

MANAGEMENT REPORT

Q3 2018

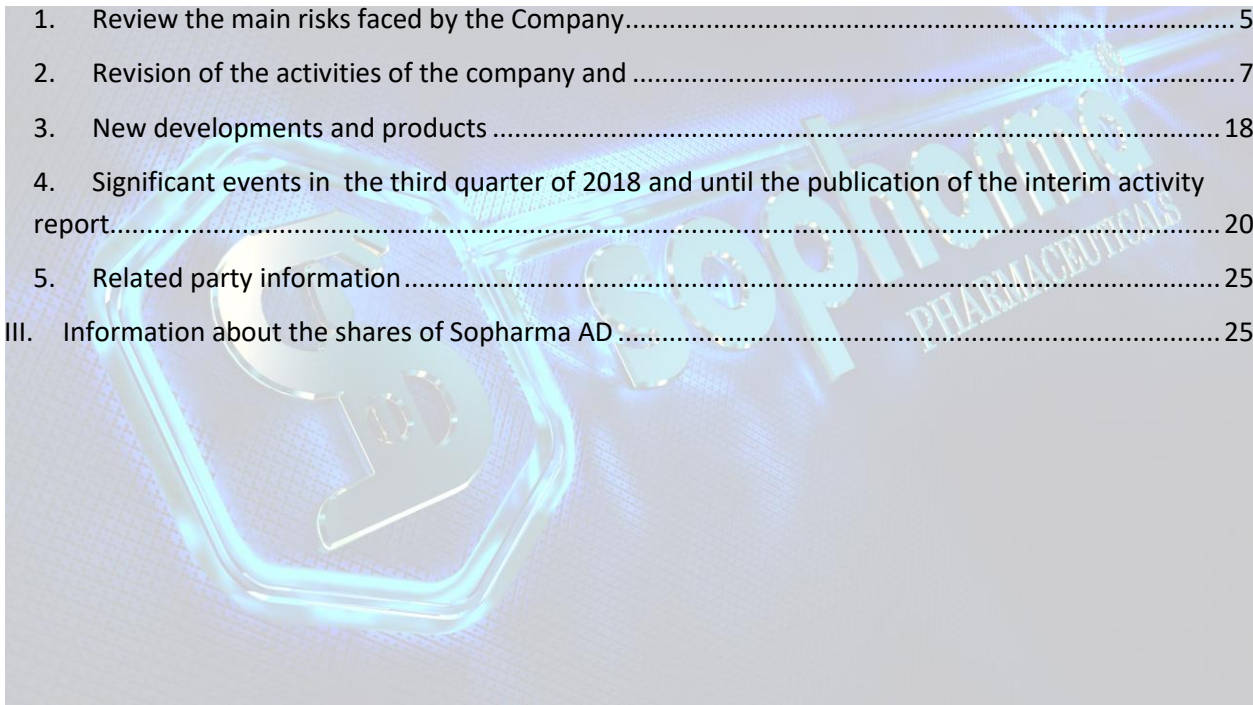


SOPHARMA AD

30 October 2018

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I. General information about Sopharma AD

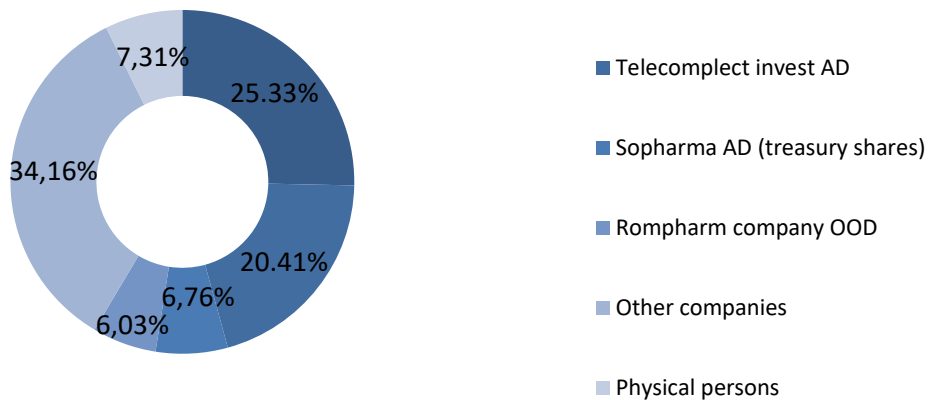
1. Registration and main activities

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 September 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 and Ivan Badinski. 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 2,085 workers and employees (2,182 in 2017). The table below provides more detailed information about the company's personnel.

