

PRELIMINARY MANAGEMENT REPORT

2017



SOPHARMA AD

30 January 2018

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I. General information about Sopharma AD

1. Registration and main activities

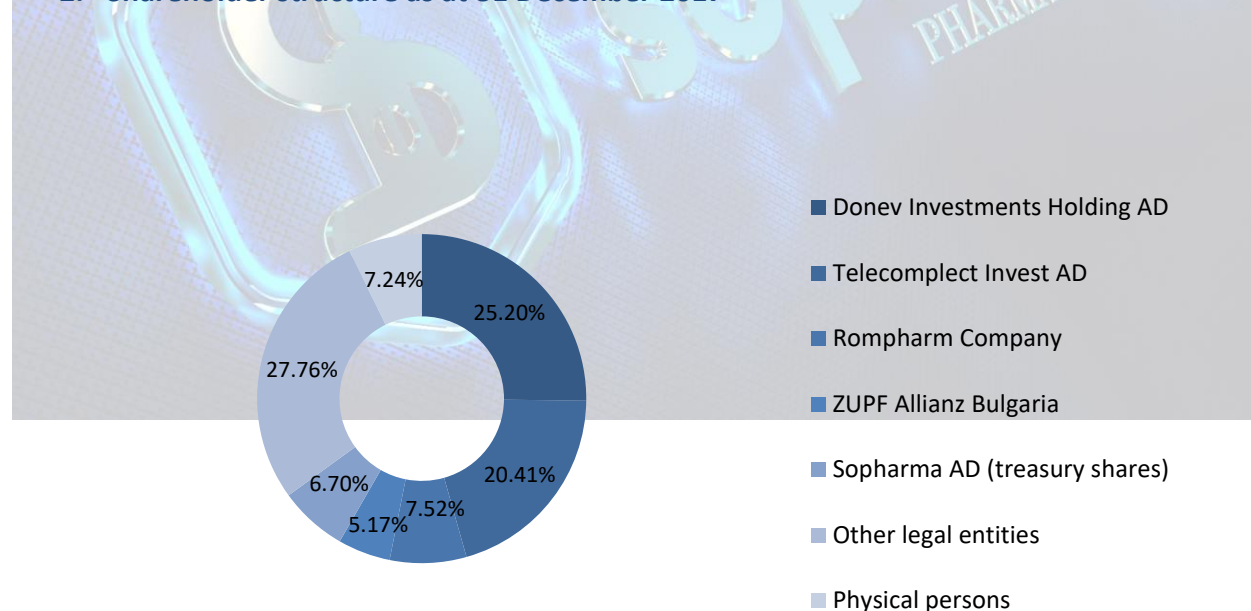
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16, Iliensko shose str.

Sopharma AD was established in 1933. The court registration of the Company is from 15.11.1991, decision №1 / 1991 of Sofia City Court. Sopharma AD is a public company under the Public Offering of Securities Act.

The Company conducts the production and marketing of medicinal substances and dosage forms; research, engineering and implementation activities in the field of photochemistry, chemistry and pharmacy. Sopharma AD provides services related to production, as well as to ancillary and supporting activities.

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

2. Shareholder structure as at 31 December 2017



3. Board of Directors

Sopharma AD has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD - Chairman and members Vessela Stoeva, Ognian Palaveev,

Alexander Tchaushev, Andrey Breshkov. The Company is represented and managed by the Executive Director Ognian Donev, PhD.

4. Personnel

The average number of employees in 2017 in Sopharma AD is 1,953 workers and employees (2,076 in 2016). The table below provides more detailed information about the company's staff.

	31.12.2017	Ref. Share %
Number of employees as at 31.12.2017	2069	100%
Higher education	893	43%
A college education	46	2%
Secondary education	1099	53%
Primary education	31	2%
Employees under 30	212	10%
Employees 31 - 40 years	440	21%
Employees 41 - 50 years	675	32%
Employees 51 - 60 years.	640	30%
Employees over 60	154	7%
Women	1291	62%
Men	778	38%

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

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

5. Production activity

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

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

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

- ✚ Ready-to-use formulations, incl.
 - ✓ Solid tablets, coated tablets, film-coated tablets, capsules;
 - ✓ Gallbits - suppositories, drops, syrups, ointments;
 - ✓ Parenteral - injection solutions, lyophilisate powder for injection;
- ✚ Medical devices and cosmetics, incl.:
 - ✓ Plasters;
 - ✓ Bandages;
 - ✓ Samitary-hygene products;
 - ✓ Medicinal cosmetics.

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 Tempiline) make a major contribution to its export market income, while domestic sales are of major importance to the company's generic products, including Analgin's first drug.

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

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

- ✚ Carsil - an original plant-based product used to treat gastro-enterological diseases (liver diseases);
- ✚ Tempalgin - an original analgesic (painkiller);
- ✚ Tabex - an original plant-based drug against tobacco smoke;
- ✚ Tribestan - an original plant-based product that stimulates the functions of the sexual system;
- ✚ Broncholitin - an original plant-based product used to suppress cough;
- ✚ Analgin - generic analgesic (pain reliever);

- ✦ Nivalin - an original plant-based product used for diseases of the peripheral nervous system;
- ✦ Methylprednisolone - a generic medicine for cases of severe allergies and certain life-threatening conditions.

