

# MANAGEMENT REPORT

## H1 2018

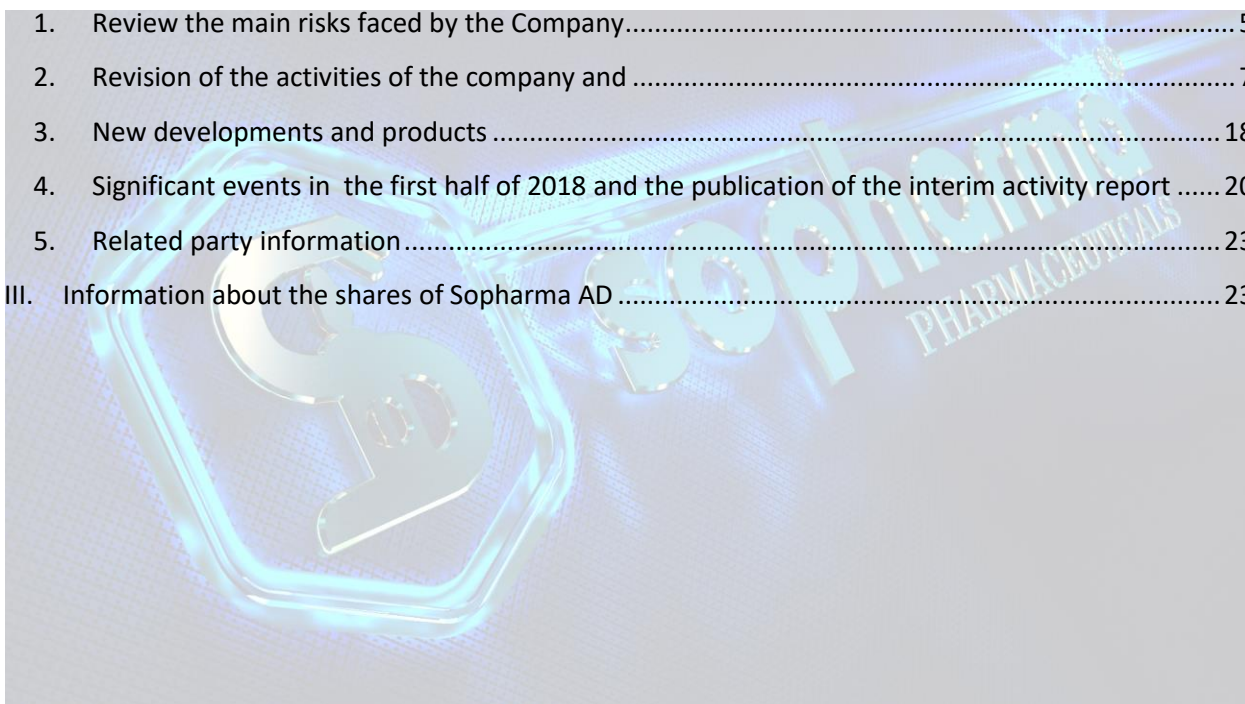


## SOPHARMA AD

30 July 2018

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## I. General information about Sopharma AD

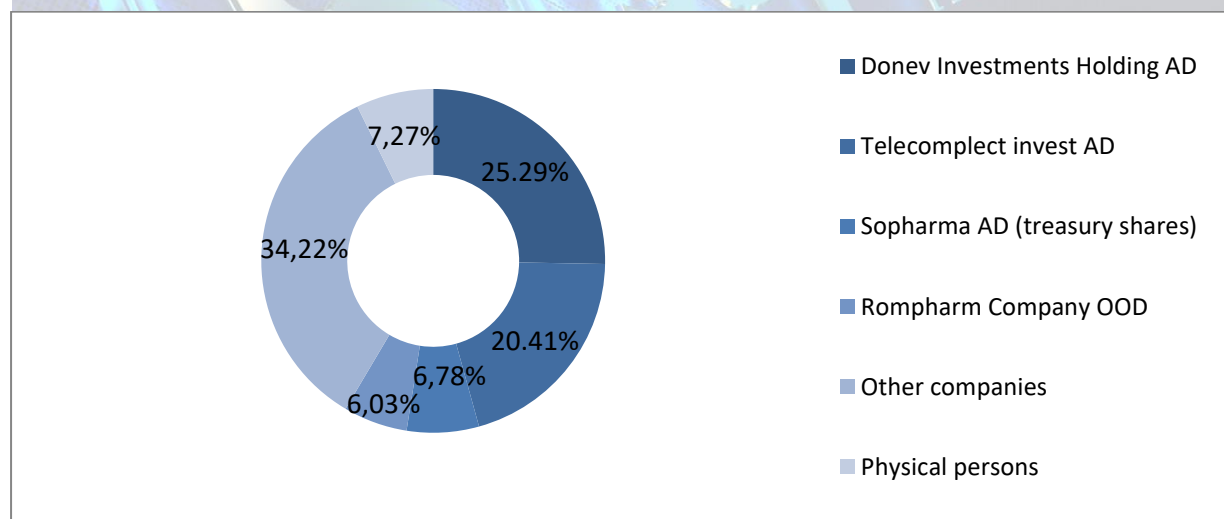
### 1. Registration and main activities

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 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 photochemistry, 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.

### 2. Shareholder structure as at 30 June 2018



### 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, Ognian Palaveev, Alexander Tchaushev. The composition will be fully filled by choosing a new member of the Board of Directors by the end of 2018. The Company is represented and managed by the

Executive Director Ognian Donev, PhD.