	30.09.2018	Ref. Share %
Number of employees as at 30.09.2018	2 330	100%
Higher education	946	41%
A college education	51	2%
Secondary education	1288	55%
Primary education	45	2%
Employees under 30	239	10%
Employees 31 - 40 years	455	20%
Employees 41 - 50 years	714	31%
Employees 51 - 60 years	735	31%
Employees over 60	187	8%
Women	1421	61%
Men	909	39%

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-hygene products;
- ✓ Medicinal cosmetics;
- ✓ Concentrates for hemodialysis.

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, 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	1-9/2018	1-9/2017*	change %
	BGN '000	BGN '000	
Sales revenues	152 076	157 985	-3.7%
EBITDA	34 374	47 909	-28.3%
Operating profit	20 888	34 248	-39.0%
Net profit	27 716	39 818	-30.4%
CAPEX**	9 944	8 099	22.8%
	30.09.2018	31.12.2017	
	BGN '000	BGN '000	
Non-current assets	410 010	407 791	0.5%
Current assets	206 998	183 360	12.9%
Owners' equity	484 224	477 478	1.4%
Non-current liabilities	28 857	33 913	-14.9%
Current liabilities	103 927	79 760	30.3%
* recalculated data as a result of the merger of Unipharm AD, based on consolidation of the financial statements of Sopharma AD and Unipharm AD			
** tangible and intangible fixed assets acquired			
	1-9/2018	1-9/2017*	
Ratios			
EBITDA / Sales revenues	22,6%	30,3%	
Operating profit/ Sales revenues	13,7%	21,7%	
Net profit/ Sales revenues	18,2%	25,2%	
Borrowed capital/Owners' equity	0,27	0,24**	
Net debt/ EBITDA	1,7x	1,2x**	

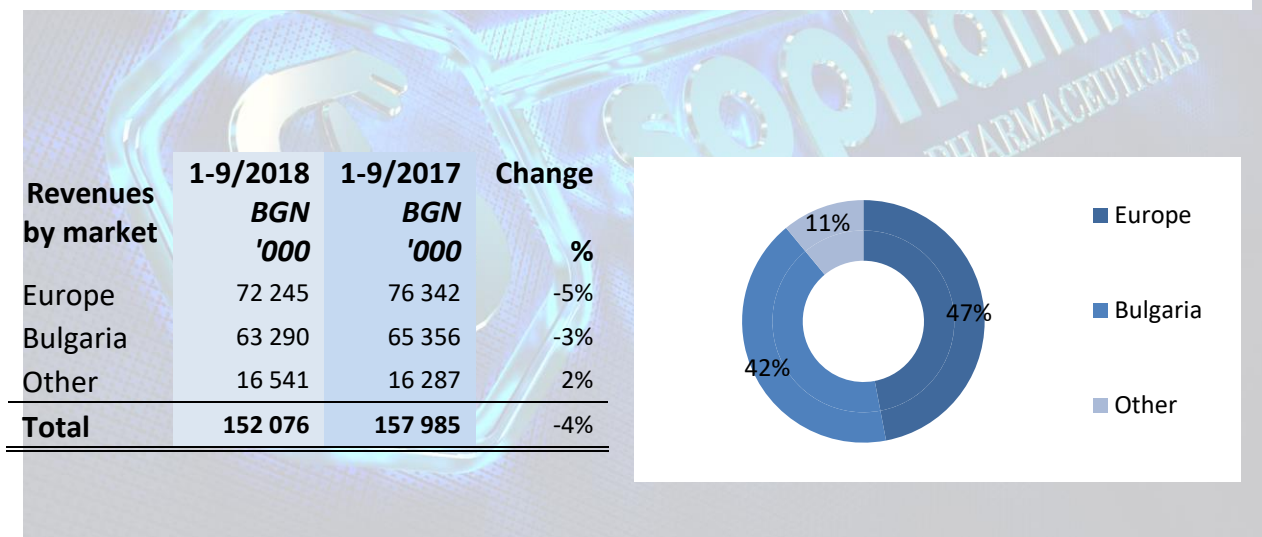
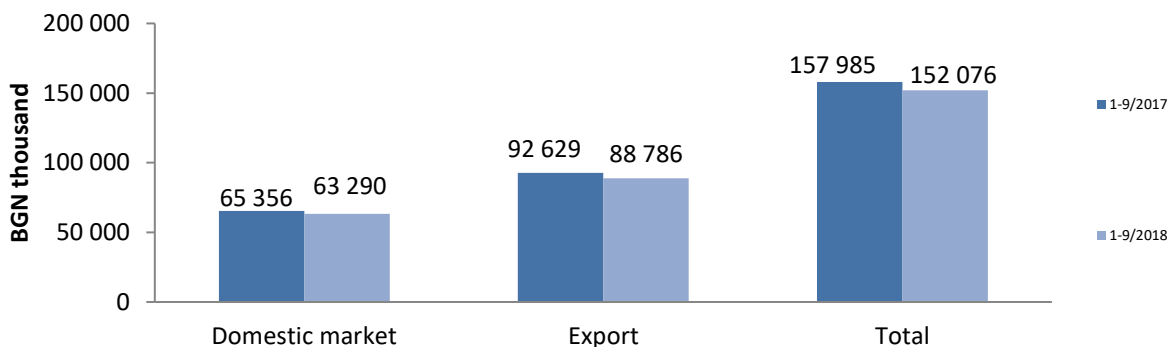
* recalculated data as a result of the merger of Unipharm AD, based on consolidation of the financial statements of Sopharma AD and Unipharm AD

