, at least 25 percent of the votes in the General Meeting or in a related company; a person who has a long-term business relation to the public company;
- a person who is in permanent trade relations with the public company;
- a member of the management or supervisory body, procurator or employee of a company or other entity.
- a person connected with another member of the management or supervisory body of the public company.

Members of the Board of Directors can be reelected without limitation.

With changes in legislation, the next General Meeting of Shareholders shall decide on amending the Articles of incorporation in order to align its provisions with those of existing regulations. By making this decision, the affected versions of the Articles of incorporation shall be interpreted in accordance with the Constitution and laws of the country.

The Articles of Association shall be amended by the General Meeting of Shareholders with a majority of 2/3 / two thirds / of the represented at the General Meeting capital. The current Articles of Association is entered in the Commercial Register under the number 20150226134200.

9. Powers of the management bodies of the company, including the right to decide on the issue and redemption of shares

The powers of the Board of Directors are regulated by the Articles of Association. The decisions that may be taken by a qualified majority of two thirds of the members of the Board of Directors to be valid are defined.

The Board of Directors is authorized to acquire treasury shares under certain conditions, according to the decisions of the GMS, held on 23.06.2010, to the EGMS from 30.11.2011, to the EGMS from 01.11.2012, to the EGMS from 28.02.2013 and of the EGMS from 23.02.2018.

10. Significant contracts of the Company that take effect, are amended or terminated due to a change in control of the company in a mandatory tender offer and the effects thereof, except where disclosure of this information may cause serious damage to the company; exemption under the preceding sentence shall not apply in cases where the company is obliged to disclose information under the Law

There are no such contracts, amendments or terminations.

11. Agreements between the Company and its management bodies or employees for payment of compensation upon retirement or dismissal without legal grounds or upon termination of employment for reasons related to a tender offering.

There are no such agreements.



Ognian Donev, PhD
/Executive Director/