## 4. Personnel

The average number of employees for 2018 in Sopharma AD is 2,038 workers and employees (1,953 in 2017). The table below provides more detailed information about the company's personnel.

	30.06.2018	Ref. Share %
Number of employees as at 30.06.2018	2 101	100%
Higher education	896	43%
A college education	49	2%
Secondary education	1 121	53%
Primary education	35	2%
Employees under 30	221	10%
Employees 31 - 40 years	416	20%
Employees 41 - 50 years	651	31%
Employees 51 - 60 years	644	31%
Employees over 60	169	8%
Women	1 311	62%
Men	790	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.

## 5. Production activity

Sopharma AD has ten manufacturing plants in line with EU requirements, which are located in Bulgaria. The company is the largest Bulgarian manufacturer of ampoules and suppositories.

The production activity of the company is realized and developed in the following main directions:

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

### + Ready-to-use formulations, incl.

- ✓ Solid tablets, coated tablets, film-coated tablets, capsules;
- ✓ Gallbits - suppositories, drops, syrups, ointments;
- ✓ Parenteral - injection solutions, lyophilisate powder for injection;

### + Medical devices and cosmetics, incl.:

- ✓ Plasters;
- ✓ Bandages;
- ✓ Samitary-hygiene products;
- ✓ Medicinal cosmetics.

## 6. Products

The company has more than 210 products in its portfolio: mainly generics and 15 original products, 12 of the products are plant-based. The Company's original products (in particular, Carsil and Tempgine) make a major contribution to its export market income, while domestic sales are of major importance to the company's generic products, including Analgine's first drug.

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:

- + Carsil - an original plant-based product used to treat gastro-enterological diseases (liver diseases);
- + Tempalgin - an original analgesic (painkiller);
- + Tabex - an original plant-based drug against tobacco smoke;
- + 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.

## II. Development of the activity

### 1. Review the main risks faced by the Company

#### *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](http://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.

## 2. Revision of the activities of the company and

### Key financial indicators

Indicators	1-6/2018 <i>BGN '000</i>	1-6/2017* <i>BGN '000</i>	change %
Sales revenues	93 664	101 950	-8.1%
EBITDA	25 973	33 969	-23.5%
Operating profit	17 868	26 007	-31.3%
Net profit	25 027	32 807	-23.7%
CAPEX**	5 515	4 348	26.8%
	30.06.2018 <i>BGN '000</i>	31.12.2017 <i>BGN '000</i>	
Non-current assets	414 213	415 251	-0.2%
Current assets	207 631	175 054	18.6%
Owners' equity	488 143	478 334	2.1%
Non-current liabilities	28 879	32 346	-10.7%
Current liabilities	104 822	79 625	31.6%
* 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			
Ratios	1-6/2018	1-6/2017*	
EBITDA / Sales revenues	27,7%	33,3%	
Operating profit/ Sales revenues	19,1%	25,5%	
Net profit/ Sales revenues	26,7%	32,2%	
Borrowed capital/Owners' equity	0,27	0,23	
Net debt/ EBITDA	1,6x	2,1x	

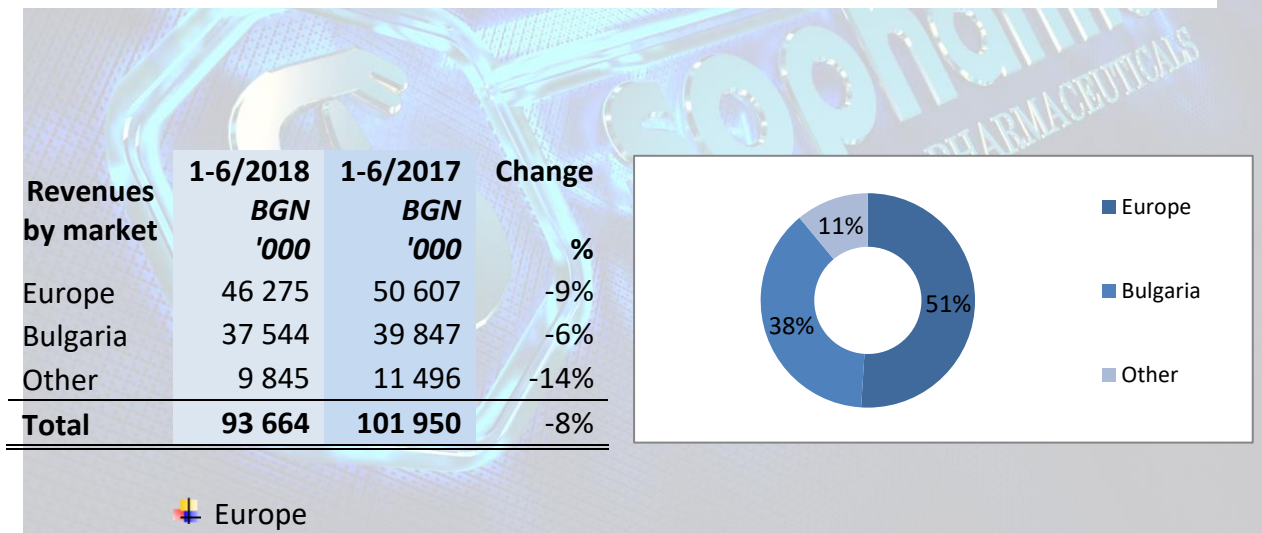
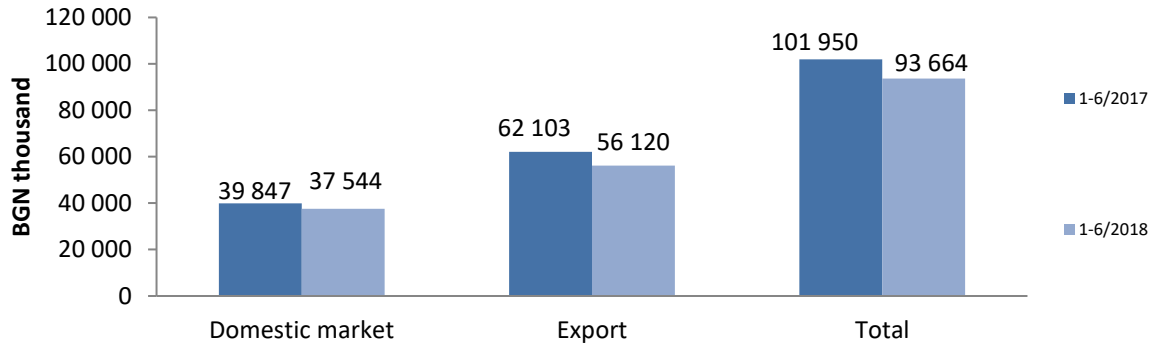


