

PRELIMINARY MANAGEMENT REPORT

2018

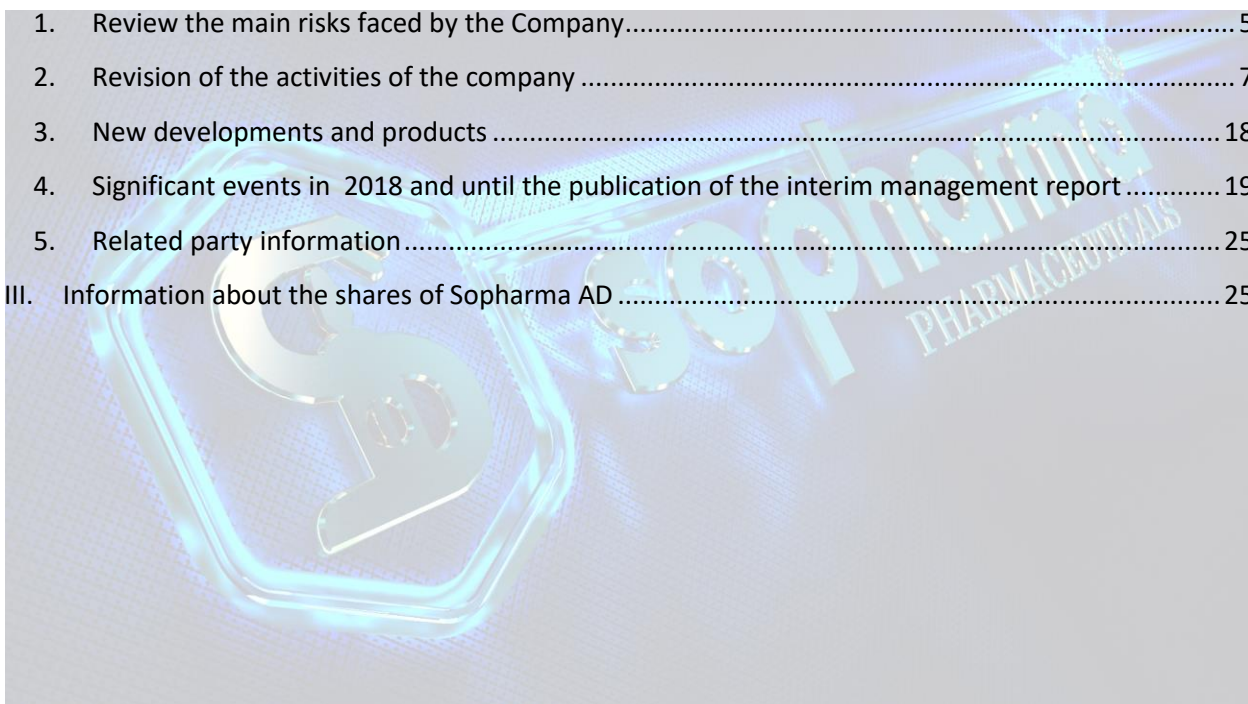


SOPHARMA AD

30 January 2019

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I. General information about Sopharma AD

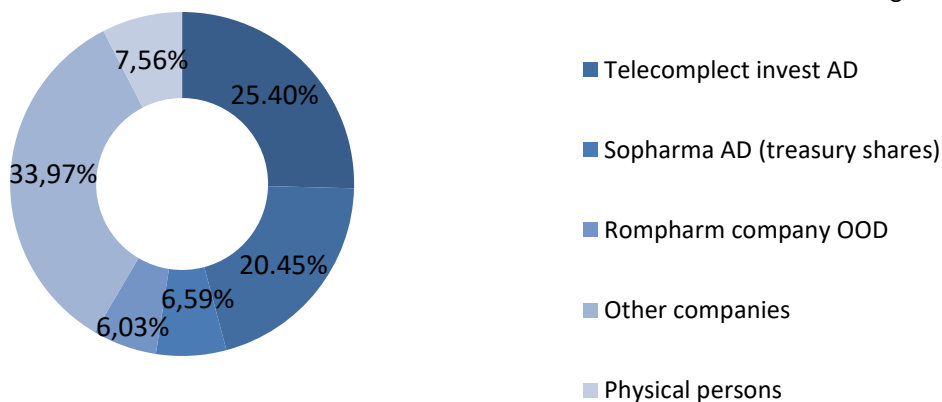
1. Registration and main activities

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 31 December 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.

