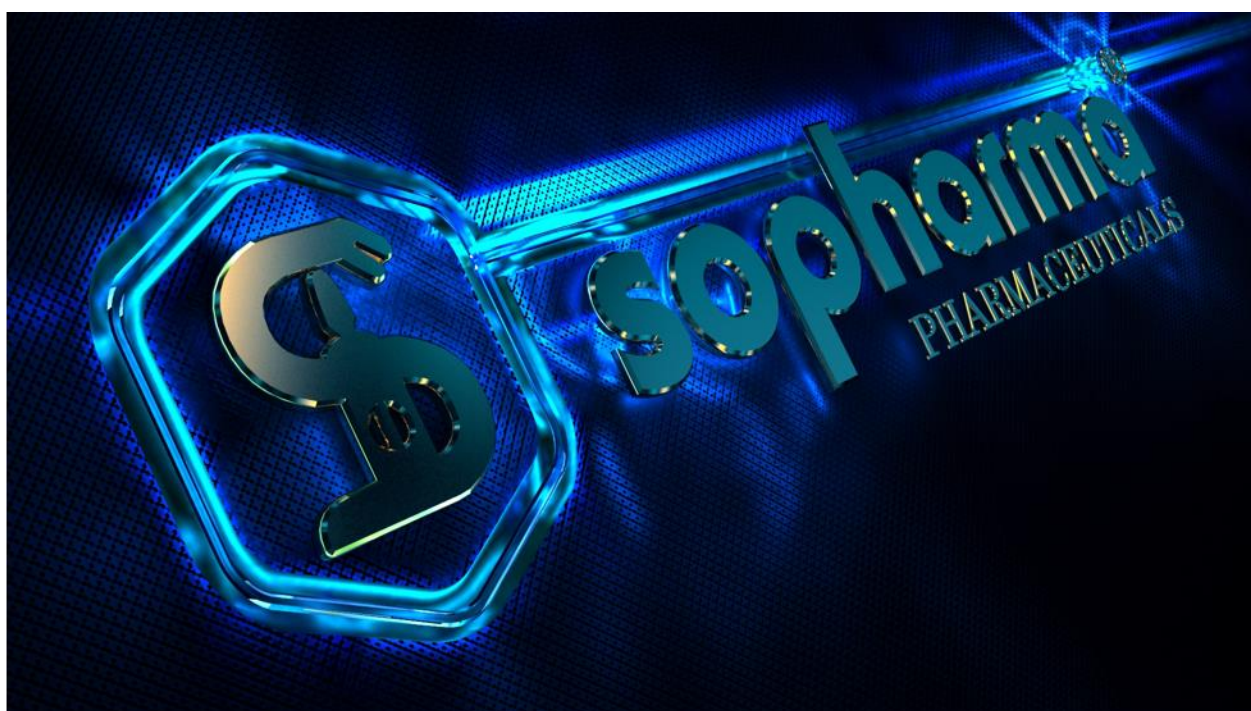


# PRELIMINARY MANAGEMENT REPORT

2017



**SOPHARMA GROUP**

1 March 2018

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## I. General information about Sopharma Group

### 1. Main activities

Sopharma Group (the Group) is a leading Bulgarian producer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and South-eastern Europe, offering a wide range of prescription medicines and OTC products.

The Group operates in the following areas:

- ✚ production of pharmaceutical products including medicines, primarily generics, herbal-based substances and food supplements, which is primarily done by Sopharma AD (the Company) and to a lesser extent by its production subsidiaries including Unipharm AD in Bulgaria and PAT Vitamins in Ukraine;
- ✚ production of medicinal products and medicinal cosmetics, as plasters, bandages and sanitary-hygiene products focused on the production site in Sandanski city (after the merger of Medica AD in Sopharma AD);
- ✚ distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements and cosmetics, which is mainly performed by Sopharma Trading in Bulgaria, Lekovit D.o.o. in Serbia, Briz SIA in the Baltic region, and Brititrade SOOO in Belarus;
- ✚ production and distribution of non-pharmaceutical products, primarily medical supplies such as syringes and other disposables used in medicine, which is mainly performed by Momina Krepost AD, and other complementary activities to the production of pharmaceutical products and distribution of pharmaceutical products.

### 2. Registration and activity of the Company

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

Sopharma was established in 1933. The court registration of the Group 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 Group conducts the production and marketing of medicinal substances and dosage forms; research, engineering and implementation activities in the field of phytochemistry, chemistry and pharmacy. Sopharma Group provides services related to production, as well as to ancillary and supporting activities.

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

## 3. Controlled companies

Sopharma Group consists of Sopharma AD and 48 subsidiaries, directly or indirectly controlled by the Company. In addition the Group has investments in 3 joint ventures, and 1 associated company.

Group	Interest as at 31.12.2017 in %
Sopharma Trading AD, Sofia, Bulgaria*	72.85
Biopharm Engineering AD, Sliven, Bulgaria	97.15
Pharmalogistica AD, Sofia, Bulgaria	89.39
Elektroncommerce EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	40.38
Momina Krepost AD, Veliko Tarnovo, Bulgaria*	93.55
Unipharm AD, Sofia, Bulgaria*	98.77
Phyto Palauzovo AD, Kazanluk, Bulgaria**	95.00
Sopharmacy EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 2 EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 3 EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 4 EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 5 EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 6, EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 7, EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 8, EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 9, EOOD, Sofia, Bulgaria**	72.85
Sopharmacy 10, EOOD, Sofia, Bulgaria**	72.85
Veta Pharma AD, Veliko Tarnovo, Bulgaria	99.98
Aromania OOD, Sofia, Bulgaria	76.00
Pharmastore 1 OOD, Sofia, Bulgaria**	72.85
Pharmastore 2 OOD, Sofia, Bulgaria**	72.85
Pharmastore 3 OOD, Sofia, Bulgaria**	72.85
Pharmastore 4 OOD, Sofia, Bulgaria**	72.85
Pharmastore 5 OOD, Sofia, Bulgaria**	72.85
PAT Vitamins, Uman, Ukraine	99.56
Sopharma Poland LLC, Warsaw, Poland in Liquidation	99.56
Sopharma Warsaw Sp. z. o. o, Warsaw, Poland	60.00
Sopharma Trading d.o.o. Belgrade	100.00
BRIZ ZAO, Riga, Latvia	72.85
Brititrade SOOO, Minsk, Belarus**	66.13
Tabina SOOO, Minsk, Belarus **	52.90
Brizpharm SOOO, Minsk, Belarus**	54.37



## Sopharma Group

Sopharma Ukraine, Kiev, Ukraine	100.00
OOO Med-dent, Bobruisk, Belarus***	50.00
OOO Pharmacist Plus, Minsk, Belarus**	35.60
BOOO SpetzApharmacia, Bobruisk, Belarus***	50.00
ZAO TBS Pharma, Vilnius, Lithuania**	33.73
OOO Bellerofon, Minsk, Belarus***	50.00
TOO Sopharma Kazakhstan, Almaty, Kazakhstan	100.00
ZAO Interpharm, Vitebsk, Belarus***	59.52
OOO Galenapharm, Pinsk, Belarus**	54.62
ODO Medjel, Minsk, Belarus**	55.55
ODO Alenpharm-Plus, Belarus**	52.24
OOO Pharmateia, Minsk, Belarus***	38.18
ODO Salius Line, Grodno, Belarus**	52.24
Rap Pharma International OOD, Kishinev, Moldova	51.00
Lekovit D.o.o., Sabac, Serbia**	50.96
OOO Zdorovei, Minsk, Belarus**	35.00
OOO Ivem i K, Minsk, Belarus**	39.62
OOO Ariens, Plotzk, Belarus**	35.30

\*effective interest in percent

\*\*indirect interest

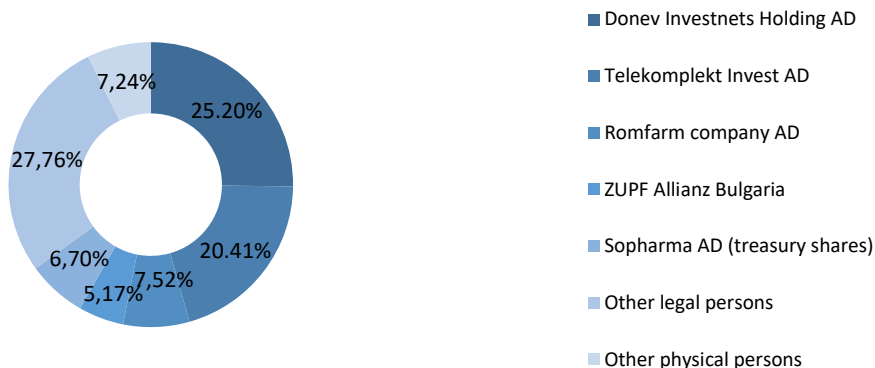
\*\*\*joint venture

### 4. Board of directors

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

Members of the key management personnel of the Group include the disclosed in Note №1 Executive Director and members of the Board of Directors of the Group. Additionally, it includes the executive directors, the board of directors and the managers of subsidiaries of the Group.