# Sopharma AD

## Revenues

Sales revenues of production for the first half of 2018 decrease by BGN 8,3 million or 8%, to BGN 93,7 compared to BGN 102 million in the first half of 2017.

Sales revenues



### 🇪🇺 Europe

Revenues from sales to European countries decreased by 9% compared to the first half of 2017 due to the decrease of sales in Russia with 9%, Balkan countries, Ukraine, Poland, Belarus. Sales for the Baltic, the Czech Republic and others have increased.

### 🇵🇵 Bulgaria

The sales of Sopharma AD on the domestic market decrease with 6% to BGN 37,5 million, (according to recalculated data after merger with Medica AD). The products with largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C, Nivalin, medical supplies - gauzes, compresses and bandages. Sopharma AD has a 3,5% share of the total Bulgarian pharmaceutical market in value and 12% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0,3% in units), Actavis – 5% (10% in units), GlaxoSmithKline – 4% (3% in units), Abbvie –

## Sopharma AD

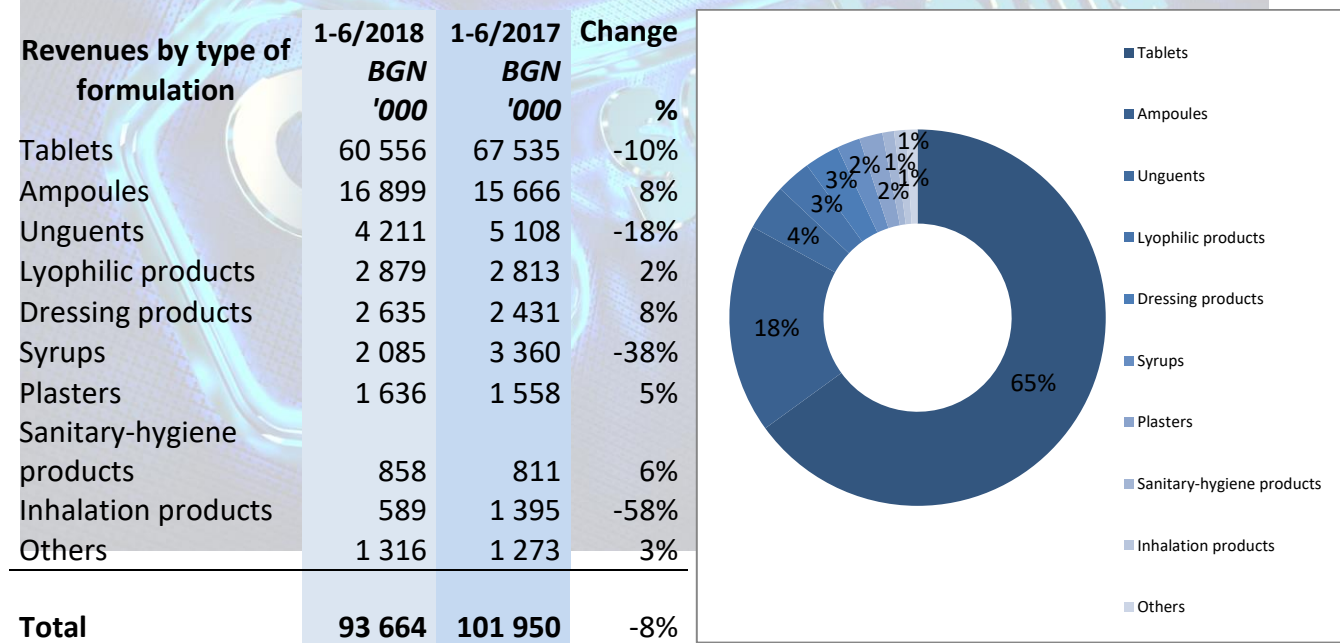
3,5% (0% in units), Pfizer – 3,6% (1% in units), Sanofi-Aventis – 3,6% (3% in units), Astra Zeneca – 3% (1% in units), Merck – 2,7% (1% in units).

### Other markets

Revenues from other markets decrease with 14% compared to the first half of 2017, mainly in the part of exports to Vietnam. Revenues from sales in the Caucasus and Central Asia, increase with 6% compared to the previous year.