	31.12.2018	Ref. Share %
Number of employees as at 31.12.2018	2 274	100%
Higher education	926	41%
A college education	51	2%
Secondary education	1263	56%
Primary education	34	1%
Employees under 30	229	10%
Employees 31 - 40 years	447	20%
Employees 41 - 50 years	702	31%
Employees 51 - 60 years	716	31%
Employees over 60	180	8%
Women	1396	61%
Men	878	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-hygiene 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 Company 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

Key financial indicators

Indicators	1-12/2018 BGN '000	1-12/2017* BGN '000	change %
Sales revenues	210 776	217 485	-3.1%
EBITDA	45 602	61 313	-25.6%
Operating profit	28 188	42 866	-34.2%
Net profit	32 449	44 228	-26.6%
CAPEX**	13 879	16 107	-13.8%
	31.12.2018	31.12.2017	
	BGN '000	BGN '000	
Non-current assets	410 308	407 666	0.6%
Current assets	197 795	182 326	8.5%
Owners' equity	488 798	476 093	2.7%
Non-current liabilities	26 357	33 759	-21.9%
Current liabilities	92 948	80 140	16.0%
* 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			
Ratios	1-12/2018	1-12/2017*	
EBITDA / Sales revenues	21,6%	28,2%	
Operating profit/ Sales revenues	13,4%	19,7%	
Net profit/ Sales revenues	15,4%	20,3%	
Borrowed capital/Owners' equity	0,24	0,24**	
Net debt/ EBITDA	1,6x	1,2x**	

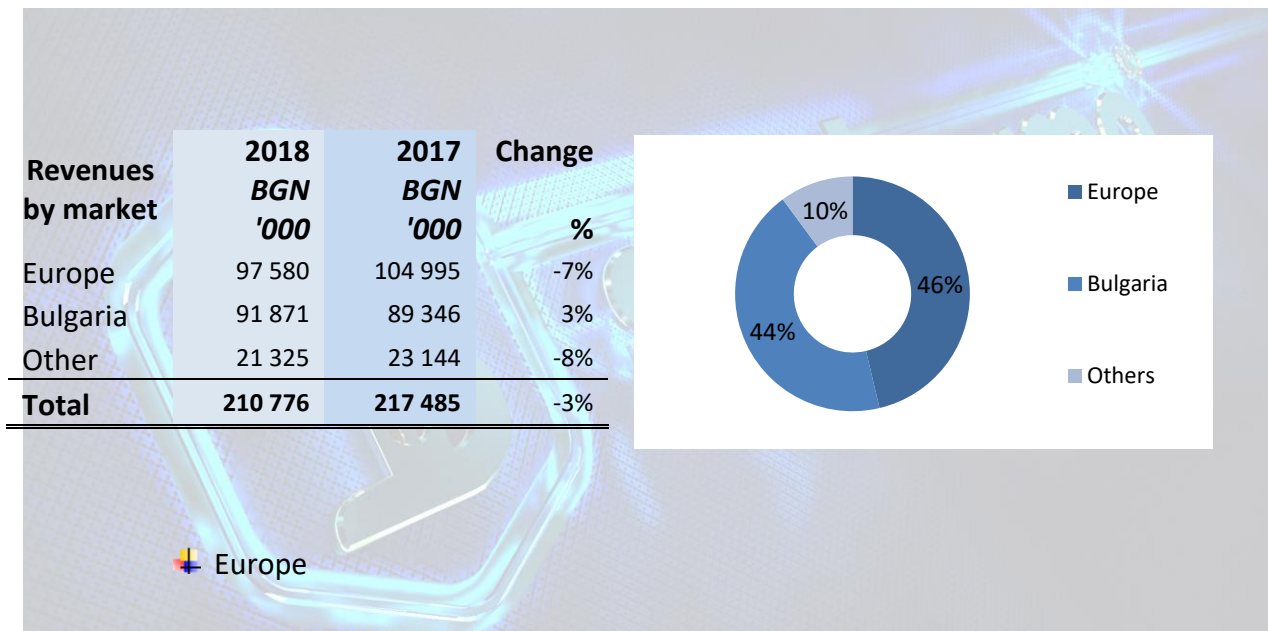
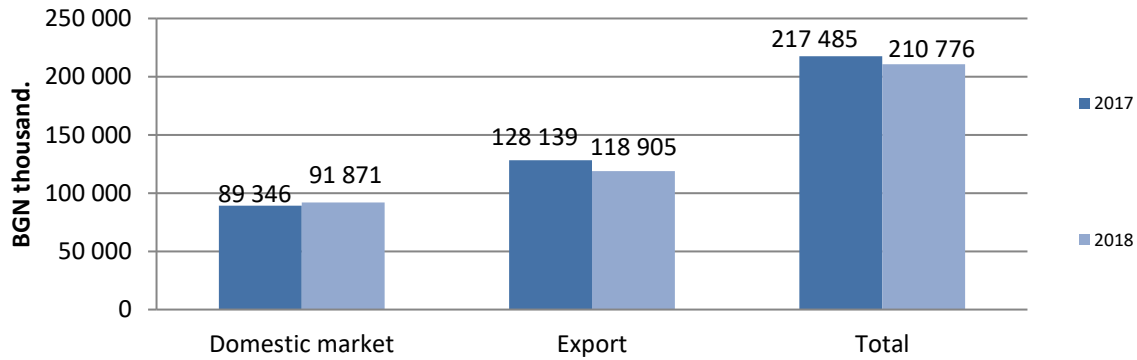
* recalculated data as a result of the merger of Unipharm AD, based on consolidation of the financial statements of Sopharma AD and Unipharm AD