** tangible and intangible fixed assets acquired

Revenues

Sales revenues of production for the third quarter of 2018 decrease by BGN 5,9 million or 4%, to BGN 152,1 compared to BGN 159 million in Q3 2017.

Sales revenues



🇪🇺 Europe

Revenues from sales to European countries decreased by 5% compared to Q3 2017 due to the decrease of sales in Russia with 11%, Balkan countries, Ukraine, Poland, Belarus and Romania. Sales for the Baltic, Ukraine, the Czech Republic and others have increased.

🇬🇧 Bulgaria

The sales of Sopharma AD on the domestic market decrease with 3% to BGN 65,4 million, (according to recalculated data after merger with Medica AD and Unipharm AD). The products

Sopharma AD

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 3,4% share of the total Bulgarian pharmaceutical market in value and 11,4% 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% (0,2% in units), Actavis – 5% (10,5% in units), GlaxoSmithKline – 3,6% (2,7% in units), Abbvie – 3% (0% in units), Pfizer – 3,6% (1% in units), Sanofi-Aventis – 2,8% (2% in units), Astra Zeneca – 3% (1% in units), Merck – 2,7% (1% in units).

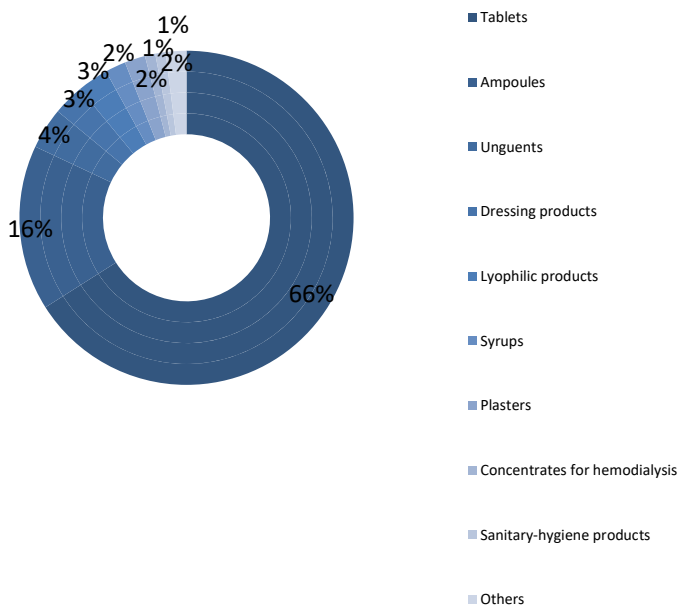
Other markets

Revenues from other markets increase with 2% compared to Q3 2017, mainly in the part of exports to Kazakhstan with 59%.