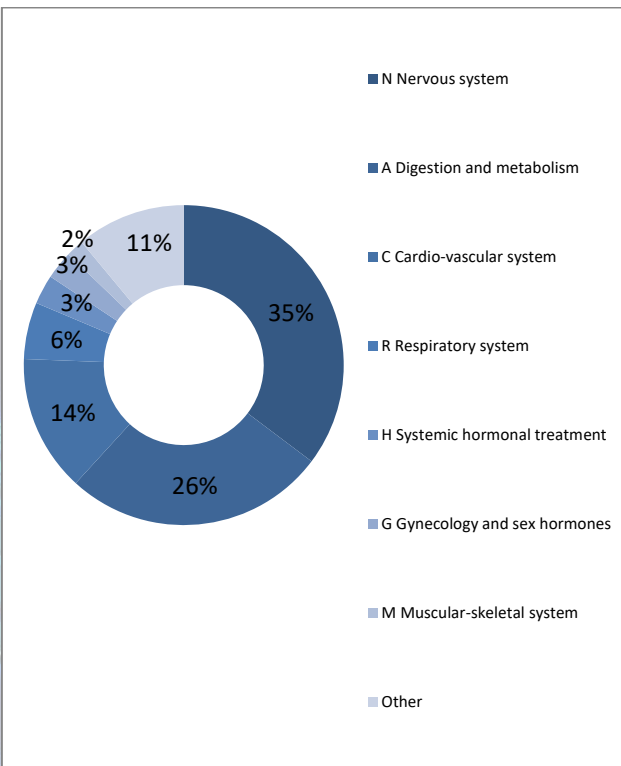
### Sales by type of formulation

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



## Sales by therapeutic group

Revenues by therapeutic group	1-6/2018 BGN '000	1-6/2017 BGN '000	Change %
N Nervous system	32 925	34 818	-5%
A Digestion and metabolism	24 758	26 440	-6%
C Cardio-vascular system	12 898	12 025	7%
R Respiratory system	5 357	6 957	-23%
H Systemic hormonal treatment	2 778	2 737	1%
G Gynecology and sex hormones	2 666	2 779	-4%
M Muscular-skeletal system	1 668	2 439	-32%
Other	10 614	13 755	-23%
<b>Total</b>	<b>93 664</b>	<b>101 950</b>	<b>-8%</b>



## Other operating revenues

Other operating revenues	1-6/2018 BGN '000	1-6/2017 BGN '000	Change %	Share 2018 %
Income from services rendered	1 928	1 696	14%	80%
Income from financing under European programs	255	255	0%	11%
Income from sale of materials	73	92	-21%	3%
Income from sale of goods	80	84	-5%	3%
Income from sale of LTA	127	2	-	5%
Net exchange loss on trade receivables and payables and current accounts	(150)	(127)	18%	-6%
Other (see Notes to the FS)	100	157	-36%	4%
<b>Total other operating revenues</b>	<b>2 413</b>	<b>2 159</b>	<b>12%</b>	<b>100%</b>

*Other operating income* increased by BGN 0,2 million in the first half of 2018 compared to the first half of 2017 mainly in the part of income from the provision of services and an increase of the profits from the sale of long-term assets.

## Operating expenses

Operating expenses	1-6/2018 BGN '000	1-6/2017 BGN '000	Change %	Share 2018 %
Changes in the finished goods and work-in-progress inventory	(9 386)	(6 215)	-51%	-12%
Materials	32 791	34 685	-5%	42%
External services	20 639	18 893	9%	26%
Personnel	24 206	21 757	11%	31%
Amortization	8 105	7 962	2%	10%
Other operating expenses	1 854	1 020	82%	2%
<b>Total</b>	<b>78 209</b>	<b>78 102</b>	<b>0%</b>	<b>100%</b>

*Operating expenses* increased by BGN 0,1 million from BGN 78,1 million in the first half of 2017 to BGN 78,2 million in the first half of 2018, mainly by an increase in the cost of external services and personnel and a reduction in the cost of raw materials.

*Cost of materials* (42% share) decreased by BGN 1,9 million or 5% from BGN 34,7 million in the first half of 2017 to BGN 32,8 million in the same period of 2018 and the biggest impact has the decrease in main materials with BGN 2,1 million and in particular the substances, herbs, ampoules, aluminum and PVC foil.

*Expenditure on external services* accounted for 26% relative share of operating expenses and increased by BGN 1,7 million or 9% to BGN 20,6 million in the first half of 2018 compared to BGN 18,9 million in the first half of 2017. The most significant impact is the increase in the cost of advertising and marketing by BGN 2 million. The cost of making medicines by BGN 0.2 million, transportation and others is decreasing.

*Personnel costs* (with a relative share of 31% of operating costs) increased by BGN 0,1 million or by 1% from BGN 10,3 million in the first half of 2017 to BGN 10,4 million in H1 2018. This is mainly due to share-based accrued payments of BGN 1.2 million as a result of a GMS decision 276,000 treasury shares to be provided to employees as an extra bonus, once, on a case of 85 anniversary of the Company. The increase in current salaries is 4%.

*Other operating costs* (with a relative share of 2% of operating costs) increased with BGN 0,8 million H1 2018 compared to the same period of 2017 mainly in the part of impairment of current assets.

*Depreciation costs* (with a relative share of 10% of operating expenses) registered an increase of BGN 0,1 million or by 2% from BGN 8 million in the first half of 2017 to BGN 8,1 million in the first half of 2018.

*Changes in inventories of finished goods and work in progress* have an impact on the decrease in operating expenses by BGN 3,2 million.