** tangible and intangible fixed assets acquired

Revenues

Sales revenues of production for 2018 decrease by BGN 6,7 million or 3%, to BGN 210,8 compared to BGN 217,5 million in 2017.

Sales revenues



Revenues from sales to European countries decreased by 7% compared to 2017 due to the decrease of sales in Russia with 11%. Decrease sales in Poland with 1%, Belarus, Balkan countries and others. Sales for the Baltic with 1 %, Ukraine with 11%, the Czech Republic and others have increased.

Bulgaria

The sales of Sopharma AD on the domestic market increase with 3% to BGN 91,9 million, (according to recalculated data after merger with Medica AD and Unipharm AD). The products with largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C, Nivalin and medical supplies - gauzes, compresses and bandages. Sopharma AD has a 3,4% share of the total Bulgarian pharmaceutical market in value and 11,3% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7%

Sopharma AD

(4% in units), Roche – 6% (0,2% in units), Actavis – 5% (10% in units), GlaxoSmithKline – 3,7% (2,8% in units), Abbvie – 3,5% (0% in units), Pfizer – 3,6% (1% in units), Sanofi-Aventis – 3% (2% in units), Astra Zeneca – 3% (1% in units), Merck – 2,8% (1% in units).

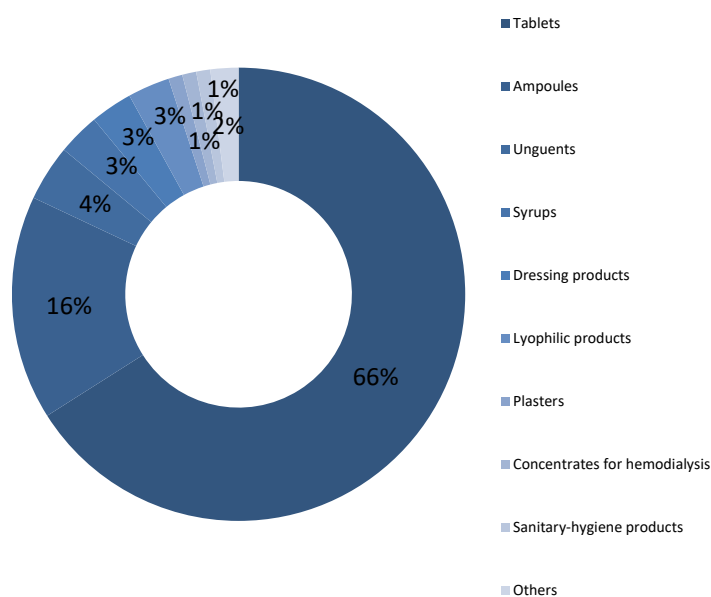
Other markets

Revenues from other markets decrease with 8% compared to 2017, mainly as a result of a 15% drop in Vietnamese exports and a 6% decrease in sales in the Caucasus and Central Asia.