## 5. Shareholder structure as at 31 December 2017



## 6. Employees

As at 31.12.2017, the average number of employees of Sopharma Group is 4 689 (compared to 4 543 in 2016). The average number of employees of Sopharma AD as at 31.12.2017 is 1 953 (at 2 076 in 2016) and of Sopharma Trading AD is 749 (compared to 728 in 2016).

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.

## II. Recent developments

### 1. Industrial activity

The company and its twelve manufacturing facilities are compliant with EU regulations and are located in Bulgaria and one facility in Ukraine certified and acknowledged by the local authorities and all countries from the CIS. With the exception of the facility in the Ukraine all other facilities have been examined and certified according to the EU GMP.

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

- ✚ production of pharmaceutical products;

- + substances and preparations based on vegetable raw materials (phytochemical production);
- + veterinary vaccines;
- + infusion solutions;
- + concentrates for hemodialysis;
- + medical disposable products for human and veterinary medicine;
- + injection molded products for the industry, agriculture and households.

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

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

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

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

## 2. Distribution

### *Sopharma Trading AD*

The company is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 21% (according to IMS). Sopharma Trading is the only distributor on the Bulgarian market of particular pharmaceutical products for several leading international pharmaceutical and other companies the field of healthcare such as Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk.

The Group offers more than 10 000 products (particularly pharmaceutical products, medical equipment and devices, accessories, cosmetics, vitamins and food supplements) in its portfolio, including the brands of Sopharma, and holds exclusive rights for Bulgaria over brands of strategic partners such as Aboca, Colief, Jamieson, Planter's, Premax, Skincode, SVR Laboratories, US Pharmacia and Wyeth, specialized services (such as software solutions for pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and over 3 000 clients.

## 3. Revision of the activities of the Group and the main risks it faces

### *Risks relating to the Group's business and the industry the Group operates in*

- + The Group faces significant competition;
- + Part of Sopharma Trading's revenue in Bulgaria is generated by sales to state hospitals, which predetermines a high degree of business risk;
- + Reputation of the Group 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 Group;
- + The Group is dependent on regulatory approvals;
- + Government regulations affecting the Group's business may change, thus possibly increasing compliance costs or otherwise affecting its operations;
- + Part of the Group's revenues, in particular in Bulgaria, depend on the inclusion of the Group's medicines on reimbursement lists;
- + The Group's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Group's operations;



- ✦ The Group's ability to pay dividends depends on a number of factors and there can be no assurance that the Group will be able to pay dividends in accordance with its dividend policy or at all in any given year;
- ✦ The Group is subject to operational risk, which is inherent to its business activities;
- ✦ The Group 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 Group'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 Group companies carry out their activities in active exchange with foreign suppliers and customers and are therefore exposed to currency risk.

Through the companies in Belarus and Ukraine, the group carries out business operations in these countries and, accordingly, has substantial exposures in Belarusian rubles and Ukrainian hryvnia. The currency risk is related to the negative movement of the exchange rates of these currencies against the Bulgarian lev in the future business operations, the recognized assets and liabilities in foreign currency and the net investments in foreign companies. The rest of the companies abroad are selling mainly on local markets, leading to currency risk and against their currencies – Serbian Dinar, Polish zloty, Lithuanian litas, US dollars, British pounds and Kazakhstan tenge, and for Kazakhstan the Group minimizes risk through forward transactions.

Most of the operations of the Group companies are usually denominated in Bulgarian leva and the Bulgarian lev is fixed to the euro, which reduces the potential currency volatility for these companies in the Group.

To control the currency risk, a system is in place throughout the Group for import planning, for foreign currency sales, as well as procedures for day-to-day monitoring of movements in the US dollar exchange rate and for control over pending payments. The exposures of the subsidiaries in Bulgaria to currency risk are insignificant as almost all sales are realized on the local market in Bulgarian leva. Imports of goods are fully realized in euro. Loans when denominated in foreign currency are mainly denominated in euro.

#### 4. Analysis of the activities

*Key financial indicators*

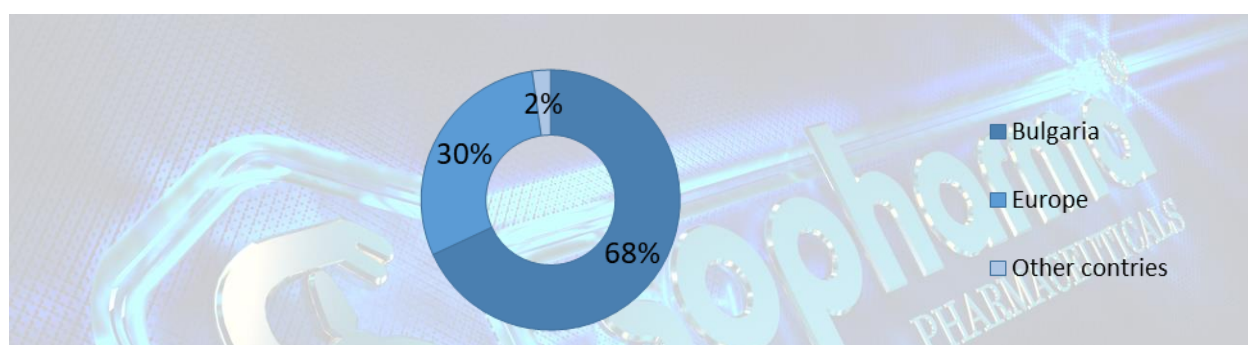
Indicator	1-12/2017 BGN '000	1-12/2016 BGN '000	Change %
Revenues from sales	1 016 109	877 085	15.9%
EBITDA	86 551	73 656	17.5%
Operating profit	56 347	44 951	25.4%
Net profit	46 050	54 902	-16.1%
CAPEX*	15 112	18 824	-19.7%
	<b>31.12.2017 BGN '000</b>	<b>31.12.2016 BGN '000</b>	
Non-current assets	469 083	416 599	12.6%
Current assets	511 080	442 622	15.5%
Owners' equity	504 465	491 223	2.7%
Non-current liabilities	80 997	53 842	50.4%
Current liabilities	394 701	314 156	25.6%

\*acquired tangible and intangible fixed assets

Indicator	1-12/2017	1-12/2016
EBITDA/Sales revenues	8,5%	8,4%
Operating profit / Sales revenues	5,5%	5,1%
Net profit/Sales revenues	4,5%	6,3%
Attracted capital / Equity	0,94	0,75
Net debt/EBITDA on annual basis	3,0x	2,8x

Revenue from sales of the Group increase by BGN 139 million or 16%, reaching BGN 1 016 million in 2017 compared to BGN 877.1 million in 2016. Sales of goods increased by BGN 118.4 million or 18%, reaching BGN 763.7 million in 2017 compared to BGN 645.3 million in 2016. Sales of finished products increase by 20.7 million BGN, or 9%, to BGN 252.4 million in 2017 compared to BGN 231.7 million in 2016.

### Sales by region



The contribution of sales in Bulgaria to the consolidated sales revenue in 2017 amounted to 68%, increasing by 9% compared to 2016. Sopharma has a 4% share of the Bulgarian pharmaceutical market in terms of value and a 13% share in terms of sold quantity (units). 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 – 6% (11% in units), GlaxoSmithKline – 4% (3% in units), Abbvie – 4% (0% in units), Sanofi-Aventis – 4% (4% in units), Astra Zeneca – 3% (1% in units), Pfizer – 3% (1% in units), Bayer – 3% (2% in units).

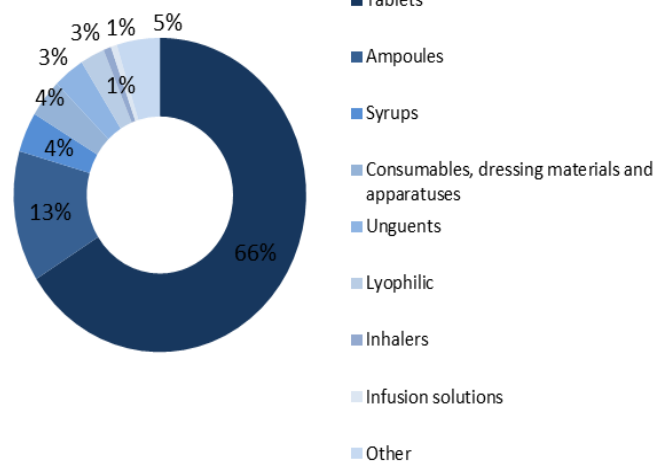
Revenues from sales of the Group in Europe amount to 30% of total consolidated sales revenues for 2017 and increase with 39% compared to 2016.