II. Development of the activity

1. Review the main risks faced by the Company

Risks relating to the Company's business and the industry the Company operates in

- ✦ The Company faces significant competition.
- ✦ Reputation of the Company may be adversely affected by untrue or misleading information available on websites containing the name "Sopharma", including www.sopharma.com, which have not been authorized by the Company.
- ✦ The Company is dependent on regulatory approvals.
- ✦ Government regulations affecting the Company's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- ✦ Part of the Company's revenues, in particular in Bulgaria, depend on the inclusion of the Company's medicines on reimbursement lists.
- ✦ The Company's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Company's operations.
- ✦ The Company's ability to pay dividends depends on a number of factors and there can be no assurance that the Company will be able to pay dividends in accordance with its dividend policy or at all in any given year.
- ✦ The Company is subject to operational risk, which is inherent to its business activities.
- ✦ The Company is subject to numerous environmental and health and safety laws and regulations and is exposed to potential environmental liabilities.
- ✦ Litigation or other out-of-court proceedings or actions may adversely affect the Company's business, financial condition and results of operations.

Risks relating to Bulgaria and other markets in which the Group operates

- ✦ The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Group's operations and position.
- ✦ The political environment in Bulgaria has a significant effect on the Group's operations and financial condition.

- ✚ The political environment in the Group's export markets, especially in Russia and Ukraine, has a significant effect on the Group's operations and financial condition.
- ✚ Risks related to the Bulgarian legal system.
- ✚ Developing legal frameworks in some countries in which the Group sells its products, in particular Russia and Ukraine, may negatively impact the Group's operations in such countries.
- ✚ Risks relating to exchange rates and the Bulgarian Currency Board.
- ✚ Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change.

Currency risk

The Company performs its activities with an active exchange with foreign suppliers and clients. Therefore, it is exposed to currency risk mainly in respect of USD. The Company supplies part of its raw and other materials in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognized assets and liabilities denominated in foreign currency and as to the net investments in foreign companies. The remaining part of Company operations are usually denominated in BGN and/or EUR. The Company sells some of its finished products in Russia in euro and thus eliminates the currency risk associated with the depreciation of the Russian ruble in the recent months. The accounts with subsidiaries in Ukraine are also denominated in euro. However, in connection with the instability in the country and the continued depreciation of the Ukrainian hryvnia, in order to minimize currency risk, the company conducts through its subsidiaries a currency policy, which includes the implementation of advance payments and shortening of the periods of delayed payments and immediate exchange of revenues in local currency in euros, as well as raising of the price mark-ups on products in order to compensate for possible future devaluation of the hryvnia.

To control foreign currency risk, the Company has introduced a system for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

2. Revision of the activities of the company and the main risks it faces (art. 39, item 1 of the Accounting Law)

Key financial indicators

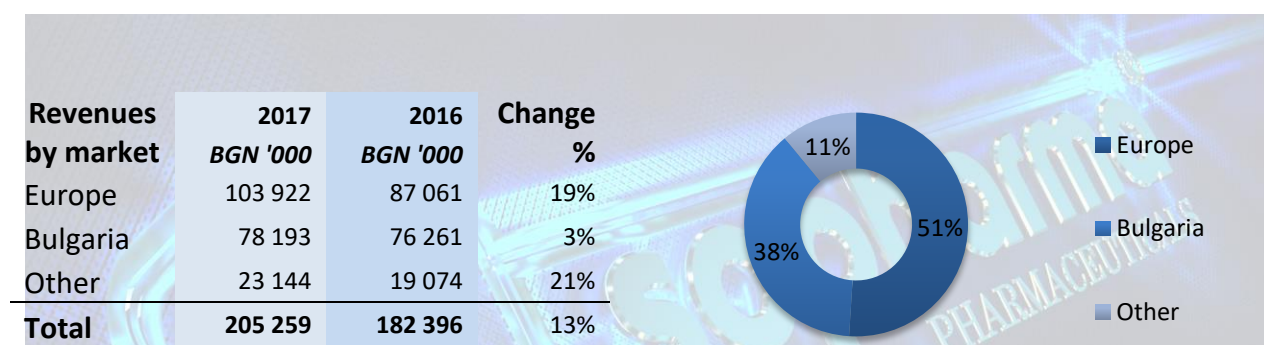
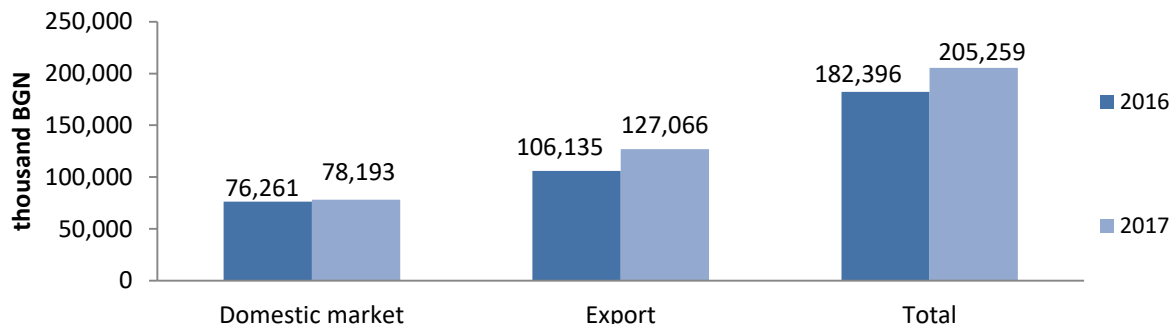
Indicators	1-12/2017 BGN '000	1-12/2016* BGN '000	change %
Sales revenues	205 259	182 396	12,5%
EBITDA	57 309	43 849	30,7%
Operating profit	41 071	28 363	44,8%
Net profit	42 140	38 347	9,9%
CAPEX	14 077	10 078	39,7%
	31.12.2017 BGN '000	31.12.2016* BGN '000	
Non-current assets	415 819	395 241	5,2%
Current assets	173 764	177 774	-2,3%
Owners' equity	478 257	463 415	3,2%
Non-current liabilities	32 240	39 550	-18,5%
Current liabilities	79 086	70 050	12,9%
* recalculated data as a result of the merger of Medica AD, based on consolidation of the financial statements of Sopharma AD and Medica AD			
** tangible and intangible fixed assets acquired			
Ratios	1-12/2017	1-12/2016*	
EBITDA / Sales revenues	27,9%	24,0%	
Operating profit/ Sales revenues	20,0%	15,6%	
Net profit/ Sales revenues	20,5%	21,0%	
Borrowed capital/Owners' equity	0,23	0,24**	
Net debt/ EBITDA	1,29x	1,61x**	

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

** calculated on the basis of consolidated financial statements as at 31 December 2016

Sales revenues of production increase by BGN 22,9 million or 13%, reaching BGN 205,3 in 2017, compared to BGN 182,4 million in 2016.