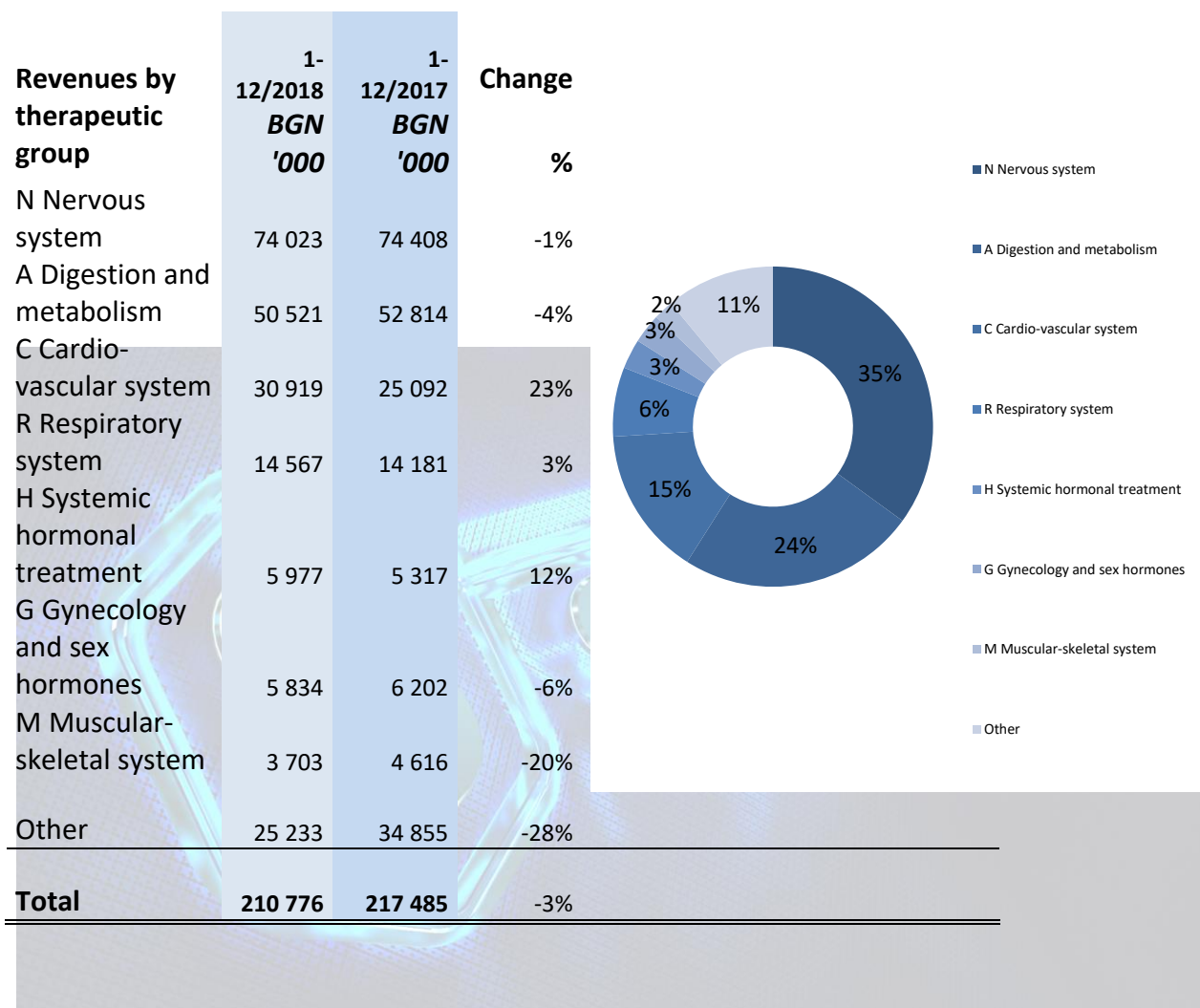
Sales by type of formulation

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	1-12/2018 BGN '000	1-12/2017 BGN '000	Change %
Tablets	139 187	147 481	-6%
Ampoules	32 995	30 344	9%
Unguents	7 895	8 945	-12%
Syrups	7 595	8 014	-5%
Dressing products	6 339	5 196	22%
Lyophilic products	6 281	5 591	12%
Plasters	3 074	3 093	-1%
Concentrates for hemodialysis	1 945	1 824	7%
Healing cosmetics	1 244	786	58%
Others	4 221	6 211	-32%
Total	210 776	217 485	-3%



Sales by therapeutic group



Other operating revenues

Other operating revenues	2018 BGN '000	2017 BGN '000	Change %	Share 2018 %
Income from services rendered	2 611	3 471	-25%	54%
Derecognition of liabilities	1 327	213	523%	27%
Income from financing under European programs	588	847	-31%	12%
Income from sale of LTA	148	222	-33%	3%
Income from sale of goods	114	53	115%	2%
Income from sale of materials	72	73	-1%	1%
Net exchange loss on trade receivables and payables and current accounts	(231)	(335)	-31%	-5%
Other (see Notes to the FS)	204	130	57%	4%
Total other operating revenues	4 833	4 674	3%	100%

Other operating income increased by BGN 0,2 million in 2018 compared to 2017 mainly in the part of derecognition of liabilities and decreased in the portion of revenue from service provision.

Operating expenses

Operating expenses	2018 BGN '000	2017 BGN '000	Change %	Share 2018 %
Changes in the finished goods and work-in-progress inventory	(2 016)	(6 439)	69%	-1%
Materials	75 896	76 906	-1%	40%