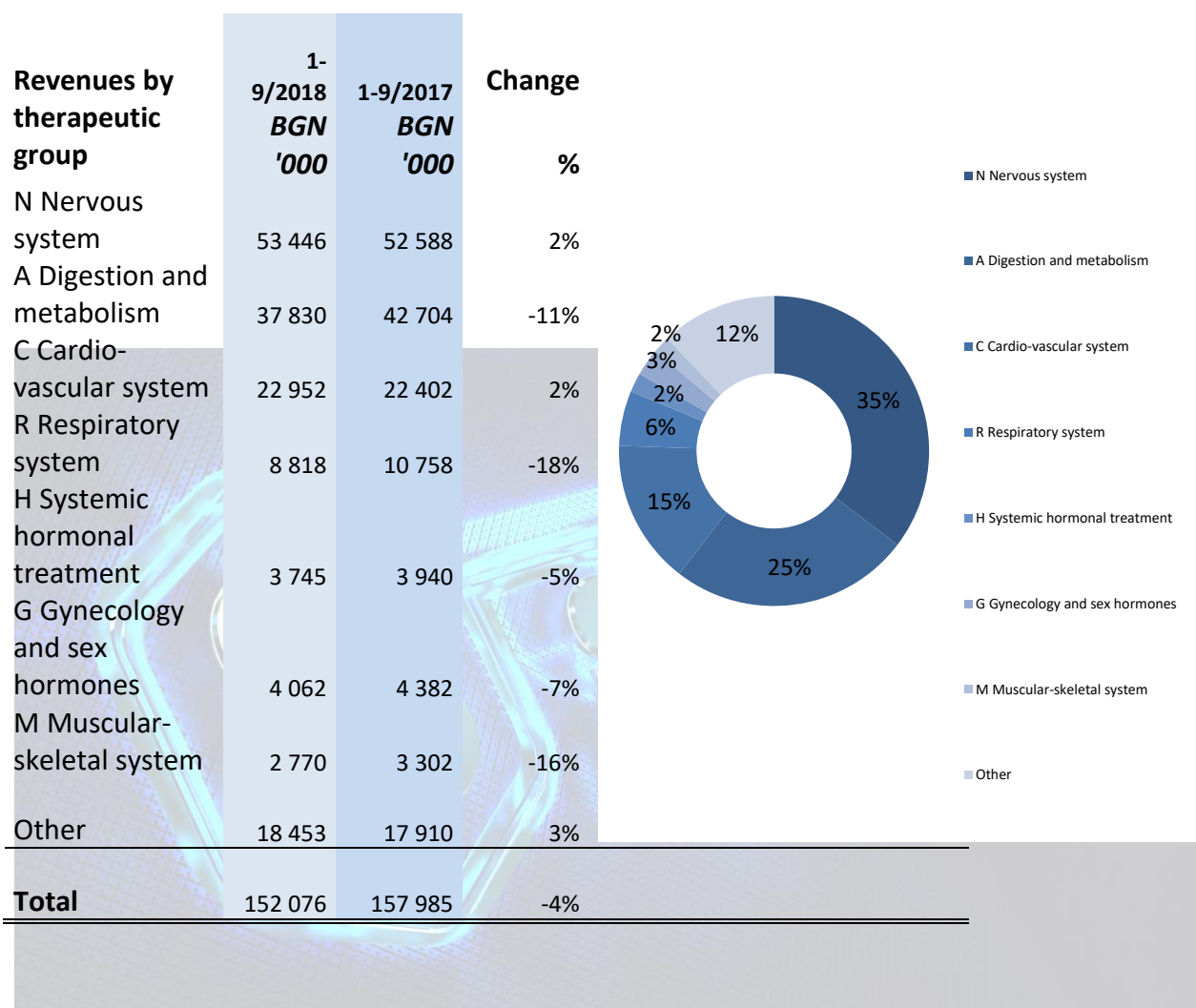
Sales by type of formulation

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

Revenues by type of formulation	1-9/2018	1-9/2017	Change
	BGN '000	BGN '000	
Tablets	101 351	107 301	-6%
Ampoules	24 350	21 810	12%
Unguents	6 268	6 724	-7%
Dressing products	4 051	3 812	6%
Lyophilic products	3 983	4 101	-3%
Syrups	3 741	5 133	-27%
Plasters	2 413	2 344	3%
Concentrates for hemodialysis			
Sanitary-hygiene products	1 449	1 325	9%
Others	3 259	4 288	-24%
Total	152 076	157 985	-4%



Sales by therapeutic group



Other operating revenues

Other operating revenues	1-9/2018 BGN '000	1-9/2017 BGN '000	Change %	Share 2018 %
Income from services rendered	2 910	2 493	17%	60%
Derecognition of liabilities	1 324	11		27%
Income from financing under European programs	453	643	-30%	9%
Income from sale of LTA	106	-8		2%
Income from sale of goods	66	70	-6%	1%
Income from sale of materials	53	57	-7%	1%
Net exchange loss on trade receivables and payables and current accounts	(206)	(223)	-8%	-4%
Other (see Notes to the FS)	120	307	-61%	2%
Total other operating revenues	4 826	3 350	44%	100%

Other operating income increased by BGN 1,5 million in Q3 2018 compared to Q3 2017 mainly in the part of derecognition of liabilities, income from the provision of services and an increase of the profits from the sale of long-term assets.