### *Sales by type of formulation*

The reported revenue of the Group includes the following items: proceeds from the sale of finished goods and revenues from the sale of goods.

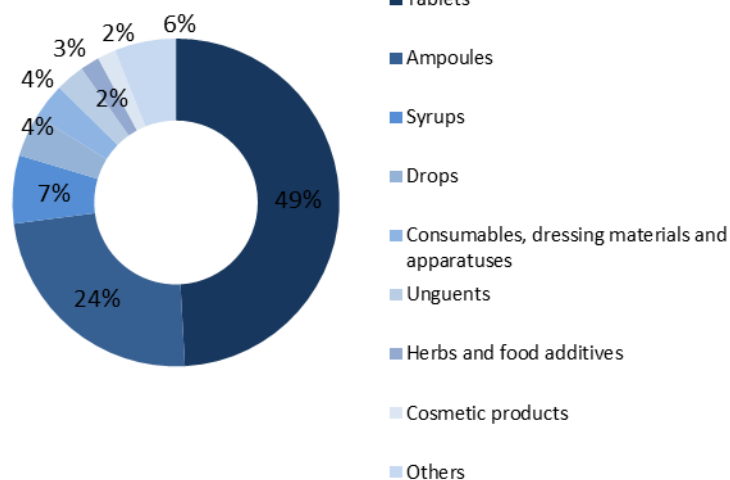
Income from the sale of finished goods includes revenues from the sale of products produced by the Company and the companies of the Group.

Revenues from products	2017 BGN '000	2016 BGN '000	Change %
Tablets	166 618	150 105	11%
Ampoules	34 023	32 291	5%
Syrups	10 394	9 734	7%
Consumables, dressing materials and apparatuses	9 896	8 949	11%
Unguents	8 794	6 220	41%
Lyophilic	6 770	7 316	-7%
Inhalers	2 161	2 546	-15%
Infusion solutions	1 704	366	366%
Other	12 012	14 186	-15%
<b>Total</b>	<b>252 372</b>	<b>231 713</b>	<b>9%</b>



Revenues from sales of goods include revenues from sales of goods to third parties distributed mainly by Sopharma Trading AD, Briz SIA and Brititrade SOOO.

Revenue earned from sale of goods	2017 BGN '000	2016 BGN '000	Change %
Tablets	375 195	305 214	23%
Ampoules	181 745	179 055	2%
Syrups	51 373	40 051	28%
Drops	32 064	30 069	7%
Consumables, dressing materials and apparatuses	26 818	23 833	13%
Unguents	21 756	18 379	18%
Herbs and food additives	14 535	7 983	82%
Cosmetic products	13 826	9 900	40%
Others	46 425	30 888	50%
<b>Total</b>	<b>763 737</b>	<b>645 372</b>	<b>18%</b>





## Other operating revenues

Other revenues	2017	2016	change	Relative share 2017
	BGN '000	BGN '000	%	%
Services rendered	5 271	4 823	9%	112%
Net loss from exchange rate differences under trade receivables and payables and current accounts	(4 780)	297	-1709%	-102%
Government grants	1 125	1 187	-5%	24%
Services related to social activities and events	872	837	4%	19%
Rents	755	792	-5%	16%
Income from sales of LTA	340	372	-9%	7%
Profit from change in the fair value of investment	309	102	203%	7%
Written-off liabilities	90	222	-59%	2%
Other (see Notes to the financial statements)	711	851	-16%	15%
<b>Total other operating income</b>	<b>4 693</b>	<b>9 483</b>	<b>51%</b>	<b>100%</b>

Other operating income decrease by BGN 4.8 million, reaching BGN 4.7 million in 2017, compared to BGN 9.5 million in 2016 due to a decrease in net losses from exchange rate differences under trade receivables and payables and current accounts, rent and decrease in other income.

## Operating expenses

Operating expenses	2017	2016	change	relative share of expenses in 2017
	BGN '000	BGN '000	%	%
Changes in inventories of finished goods and work in progress	(9 287)	994	-1034%	-1%
Materials	92 027	82 906	11%	10%
Hired services	63 611	56 408	13%	7%
Personnel	100 886	87 159	16%	10%
Depreciation and amortization	30 204	28 705	5%	3%
Carrying amount of goods sold	676 126	571 132	18%	70%
Other operating expenses	10 888	14 313	-24%	1%
<b>Total</b>	<b>964 455</b>	<b>841 617</b>	<b>15%</b>	<b>100%</b>

*Operating expenses* in 2017 increased by BGN 122.9 million or by 15% from BGN 841.6 million in 2016 to BGN 964.5 million in 2017. The change is a consequence of growth of sales and, respectively, of the carrying amount of goods sold by the group, an increase in the cost of materials, hired services, personnel costs, depreciation and other costs.

*The cost of materials* (with a 10% share) is increased by BGN 9.1 million or 11% to BGN 92 million in 2017 compared to BGN 82.9 million in 2016. The cost of basic materials increased by BGN 5.8 million or by 10%, the most significant impact being reported for the costs of packaging materials, liquid and solid chemicals and herbs, which increase by BGN 4.6 million, BGN 1.7 million and BGN 1.3 million respectively. The increase is reported for the costs of electricity and auxiliary materials, spare parts, laboratory and technical materials, costs of heating, fuels and lubricants and others.

*External services expenses* account for 7% relative share of operating expenses and increased by BGN 7.2 million or by 13% to BGN 63.6 million for 2017 compared to BGN 56.4 million for 2016. The increase includes rental costs of BGN 1.9 million, consulting services by BGN 1.5 million, forwarding and transport services by BGN 0.8 million, maintenance costs for buildings and equipment by BGN 0.8 million, subscription fees by BGN 0.5 million, making of medicines by BGN 1.1 million. Decrease is reported for the costs of advertising and marketing services by BGN 0.8 million, insurance with BGN 0.2 million, communications with BGN 0.3 million and others.

*Personnel costs* (with a share of 10%) increased by BGN 13.7 million or by 16% to BGN 100.9 million in 2017 compared to BGN 87.2 million in 2016. The overall growth of these expenses is due both to the increase in the remuneration of the hired personnel and the increased staff in the Group as a result of the consolidation of new companies.

*Other operating expenses* (with a 1% share) decreased by BGN 3.4 million or 24% from BGN 14.3 million in 2016 to BGN 10.9 million in 2017. Costs for representative events, trainings and other decrease.

*Depreciation costs* (with a 3% share) increased by BGN 1.5 million or 5% from BGN 28.7 million in 2016 to BGN 30.2 million in 2017.

<b>Finance income</b>	<b>2017</b>	<b>2016</b>	<b>change</b>	<b>relative share</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>of revenue of</b>
				<b>%</b>
Income from interest on arrears of trade receivables	4 004	4 702	-15%	48%
Net gain on investment securities transactions	2 965	322	821%	35%
Interest income on granted loans	1 222	1 792	-32%	15%
Income from dividends	148	178	-17%	2%
Interest on receivables on special contracts	22	-		0%
Interest income on bank deposits in securities	10	20	-50%	0%
Revenue from liquidation of subsidiaries	7	-	-	0%
<b>Total</b>	<b>8 378</b>	<b>7 014</b>	<b>19%</b>	<b>100%</b>
<b>Finance costs</b>			<b>change</b>	<b>relative share</b>
				<b>of expenses</b>
				<b>in 2017</b>
Interest expenses on loans	7 081	8 831	-20%	69%
Net loss on exchange rate differences on loans in foreign currencies	2 542	1 074	137%	8%
Bank fees on loans and guarantees	813	859	-5%	7%
Net loss on exchange differences on the disposal of a subsidiary	443	-	-	0%
Factoring interest costs	348	953	-63%	7%
Interest expense on finance lease	265	341	-22%	3%
Impairment on commercial loans granted	125	542	-77%	4%
Derivatives effects	74	109	-32%	1%
Impairment of available-for-sale investments	4	4	0%	0%
Impairment of cash in banks under special	-	8	-100%	0%
<b>Total</b>	<b>11 695</b>	<b>11 695</b>	<b>-8%</b>	<b>100%</b>

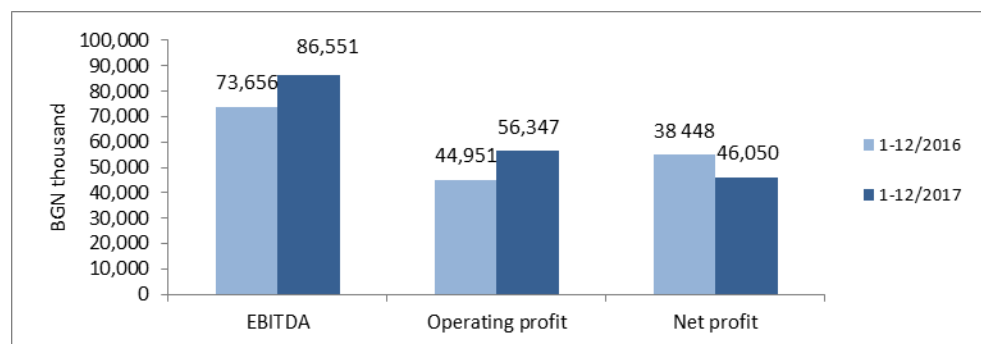
*Financial revenue* increased by BGN 1.4 million to BGN 8.4 million in 2017 compared to BGN 7 million in 2016, mainly due to an increase in net profit from investment securities transactions by BGN 2.6 million. Decrease recorded interest income on loans granted by BGN 0.6 million and revenue from interest on arrears of trade receivables by BGN 0.7 million.