Sales revenues



Europe

Revenues from sales to European countries increased by 19% compared to 2016 due to the increase of sales in Russia with 16% and Ukraine with 18%. The result is also due to the increase of sales in Poland, Moldova, Belarus and Serbia. The sales on the Russian market in 2017 confirm the upward trend since the end of last year and are a real indicator of improving the economic situation in the country.

Bulgaria

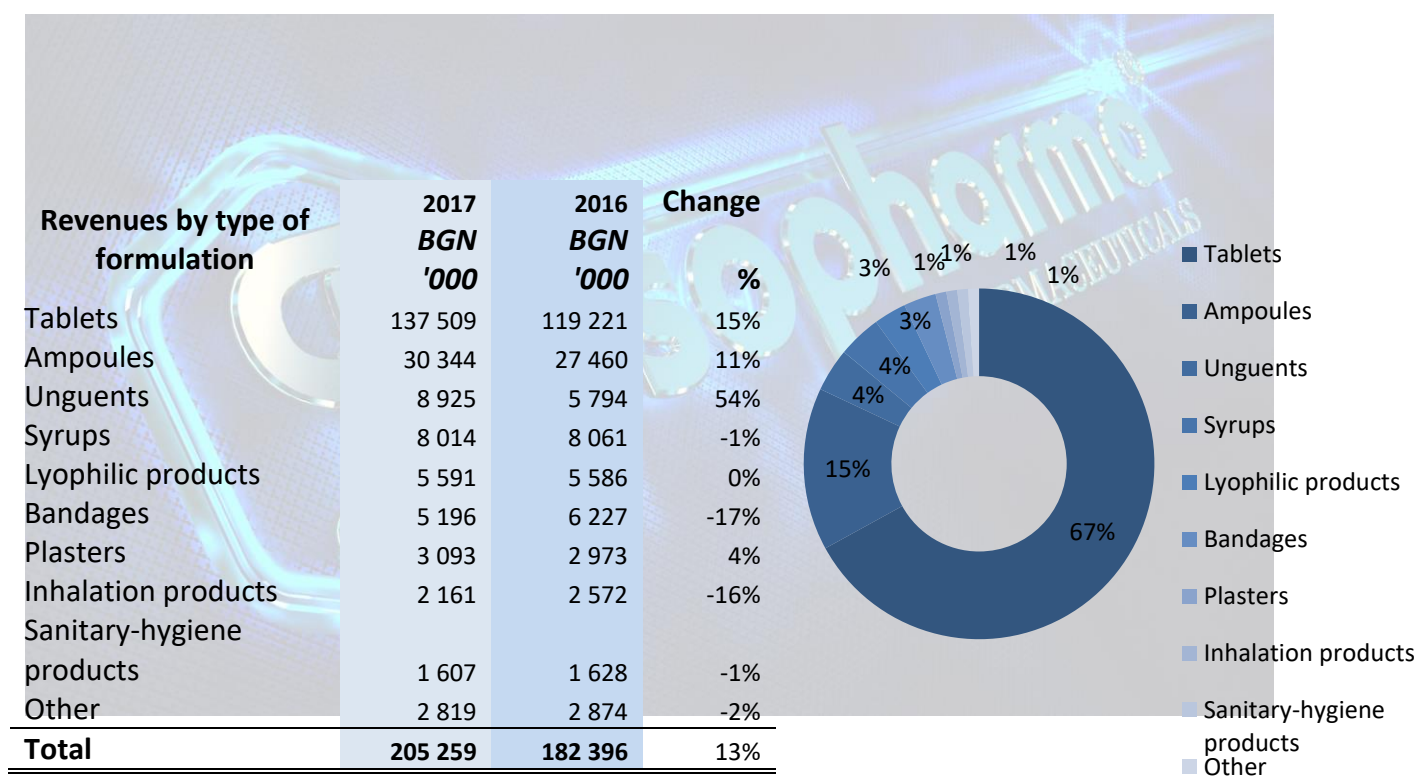
The sales of Sopharma AD on the domestic market decrease by BGN 1.9 million, or 3% and reached BGN 78,2 million in 2017 compared to BGN 76,3 million (according to recalculated data after merger of Medica AD) in 2016. The products with largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C and Nivalin, medical devices - gauzes, compresses. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 13% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0,3% in units), Actavis – 6% (11% in units), GlaxoSmithKline – 4% (2% in units), Abbvie – 4% (0% in units) Sanofi-Aventis – 4% (4% in units), Astra Zeneca – 3% (1% in units), Pfizer – 3% (1% in units), Bayer – 3% (2% in units).