Operating expenses

Operating expenses	1-9/2018 BGN '000	1-9/2017 BGN '000	Change %	Share 2018 %
Changes in the finished goods and work-in-progress inventory	(1 987)	(5 769)	66%	-1%
Materials	54 322	57 423	-5%	40%
External services	28 314	23 774	19%	21%
Personnel	38 617	35 796	8%	28%
Amortization	13 486	13 661	-1%	10%
Other operating expenses	3 262	2 202	48%	2%
Total	136 014	127 087	7%	100%

Operating expenses increased by BGN 8,9 million from BGN 127,1 million in Q3 2017 to BGN 136 million in Q3 2018, mainly by an increase in the cost of external services and personnel and other expenses and a decrease in the cost of raw materials.

Cost of materials (40% share) decreased by BGN 3,1 million or 5% from BGN 57,4 million in Q3 2017 to BGN 54,3 million in the same period of 2018 and the biggest impact has the decrease in main materials with BGN 3,8 million and in particular the substances, herbs, ampoules, aluminum and PVC foil.

Expenditure on external services accounted for 21% relative share of operating expenses and increased by BGN 4,5 million or 19% to BGN 28,3 million in the third quarter of 2018 compared to BGN 23,8 million in Q3 2017. The most significant impact is the increase in the cost of advertising and marketing by BGN 3,8 million. The cost for transportation decreased by BGN 0.5 million, consulting services and others.

Personnel costs (with a relative share of 28% of operating costs) increased by BGN 2,8 million or by 8% from BGN 35,8 million in Q3 2017 to BGN 38,6 million in Q3 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 2%.

Other operating costs (with a relative share of 2% of operating costs) increased with BGN 1,1 million Q3 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 a decrease of BGN 0,2 million or by 1% from BGN 13,7 million in Q3 2017 to BGN 13,5 million in Q3 2018.

Changes in inventories of finished goods and work in progress have an impact on the increase in operating expenses by BGN 3,8 million.

Financial income and expenses

Financial income	1-9/2018	1-9/2017	Change	Share 2018
	BGN '000	BGN '000	%	%
Revenue from shareholding	8 800	7 310	20%	84%
Income from interest on loans granted	1 202	1 291	-7%	11%
Net gain on securities and equity investments	394	1 539	-74%	4%
Net gain on exchange differences on receivables from sale of subsidiary	115	-		1%
Impairment on receivables on commercial loans granted	-	(935)	-100%	0%
Recovered impairment on receivables on commercial loans granted	-	1 661	-100%	0%
Net change in impairment on receivables from commercial loans granted	-	726	-100%	0%
Revenue from liquidation of subsidiaries	-	7	-100%	0%
Total	10 511	10 873	-3%	100%
Financial expenses			Change	Share 2018
Interest expense on loans received	845	993	-15%	52%
Impairment of receivables from commercial loans granted	461	0		0%
Bank fees and charges on loans and guarantees	161	165	-2%	9%
Effects from derivatives	45	70	-36%	4%
Interest expense on financial leasing	1	0		0%
Effects of merger of available for sale investments	0	289	-100%	15%
Net loss on exchange differences on the disposal of a subsidiary	0	398	-100%	21%
Total	1 513	1 915	-21%	100%

Financial revenues decrease by BGN 0,4 million or 3%, to BGN 10,5 million in the third quarter of 2018 compared to BGN 10,9 million in Q3 2017. The reason is the decrease of the recovered impairment of receivables from commercial loans granted and a decrease in net profit from investment operations in securities and shares.

Financial expenses decrease by BGN 0,4 million or by 1% to BGN 1,5 million in Q3 2018. The reason is the effect of the inflow of available-for-sale investments and the net loss from exchange differences on the disposal of a subsidiary.

Net financial revenues (costs) keep their value on BGN 9 million for the comparable periods of the two years.