*Financial expenses* decreased by BGN 1 million from BGN 12.7 million in 2016 to BGN 11.7 million in 2017. Decrease is reported in interest expense on loans received by BGN 1.7 million,

interest expense by factoring by BGN 0.6 million, and the net loss from exchange rate differences on foreign currency loans increased by BGN 1.5 million.

*Net financial revenues (expenses)* increased by BGN 2.4 million to BGN (3.3) million as at 31 December 2017 compared to BGN (5.7) million at 31 December 2016.

### Financial result



*Profit before interest, taxes and depreciation (EBITDA)* increased by BGN 12.9 million or 18%, reaching BGN 86.6 million in 2017, compared to BGN 73.7 million in 2016. The main reasons for this growth are the stabilization of the economic environment in the main export markets and the optimization of the operating activities of the Company.

*The operating profit* increased by BGN 11.4 million or 25% to BGN 56.3 million in 2017 compared to BGN 45 million in 2016.

*Net profit* decreased by BGN 8.9 million or by 16% to BGN 46.1 million in 2017 compared to BGN 54.9 million in 2016. The two main reasons for this decrease are the reported in 2016 profit from the sale of the entire Group's interest in the Serbian company Ivanchic Sons D.o.o., as well as the profit from the acquisition of the associated company Doverie Obedinen Holding AD.

### Assets

	31.12.2017	31.12.2016	change	Relative share 2017
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	317 678	321 215	-1%	68%
Intangible assets	63 346	34 601	83%	14%
Goodwill	21 863	9 885	121%	5%



Investment property	9 811	9 483	3%	2%
Investments in associated companies and joint ventures	19 888	18 715	6%	4%
Available-for-sale investments	7 982	5 721	40%	2%
Long-term receivables from related parties	20 599	10 028	105%	4%
Other long-term receivables	4 860	4 149	17%	1%
Deferred taxes	3 056	2 802	9%	1%
	<b>469 083</b>	<b>416 599</b>	12.6%	48%
<b>Current assets</b>				
Inventories	217 563	171 791	27%	43%
Trade receivables	235 050	215 583	9%	46%
Receivables from related parties	4 690	14 982	-69%	1%
Other receivables and prepayments	20 439	17 727	15%	4%
Cash and cash equivalents	33 338	22 539	48%	7%
	<b>511 080</b>	<b>442 622</b>	15.5%	52%
<b>TOTAL ASSETS</b>	<b>980 163</b>	<b>859 221</b>	14.1%	100%

*Total assets* increased by BGN 120.9 million or by 14%, from BGN 859.2 million as at 31.12.2016 to BGN 980.1 million as at 31.12.2017, due to an increase in non-current and current assets.

*Non-current assets* increased by BGN 52.5 million or by 13%, mainly due to an increase in the intangible assets by BGN 28.7 million as well as the goodwill – BGN 12 million. Decrease registered in property, plant and equipment with BGN 10 million in the part of land, buildings and machinery by BGN 3.5 million in part of land and buildings, machinery and facilities and others. The increase for the intangible assets of BGN 28.2 million is due to an increase in the intellectual property rights.

*Current assets* increased by BGN 68.5 million or 15%, to BGN 511.1 million as at 31.12.2017 compared to BGN 442.6 million as at 31.12.2016 mainly in the part of inventories with BGN 45.8 million, and commercial receivables with BGN 19.5 million. Receivables from associated companies decreased by BGN 10.3 million in the part of receivables from sales of production and materials by BGN 1.8 million and in the part of provided commercial loans by BGN 8.5 million. The increase in inventories compared to 31.12.2016 is in the part of goods and semi-finished goods.

Trade receivables increased in the portion of customer receivables by BGN 18.27 million and advances provided, net by BGN 1.3 million.

Cash and cash equivalents decreased by BGN 10.8 million as compared to 31.12.2016 and deposits amounting to BGN 2.9 million were provided at the end of the period and blocked cash to the amount of BGN 10.5 million, which are cash provided under the Escrow account under a contract for acquisition of shares by Lekovit OOD Serbia and the companies PharmaStore, Bulgaria.

## Liabilities and owners' equity

<b>EQUITY</b>	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>change</b>	<b>From owners equity 2017</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>Equity attributable to owners of the parent</b>				
Share capital	134 798	134 798	0%	27%
Reserves	53 667	62 708	-14%	11%
Retained earnings	281 832	259 984	8%	56%
	<b>470 297</b>	<b>457 490</b>	3%	93%
<b>NON-CONTROLLING INTEREST</b>	34 168	33 733	1%	7%
<b>TOTAL EQUITY</b>	<b>504 465</b>	<b>491 223</b>	3%	100%
	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>change</b>	<b>% total liabilities 2017</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	50 540	25 924	95%	11%
Deferred tax liabilities	15 045	11 752	28%	3%
Long-term liabilities to personnel	5 056	4 539	11%	1%
Finance lease liabilities	1 933	2 582	-25%	0%
Government grants	8 250	9 011	-8%	2%
Other non-current liabilities	173	34	409%	0%
	<b>80 997</b>	<b>53 842</b>	50%	17%
<b>Current liabilities</b>				
Short-term bank loans	193 974	170 842	14%	41%
Current portion of long-term bank loans	14 478	9 478	53%	3%
Trade payables	132 400	92 053	44%	28%
Payables to related parties	651	566	15%	0%
Payables on contract for factoring	19 376	20 033	-3%	4%
Payables to the personnel and for social security	12 765	10 093	26%	3%
Tax payables	7 860	5 949	32%	2%
Other current liabilities	13 197	5 142	157%	3%
	<b>394 701</b>	<b>314 156</b>	26%	83%
<b>TOTAL LIABILITIES</b>	<b>475 698</b>	<b>367 998</b>	29%	100%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>980 163</b>	<b>859 221</b>	14.1%	

The equity of Sopharma Group increased by BGN 13.2 million compared to 31.12.2016, mainly due to an increase in retained earnings. The non-controlling interest is increased by BGN 0.4

million. The equity related to the equity holders of the Company is 48% of the total equity and liabilities, and there is improvement in the financial autonomy of the Group. The latter increases by BGN 12.8 million mainly due to the undistributed profit.

*Non-current liabilities* increased by BGN 27.2 million, or 50%, from BGN 53.8 million at the end of 2016 to BGN 81 million at the end of 2017, mainly from an increase in long-term bank loans with BGN 24.6 million related to the acquisition of shares in companies.

*Current liabilities* increased by BGN 80.5 million or by 26% compared to the end of 2016, mainly due to an increase of short-term loans by banks by BGN 23.1 million, commercial payables by BGN 40.3 million, as well as other current liabilities by BGN 8.1 million. Personnel and social security liabilities increased by BGN 2.7 million and tax liabilities of BGN 1.9 million. Total liabilities on bank loans, leasing and factoring of the Group increased by BGN 51.4 million compared to the end of 2016, with the net debt after deducting cash and cash equivalents increasing by BGN 40.6 million.

### Ratios

	31.12.2017	31.12.2016
ROE	8,5%	11,9%
ROA	4,4%	6,0%
Asset turnover	1,12	1,05
Current liquidity	1,29	1,41
Quick ratio	0,72	0,86
Cash/current liabilities	0,06	0,07
Owners' equity/liabilities	1,06	1,33

1 Net profit on an annual basis attributable to equity holders of the Company / arithmetic mean of non-minority interest for the last five quarters

2 Net profit on an annual basis attributable to equity holders of the Company / arithmetic mean of total assets for the last five quarters

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

4 Current assets / current liabilities

5 Receivables + Cash / Current liabilities

6 Cash / Current liabilities

7 Own capital / Liabilities



## Cash flow

	31.12.2017 BGN '000	31.12.2016 BGN '000
Net cash flow from/(used in) operations	(55 700)	(68 768)
Net cash flow used in investment activities	(79 427)	(6 862)
Net cash flow (used in)/from financial operations	135 412	74 855
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>285</b>	<b>(775)</b>
Cash and cash equivalents on 1 January	22 339	23 114
Cash and cash equivalents on 31 December	22 624	22 339

Net cash flows in 2017 generated by operating activities amounted to BGN 55.7 million outflow, from investment activity amounted to BGN 79.4 million outflow and from financial activity amounted of BGN 135.4 million inward flow. As a result of these activities, the cash and cash equivalents net increased by BGN 0.3 million and as at 31.12.2017 amounted to BGN 22,6 million compared to BGN 22,3 million at 01.01.2017.