## Financial income and expenses

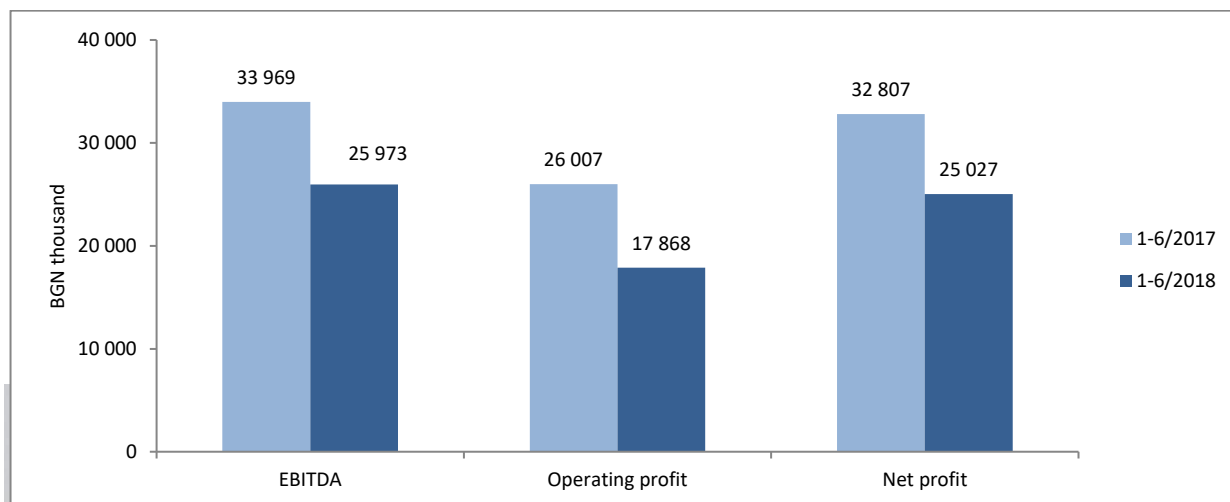
<b>Financial income</b>	<b>1-6/2018</b>	<b>1-6/2017</b>	<b>Change</b>	<b>Share 2018</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
Revenue from shareholding	8 733	7 495	17%	88%
Income from interest on loans granted	778	799	-3%	8%
Net gain on available-for-sale investments	395	1 254	-69%	4%
Net gain on exchange differences on receivables from sale of subsidiary	91	-	-	-
Impairment on receivables on commercial loans granted	-	(881)	-	-
Recovered impairment on receivables on commercial loans granted	-	1 661	-	-
Net change in impairment on receivables from commercial loans granted	-	780	-100%	-
<b>Total</b>	<b>9 997</b>	<b>10 328</b>	<b>-3%</b>	<b>100%</b>
<b>Financial expenses</b>			<b>Change</b>	<b>Share 2018</b>
Interest expense on loans received	530	620	-15%	75%
Impairment of receivables from commercial loans granted	397	0	-	0%
Bank fees and charges on loans and guarantees	80	124	-35%	15%
Effects from derivatives	2	80	-98%	10%
<b>Total</b>	<b>1 009</b>	<b>824</b>	<b>22%</b>	<b>100%</b>

*Financial revenues* decrease by BGN 0,3 million or 3%, to BGN 10 million in the first half of 2018 compared to BGN 10 million in the first half of 2017. The reason is the decrease of the recovered impairment of receivables from commercial loans granted.

*Financial expenses* increase by BGN 0,2 million or by 22% to BGN 1 million in first half of 2018. The reason is the increase of an impairment of receivables from commercial loans granted.

*Net financial revenues (costs)* decrease by BGN 0,5 million reaching BGN 9 million in the first half of 2018 compared to BGN 9,5 million in the first half of 2017.

## Financial result of the activity



*Profit before interest, taxes and depreciation (EBITDA)* in the first half of 2018 decreased with BGN 8 million or 23,5% reaching BGN 26 million compared to BGN 34 million in the first half of 2017.

*Operating profit* decreased by BGN 8,1 million or by 31,3%, to BGN 17,9 million in the first half of 2018 compared to BGN 26 million in the first half of 2017.

*Net profit* decreased by BGN 7,8 million or 23,7%, to BGN 25 million in the first half of 2018 compared to BGN 32,8 million in the first half 2017.

## Assets

	30.06.2018	31.12.2017	Change	Share
	BGN '000	BGN '000	%	2018
				%
<b>Non-current assets</b>				
Property, plant and equipment	220 405	223 097	-1%	53%
Intangible assets	6 279	6 471	-3%	2%
Investment property	25 089	24 799	1%	6%
Investments in subsidiaries	120 225	120 145	0%	29%
Investments in associated companies	7 830	7 740	1%	2%
Available-for-sale investments	6 674	7 206	-7%	2%
Long-term receivables from related parties	22 971	21 583	6%	6%
Other long-term receivables	4 740	4 210	13%	1%
	<b>414 213</b>	<b>415 251</b>	<b>-0.2%</b>	<b>67%</b>
<b>Current assets</b>				
Inventories	75 246	66 433	13%	36%
Receivables from related parties	95 424	74 920	27%	46%
Commercial receivables	24 465	22 527	9%	12%
Loans granted to third parties	3 207	3 201	0%	2%
Other receivables and prepaid expenses	6 403	4 757	35%	3%
Cash and cash equivalents	2 886	3 216	-10%	1%
	<b>207 631</b>	<b>175 054</b>	<b>19%</b>	<b>33%</b>
<b>TOTAL ASSETS</b>	<b>621 844</b>	<b>590 305</b>	<b>5%</b>	<b>100%</b>

Total assets increased by BGN 31,5 million or by 5% to BGN 621,8 million, compared to BGN 590,3 million as at 31 December 2017.