Financial result of the activity



Profit before interest, taxes and depreciation (EBITDA) in the third quarter of 2018 decreased with BGN 13,5 million or 28,3% reaching BGN 34,3 million compared to BGN 47,9 million in Q3 2017.

Operating profit decreased by BGN 13,4 million or by 39%, to BGN 20,1 million in the third quarter of 2018 compared to BGN 34,2 million in Q3 2017.

Net profit decreased by BGN 12,1 million or 30,4%, to BGN 27,7 million in the third quarter of 2018 compared to BGN 39,8 million Q3 2017.

Assets

	30.09.2018	31.12.2017	Change	Share
	BGN '000	BGN '000	%	2018
				%
Non-current assets				
Property, plant and equipment	235 981	239 721	-2%	58%
Intangible assets	12 229	12 457	-2%	3%
Investment property	26 621	24 799	7%	6%
Investments in subsidiaries	89 854	89 729	0%	22%
Investments in associated companies	7 931	7 740	2%	2%
Available-for-sale investments	7 393	7 552	-2%	2%
Long-term receivables from related parties	24 537	21 583	14%	6%
Other long-term receivables	5 464	4 210	30%	1%
	410 010	407 791	0.5%	66%
Current assets				
Inventories	70 241	69 018	2%	34%
Receivables from related parties	90 928	77 218	18%	44%
Commercial receivables	21 663	23 258	-7%	10%
Loans granted to third parties	8 359	3 201	161%	4%
Other receivables and prepaid expenses	7 274	4 901	48%	4%
Cash and cash equivalents	8 533	5 764	48%	4%
	206 998	183 360	13%	34%
TOTAL ASSETS	617 008	591 151	4%	100%

Total assets increased by BGN 25,8 million or by 4% to BGN 617 million, compared to BGN 591,2 million as at 31 December 2017.

Non-current assets increased by BGN 2,2 million, or 0,5%, mainly due to an increase in long-term receivables from related parties by BGN 2,9 million, other long-term receivables by BGN 1,3 million and investment properties with BGN 1,8 million. Assets in property, plant and equipment decreased by BGN 3,7 million mainly in the part of machinery and equipment by BGN 2,1 million, land and buildings - by BGN 0,9 million and other with BGN 0,8 million. Intangible assets decreased by BGN 0,2 million mainly in the software sector.

Current assets increased by BGN 23,6 million or 13% to BGN 207 million as at 30 September 2018 compared to 183,4 million as at 31 December 2017. Inventories increase by BGN 1,2 million or 2% compared to 31 December 2017 mainly due to an increase in stocks of finished goods BGN 4,8 million as a decrease registered stock of materials by BGN 1.1 million and semi-finished products by BGN 0,5 million and unfinished production by BGN 1,9 million.

Receivables from related parties increased by BGN 13,7 million in the part of receivables from sales of products and materials by BGN 14,2 million. Trade receivables decreased by BGN 1,6 million. Commercial loans to third parties increased by BGN 5,1 million. Other receivables and prepaid expenses increased by BGN 2,4 million.

Cash and cash equivalents increased by BGN 2,8 million by 30 September 2018 and amounted to BGN 8,5 million compared to BGN 5,7 million as at 31 December 2017.

Liabilities and owners' equity

	30.09.2018	31.12.2017	Change	Share
	BGN '000	BGN '000	%	2018
OWNERS' EQUITY				
Share capital	134 798	134 798	0%	28%
Treasury shares	(33 130)	(33 834)	-2%	-7%
Reserves	359 564	330 683	9%	74%
Retained earnings	22 992	45 831	-50%	5%
TOTAL OWNERS' EQUITY	484 224	477 478	1%	100%
	30.09.2018	31.12.2017	Change	Share
	BGN '000	BGN '000	%	2018
LIABILITIES				
Non-current liabilities				
Long-term bank loans	11 354	16 691	-32%	9%
Liabilities on deferred taxes	7 440	7 153	4%	6%
Government grants	5 498	5 930	-7%	4%
Long-term liabilities to personnel	4 565	4 139	10%	3%
	28 857	33 913	-15%	22%
Current liabilities				
Short-term bank loans	73 009	53 088	38%	55%
Short-term part of long-term bank loans	7 176	7 392	-3%	5%
Commercial liabilities	6 414	7 713	-17%	5%
Liabilities to related parties	4 084	818	399%	3%
Liabilities for taxes	985	1 525	-35%	1%
Liabilities to the personnel and for social insurance	7 768	7 828	-1%	6%
Other current liabilities	4 491	1 396	222%	3%
	103 927	79 760	30%	78%
TOTAL LIABILITIES	132 784	113 673	17%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	617 008	591 151	4%	

Owners' equity increased by BGN 6,7 million or by 1% to BGN 484,2 million as at 30 September 2018 compared to BGN 477,5 million as at 31 December 2017, mainly as a result of the retained earnings with BGN 28,9 million.