Factoring inflow amounting to BGN 131.3 million are reported as cash flows from financing activities. As a consequence, a significant decrease in net cash flows from operating activities is recorded at the expense of an increase in net cash flows from financing activities.

### New developments and products

✚ New Products for the period January - December 2017

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

✚ New medicinal products introduced into production

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

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

✚ New registrations and re-registrations / changes

### New registrations

Permissions for use for new destinations of 14 medicinal products have been received - Zondarone ampoules, Vitamin C ampoules, Silden 50 mg tablets, Silden 100mg tablets, Thallert syrup, Thallert tablets, Methylprednisolone 40 mg, Phenobarbital ampoules, Indomethacin



tablets, Digoxin ampoules, Allergozan ointment, Templagin trio tablets, Ambixol syrup, Tuspan syrup.

Submitted to agencies of new destinations documents for the registration of 41 medicinal products.



### *Re-registrations / changes*

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

## **Developments**

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

### **5. Significant events in 2017 and until the date of the interim consolidated management report**

-  On 5 January 2017, in the US Achieve Life Science Inc. and OncoGenex Pharmaceuticals Inc. announced a merger agreement under which OncoGenex Pharmaceuticals Inc. will acquire Achieve Life Science Inc. through of all-stock. Upon completion of the proposed merger it is expected that the shareholders of Achieve Life Science Inc. will own 75% of the outstanding shares of the combined Group, while current shareholders of OncoGenex Pharmaceuticals Inc. will own the remaining 25% of the outstanding shares. The agreement is submitted for approval by the Securities and Exchange Commission (SEC). After its approval the combined Group will be renamed Achieve Life Sciences Inc. and will be recorded in the NASDAQ. As a result of the above - mentioned actions Sopharma will own 423 000 shares (3.525%) of the capital of Achieve Life Science Inc.
-  On 31 January 2017 under art. 262e of the CA was signed a contract for transformation through merger between Sopharma AD (receiving company) and Medica AD (transforming company). The merger transformation contract regulates the way in which the transformation will be carried out through the merger of Medica AD into Sopharma AD and the resulting consequences for the transforming and the receiving company.
-  On 22 February 2017, the deletion of Medica - Health EOOD is entered in the Commercial Register of the Registry Agency.

- ✚ On 15 March 2017 in the Commercial Register was entered a subsidiary under the name of Sopharmacy 7 EOOD, UIC 204501313. The company has a capital of BGN 5,000, and the sole owner of the capital is the subsidiary of Sopharma Trading AD - Sopharmacy EOOD. The subject of activity of Sopharmacy 7 EOOD is retail trade of medicinal products.
- ✚ On 4 April 2017 a contract was signed for the sale of the Group's participation through the subsidiary SIA Briz, Latvia in the amount of 50% in the joint venture OOO Vivaton Plus, Belarus. Under the terms of the contract, the transaction should be finalized within 30 days of the date of its conclusion.
- ✚ On 5 April 2017 Sopharma AD received a decision of the CPC that the acquisition by Sopharma AD of shares of the capital of Doverie Obedinen Holding AD at this stage is not subject to prior notification under Art. 24, para. 2 of the LPC. Sopharma AD will take appropriate action in reaching the established thresholds requiring a tender offer to the other shareholders of Doverie Obedinen Holding AD.
- ✚ On 14 April 2017 Sopharma AD announced that the Company acquired 51% of the capital of the Moldovan distributor of medicinal products RAP Pharma International after obtaining permission from the Moldovan Competition Commission to realize the acquisition.
- ✚ On 18 April 2017 the Group acquires an additional 50% of the shares in ZAO Interfarm, Belarus through its subsidiary SOOO Brititrade, Belarus, as a result of which it acquires control of the company.
- ✚ On 24 April 2017 an Extraordinary General meeting of shareholders was held and the following decisions were taken:

1. The Substantiated report by the Board of Directors was approved for transactions under art. 114, par. 1 of POSA with the participation of the public company Sopharma AD.

2. The Board of Directors was authorized to conclude a contract for provisioning of collateral in the form of a corporate guarantee in the form of a mortgage on a real estate owned by Sopharma Group and a special pledge on machines and equipment, as a collateral under a contract with a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Section One of the Substantiated Report, as a solidarity co-debtor under an investment loan agreement

between a financial institution (Raiffeisenbank Bulgaria EAD) and the subsidiary Sopharma Trading AD as a borrower for a maximum loan amount of EUR 12 million;

3. The Board of Directors was authorized to conclude a transaction from the scope of Art. 114, para 1, item 2 of the Public Offering of Securities Act according to Section Two of the Substantiated Report of Sopharma AD as a solidarity co-debtor under an investment loan contract institution (Raiffeisenbank Bulgaria EAD) and the subsidiary Sopharma Trading AD as a borrower for a loan of up to EUR 12 million.

4. The Board of Directors was authorized to conclude a contract as a co-debtor with a Financial Institution (DSK Bank Bulgaria) for an overdraft credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA, according to Chapter Three of the Substantiated report for the entry of Sopharma AD as a co-debtor under the conditions of solidarity under a contract for a working loan between a financial institution (DSK Bank EAD) and the subsidiary Sopharma Trading AD as a borrower for a loan up to BGN 14 million;

5. The Board of Directors was authorized to conclude a contract as a co-debtor with a Financial Institution (Societe Generale Expressbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Four of the Substantiated report for joining Sopharma AD as co-debtor under solidarity under an investment loan agreement between a financial institution / Societe Generale Expressbank AD / and the subsidiary Sopharma Trading AD as a borrower for a loan up to a maximum of BGN 16 million;

6. The Board of Directors was authorized to conclude a contract for rent of real estate as a tenant with Sopharam Properties REIT as a renter – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Five of the Substantiated report;

7. The Board of Directors was authorized to conclude a contract for trade of medicinal products with the subsidiary Sopharma Kazakhstan AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Six of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Group to conclude a contract for trade of medicinal products with the subsidiary Sopharma Kazakhstan AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Six of the Substantiated report.

- ✚ Sopharma Trading AD has reached an agreement to acquire PharmaStore pharmacies with the intention of their subsequent joining to the Sopharmacy's family. The merger of



Sopharmacy and PharmaStore will provide a stronger market position for the two chains so that they can meet the increasing needs of Bulgarian patients for quality health services. The merger will also bring a larger scale for the operations of Sopharma Trading AD in the retail segment of the pharmacy market. The acquisition is subject to prior approval by the Commission for the Protection of Competition.

- ✚ On 24 April 2017, an Extraordinary General Meeting of Shareholders of Sopharma Trading AD took place, where decisions were taken to empower the Board of Directors of the Company to conclude the transaction from the scope of Art. 114, para. 1, item 2 of the Public Offering of Securities Act, under the conditions and within the terms, according to Section I, II and III of the Substantiated Report, prepared by the Board of Directors, as well as approval of the Substantiated Report of the Board of Directors under Art. 114a, para. 1 of the Public Offering of Securities Act regarding the expediency and conditions of transactions from the scope of Art. 114, para. 1 of POSA.
- ✚ Pursuant to Art. 100k., Para. 1 of the Public Offering of Securities Act, the Company informed that on 25 April 2017 Sopharma AD received an approval of the Financial Supervision Commission of the Contract for transformation through merger and an additional agreement to it from 20.03.2017, signed on 31.01.2017 between SOPHARMA AD, hereinafter referred to as "Receiving Company" and MEDICA AD, hereinafter referred to as "Transforming Company", in accordance with the requirements of Art. 262e and of the Commercial Law as a result of which all the assets of Medica AD will be transferred to Sopharma AD and the latter will become its successor. Medica AD will cease without liquidation. The Financial Supervision Commission also approved the reports of the management bodies of the two companies prepared in accordance with the provisions of Art. 262 and of the Commerce Act and the record of the appointed examiners of the participants in the transformation under Art. 262m of the Commercial Law. As a result of the merger, all shareholders of the transforming Medica AD, with the exception of the receiving company Sopharma AD, which is also a shareholder in the transforming company, will acquire shares in the capital of Sopharma AD and become shareholders in it. Against each of its shares by Medica AD each shareholder of the company on the grounds of Art. 261b, ap. 1 of the Commercial Law will acquire 0.8831 of the treasury shares of the capital of Sopharma AD. The transformation was approved at the GMS of the two companies.
- ✚ On 25 April 2017 Sopharma AD presented an adjusted tender offer under Art. 149, para. 6 of the Public Offering of Securities Act for the purchase of the shares of the remaining



shareholders of Unipharm AD at a price of BGN 4,350 per share. On 16 May 2016, the Financial Supervision Commission (FSC) decided to approve the tender offer.