Non-current assets decreased by BGN 1 million, or 0,3%, mainly due to a decrease in the property, plant and equipment, a decrease of available-for-sale investments by BGN 0,5 million and a decrease of intangible assets by BGN 0,2 million. Assets in property, plant and equipment decreased by BGN 2,7 million mainly in the part of machinery and equipment by BGN 0,9 million, land and buildings - by BGN 0,8 million and in the process of acquisition by BGN 1 million. Intangible assets decreased by BGN 0,2 million mainly in the software sector. Long-term receivables from related parties increased by BGN 1,4 million.

Current assets increased by BGN 32,6 million or 19% to BGN 207,6 million as at 30 June 2018 compared to 175,1 million as at 31 December 2017. Inventories increase by BGN 8,8 million or 13% compared to 31 December 2017 mainly due to an increase in stocks of finished goods BGN 6,5 million and inventory of semi-finished products with BGN 1,2 million and unfinished production by BGN 1,6 million and decrease in stocks of materials by BGN 0,6 million. Receivables from related parties increased by BGN 20,5 million in the part of



receivables from sales of products and materials by BGN 11 million. Trade receivables increased by BGN 1,9 million.

*Cash and cash equivalents* decrease with BGN 0,3 million and as at 30 June 2018 amount to BGN 3 million compared to BGN 3,2 million as at 31 December 2017.

### *Liabilities and owners' equity*

	30.06.2018	31.12.2017	Change	Share
	BGN '000	BGN '000	%	2018
<b>OWNERS' EQUITY</b>				
Share capital	134 798	134 798	0%	28%
Treasury shares	(34 291)	(33 834)	1%	-7%
Reserves	358 382	330 683	8%	73%
Retained earnings	29 254	46 687	-37%	6%
<b>TOTAL OWNERS' EQUITY</b>	<b>488 143</b>	<b>478 334</b>	<b>2%</b>	<b>100%</b>
	30.06.2018	31.12.2017	Change	Share
	BGN '000	BGN '000	%	2018
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	13 120	16 691	-21%	10%
Liabilities on deferred taxes	6 607	6 553	1%	5%
Government grants	5 223	5 478	-5%	4%
Long-term liabilities to the personnel	3 929	3 624	8%	3%
	<b>28 879</b>	<b>32 346</b>	<b>-11%</b>	<b>22%</b>
<b>Current liabilities</b>				
Short-term bank loans	65 000	53 088	22%	49%
Short-term part of long-term bank loans	7 228	7 392	-2%	5%
Commercial liabilities	5 351	7 569	-29%	4%
Liabilities to related parties	8 461	1 752	383%	6%
Liabilities for taxes	730	1 429	-49%	1%
Liabilities to the personnel and for social insurance	10 021	7 172	40%	7%
Other current liabilities	8 031	1 223	557%	6%
	<b>104 822</b>	<b>79 625</b>	<b>32%</b>	<b>78%</b>
<b>TOTAL LIABILITIES</b>	<b>133 701</b>	<b>111 971</b>	<b>19%</b>	<b>100%</b>
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>621 844</b>	<b>590 305</b>	<b>5%</b>	

*Owners' equity* increased by BGN 9,8 million or by 2% to BGN 488,1 million as at 30 June 2018 compared to BGN 478,3 million as at 31 December 2017, mainly as a result of the retained earnings with BGN 17,4 million.

*Non-current liabilities* decreased by BGN 3,5 million or 11% to BGN 28,8 million at the end of June 2018 compared to BGN 32,3 million at the end of 2017 mainly due to a decrease of long-term bank loans by BGN 3,6 million.

*Current liabilities* increased by BGN 25,2 million to BGN 104,8 million at the end of the first half of 2018 compared to BGN 79,6 million at the end of 2017. Short-term bank loans increased by BGN 11,9 million and the liabilities to personnel and social insurance by BGN 2,8 million, the liabilities to related parties by BGN 6,7 million and other current liabilities by BGN 6,8 million. Commercial liabilities decreased by BGN 2,2 million and tax liabilities of BGN 0,7 million. Total bank loans exposure to the Company as at 30 June 2018 increased with BGN 8 million compared to 31 December 2017.

### Cash flow

	<b>1-6/2018</b>	<b>1-6/2017</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flow from/ (used in) operations	(1 576)	13 172
Net cash flow used in investment activities	(6 343)	(45 905)
Net cash flow (used in)/from financial operations	7 589	27 738
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(330)</b>	<b>(4 995)</b>
Cash and cash equivalents on 1 January	3 216	9 275
Cash and cash equivalents on 30 June	2 886	4 280

*Net cash flows* in the first half of 2018 generated by operating activities amounted to BGN 1.6 million outflow, from investment activity amounted to BGN 6.3 million outflow and from financial activity were to the amount of BGN 7.6 million. As a result of these activities, cash and cash equivalents decreased by BGN 0.3 million and by 30 June 2018 amounted to BGN 2.9 million compared to BGN 3.2 million as of 01 January 2018.

## Ratios

	30.06.2018	30.06.2017	Change
ROE <sup>1</sup>	7,0%	7,6%	-0,6%
ROA <sup>2</sup>	5,7%	6,1%	0,4%
Asset turnover <sup>3</sup>	0,32	0,30	0,02
Current liquidity <sup>4</sup>	1,98	1,93	0,05
Quick ratio <sup>5</sup>	1,26	1,38	-0,12
Cash/current liabilities <sup>6</sup>	0,03	0,01	0,02
Owners' equity/liabilities <sup>7</sup>	3,65	3,22	0,43

1 Net profit per annum / average equity for the last five quarters

2 Net profit on an annual basis / average value of total assets for the last five quarters

3 Revenues from sales on an annual basis / arithmetic mean of total assets for the last five quarters

4 Current assets / current liabilities

5 Receivables + Cash / Current liabilities

6 Cash / Current liabilities

7 Equity / Liabilities

### 3. New developments and products

#### + New Products for the period January - June 2018

Authorization to use the medicinal product Tuspan syrup (in Poland) was obtained.