Other markets

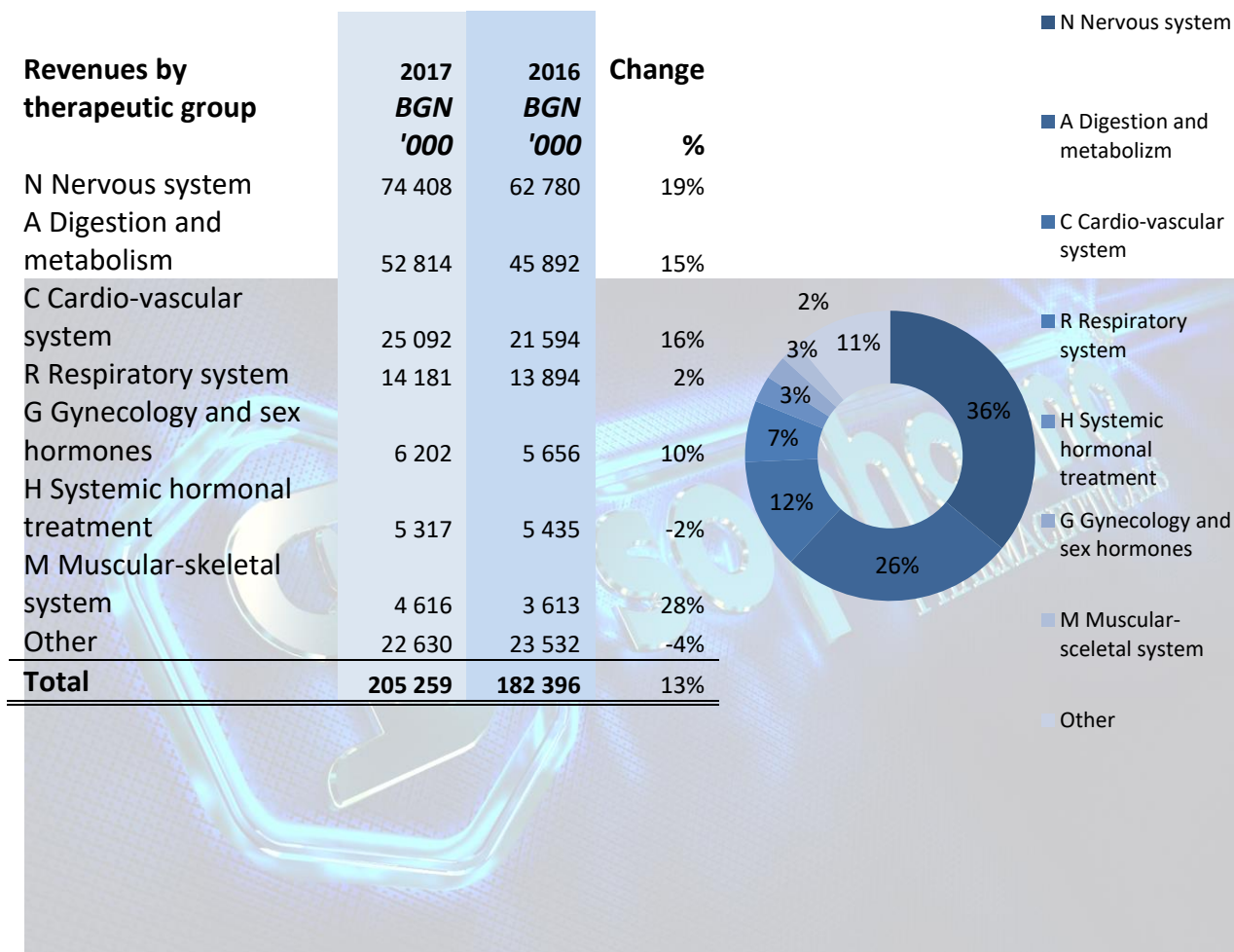
Revenues from other markets increase with 21% compared to 2016. These mainly include revenues from sales in the Caucasus and Central Asia, which increase with 6% compared to 2016. Sales revenue in Vietnam increase with 84%.

Sales by type of formulation

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



Sales by therapeutic group



Other operating revenues

Other operating revenues	2017 BGN '000	2016 BGN '000	Change %	Share 2017 %
Income from services rendered	3 599	3 429	5%	80%
Income from financing under European programs	508	506	0%	11%
Income from sale of materials	165	127	30%	4%
Income from LTA	111	122	-9%	2%
Income from sale of goods	68	77	-12%	2%
Net loss from exchange rate differences from CR, CP, BA	(276)	(255)	8%	-6%
Losses from revaluation of investment property to fair value	(34)	(233)	-85%	-1%
Other (see Notes to the FS)	358	292	23%	8%
Total other operating revenues	4 499	4 065	11%	100%

Other operating income increased by BGN 0.4 million in 2017 compared to 2016 mainly in the part of income from the provision of services and reduction of revaluation losses of investment property to fair value.

Operating expenses

Operating expenses	2017 BGN '000	2016 BGN '000	Change %	Share 2017 %
Changes in the finished goods and work-in-progress inventory	(6 650)	283	-2450%	-4%
Materials	69 488	61 918	12%	41%
External services	38 887	36 486	7%	23%
Personnel	43 811	38 263	14%	26%
Amortization	16 238	15 486	5%	10%
Other operating expenses	6 913	5 662	22%	4%
Total	168 687	158 098	7%	100%

Operating expenses increased by BGN 10,6 million or 7% from BGN 158,1 million in 2016 to BGN 168,7 million in 2017, which is linked to an increase in sales since the beginning of 2017 and an increase of in the finished goods and work-in-progress inventory.

Cost of materials (41% share) increased by BGN 7,6 million or 12% from BGN 61,9 million in 2016 to BGN 69,5 million in 2017 and the biggest impact has the increase in main materials with BGN 4,9 million and in particular the liquid and solid chemicals, herbs, packaging materials and vials.

Expenditure on external services accounted for 23% relative share of operating expenses and increased by BGN 2, 4 million or 7% to BGN 38, 9 million in 2017 compared to BGN 36,5 million in 2016. The most significant impact is the increase in the cost of manufacturing of medicaments by BGN 1, 1 million, the cost of buildings and machines maintenance expenses by BGN 0,4 million, the cost of logistics services with BGN 0,4 million and the transport costs by BGN 0,5 million.