- ✚ On 2 June 2017 a regular General Meeting of Shareholders of Sopharma AD was held and the following decisions were taken: 1. The GMS approved the annual reports of the Board of directors for the activity in 2016; 2. The GMS approved the Investor Relations Director's report for 2016; 3. The GMS approved the report of the registered auditors who have certified the annual financial statements for 2016; 4. The GMS approved the annual financial statements for 2016; 5. The GMS approved the audited annual consolidated financial statements for 2016; 6. The GMS approved the audit committee's report on its activities in 2016; 7. The General Meeting of Shareholders approved a decision for the distribution of the profits of the Company realized in 2016 and retained earnings from past periods, as follows: the total amount of distributable profit amounted to BGN 38,249,890.71 / thirty-eight million two hundred and forty-nine thousand eight hundred and ninety leva and 71 stotinki of which BGN 37,769,879.20 / thirty-seven million seven hundred and sixty nine thousand eight hundred seventy-nine leva and 20 st. / profit realized in 2016 and 480,011.51 leva / four hundred and eighty thousand and eleven leva and 51 st. / unallocated profit from past periods. After allocating 10% to a mandatory reserve, distribute a dividend of BGN 0.10 (ten stotinki) per share. 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 approved and a decision on the distribution of the profit was taken. The Company shall ensure that the dividends voted to the general meeting are paid to the shareholders within three months from the date of the dividend. 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 discharged the Board of directors for their activities in 2016; 9. The GMS appointed the registered auditor Baker Tilly Klitou and Partners to certify the annual financial statements of the Company for 2017; 10. GMS elects Audit Committee of Sopharma AD in the composition of Tsvetanka Zlateva, Vasil Naydenov and Kristina Atanasova; 11. The GMS approved rules for the activity of the Audit Committee according to the requirements of Part Four of the Independent Financial Audit Act; 12.

GMS approved the Report of the Board of Directors on the application of the Remuneration Policy of the members of the Board of Directors of the Company for 2016; 13. The GMS kept unchanged the constant monthly remuneration of the members of the Board of Directors, as well as the permanent monthly remuneration of the Executive Director in 2017; 14. The GMS approved a decision under Article 24, paragraph 3, letter "B" of the Articles of Association of the Executive Director, to pay an additional remuneration of 1% of the amount of profits realized in 2016 according to the approved Annual Financial Statement; 15. The General Meeting of Shareholders adopted a resolution, observing the requirements of art. 26a, item 12 of the Company's Articles of Association, 1% of the amount of profit realized in 2016 to be distributed among the members of the senior management team of the company; 16. The GMS approved the Substantiated Report prepared by the Board of Directors for a transaction from the scope of Art. 114, para 1 of POSA; 17. The General Meeting of Shareholders empowered the Board of Directors to conclude a transaction under which Sopharma AD will join as a co-debtor under the conditions of solidarity under a contract for a working loan between the subsidiary Sopharma Trading AD and a financial institution - ING Bank NV - Sofia Branch, subject to the conditions and parameters set out in the Substantiated report; 18. GMS transformed Sopharma AD through the merger of Medica AD into it; 19. The GMS approved the Contract for transformation through merger of Medica AD, UIC: 000000993, in Sopharma AD, UIC: 831902088, concluded on 31 January 2017 and of Supplementary Agreement No. 1 from 20 March 2017 to it; 20. The GMS approved the Report of the Board of Directors of the company under Art. 262i of the Commercial Law; 21. The GMS approved the Auditor's Report under Art. 262m from the Commercial Law concerning the transformation through merger of Medica AD, UIC: 000000993, in Sopharma AD, UIC: 831902088;



On 2 June 2017 a regular General Meeting of Shareholders of Medica AD was held and the following decisions were taken: 1. The GMS approved the annual reports of the Managing Board for the activity in 2016; 2. The GMS approved the annual financial statements for 2016; 3. The GMS approved the report of the registered auditors who have certified the annual financial statements for 2016; 4. The GMS approved the audit committee's report on its activities in 2016; 5. The GMS approved the Investor Relations Director's report for 2016; 6. The GMS discharged the members of the Supervisory Board and the members of the Managing Board for their activities in 2016; 7. The General Meeting of Shareholders approved a decision for the distribution of the Company's profit for 2016, namely the entire net profit of the Company for 2016 amounting to BGN 2,126,585.81 (two million one hundred and twenty six thousand five

hundred and eighty five BGN and 81 st.) to be allocated to retained earnings; 8. The GMS approved a decision under Art. 48, para. 5 of the Articles of Association of the Company for the payment of additional remuneration to the Executive Director; 9. The GMS appointed the registered auditor Baker Tilly Klitou and Partners to certify the annual financial statements of the Company for 2017; 10. The GMS released the Audit Committee and elected a new Audit Committee of the Company; 11. The GMS approved the status of the Audit Committee of the Company as required by Part Four of the Independent Financial Audit Act; 12. The GMS approved the decision for transformation through merger of MEDICA AD, UIC: 000000993 at Sopharma AD, UIC: 831902088; 13. The GMS approved the Contract for transformation through the merger of MEDICA AD, UIC: 000000993, in Sopharma AD, UIC: 831902088, concluded on 31 January 2017 and of Supplementary Agreement № 1 of 20 March 2017 to it; The GMS approved the Report of the Management of MEDICA AD under Art. 262i of T3; 15. The GMS approved the Auditor's Report under Art. 262m CA on the transformation through merger of MEDICA AD, UIC: 000000993, in Sopharma AD, UIC: 831902088; 16. The GMS approved a decision for termination of MEDICA AD without liquidation due to its transformation through merger into Sopharma AD.

- ✚ On 2 June 2017 a regular General Meeting of Shareholders of Sopharma Trading AD was held and the following decisions were taken: 1. The GMS approved the annual report of the Board of Directors on the company's activities in 2016; 2. The GMS approved the Annual Activity Report of the Investor Relations Director in 2016; 3. The GMS approved the Audit Report for the Audit of the Annual Financial Statements of the Company for 2016; 4. The GMS approved the Audited Annual Financial Statement of the Company for 2016. 5. The GMS approved the Auditor's Report on the Audit of the Company's Consolidated Annual Financial Statements for 2016; 6. The GMS approved the Audited Consolidated Annual Financial Statements of the Company for 2016; 7. The GMS approved the Report of the Board of Directors under Art. 12, para. 1 of Ordinance No 48 of 20 March 2013 on the requirements for remuneration; 8. The GMS approved the report of the Audit Committee for its activity in 2016. 9. Adoption of a decision for distribution of the profits of the Company realized in 2016, as follows: The net financial result of BGN 13,340,128.58 / thirteen million three hundred and forty thousand one hundred twenty eight and fifty and eight stotinki / is divided as follows: BGN 1 334 012.86 one million three hundred and thirty four thousand and twelve BGN and eighty-six stotinki) is included in the Reserve Fund as a 10% reserve, BGN 9,871,502.70 / nine million eight hundred seventy-one thousand five hundred and two BGN and seventy stotinki / for distribution of a monetary dividend for the shareholders, BGN 2,134,613.02



/ two million one hundred and thirty four thousand six hundred and thirteen BGN and two pennies / to be transferred as an additional reserve to the company. The proposed gross dividend per share is BGN 0.30 (thirty stotinki); 10. Adoption of a decision to discharge the members of the Board of Directors for their activity in 2016; 11. Determination of the remuneration of the members of the Board of Directors for 2017; 12. Adoption of a decision for the payment of variable remuneration to the Head of Sopharma Trading AD; 13. The GMS selected Baker Tilly Klitou and Partners as a registered auditor of the Company for 2017; 14. Termination of the mandate of the Audit Committee of Sopharma Trading AD; 15. Election of a member of the Audit Committee of Sopharma Trading AD; 16. Approval of rules for the activity of the Audit Committee of Sopharma Trading AD; 17. Approval of the Substantiated report of the Board of Directors on the expediency and conditions of transactions from the scope of art. 114, para 1 of POSA; 18. The GMS empowered the Board of Directors of the Company to conclude transactions from the scope of Art. 114, para 1, item 2 and item 3 of the Public Offering of Securities Act, in accordance with Sections I - XVIII of the Substantiated Report prepared by the Board of Directors.