External services	38 800	33 921	14%	21%
Personnel	50 103	49 233	2%	27%
Amortization	17 414	18 447	-6%	9%
Other operating expenses	8 858	7 225	23%	5%
Total	189 055	179 293	5%	100%

Operating expenses increased by BGN 9,7 million from BGN 179,3 million in 2017 to BGN 189 million in 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 1 million or 1% from BGN 76,9 million in 2017 to BGN 75,9 million in 2018 and the biggest impact has the decrease in main materials with BGN 1,2 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 4,9 million or 14% to BGN 38,8 million in 2018 compared to BGN 33,9 million in 2017. The most significant impact is the increase in the cost of advertising and marketing by BGN 4,1 million. The cost for transportation decreased by BGN 0.5 million, consulting services and others.

Personnel costs (with a relative share of 27% of operating costs) increased by BGN 0,9 million or by 2% from BGN 49,2 million in 2017 to BGN 50,1 million in 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.

Other operating costs (with a relative share of 5% of operating costs) increased with BGN 1,6 million 2018 compared to 2017 mainly in the part of impairment of financial assets.

Depreciation costs (with a relative share of 9% of operating expenses) registered a decrease of BGN 1 million or by 6% from BGN 18,4 million in 2017 to BGN 18,4 million in 2018.

Changes in inventories of finished goods and work in progress have an impact on the increase in operating expenses by BGN 4,4 million.