Non-current liabilities decreased by BGN 5,1 million or 15% to BGN 28,8 million at the end of September 2018 compared to BGN 33,9 million at the end of 2017 mainly due to a decrease of long-term bank loans by BGN 5,3 million.

Current liabilities increased by BGN 24,2 million to BGN 103,9 million at the end of the third quarter of 2018 compared to BGN 79,7 million at the end of 2017. Short-term bank loans increased by BGN 20 million, the liabilities to related parties by BGN 3,3 million and other current liabilities by BGN 3,1 million. Commercial liabilities decreased by BGN 1,3 million and tax liabilities of BGN 0,5 million. Total bank loans exposure to the Company as at 30 September 2018 increased with BGN 14,4 million compared to 31 December 2017.

Cash flow

	1-9/2018	1-9/2017
	BGN '000	BGN '000
Net cash flow from/ (used in) operations	11 207	31 079
Net cash flow used in investment activities	(8 062)	(11 001)
Net cash flow (used in)/from financial operations	(376)	(21 112)
Net increase/(decrease) of cash and cash equivalents	2 769	(1 034)
Cash and cash equivalents on 1 January	5 764	11 156
Cash and cash equivalents on 30 September	8 533	10 122

Net cash flows in the third quarter of 2018 generated by operating activities amounted to BGN 11,2 million inflow, from investment activity amounted to BGN 8,1 million outflow and from financial activity were to the amount of BGN 0,4 million outflow. As a result of these activities, cash and cash equivalents decreased by BGN 2,8 million and by 30 September 2018 amounted to BGN 8,5 million compared to BGN 5,8 million as at 1 January 2018.

Ratios

	30.09.2018	30.09.2017	Change
ROE ¹	6,6%	8,5%	-1,9%
ROA ²	5,3%	6,8%	-1,5%
Asset turnover ³	0,33	0,34	-0,01
Current liquidity ⁴	1,99	2,81	-0,82
Quick liquidity ⁵	1,32	1,86	-0,54
Monetary liquidity ⁶	0,08	0,11	-0,03
Financial autonomy ⁷	3,65	4,71	-1,06

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 - September 2018

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

+ Implemented new products in the production cycle

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

By the end of 2018, it is expected that 1 to 2 new products will be introduced.

+ New registrations and re-registrations / changes

New registrations

Permissions for use for new destinations of 41 medicinal products have been received, as 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; 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; Sopharol 0.5 mg/ml oral solution (Armenia); Haloperidol Sopharma 5 mg/ml solution for injection; Pyraminol 800 mg film-coated tablets; Desloratadine Sopharma 5 mg film-coated tablets; Sophtensif 1.5 mg prolonged-release tablets; Deflamol 350 UI/400 UI/g ointment; Diazepam Sopharma 5 mg/ml solution for injection; Ambixol 3 mg/ml syrup; Deavit Neo 0.5 mg/ml oral drops; Pyraminol 200 mg/ml solution for injection; Sophtensif 1.5 mg prolonged-release tablets; Famotidine Sopharma 20 mg film-coated tablets. Documents have been submitted for the registration of 53 medicinal products to agencies of new destinations. Prepared and distributed to production are documents for the temporary importation of 6 medicinal products into third countries.

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

401 medical supplies are registered in Bulgaria and Moldova.

Re-registrations / changes

Agency submissions for re-registrations / changes to 64 medicinal products.

Submission of documents for the renewal of the Marketing Authorizations for 59 medicinal products to agencies.

Submissions to agencies 803 changes for medicinal products.

Agreements approved by the agencies 626 for medicinal products.

+ Developments

There is a pharmaceutical development of 17 new medicinal products.

Translated and validated / optimized are 12 production processes and technologies.

4. Significant events in the third quarter of 2018 and until 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 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 POSA, 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 treasury shares, which the Receiving Company has.