- ✚ On 5 June 2017 a regular General Meeting of Shareholders of Sopharma Buildings REIT was held and the following decisions were taken: 1. Adoption of the Annual Report of the Board of Directors on the activities of the Company in 2016; 2. Adoption of the Annual Activity Report of the Investor Relations Director in 2016; 3. Approval of the Auditor's Report for the Audit of the Annual Financial Statements of the Company for 2016; 4. Adoption of the Audited Annual Financial Statement of the Company for 2016; 5. Adoption of the Audit Committee's report on its activities in 2016; 6. Adoption of the Report of the Board of Directors on the Application of the Remuneration Policy of the Members of the Board of Directors of the Company for 2016; 7. Adoption of a decision for distribution of the financial result of the Company realized in 2016; Proposal for a decision: "The General Meeting of Shareholders approves the proposal of the Board of Directors not to distribute a dividend for 2016 on the grounds that the Company has completed the accounting year 2016 with a negative financial result. The resulting loss for 2016, amounting to 54,255.90 (fifty-four thousand two hundred fifty-five BGN and ninety stotinki), shall be covered by the accumulated reserves of the Company's Premiums Fund. "; 8. Adoption of a decision for discharge of the members of the Board of Directors of the Company for their activity in 2016; 9. Determination of the amount of the constant monthly remuneration of the members of the Board of Directors of the Company for 2017; 10. Election of a registered auditor of the Company for 2017; 11. Termination of the functions of the Audit Committee of the Company; 12. Election of



members of the Audit Committee in accordance with the Independent Financial Audit Act; 13. Determined on the remunerations of the Audit Committee of the Company; 14. Approval of Statute of the Audit Committee of the Company.

- ✚ On 21 June 2017 a Regular General Meeting of Shareholders of Unipharm AD was held and the following decisions were taken: 1. Adoption of the Annual Report of the Management Board on the company's activities in 2016. 2. Adoption of the Annual Activity Report of the Investor Relations Director in 2016. 3. Adoption of the Annual Financial Statement of the Company for 2016, verified and certified by Specialized audit firm 4. Admission of Specialist Report Audit company for auditing and certifying the company's annual financial report for 2016. 5. Adoption of a decision for the adoption of a Report of the Independent Audit Committee on its activities in 2016. 6. Adoption of a decision on the distribution of the profits of the company realized In 2016. Proposal for a decision: The General Meeting of Shareholders accepts the proposal of the Managing Board for distribution of the company's profit realized in 2016, namely: the profit for 2016 at the amount of BGN 282 806.19 / two hundred and eighty two thousand eight hundred and six BGN and nineteen stotinki / after allocating 10% / ten percent / legal reserve - BGN 28,280 / twenty-eight thousand two hundred and eighty BGN / to be distributed as follows: BGN 240,000 / two hundred and forty thousand / - for dividend of the shareholders - 0.04 / zero whole zero four / BGN for 1 / one / share number; The balance of the profit of BGN 14 526.19 / fourteen thousand five hundred twenty-six BGN and nineteen stotinki / shall be credited for additional reserves. The right to receive dividends shall have the persons entered in the registers of the Central Depository as shareholders on the 14th day After the day of the general meeting at which the annual financial statements were adopted and a profit distribution decision was taken. The Company shall ensure the payment of the dividend voted to the shareholders at the General Meeting within 3 months of its execution. The payment of the dividend is done 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 DSK Bank EAD in the country / 7. Adoption of a decision for exemption from Responsibility of the members of the Management Board for their activities in 2016. 8. Adoption of a decision to discharge the members of the Supervisory Board for their activity in 2016; 9. The GMS keeps the constant monthly remuneration.

- ✚ On 22 May 2017, the General Meeting of Shareholders of Momina Krepost AD was held and the General Meeting of Shareholders: approves the Annual Report of the Board of

Directors on the company's activities in 2016; Adopts the Annual Activity Report of the Investor Relations Director in 2016; Adopts the Auditor's Report on the Audit of the Annual Financial Statements of the Company for 2016; Approves the audited Annual Financial Statements of the Company for the year 2016; Adopts the Report of the Audit Committee on its activities in 2016; Adopt the proposal of the Board of Directors. For the distribution of the company's profit realized in 2016, namely: BGN 166 thousand to be taken as an additional reserve of the company. No dividend is distributed to the shareholders; Dismisses the members of the Board of Directors from responsibility for their activities in 2016; Elected as a registered auditor for 2017 the specialized auditing company Auditing - Auditing OOD; Adopts a report on the application of the remuneration policy of the members of the Board of Directors of Momina Krepost AD for 2016, decides the amount of the monthly remuneration of the members of the Board of Directors to be BGN 1,000; Elects an Audit Committee consisting of three people - Tsvetelina Stanimirova, Mihaela Tolina and Savina Mihaylova; Approves the Statute of the Audit Committee; Dismisses as a member of the Board of Directors Minko Ivanov Minkov; Elected Boris Anchev Borisov as a member of the Board of Directors of the company. Outside the reporting period, a special auditing company Baker Tilly Klitou and Partners OOD was appointed to the Extraordinary General Meeting of Shareholders of the Company on 28.07.2017 as an auditor for verification and certification of the annual financial statement of Momina Krepost AD for 2017.

- ✚ On 15 June 2017 an approval of the merger Achieve Life Science in OncoGenex Pharmaceuticals was received by the US SEC. On 1 August 2017 the merger between Achieve Life Sciences, Inc. and OncoGenex Pharmaceuticals was successfully closed today and as a result of which the stockholders of Achieve have become the majority stockholders of OncoGenex. OncoGenex has been renamed Achieve Life Sciences (NASDAQ: ACHV).

The company announced that "Cytisine is a drug of global public health importance and the transition of Achieve to the public markets is a critical step in advancing our development program," commented Rick Stewart, Chairman and CEO of Achieve Life Science.

- ✚ On 21 June 2017 r. Sopharma AD informs about the results of the tender offering submitted by Sopharma AD for the purchase of the shares of the other shareholders of Unipharm AD. Company, object of the offer: Unipharm AD, with management address Sofia 1797, Studentski grad, zh.k. Darvenitsa, Trayko Stanoev Str. Tender offeror: Sopharma AD, with address: Sofia, Nadezhda district, 16, Iliensko shose Str.

Authorized investment intermediary: Elana Trading AD, with management address: Sofia, Sredets, 4, Kuzman Shapkarev Str., and license issued by FSC for carrying out activity as an investment intermediary on the basis of Decision No. 171 -IP / 08.03.2006

Price offered per share: BGN 4.35 (four leva thirty-five stotinki) Number of persons accepted the tender offer: 65 Shareholder with total number of shares: 1 125 021, representing 18.75% of the capital of Unipharm AD.

As a result of the tender offer and after the conclusion of the transactions with the shareholders that have accepted it, Sopharma AD will directly own 96.63% of the shares of Unipharm AD. Sopharma AD has the right, within three months from the closing date of the tender offer, to submit, after obtaining the approval of the FSC, an offer for the purchase of the shares of the remaining shareholders of Unipharm AD on the grounds of Art. 157a of POSA. In addition, according to the provisions of Art. 157b of the POSA, each shareholder is entitled to require from Sopharma AD to redeem his/her shares until 19 September 2017. The request must be in writing and contain information about the shareholder and the shares he owns. The request should be addressed to the authorized investment intermediary Elana Trading AD. The price per share of Unipharm AD for the proposal under Art. 157a and in exercising the rights of the shareholders under Art. 157b, in accordance with the provisions of Art. 157a, para. 3 is equal to the price of the tender offering of BGN 4.35 per share.

The results of the tender offering were published by the tender offeror in the newspapers "Capital Daily" and "Sega" as of 21.06.2017.

- ✚ On 28 June 2017 Sopharma Trading AD entered in the Commercial Register a subsidiary under the name "Sopharmacy 8" EOOD, with headquarters in Sofia, Izgrev district, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, fl. 12 .
- ✚ On 4 July 2017, a merger of OOO MobilLine, Belarus with ODO Medjel, Belarus was registered by merging the assets and liabilities of the two companies. The activity of the merged entity, OOO MobilLine, is terminated and all its rights and obligations at the moment of merger is taken over by ODO Mijel, Belarus.
- ✚ On 17 July 2017 Sopharma AD notifies that in interest of its shareholders Sopharma AD will initiate dividend payment of the voted on the AGM held on 2 June 2017 dividend of 0.10 BGN earlier than planned on 24 July 2017.
- ✚ On 18 July 2017 Sopharma Trading announced that the Commission for the Protection of Competition of the Republic of Serbia allowed the company to acquire a majority stake in Lekovit - the fastest growing Serbian wholesaler of medicines for the last 3 years. The Regulator's decision comes just weeks after the two companies announced their intentions for a joint partnership. On August 4, 2017, the acquisition transaction was completed, with the acquisition of 70% of the shares of the Shabaz-based company, Sopharma Trading becoming the majority owner, and Dr. Dragan Petrovic, the current owner of Lekovit will retain the remaining 30% of the shares. Under the arrangements, Dr. Dragan Petrovic will continue to act as Executive Director, who will be directly responsible to the Executive Director of Sopharma Trading d.o.o Beograd. He will join as



a member of the management team of Sopharma Trading AD and will work on the close integration of Lekovit's operations with those of its subsidiary company in Serbia. The partnership between the two companies will combine the innovative diversified business model of the Bulgarian investor with local knowledge and the high reputation of the Serbian company in order to build a strong player with a national presence on the Serbian market. The unification will bring with it the introduction of innovations and the placement of leading world practices and modern technologies, which Sopharma Trading uses in its model of work in our country. In the short term, Sopharma Trading and Lekovit will focus on preserving the value of the Serbian company and creating synergies between the two companies through successful integration of their processes.