Personnel costs (with a relative share of 26% of operating costs) increased by BGN 5,5 million or by 14% from BGN 38,3 million in 2016 to BGN 43,8 million in 2017 due to an increase in current wages with BGN 3,3 million.

Other operating costs (with a relative share of 4% of operating costs) increase with BGN 1,2 million in 2017 compared to 2016, mainly in the part of missions, scrap of finished products and work in progress and donations

Depreciation costs (with a relative share of 10% of operating expenses) registered an increase of BGN 0,7 million or by 5% from BGN 15,5 million in 2016 to BGN 16,2 million in 2017.

Changes in inventories of finished goods and work in progress have an impact on the decrease in operating expenses by BGN 6,9 million.

Financial income and expenses

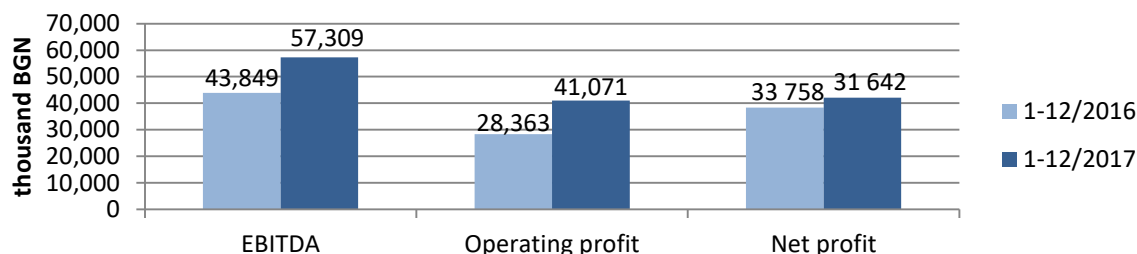
Financial income	2017 BGN '000	2016 BGN '000	Change %	Share 2017 %
Income from equity	7 539	7 923	-5%	63%
Interest income on loans granted	1 699	2 126	-20%	14%
Impairment of receivables on commercial loans granted	(504)	(688)	-27%	-4%
Reversal of impairment of commercial loans	1 929	-	-	16%
Net change of impairment on receivables on commercial loans	1 425	(688)	-307%	12%
Net gains on securities and equity investments including profit from the sale of subsidiaries	1 256	12 741	-90%	11%
Income from liquidation of subsidiaries	1	12 714	-100%	0%
Net gain on exchange differences on receivables from sale of subsidiary	7	-	-	0%
	-	131	-100%	0%
Total	11 926	22 233	-46%	100%
Financial expenses			Change	Share 2017
Expenses for interest on loans received	1 370	2 091	-34%	83%
Net loss from exchange rate differences for receivables from sale of a subsidiary	443	-	-	0%
Bank fees for loans and guarantees	218	303	-28%	12%
Derivatives effects	74	109	-32%	4%
Impairment on receivables on commercial loans	4	4	0%	0%
Financial leasing expenses	-	8	-100%	0%
Impairment of cash	-	3	-100%	0%
Total	2 109	2 518	-16%	100%

Financial revenues decrease by BGN 10,3 million or 46%, to BGN 11,9 million in 2017 compared to BGN 22,2 million in 2016. The reason is the decrease of the net gain from operations with securities and equity investments with BGN 11,5 million, as a result of the reported in 2016 sale of the Subsidiary Ivanchich and sinove.

Financial expenses decrease by BGN 0,4 million or by 16% to BGN 2,1 million in 2017 compared to 2,5 million BGN in 2016. This is mainly due to a decrease in interest expense on borrowings by BGN 0,7 million

Net financial revenues (costs) decrease by BGN 9,9 million reaching BGN 9,8 million in 2017 compared to BGN 19,7 million in 2016.

Financial result of the activity



Profit before interest, taxes and depreciation (EBITDA) in 2017 increased with BGN 13,5 million or 31% reaching BGN 57,3 million compared to BGN 43,8 million in 2016.

Operating profit increased by BGN 12,7 million or by 45%, to BGN 41,1 million in 2017 compared to BGN 28,3 million in 2016.

Net profit increased by BGN 3,8 million or 10%, to BGN 42,1 million in 2017 compared to BGN 38,3 million in 2016.

Assets

Total assets increased by BGN 24.3 million or by 4% to BGN 594.2 million, compared to BGN 569.9 million as at 31.12.2016.

	31.12.2017	31.12.2016	Change	Share 2017
	BGN '000	BGN '000	%	%
Non-current assets				
Property, plant and equipment	222 817	225 470	-1%	54%
Intangible assets	6 506	6 280	4%	2%
Investment property	24 799	22 840	9%	6%
Investments in subsidiaries	120 959	115 442	5%	29%
Investments in associated companies	7 740	5 219	48%	2%
Available-for-sale investments	7 206	5 229	38%	2%
Long-term receivables from related parties	21 583	11 047	95%	5%
Other long-term receivables	4 209	3 714	13%	1%
	415 819	395 241	5.2%	71%

Current assets				
Inventories	65 509	61 711	6%	38%
Receivables from related parties	74 920	73 596	2%	43%
Commercial receivables	22 498	25 411	-11%	13%
Loans granted to related parties	3 201	2 445	31%	2%
Other receivables and prepaid expenses	4 420	5 336	-17%	3%
Cash and cash equivalents	3 216	9 275	-65%	2%
	173 764	177 774	-2%	29%
TOTAL ASSETS	589 583	573 015	3%	100%

Total assets increased by BGN 16,6 million or by 3% to BGN 589,6 million, compared to BGN 573 million as at 31.12.2016.

