

MANAGEMENT REPORT

2017



SOPHARMA GROUP

26 April 2018

Sopharma Group

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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 PAO Vitamin 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, 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 Law, with its registered office in Sofia, 16 Iliensko shose str.

Sopharma was established in 1933. The court registration of the Group is from 15 November 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 phytochemistry, chemistry and pharmacy. Sopharma AD provides services related to production, as well as to ancillary and supporting activities.

Sopharma Group

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.

| Company | 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 |
| PAO Vitamin, Uman, Ukraine | 99.56 |
| Sopharma Poland LLC, Warsaw, Poland in Liquidation | 60.00 |
| Sopharma Warsaw Sp. z o. o, Warsaw, Poland | 100.00 |
| Sopharma Trading d.o.o. Belgrade, Serbia** | 72.85 |
| BRIZ SIA, Riga, Latvia | 66.13 |
| Brititrade SOOO, Minsk, Belarus** | 52.90 |
| Tabina SOOO, Minsk, Belarus ** | 54.37 |
| Brizpharm SOOO, Minsk, Belarus** | 31.45 |

Sopharma Group

| | |
|---|--------|
| ООО Sopharma Ukraine, Kiev, Ukraine | 100.00 |
| ООО Med-dent, Bobruisk, Belarus*** | 50.00 |
| ООО Pharmacist Plus, Minsk, Belarus** | 35.60 |
| BOOO SpetzApharmacia, Bobruisk, Belarus*** | 50.00 |
| ZAO TBS Pharma, Vilnius, Lithuania** | 33.73 |
| ООО Bellerofon, Minsk, Belarus*** | 50.00 |
| TOO Sopharma Kazakhstan, Almaty, Kazakhstan | 100.00 |
| ZAO Interpharm, Vitebsk, Belarus** | 59.52 |
| ООО Galenapharm, Pinsk, Belarus** | 54.62 |
| ODO Medjel, Minsk, Belarus** | 55.55 |
| ODO Alenpharm-Plus, Belarus** | 52.24 |
| ООО 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 |
| ООО Zdorovei, Minsk, Belarus** | 35.00 |
| ООО Ivem i K, Minsk, Belarus** | 39.62 |
| ООО Ariens, Plotzk, Belarus** | 35.30 |

*effective interest in percent

**indirect interest

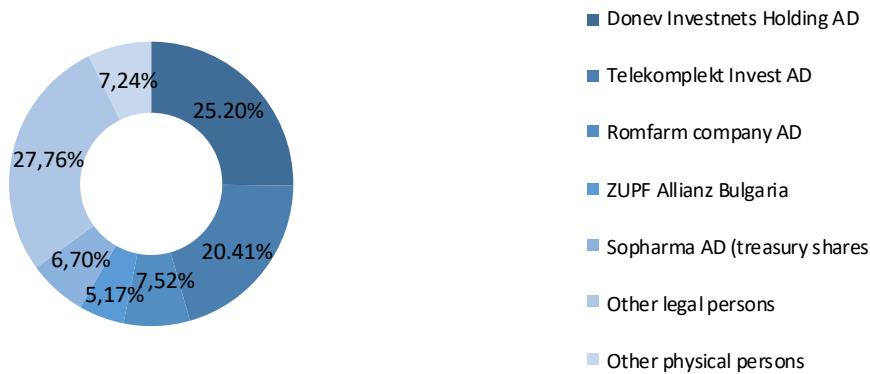
***joint venture

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 Company. 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



II. Recent developments

1. Industrial activity

The company and its production subsidiaries have 12 pharmaceutical plants in Bulgaria, conforming to EU regulations - GMP, a factory in Ukraine certified by local authorities, which is recognized in all CIS countries. With the exception of the plant in Ukraine, all production facilities have passed certification procedures for European GMPs.

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.

2. Products

Sopharma AD

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 Company (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.

Unipharm AD

Unipharm AD is a proven manufacturer of medicinal products meeting the high standards of Good Manufacturing Practice. The scope of activity of Unipharm AD is the production of pharmaceuticals, scientific research and experimental activity in the field of drug production, establishment of the quality of manufactured pharmaceuticals, sales and supply activities in the country and abroad. The company invests in manufacturing and science-based activities mainly in the field of generic products.

Sopharma Group

Products:

- Solid dosage forms;
- Concentrates for hemodialysis;
- Liquid dosage forms;

The company's products are selling mainly on the Bulgarian market, but also in other countries as Russia, Ukraine, Georgia and other CIS countries, Tunisia, Lithuania, Latvia, Poland and others.