✚ On 1 August 2018 an extraordinary General Meeting of the Shareholders of Sopharma AD was held, where the following decisions were taken:

1. The EGM transforms Sopharma AD by merging Unipharm AD into it. As a result of the merger, the entire property of Unipharm AD will be transferred to Sopharma AD under the conditions of a joint succession.

2. The EGM approves the Transformation Agreement through merger of Unipharm AD with Sopharma AD, concluded on 17 May 2018 and Additional Agreement No. 1 of 13 June 2018.

3. The EGM approves 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.

4. The EGM approves the Auditor's Report under Art. 262m of the Commercial Law on the transformation by merger of Unipharm AD into Sopharma AD.

5. The EGM approves a Substantiated Report of the Board of Directors for Transactions within the scope of Article 114 of the POSA.

6. The EGM empowers the Board of Directors to conclude transactions for the inception of Sopharma AD as a co-debtor under the conditions of solidarity under an Investment Credit Agreement for the implementation of a project under an operational program and under a Contract for a credit line for working capital that is forthcoming to be concluded between DSK Bank EAD as a creditor and the subsidiary of Sopharma AD, Biopharm-Engineering AD, Sliven, as a borrower under the terms and conditions specified Substantiated Report prepared by the Board of Directors.

7. The EGM elects Ivan Venetskov Badinski for a member of the Board of Directors of Sopharma AD.

✚ On 13 September 2018 completed the procedure of merging Unipharm AD into Sopharma AD with entry number 20180913171143 in the Commercial Register.

✚ On 14 September 2018 an extraordinary General Meeting of the Shareholders of Sopharma AD was held, where the following decisions were taken:

1. The GMS approves the individual Financial statements of the company for the first half of 2018.

2. The General Meeting of Shareholders approves the distribution of a 6-month dividend of BGN 0.05 per share from the profit realized by the company according to the 6-month financial report for the first half of 2018 and on the basis of the prepared by the Board of Directors Report on the requirements of Art. 115c of POSA.

3. The GMS approves a Substantiated Report of the Board of Directors for Transactions within the scope of Article 114 of the POSA.

4. GMS empowers the Board of Directors to conclude a manufacturing contract between Sopharma AD as Performer and Sopharma Trading AD as Assignor under the conditions set out in Section One of the Substantiated Report prepared by the Board of Directors.

5. The GMS empowers the Board of Directors to conclude a rental contract between Sopharma AD as a landlord and Sopharma Trading AD as a tenant under the conditions set out in Section Two of the Substantiated Report prepared by the Board of Directors.

6. The GMS empowers the Board of Directors to conclude a construction contract with Telecomplect AD as a contractor under the conditions set out in Section Three of the Substantiated Report prepared by the Board of Directors.

7. The GMS empowers the Board of Directors to conclude a loan contract with Telecomplect AD as a borrower under the conditions set out in Section Four of the Substantiated Report prepared by the Board of Directors.

✚ On 22 October Sopharma AD will initiate dividend payment of the voted on the EGM held on September, 14 2018 dividend of 0.05 BGN on October, 22 2018. The persons eligible for dividend are those present in the register of the Central Depository 14 days after the date of the AGM, i.e. September, 28 2018. In accordance with the Regulations of the Central Depository, the dividend shall be paid out as follows: for shareholders with client accounts at an investment intermediary – through the investment intermediary, for shareholders without accounts at an investment intermediary - through the branches of Eurobank EFG - Bulgaria AD /Postbank/ in the country.

✚ The Annual meeting with investors will take place on 16 November 2018, starting at 13:30 in Sofia, 16, Rozhen Blvd., and will include a meeting with the management of the two companies and a visit to the Regional Distribution Center of Sopharma Trading AD automated with the KNAPP system.

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

Sopharma AD

The total number of shares issued by Sopharma, issued on 30.09.2018, 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

	30.09.2018	30.09.2017
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	126 376 579	129 242 371
Number of shares outstanding at the end of the period	125 684 183	129 637 138
Net earnings per share in BGN ¹	0,254	0,312
Price per share at the end of the period in BGN	4,082	4,368
Price/Earnings ratio (P/E)	16,07	14,00
Book value per share in BGN ²	3,86	3,78
Price/Book value ratio (P/B)	1,06	1,15
Sales per share in BGN ³	1,68	1,53
Price per share / Sales per share (P/S)	2,43	2,85
Market capitalization in BGN	550 987 948	588 797 223

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

Sopharma AD

Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 1 January 2018 – 30 September 2018