Financial income and expenses

Financial income	2018	2017	Change	Share 2018
	BGN '000	BGN '000		

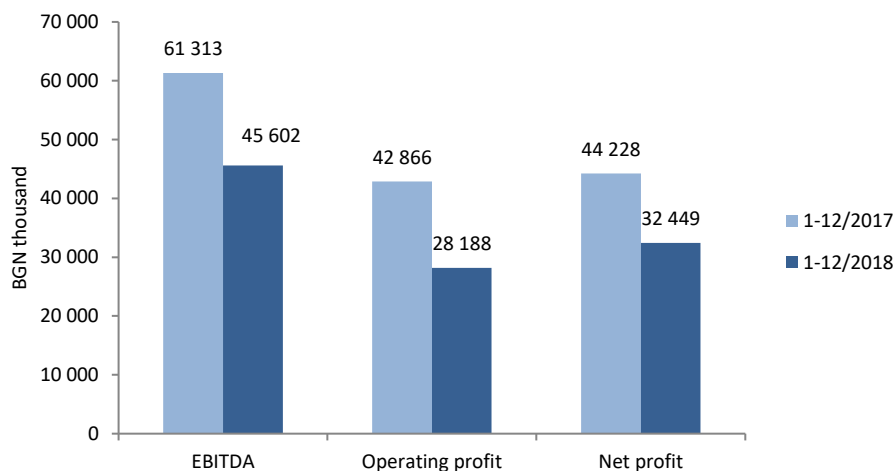
Revenue from shareholding	8 789	7 314	20%	83%
Income from interest on loans granted	1 642	1 699	-3%	16%
Net gain on exchange differences on the disposal of a subsidiary	152	-	-	1%
Net gain on securities and equity investments	-	1 239	-100%	0%
<i>Impairment on receivables on commercial loans granted</i>	-	(504)	-100%	0%
<i>Recovered impairment on receivables on commercial loans granted</i>	-	1 929	-100%	0%
Net change in impairment on receivables from commercial loans granted	-	1 425	-100%	0%
Revenue from liquidation of subsidiaries	-	7	-100%	0%
Total	10 583	11 684	-9%	100%
Financial expenses				
Interest expense on loans received	1 264	1 358	-7%	65%
Net loss on investments in securities and equity investments	666	-	-	0%
Bank fees and charges on loans and guarantees	217	217	0%	10%
Provision for expected loan losses on loans granted	152	-	-	0%
Effects from derivatives	47	74	-36%	4%
Impairment of available-for-sale investments	37	4	825%	0%
Interest expense on financial leasing	1	6	-83%	0%
Net loss on exchange differences on the disposal of a subsidiary	-	443	-100%	21%
Total	2 384	2 102	13%	100%

Financial revenues decrease by BGN 1,1 million or 9%, to BGN 10,6 million in 2018 compared to BGN 11,7 million in 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 increase by BGN 0,3 million or by 13% to BGN 2,4 million in 2018. This is mainly due to a net loss on securities and equity investments and decreases in the net loss from exchange differences on the disposal of a subsidiary.

Net financial revenues (costs) decrease by BGN 1,4 million compared to 2017.

Financial result of the activity



Profit before interest, taxes and depreciation (EBITDA) in 2018 decreased with BGN 15,7 million or 25,6% reaching BGN 45,6 million compared to BGN 61,3 million in 2017.

Operating profit decreased by BGN 14,7 million or by 34,4%, to BGN 28,2 million in 2018 compared to BGN 42,9 million in 2017.

Net profit decreased by BGN 11,8 million or 26,6%, to BGN 32,4 million in 2018 compared to BGN 44,2 million in 2017.