Non-current assets increased by BGN 20,6 million, or 5%, mainly due to an increase in investments in subsidiaries related mainly due to the acquisition of RAP Pharma International, Veta Pharma AD and the tender offering to the shareholders of Unipharm and increase of long-term receivables from related enterprises by BGN 10.5 million. The property, plant and equipment decrease by BGN 2,6 million, mainly in the part of machinery and equipment by BGN 5,7 million, as well as in others by BGN 1,2 million. The increase by BGN 4,2 million is recorded for the assets in acquisition process.

Intangible assets increased by BGN 0,2 million, mainly in the area of intellectual property rights and intangible assets in process of acquisition.

Current assets decreased by BGN 4 million or 2% to BGN 173,8 million as at 31.12.2017 compared to 177,8 million on 31.12.2016. Inventories increase by BGN 3,8 million or 6% compared to 31.12.2016 mainly due to an increase in stocks of finished goods BGN 4,7 million and inventory of semi-finished products with BGN 1,2 million and decrease in stocks of unfinished production by BGN 2.1 million. Receivables from related parties increased by BGN 1,3 million in the part of receivables from sales of products and materials by BGN 7,9 million. Deferred trade loans to related enterprises decreased by BGN 6.6 million. Trade receivables decreased by BGN 2.9 million.

Cash and cash equivalents decrease with BGN 6,1 million and as at 31.12.2017 amount to BGN 3,2 million compared to BGN 9,3 million as at 31.12.2016.

Liabilities and owners' equity

	31.12.2017	31.12.2016	Change	Share
	BGN '000	BGN '000	%	2017
OWNERS' EQUITY				
Share capital	134 798	134 798	0%	28%
Treasury stock	(33 834)	(18 809)	80%	-7%
Reserves	330 675	304 403	9%	69%
Retained earnings	46 618	43 023	8%	10%
TOTAL OWNERS' EQUITY	478 257	463 415	3%	100%
	31.12.2017	31.12.2016	Change	Share
	BGN '000	BGN '000	%	2017
LIABILITIES				
Non-current liabilities				
Long-term bank loans	16 706	24 064	-31%	15%
Liabilities on deferred taxes	6 432	6 570	-2%	6%
Government financing	5 478	5 986	-8%	5%
Long-term liabilities to the personnel	3 624	2 930	24%	3%
	32 240	39 550	-18%	29%
Current liabilities				
Short-term bank loans	53 088	48 291	10%	48%
Short-term part of long-term bank loans	7 392	7 461	-1%	7%
Commercial liabilities	7 082	5 767	23%	6%
Liabilities to related parties	1 618	375	331%	1%
Liabilities for taxes	1 511	833	81%	1%
Liabilities to the personnel and for social insurance	7 172	5 771	24%	6%
Other current liabilities	1 223	1 552	-21%	1%
	79 086	70 050	13%	71%
TOTAL LIABILITIES	111 326	109 600	2%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	589 583	573 015	3%	

Owners' equity increased by BGN 14.8 million or by 3% to BGN 478.2 million as at 31.12.2017 compared to BGN 463.4 million as at 31.12.2016, mainly as a result of an increase in reserves with BGN 26.3 million.

Non-current liabilities decreased by BGN 7, 3 million or 18% to BGN 32, 2 million at the end of 2017 compared to BGN 39, 5 million at the end of 2016 mainly due to a decrease of long-term bank loans by BGN 7.4 million.

Current liabilities increased by BGN 9 million to BGN 79.1 million at the end of 2017 compared to BGN 70.1 million at the end of 2016. Short-term bank loans increased by BGN 4.8 million, commercial liabilities by BGN 1.3 million, liabilities to related parties by BGN 1.2 million and liabilities to personnel and social insurance by BGN 1.4 million. Other current liabilities decreased by BGN 0.3 million.

Total bank loans exposure to the Company as at 31 December 2017 decrease with BGN 2.6 million compared to 31.12.2016.

Cash flow

	1-12/2017 BGN '000	1-12/2016* BGN '000
Net cash flow from/(used in) operations	45 147	31 441
Net cash flow used in investment activities	(19 749)	11 228
Net cash flow (used in)/from financial operations	(31 457)	(39 348)
Net increase/(decrease) of cash and cash equivalents	(6 059)	3 321
Cash and cash equivalents on 1 January	9 275	5 954
Cash and cash equivalents on 31 December	3 216	9 275

*recalculated data as a result of the merger of Medica AD on the basis of consolidation of the financial statements of Sopharma AD and Medica AD

Net cash flows in 2017 generated from operations are BGN 45.1 million inflow, from investment activities are BGN 19.7 million outflow and from financial operations BGN 31.4 million outflow. As a result of these activities the cash and cash equivalents decrease net with BGN 6.1 million as at 31.12.2017 and amount to BGN 3.2 million compared to BGN 9.3 million as at 01.01.2017.

Ratios

	31.12.2017	31.12.2016	Change
ROE ¹	8,8%	7,8%	1.0%
ROA ²	7,1%	5,9%	1,2%
Asset turnover ³	0,35	0,29	0,06
Current liquidity ⁴	2,20	2,54	-0,34
Quick ratio ⁵	1,37	1,66	-0,29
Cash/current liabilities ⁶	0,04	0,13	-0,09
Owners' equity/liabilities ⁷	4,30	4,23	0,07

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 2017

Authorizations for three new products have been received – Amlodipin 5 mg tablets, Amlodipin 10 mg tablets and Doporison ointment.

✚ Implemented new products in the production cycle

For the period January – December 2017 the following products were introduced for production – Analgin drops for kids, Sophtenzif 1.5 mg filmed tablets with prolonged release, Desloratadin solution, Desloratidin filmed tablets, Amlodipin Sopharma tablets, Otofex drops and Dekspanthene ointment.