- ✚ On 21 July 2017 Sopharma AD notifies that it acquired 75% from the capital of the successful start-up for development and registration of food additives "Aromania" ([www.arolife.bg](http://www.arolife.bg)).

For the nearly two years since its establishment "Aromania" has more than 20 registered products and for 12 of them the company either has or has filled a different form of patent protection - trade mark, industrial design or useful model. Two of the products are leaders in their categories. For 2016 the revenues from sales of the company are 1,279 thousand BGN.

Sopharma will use this platform for a wider presence on the food additives market.

- ✚ On 1 August 2017 a merger of ODO Vestfarm, Belarus and ODO BelAgroMed, Belarus in ODO Salusline, Belarus was registered by merging the assets and liabilities of the three companies. The activity of the merged entities ODO Vestfarm and ODO BelAgroMed is terminated and all its rights and obligations at the moment of merger is taken over by ODO Salusline, Belarus.

- ✚ On 8 August 2017 the transformation through merger of Medica AD in Sopharma AD was entered in the Commercial Register.

- ✚ On 31 August 2017, a merger of ODO Alean, Belarus into ODO Medjel, Belarus, was registered by merging the assets and liabilities of the two companies. The activity of the merged company ODO Alean, Belarus, is terminated and all its rights and obligations at the time of the merger are taken over by the ODO Medjel, Belarus.

- ✚ On 12 September 2017 the Board of Directors of Sopharma AD decided to initiate the procedure for transformation of Sopharma AD under the conditions and by the order of Chapter XVI of the Commerce Act and Art. 122 and of the Public Offering of Securities Act, to be implemented by merger of Unipharm AD into Sopharma AD, UIC 831537465, with headquarters and address of management City of Sofia, Studentski District, 3, "Traiko Stanoev" Str., and elects the investment intermediary "ELANA TRADING" AD, UIC



831470130, with headquarters and address of management in Sofia, 5 "Lachezar Stanchev" str. for consultant in connection with the implementation of the transformation procedure.

- ✚ On 11 September 2017, "Sopharmacy 9" EOOD and "Sopharmacy 10" EOOD, subsidiaries for the Group through the subsidiary "Sopharma Trading" EOOD, are entered in the Commercial Register.
- ✚ On 14 September 2017, on the grounds of Art.262d Unipharm AD, the transforming company, and Sopharma AD, a receiving company, have entered into a Transformation Agreement through merger. The merger transformation agreement governs the way in which the transformation by merger of Unipharm AD into Sopharma AD will take place and the consequences for the transforming and the receiving company. The fair price of the shares of the companies involved in the transformation is determined on the basis of generally accepted valuation methods. On the basis of the fair value of the shares of the companies involved in the transformation, a replacement ratio of 0.891512 is formed, which means that one share of the transforming company Unipharm AD should be replaced by 0.891512 shares of the receiving company Sopharma AD. The companies have appointed auditors, whose conclusion is necessary before submitting the documents for transformation to the FSC. At present, the Deputy Chairperson of the Financial Supervision Commission in charge of the Investment Activity Supervision Division has not granted approval under Art. 124 of the Public Offering of Securities Act of the transformation contract, of the reports of the management bodies under Art. 262i of the Commercial Law and the report of the examiner under Art. 262m of the Commercial Law.
- ✚ On 27 September 2017, Sopharma AD announced that in connection with the tender offer made on the grounds of Art. 149 para. 6 of the Public Offering of Securities Act and the right of the non-admitted shareholders under Art. 157b, we provide information for the fulfillment of the obligation of Sopharma AD under this Article: 1. The offeror has bought a total of 125 530 voting shares in the general meeting of Unipharm AD; 2. 17 shareholders have applied for redemption under the right given to them by Art. 157b of POSA.
- ✚ An Annual Investor Meeting was held on 3 November 2017. Short presentations of Sopharma AD, Sopharma Group and Sopharma Trading AD were presented which contained information on the results published by the two companies for the first nine months of 2017.

- ✚ On 7 November 2017 the Commission for the Protection of Competition of the Republic of Bulgaria authorized the merger by acquiring the activity of PharmaStore pharmacies of Sopharma Trading AD. The acquisition transaction is due to close.
- ✚ As at 1 December 2017 Sopharma AD increased its total share in Doverie Obedinen Holding AD to 32.49%.
- ✚ On 01 December 2017, OOO Danapharm, Belarus, was registered into OOO Galenapharm, Belarus, by merging the assets and liabilities of the two companies. The activities of the merged OOO Danapharm, Belarus, ceased and all its rights and obligations at the time of the merger were taken over by OOO, Galenapharm, Belarus.
- ✚ On 7 December 2017 in the Commercial Register are registered PharmaStore 1 OOD, PharmaStore 2 OOD, PharmaStore 3 OOD, PharmaStore 4 OOD and PharmaStore 5 OOD, subsidiaries for the Group through the subsidiary Sopharma Trading AD.
- ✚ On 20 December 2017 Sopharma AD received approval from the FSC of the Transformation Agreement through the merger of Unipharm AD with 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 0.891512 is formed, which means that one share of the transforming company Unipharm AD should be replaced by 0.891512 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 Transformation Agreement and the reports of the management bodies to be approved by the GMS of the two companies.
- ✚ On 15 December 2017, Momina Krepost AD signed a grant agreement with the Ministry of Economy for the implementation of a project: "Increasing Energy Efficiency in Momina Krepost AD".
- ✚ On 30 January 2018, Sopharma AD received a notification for the opening of a shareholding under Art. 145 of the Public Offering of Securities Act of ALPI Allianz Bulgaria for the sale of 250 000 shares representing 0.19% with which the share participation of ZLPF Allianz Bulgaria in the capital of Sopharma AD reached 4.99%.
- ✚ An Extraordinary General Meeting of Shareholders of Sopharma AD took place on 23 February 2018, where the following decisions were taken: The GMS took a decision for the transformation through merger of Unipharm AD into Sopharma AD. As a result of

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

- ✚ On 23 February 2018, an Extraordinary General Meeting of Shareholders of Unipharm AD was held, where the following decisions were taken: The GMS decided to transform the company through the merger of Unipharm AD into Sopharma AD. As a result of the merger, the entire property of Unipharm AD will be transferred to Sopharma AD under the terms of a general succession; The GMS approved the Contract for the transformation through merger of Unipharm AD into Sopharma AD, concluded on 14.09.2017 and of the Additional Agreement No 1 of 08.11.2017 to it; The GMS approved the Report of the Management Board of Unipharm AD to the shareholders of the company, Art. 262i of the Commercial Act, on the transformation through merger of Unipharm AD into Sopharma AD; The GMS approved the Auditor's Report under Art. 262m of the Commercial Act on the transformation through merger of Unipharm AD into Sopharma AD; The GMS decided to terminate Unipharm AD without liquidation due to its transformation through the merger into Sopharma AD.



### 6. Transactions with related parties

The information concerning transactions with related parties is presented in details in the Notes to the financial report.



## III. Information about the shares of Sopharma AD

The total number of shares issued by Sopharma, issued on 31.12.2017, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, according to the Articles of Association of the Company. All issued shares are of one class. Each share gives equal rights to its holder in proportion to the nominal value of the share.

The shares of Sopharma AD are traded on the official market of BSE - Sofia AD and on the official market of the Warsaw Stock Exchange. 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 the Raiffeisen Bank's Raiffeisen Osteuropa Fonds certificate as well as in the new 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 Europe (CEE) Index, which the Warsaw Stock Exchange began to calculate as of May 30, 2012. 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

	31.12.2017	30.09.2016
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	128 901 614	129 081 505
Number of shares outstanding at the end of the period	125 764 919	128 984 319
Earnings per share in BGN <sup>1</sup>	0,312	0,039
Price per share at the end of the period in BGN	4,282	2,992
Price/Earnings ratio (P/E)	13,72	7,67
Book value per share in BGN <sup>2</sup>	3, 74	3,55
Price/Book value ratio (P/B)	1,15	0,84
Sales per share in BGN <sup>3</sup>	8,08	6,80
Price per share / Sales per share(P/S)	0,53	0,44
Market capitalization in BGN	577 204 604	403 315 314

<sup>1</sup>Net profit for the last four quarters belonging to the equity holders of the Company / weighted average number of outstanding shares in the same period



## Sopharma Group

<sup>2</sup> Equity, not including minority interest / number of outstanding shares at the end of the period

<sup>3</sup> Revenue from sales for the last four quarters / number of outstanding shares at the end of the period

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