#### + Implemented new products in the production cycle

For the period January – June 2018 there are no new medicines introduced.

By the end of 2018, it is expected that 2 to 4 new products will be introduced.

#### + New registrations and re-registrations / changes

##### New registrations

Permissions for use for new destinations of 21 medicinal products have been received - Deavit Neo 0.5 mg/ml oral drops, 10 ml; Allergosan 10 mg/g cream; Digoxin Sopharma 0.25 mg/ml solution for injection; Atropine Sopharma 1 mg/ml solution for injection;

Felogel Forte 5% gel; Syafen 100 mg/5 ml oral suspension; Phenobarbital Sopharma 100 mg/ ml solution for injection; Sopharol 0.5 mg/ml oral solution; Analgin 500 mg tablets; Lidocaine Sopharma 10 mg/ml solution for injection; Lidocaine Sopharma 20 mg/ml solution for injection; Clenbuterol Sopharma 0.02 mg tablets; Troxerutin Vip Pharma 20 mg/g gel (Estonia); Sophalor 5 mg film-coated tablets; Ivadron 3 mg/3 ml solution for injection; Ivadron 150 mg film-coated tablets; Allergosan 10 mg/g ointment; Sopral 20 mg gastro-resistant hard capsules; Urimax Duo 0.5 mg/0.4 mg capsules, hard; Tabex Elite 1.5 mg film-coated tablets; Vicetin 10 mg tablets; Vicetin 5 mg/ml solution for infusion. Documents has been submitted for the registration of 34 medicinal products to agencies of new destinations.

### *Cosmetic products*

10 new cosmetic products have been notified in Bulgaria.  
2 cosmetic products are registered in Ukraine.

### *Food additives*

2 food supplements have been notified in Bulgaria.  
2 food supplements are registered in Poland, Armenia and Georgia and sent for registration in seven countries.

### *Medical supplies*

152 medical devices are registered in Bulgaria and Moldova.  
6 new medical devices have been submitted for registration in Bulgaria.

### *Re-registrations / changes*

Agency submissions for re-registrations / changes to 47 medicinal products.  
Submission of documents for the renewal of the Marketing Authorizations for 61 Medicinal Products to Agencies.  
Submissions to agencies 512 changes for medicinal products.  
Agreements approved by the agencies 386 for medicinal products.

### Developments

There is a pharmaceutical development of 9 new medicinal products.  
Translated and validated / optimized are 10 production processes and technologies.

#### 4. Significant events in the first half of 2018 and the publication of the interim activity report

✚ 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%.

✚ On 23 February 2018 an Extraordinary General Meeting of Shareholders of Sopharma AD took place, where the following decisions were taken:

1. 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;

2. The Transformation Agreement was approved for the transformation through the merger of Unipharm AD in Sopharma AD, concluded on 14 September 2017 and of Additional Agreement No 1 of 08.11.2017 to it;

3. 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;

4. 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;

5. 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;

✚ On 15 June 2018 a General Meeting of Shareholders of Sopharma AD took place, where the following decisions were taken: 1. GMS approves the annual report of the Board of Directors on the Company's activities in 2017; 2. The GMS approves the Annual Activity Report of the Investor Relations Director in 2017; 3. The General Meeting of Shareholders approves the audited Annual Individual Financial Statement of the

Company for 2017; 4. The GMS approves the Audited Annual Consolidated Financial Statement of the Company for 2017; 5. The GMS approves the Auditor's Report for the Audit of the Annual Financial Statements of the Company for 2017; 6. The GMS approves the Audit Report for the Audit of the Annual Consolidated Financial Statements of the Company for 2017; 7. GMS approves the proposal of the Board of Directors for distribution of the Company's profit realized in 2017 and undistributed profits from past periods, as follows: The total amount of the distributable profit amounted to BGN 43,010,955.52 (forty three million ten thousand nine hundred and fifty five levs and fifty and two stotinki) of which BGN 42,237,884.12 (forty two million two hundred thirty seven thousand eight hundred and eighty four leva and twelve) profit realized in 2017 and BGN 773 071.40 (seven hundred and seventy-three thousand seventy-one leva and forty) unallocated profit from past periods. After allocating 10% to a mandatory reserve, a dividend of BGN 0.11 per share is distributed. The amount left over after the allocation should be taken as an additional reserve of the company. The right to receive a dividend shall have the persons entered in the registers of the Central Depository as shareholders on the 14th day following the day of the General Meeting at which the Annual Financial Statement was adopted and a decision on the distribution of the profit was taken. The costs of dividend payment are at the Company's expense. The payment of the dividend is made with the assistance of the Central Depository. The shareholders with open accounts with an investment intermediary will receive their dividend through the respective intermediary and those shareholders who do not use the services of an investment intermediary will receive their dividends from the branches of Eurobank Bulgaria AD (Postbank) in the country; 8. The GMS approves the Report of the Audit Committee on its activities in 2017; 9. The GMS discharges from liability the members of the Board of Directors for their activity in 2017; 10. The GMS elects a registered auditor for verifying and certifying the Annual Financial Statements of the Company for 2018, as proposed by the Audit Committee included in the agenda items; 11. GMS approves the report of the Board of Directors on the implementation of the remuneration policy of the members of the Board of Directors of the Company for 2017; 12. On the basis of Art. 24, para. 3, letter "A" of the Articles of Association of the company, the GMS decided: the permanent remuneration of the members of the Board of Directors and the permanent remuneration of the Executive Director in 2018 remain unchanged; 13. Pursuant to Art. 24, para. 3, letter "B" of the Articles of Association, the Executive Director of the Company shall be paid an additional remuneration of 1% (one percent) of the amount of profits realized in 2017 according to the accepted Annual Financial Report.; 14. The General Meeting adopts a decision of 2% (two percent) of the profit realized in 2017 to be distributed among the members of the company's senior