Expected until the end of 2018

By the end of 2018, it is expected that 3 to 6 new products will be introduced.

New registrations

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

Re-registrations / changes

Agency submissions for re-registrations / changes to 67 medicinal products.





Submissions to agencies 238 changes for medicinal products.

Developments

There is a pharmaceutical development of 4 new medicinal products and one active substance.

Translated and validated / optimized are 30 production processes and technologies.

4. Significant events in 2017 and the publication of the interim activity report

-  On 5 January 2017 a merger agreement has been announced in the United States between Acta Life Lives Inc., a company in which Sopharma holds 4.7 percent of the capital and Onco Gennes Pharmaceuticals Inc., according to which Onco Gennes Pharmaceuticals Inc. will acquire Achieve Life Securities Inc. through an all- Stock transaction). Upon completion of the proposed merger, unit-holders of Achieve Livescence Inc will be expected to have 75% of the unincorporated shares of the combined entity, and current shareholders of Onco Gennes Pharmaceuticals Inc. will hold the remaining 25% of the outstanding shares. The agreement has been submitted to the Securities and Exchange Commission (SEC). Following its approval, the combined company will be renamed Achieve Life Inc. and will be listed on the NASDAQ. As a result of the aforementioned actions, Sopharma AD will own 423,000 shares (3,525%) of the share capital of Achieve Life Seans Inc.
-  On 05 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 18 April 2017 Sopharma AD notified that the Company acquired 51% of the capital of the Moldovan distributor of pharmaceuticals RAP Pharma International after obtaining permission from the Moldovan Commission for Protection of Competition to realize the acquisition.
-  On 24 April 2017 an Extraordinary General Meeting of Shareholders of Sopharma AD took place and took the following decisions:
 1. Approval of Substantiated report by the Board of Directors for transactions under art. 114, par. 1 of POSA; Draft decision: EGM approves the Substantiated report, prepared

by the Board of Directors, for transactions under art. 114, par. 1 of POSA, with the participation of the public company SOPHARMA AD.

2. Authorization of the Board of Directors of the Company 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 AD 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 Chapter One of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Company to conclude a contract for provisioning of collateral in the form of a corporate guarantee according to the terms and conditions, listed in Chapter One of the Substantiated report, i.e. 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 AD 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.

3. Authorization of the Board of Directors of the Company to conclude a contract as a co-debtor for a contract between 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, item 2 of POSA, according to Chapter Two of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Company to conclude a contract as a co-debtor for a contract between 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, item 2 of POSA, according to Chapter Two of the Substantiated report.

4. Authorization of the Board of Directors of the Company 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; Draft decision: EGM authorizes the Board of Directors of the Company 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.

5. Authorization of the Board of Directors of the Company 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; Draft decision: EGM authorizes the Board of Directors of the Company 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.

6. Authorization of the Board of Directors of the Company to conclude a contract for rent of real estate as a tenant with SopharmaProperties REIT as a renter – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Five of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Company to conclude a contract for rent of real estate as a tenant with Sopharma 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. Authorization of the Board of Directors of the Company 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 Company 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.

✚ On 25 April 2017, Sopharma AD received approval from 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 and Medica AD in accordance with the requirements of Art. 262e and 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 managements of the two companies prepared in accordance with the provisions of Art. 262 and of the Commerce Act and the reports of the appointed Auditors 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 of the transforming company, will acquire shares from 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, app. 1 of the Commerce Act will acquire 0.8831 of the repurchased shares of the capital of Sopharma AD. The GMS of the two companies approved the transformation.

✚ On 02 June 2017, a General Meeting of Shareholders of Sopharma AD was held, where the following decisions were approved:

1. GMS approved the annual report of the Board of Directors on the company's activities for 2016;
2. The GMS approved the Annual Management Report of the Investor Relations Director for 2016;
3. The GMS approved the Audit Report for 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 Audited Annual Consolidated Financial Statement of the Company for 2016;
6. The GMS approved the report of the Audit Committee on its activities in 2016; 7. The GMS approved a decision on the distribution of the Company's net profit for 2016 and undistributed profit from past periods; Draft decision: AGM accepts the proposal of the Board of Directors for the distribution of the profit of the company realized in 2016 and retained earnings from previous periods as follows: The total amount of the profit to be distributed amounts to BGN 38,249,890.71 / thirty-eight million two hundred forty-nine thousand eight hundred and ninety BGN and seventy one stotinki / of which BGN 37,769,879.20 / thirty-seven million seven hundred and sixty nine thousand eight hundred seventy-nine BGN and 20 stotinki / profit realized in 2016 and BGN 480,011.51 / four hundred and eighty thousand BGN and eleven and 51 stotinki / unallocated profit from past periods. After allocating 10% to a mandatory reserve, a dividend of BGN 0.10 (ten stotinki) per share will be distributed. The amount left over after the allocation should be taken as an additional reserve of the company. The right to receive dividends shall be by the book of shareholders in the registers of the Central Depository as at the 14th day following the day of the General Meeting at which the Annual Financial Statement was approved and a decision for the distribution of the profit was taken. The Company shall ensure the payment of the dividend voted to the shareholders at the General Meeting of shareholders is distributed within three months of the date of decision for distribution. The cost for distributing the dividend is at the company's expense. The payment of the dividend is done with the assistance of the Central Depository. The shareholders with 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 approved the decision to dismiss the members of the Board of Directors for their activity in 2016;