Assets

	31.12.2018	31.12.2017	Change	Share 2018
	BGN '000	BGN '000	%	%
Non-current assets				
Property, plant and equipment	226 913	239 721	-5%	55%
Intangible assets	11 881	12 457	-5%	3%
Investment property	37 422	24 799	51%	9%
Investments in subsidiaries	89 946	89 729	0%	22%
Investments in associated companies	7 962	7 740	3%	2%
Other long - term equity investments	7 409	7 552	-2%	2%
Long-term receivables from related parties	22 952	21 464	7%	6%
Other long-term receivables	5 823	4 204	39%	1%
	410 308	407 666	0.6%	67%

Current assets				
Inventories	68 428	69 018	-1%	35%
Receivables from related parties	91 724	76 833	19%	46%
Commercial receivables	19 624	22 684	-13%	10%
Loans granted to third parties	3 304	3 126	6%	2%
Other receivables and prepaid expenses	5 749	4 901	17%	3%
Cash and cash equivalents	8 966	5 764	56%	5%
	197 795	182 326	8%	33%
TOTAL ASSETS	608 103	589 992	3%	100%

Total assets increased by BGN 18,1 million or by 3% to BGN 608 million, compared to BGN 590 million as at 1 January 2018.

Non-current assets increased by BGN 2,6 million, or 0,6%, mainly due to an increase in long-term receivables from related parties by BGN 1,5 million, other long-term receivables by BGN 1,6 million and investment properties with BGN 12,6 million. Assets in property, plant and equipment decreased by BGN 12,8 million in the part of machinery and equipment by BGN 3,5 million, land and buildings - by BGN 9 million and other with BGN 0,8 million. Intangible assets decreased by BGN 0,6 million mainly in the software sector and intellectual property rights.

Current assets increased by BGN 15,5 million or 8% to BGN 197,8 million as at 31 December 2018 compared to 182,3 million as at 1 January 2018. Inventories decrease by BGN 0,6 million or 1% compared to 31 December 2017. Receivables from related parties increased by BGN 14,9 million in the part of receivables from sales of products and materials and in the part of commercial loans granted. Trade receivables decreased by BGN 3,1 million. Commercial loans to third parties increased by BGN 0,2 million. Other receivables and prepaid expenses increased by BGN 0,8 million.

Cash and cash equivalents increased by BGN 3,2 million by 31 December 2018 and amounted to BGN 9 million compared to BGN 5,7 million as at 1 January 2018.

Liabilities and owners' equity

	31.12.2018	01.01.2018	Change	Share
	BGN '000	BGN '000	%	2018
OWNERS' EQUITY				
Share capital	134 798	134 798	0%	28%
Treasury shares	(33 337)	(33 834)	-1%	-7%
Reserves	357 120	330 683	8%	73%
Retained earnings	30 217	44 446	-32%	6%
TOTAL OWNERS' EQUITY	488 798	476 093	3%	100%
	30.06.2018	31.12.2017	Change	Share
	BGN '000	BGN '000	%	2018
LIABILITIES				
Non-current liabilities				
Long-term bank loans	9 555	16 691	-43%	8%
Liabilities on deferred taxes	6 988	6 999	0%	6%
Government grants	5 397	5 930	-9%	5%
Long-term liabilities to personnel	4 417	4 139	7%	4%
	26 357	33 759	-22%	22%
Current liabilities				
Short-term bank loans	65 668	53 088	24%	55%
Short-term part of long-term bank loans	7 175	7 392	-3%	6%
Commercial liabilities	8 568	7 713	11%	7%
Liabilities to related parties	542	818	-34%	0%
Liabilities for taxes	1 803	1 525	18%	2%
Liabilities to the personnel and for social insurance	7 096	7 828	-9%	6%
Other current liabilities	2 096	1 776	18%	2%
	92 948	80 140	16%	78%
TOTAL LIABILITIES	119 305	113 899	5%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	608 103	589 992	3%	

Owners' equity increased by BGN 12,7 million or by 3% to BGN 488,2 million as at 31 December 2018 compared to BGN 476,1 million as at 1 January 2018, mainly as a result of the increase in reserves with BGN 26,4 million.

Non-current liabilities decreased by BGN 7,4 million or 22% to BGN 26,3 million at the end of 2018 compared to BGN 33,7 million as at 1 January 2018 mainly due to a decrease of long-term bank loans by BGN 7,1 million.