Biopharm Engineering AD

The Company is a fast-growing company. It has modern production units and is continuously expanding and modernizing its production capacities. The strategy of Biopharm Engineering AD is built using the market and technological advantages of the company. The company has a Good Manufacturing Practice Certificate (GMP). It is successfully developing in the following areas:

- Manufacture of infusion solutions;
- Production of injection solutions;
- Manufacture of veterinary medicinal products;

Main products

- Manufacture of infusion and injection solutions;
- Production of veterinary medicinal products - vaccines and diagnostic tools.

Main markets

The produced infusion solutions are realized through Sopharma on the Bulgarian as well as on the international market. Veterinary medical products are available in Bulgaria and other European countries.

PAO Vitamini, Ukraine

PAO Vitamini manufactures and sells medicines, tablets, powders, oil solutions, syrups and tinctures. Production of medicines by PAO Vitamini is highly effective, of excellent quality, affordable prices and is sold successfully not only in Ukraine and the CIS.

At present, the production takes place in the following production objects:

- + for liquid dosage forms;
- + two production areas for solid dosage forms;
- + production site for extraction;
- + tincture production;
- + production of solutions;
- + production of powdered products.

3. 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 in the field of healthcare such as Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk.

The Company 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.

BRIZ SIA, Latvia

Briz develops its activity in the following main directions:

- ⊕ Distribution of medicines and food supplements in the wholesale and retail segment;
- ⊕ Distribution of cosmetics and perfumery products in the wholesale and retail segment;
- ⊕ Registration of medicines in Latvia, Lithuania, Estonia, Belarus, Bulgaria;
- ⊕ Presentation of medicines manufactured in third countries to the European Union;
- ⊕ Marketing support products on the mentioned markets;
- ⊕ Production.

The company is constantly developing, it has GMP certificates, GDP, import licenses for medicines manufactured in third countries in the EU, and a psychotropic license. The mission of the company is to meet the needs of customers in natural, effective and modern medicines and cosmetics, nutritional supplements that improve health and quality of life. The main objective of the company is to increase the portfolio of products of Sopharma AD in the markets of Latvia, Lithuania, Estonia and Belarus. In addition to representative, commercial and marketing services, the company successfully provides pharmacological services to its customers.

III. Information under Article 39 of the Accountancy Law

1. An overview of the company's performance and main risks facing it (Art. 39, para 1 of the Accounting Law /

Key financial indicators

| Indicator | 1-12/2017 BGN '000 | 1-12/2016 BGN '000 | Change % |
|---------------------|-----------------------|-----------------------|----------|
| Revenues from sales | 1 017 105 | 877 085 | 16.0% |
| EBITDA | 85 944 | 73 656 | 16.7% |
| Operating profit | 55 836 | 44 951 | 24.2% |
| Net profit | 45 772 | 54 902 | -16.6% |
| CAPEX* | 28 015 | 26 418 | 6.0% |

Sopharma Group

| | 31.12.2017 BGN '000 | 31.12.2016 BGN '000 | |
|-------------------------|--------------------------------------|--------------------------------------|-------|
| Non-current assets | 468 369 | 416 599 | 12.4% |
| Current assets | 512 364 | 442 622 | 15.8% |
| Owners' equity | 503 110 | 491 223 | 2.4% |
| Non-current liabilities | 80 061 | 53 842 | 48.7% |
| Current liabilities | 397 562 | 314 156 | 26.5% |

* acquired tangible and intangible long-term assets

| Indicator | 1-12/2017 | 1-12/2016 |
|-----------------------------------|------------------|------------------|
| EBITDA/Sales revenues | 8,4% | 8,4% |
| Operating profit / Sales revenues | 5,5% | 5,1% |
| Net profit/Sales revenues | 4,5% | 6,3% |
| Attracted capital / Equity | 0,95 | 0,75 |
| Net debt/EBITDA on annual basis | 3,0x | 2,8x |

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, including published on the website www.sopharma.com, which have not been authorized by the Company;
- ⊕ 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 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 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.