9. The GMS elects the auditing company BAKER TILLY KLITOU AND PARTNERS OOD as a registered auditor of the Company for 2017;
 10. The 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 approves 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 keeps 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 adopted 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 approves the Reasoned Report of a Transaction prepared by the Board of Directors from the scope of Art. 114, para 1 of POSA;
 17. The General Meeting of Shareholders empowers the Board of Directors to conclude a transaction under which Sopharma AD will join as a co-debtor under the conditions of solidarity to 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 reasoned report;
 18. GMS transforms Sopharma AD through the merger of Medica AD;
 19. The GMS approves the Contract for transformation through merger of Medica AD, UIC: 000000993, in Sopharma AD, UIC: 831902088, concluded on 31 January 2017 and of Additional Agreement No 1 of 20 March 2017 to it;
 20. The GMS approves the Report of the Board of Directors of the company under Art. 262i of the Commercial Law;
 21. The GMS approves 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;
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- ✚ On 15 June 2017, approval was received from the American Securities and Exchange Commission for the infusion of Achieve Life Sciences at OncoGenex Pharmaceuticals. OncoGenex's shareholders will vote on the transformation on August 1, 2017, and as a result, the newly-formed company will start trading on NASDAQ with ACHV.
 - ✚ On 21 June 2017 on the grounds of Art. 157 of POSA in connection with Art. 154 of the Public Offering of Securities Act and in connection with the expired deadline for

acceptance of the tender offer submitted by Sopharma AD to the shareholders of Unipharm AD, Sopharma AD notifies 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 17 July 2017 in interest of its shareholders Sopharma AD announced that it will initiate dividend payment of the voted on the AGM held on 2 June 2017 dividend of 0.10 BGN per share gross. Amount of dividend per share net (for physical shareholders only) - BGN 0.095.
- ✚ On 21 July 2017 Sopharma AD acquired 75% from the capital of the successful start-up for development and registration of food additives "Aromania" (www.arolife.bg). For the nearly two years since its establishment "Aromania" has more that 20 registered products and for 12 of them the company either has or has filed 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 AD will use this platform for a larger presence in the food additives market.

- ✚ On 08 August 2017 the transformation through merger of Medica AD into Sopharma AD was entered in the Commercial Register under No. 20170808155501.
- ✚ 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 following of the Public Offering of Securities Act, to be implemented by merger into Sopharma AD of Unipharm AD, UIC 831537465, with headquarters and address of management City of Sofia, Studentski Grad, 3, Trayko Stanoev Str., and elected the investment intermediary ELANA TRADING AD, UIC 831470130, with headquarters and address of management in Sofia, 5, Lachezar Stanchev Str., as a consultant in connection with the implementation of the procedure transformation.
- ✚ On 14 September 2017, on the grounds of Art. 262d and the following of the Commercial Code Unipharm AD, transforming company, and Sopharma AD, a receiving company, have entered into a Transformation Agreement through a merger. The merger transformation agreement governs the way in which the transformation will take effect by merging Unipharm AD into Sopharma AD and the consequences for the transforming and the receiving company. The fair value 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 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 shareholders under Art. 157b Sopharma AD fulfilled its obligation under this Article: 1. The offeror has bought a total of 125 530 shares with voting rights 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.
- ✚ On 3 November 2017, Sopharma AD organized an Annual Investor Relations Meeting, at which Sopharma AD and Sopharma Trading AD presented information on the results published by the two companies for the first nine months of 2017.
- ✚ As at 01 December 2017 Sopharma AD increased its total share in Doverie Obedinen Holding AD to 32.49%.

- ✚ On 20 December 2017 Sopharma AD received approval from the FSC of the Transformation through the merger contract of Unipharm AD with Sopharma AD as well as the reports of the managements 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 treasury 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 16 January 2018, Sopharma AD presented an invitation to convene an Extraordinary General Meeting of Shareholders and materials for a General Meeting of Shareholders, which will be held on 23 February 2018 from 11:00 in 5 Lachezar Stanchev Str, Sopharma Business Towers, Building B, floor 3, with the following agenda:
 1. Taking a decision for transformation through merger of Unipharm AD into Sopharma AD. Draft decision: GMS 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 general succession.
 2. Approval of the Contract for transformation through merger of Unipharm AD into Sopharma AD, concluded on 14.09.2017 and of Additional Agreement No1 of 08.11.2017 to it.
 3. Approval of the Report of the Board of Directors of Sopharma AD to the shareholders of the company regarding the transformation through merger of Unipharm AD into Sopharma AD.
 4. Approval of the Auditor's Report under Art. 262m of the CA on the transformation through merger of Unipharm AD into Sopharma AD.
- 5. Approval of changes in the Company's Articles of Association.
- 6. Taking a decision for acquisition of own shares on the grounds of Art.187b of the Commercial Law 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% in each calendar year; term of the acquisition - no longer than 5 (five) years; minimum price for acquisition - not less than the nominal value per share of the company's capital; maximum price for acquisition - BGN 5.50 per share; The General Meeting empowers the Board of Directors of the company to determine all other parameters of the acquisition and to carry out the

necessary factual and legal actions for the implementation of the decision of the General Meeting of Shareholders.

7. Miscellaneous.

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 31.12.2017, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, in accordance with the Articles of Association of the Company. All issued shares are of one class. Each share entitles one vote to the General Meeting of Shareholders, a right to dividend and a liquidation share proportional to the nominal value of the share.

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

Key indicators of the shares of Sopharma AD

	31.12.2017	31.12.2016
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	129 483 060	129 393 992
Number of shares outstanding at the end of the period	126 208 037	129 135 485
Earnings per share in BGN	0,325	0,296
Price per share at the end of the period in BGN	4,282	2,992
Price/Earnings ratio (P/E)	13,18	10,10
Book value per share in BGN	3,789	3,589
Price/Book value ratio (P/B)	1,13	0,83
Sales per share in BGN	1,626	1,412
Price per share / Sales per share(P/S)	2,63	2,12
Market capitalization in BGN	577 204 604	403 315 314

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



Ognian Donev, PhD
/Executive Director/