management team, subject to the requirements of Art. 26a, item 12 of the Articles of Association of the Company. ; 15. The GMS approves the Substantiated Report of the Board of Directors for transactions from the scope of Art. 114, para. 1 of the Public Offering of Securities Act; 16. The GMS empowers the representative of the public company Sopharma AD to conclude on behalf of the Company as a contracting entity a transaction with Telekomplekt AD as a contractor falling within the scope of Art. 114, para. 1, in conjunction with paragraph 6 of the same provision of the Public Offering of Securities Act, according to the conditions specified in the Substantiated Report; 17. The GMS empowers the representative of the public company Sopharma AD to conclude on behalf of the Company as a seller a transaction with Sopharma Trading AD as a buyer falling within the scope of art. 114, para 1 of LPOS, according to the conditions stated in the Substantiated Report; 18. The GMS empowers the representative of the public company Sopharma AD to conclude on behalf of the company as a co-debtor an overdraft loan agreement with creditor Eurobank Bulgaria AD and Momina Krepost AD as a borrower - a transaction falling within the scope of Art. 114, para. 1 of POSA, according to the conditions stated in the Substantiated Report; 19. The GMS empowers the representative of the public company Sopharma AD to conclude a transaction within the scope of Art. 114, para. 1 between Sopharma AD and Sopharma Properties REIT under the conditions set out in the Substantiated Report, Section Four, Subsections 1 and 2; 20. The General Meeting of Shareholders decided that the Company's shares should be granted as a bonus for 2018 on the occasion of the 85th anniversary of the Company to all persons having an employment relationship with the Company or working under a management contract at the date of taking this decision, the bonus will be at the expense of the Company's own shares. The proposal of the Board of Directors included in the agenda items contains detailed information on how to determine the number of shares to be given to each person. The GMS empowers the Chairman of the Board of Directors and the Executive Director to perform all necessary actions for the final transfer from the Company of the shares provided as a bonus to the employees.

- ✚ On 25 June 2018 Sopharma AD received approval from the FSC of the Contract for Transformation through merger of Unipharm AD into Sopharma AD as well as the reports of the management bodies and the reports of the auditors. The fair value of the shares of the companies involved in the transformation is determined on the basis of generally accepted valuation methods. Based on the fair price of the shares of the companies involved in the transformation, a replacement ratio of 0.957502 is formed, which means that one share of the Transforming Company Unipharm AD should be replaced by 0.957502 shares of the Receiving Company Sopharma AD from the

redemption shares, which the Receiving Company has. All the terms of the transformation are described in detail in the Contract for Transformation through merger and the reports of the management bodies to be approved by the GMS of the two companies. The convocation procedure of the GMS of the two companies is launched and the two meetings are expected to take place on 1 August 2018.

### 5. Related party information

Related party disclosures are disclosed in the notes to the interim financial statements.

### III. Information about the shares of Sopharma AD

The total number of shares issued by Sopharma, issued on 30.06.2018, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, in accordance with the Articles of Association of the Company. All issued shares are of one class. Each share entitles one vote to the General Meeting of Shareholders, a right to dividend and a liquidation share proportional to the nominal value of the share.

The shares of the Company are traded on the Bulgarian Stock Exchange - Sofia AD, the Main Market (BSE), the PREMIUM Shares Market and on the official market of the Warsaw Stock Exchange. The shares participate in the formation of the SOFIX, BGBX40 and BGTR30 indices of BSE - Sofia AD. The company's shares are included in the Dow Jones STOXX EU Enlarged Total Market Index with a weight of 0.11%, with a weight of 5% in Erste Bank Bulgaria Basket, in Raiffeisen Bank's Raiffeisen Osteuropa Fonds certificate and in the Dow blue-chip index Jones STOXX Balkan 50 Equal Weighted Index. Sopharma AD is one of the three Bulgarian companies included in the Central and Eastern European (CEE) index. The index is called WIG-CEE and is the third after WIG-Poland and WIG-Ukraine, which is based on the country's country of origin. WIG-CEE is calculated on a common yield basis and includes dividend yield and share subscription rights.

#### Key indicators of the shares of Sopharma AD

	30.06.2018	30.06.2017
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	127 345 724	129 186 283
Number of shares outstanding at the end of the period	125 658 322	129 276 474



## Sopharma AD

Net earnings per share in BGN <sup>1</sup>	0,271	0,276
Price per share at the end of the period in BGN	4,086	4,501
Price/Earnings ratio (P/E)	15,08	16,31
Book value per share in BGN <sup>2</sup>	3,89	3,73
Price/Book value ratio (P/B)	1,05	1,21
Sales per share in BGN <sup>3</sup>	1,57	1,38
Price per share / Sales per share(P/S)	2,60	3,27
Market capitalization in BGN	550 784 215	606 725 343

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

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

3 Sales 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 2018 – 30 June 2018




Ognian Donev, PhD  
/Executive Director/