Current liabilities increased by BGN 12,8 million to BGN 92,9 million at the end of 2018 compared to BGN 80,1 million as at 1 January 2018. Short-term bank loans increased by BGN 12,6 million, commercial liabilities by BGN 0,9 million and other current liabilities by BGN 0,3 million. Liabilities to personnel and for social security decreased by BGN 0,7 million and liabilities to related parties by BGN 0,3 million. Total bank loans exposure to the Company as at 31 December 2018 increased with BGN 5,2 million compared to 1 January 2018.

Cash flow

	1-12/2018 BGN '000	1-12/2017 BGN '000
Net cash flow from/ (used in) operations	26 113	46 937
Net cash flow used in investment activities	(13 031)	(21 487)
Net cash flow (used in)/from financial operations	(9 880)	(30 842)
Net increase/(decrease) of cash and cash equivalents	3 202	(5 392)
Cash and cash equivalents on 1 January	5 764	11 156
Cash and cash equivalents on 31 December	8 966	5 764

Net cash flows in 2018 generated by operating activities amounted to BGN 26,1 million inflow, from investment activity amounted to BGN 13 million outflow and from financial activity were to the amount of BGN 9,9 million outflow. As a result of these activities, cash and cash equivalents increased net by BGN 3,2 million and by 31 December 2018 amounted to BGN 9 million compared to BGN 5,8 million as at 1 January 2018.

Ratios

	31.12.2018	31.12.2017	Change
ROE ¹	6,7%	8,8%	-2,1%
ROA ²	5,3%	7,1%	-1,8%
Asset turnover ³	0,35	0,35	-
Current liquidity ⁴	2,13	2,20	-0,07
Quick liquidity ⁵	1,39	1,36	0,03
Monetary liquidity ⁶	0,10	0,04	0,06
Financial autonomy ⁷	4,10	4,27	-0,17

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 - December 2018

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

+ Implemented new products in the production cycle

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

By the end of 2019, it is expected that 3 to 5 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; 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; Pyraminol 200 mg/ml solution for injection; Famotidine Sopharma 20 mg film-coated tablets, Analgin Kids 500 mg/ml oral drops, solution; Broncholytin Ivy 7 mg/ml syrup; Dexamethasone Sopharma 4 mg/ml solution for injection; Felogel 1 % gel; Gentamicin Sopharma 40 mg/ml solution for injection; Gripofen C 500 mg/ 25mg/ 200mg granules for oral solution; Imomed 2 mg tablets; Vitamin C 100 mg/ ml, 2 ml oral solution (food

supplement); Vitamin C 100 mg/ ml, 5 ml oral solution (food supplement). 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

8 food supplements have been notified in Bulgaria.

9 food supplements are registered in Ukraine, Poland, Armenia and Georgia.

Medical supplies

401 medical supplies are registered in Bulgaria and Moldova.

Re-registrations / changes

Agency submissions for re-registrations / changes to 86 medicinal products.

Submission of documents for the renewal of the Marketing Authorizations for 76 medicinal products to agencies.

Submissions to agencies 1107 changes for medicinal products.


Agreements approved by the agencies 861 for medicinal products.

Developments

There is a pharmaceutical development of 15 new medicinal products.

Translated and validated / optimized are 19 production processes and technologies.

4. Significant events in 2018 and until the publication of the interim management 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 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 initiated 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 were 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 took place on 16 November 2018, starting at 13:30 in Sofia, 16, Rozhen Blvd., and included 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

The total number of shares issued by Sopharma, issued on 31.12.2018, 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

Sopharma AD

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

	31.12.2018	31.12.2017
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	125 798 842	129 039 942
Number of shares outstanding at the end of the period	125 916 563	125 764 919
Net earnings per share in BGN ¹	0,258	0,327
Price per share at the end of the period in BGN	3,517	4,282
Price/Earnings ratio (P/E)	13,63	13,09
Book value per share in BGN ²	3,882	3,803
Price/Book value ratio (P/B)	0,91	1,13
Sales per share in BGN ³	1, 674	1,632
Price per share / Sales per share(P/S)	2,10	2,62
Market capitalization in BGN	474 084 211	577 204 604

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 – 31 December 2018