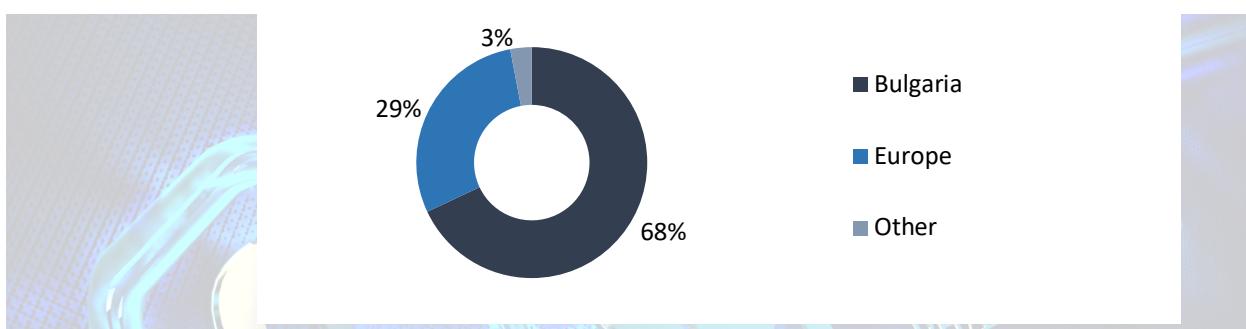
Through the companies in Belarus and Ukraine, the group carries out business operations in these countries and, accordingly, has substantial exposures in Belarusian rubles and Ukrainian hryvnia. The currency risk is related to the negative movement of the exchange rates of these currencies against the 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 sell mainly on local markets, leading to currency risk and against their currencies - the Serbian Dinar and the Polish zloty.

To control currency risk, a system is in place throughout the Group of Import Supply Planning, Foreign Currency Sales, as well as procedures for day-to-day monitoring of US dollar exchange rate movements and control of upcoming payments. Exposures of 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. Borrowings denominated in foreign currency are mainly denominated in euro.

2. Analysis of financial and non-financial key performance indicators of the Group / Article 39, item 2 of the Accounting Act /

Revenue from sales of the Group increase by BGN 140 million or 16%, reaching BGN 1 017.1 million in 2017 compared to BGN 877.1 million in 2016. Sales of goods increased by BGN 122.2 million or 19%, reaching BGN 767.6 million in 2017 compared to BGN 645.4 million in 2016. Sales of finished products increase by 17.8 million BGN, or 8%, to BGN 249.5 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 8% 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).

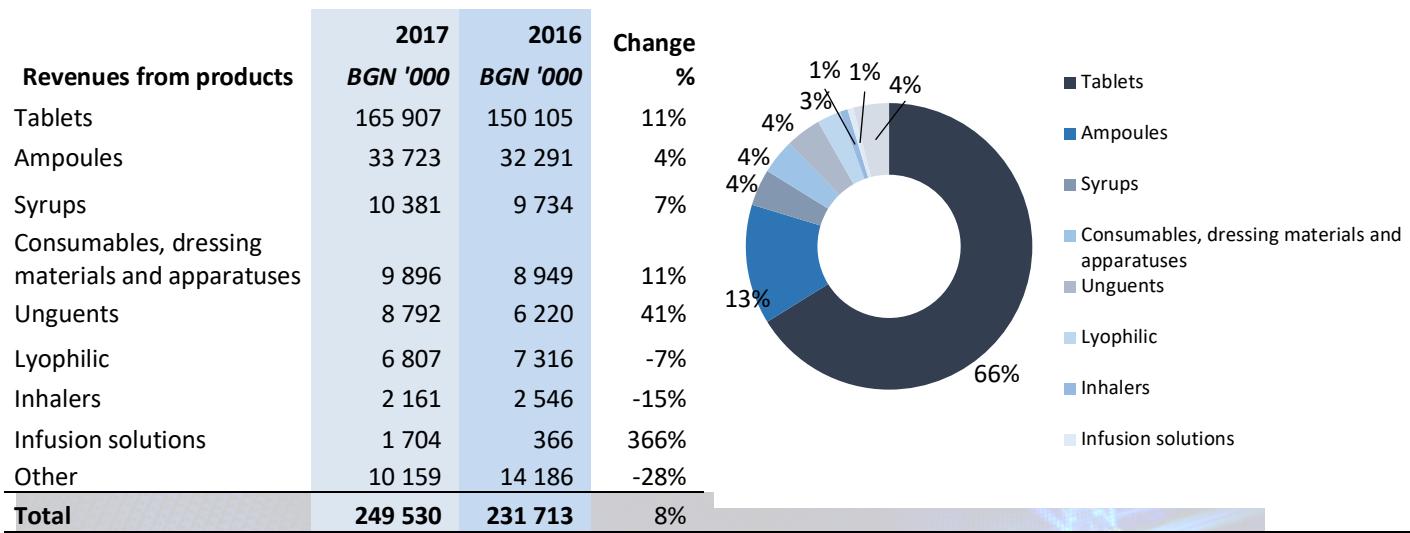
Revenues from sales of the Group in Europe (outside the Bulgarian market) amount to 29% of total consolidated sales revenues for 2017 and increase with 38% compared to 2016.

Sales by type of formulation

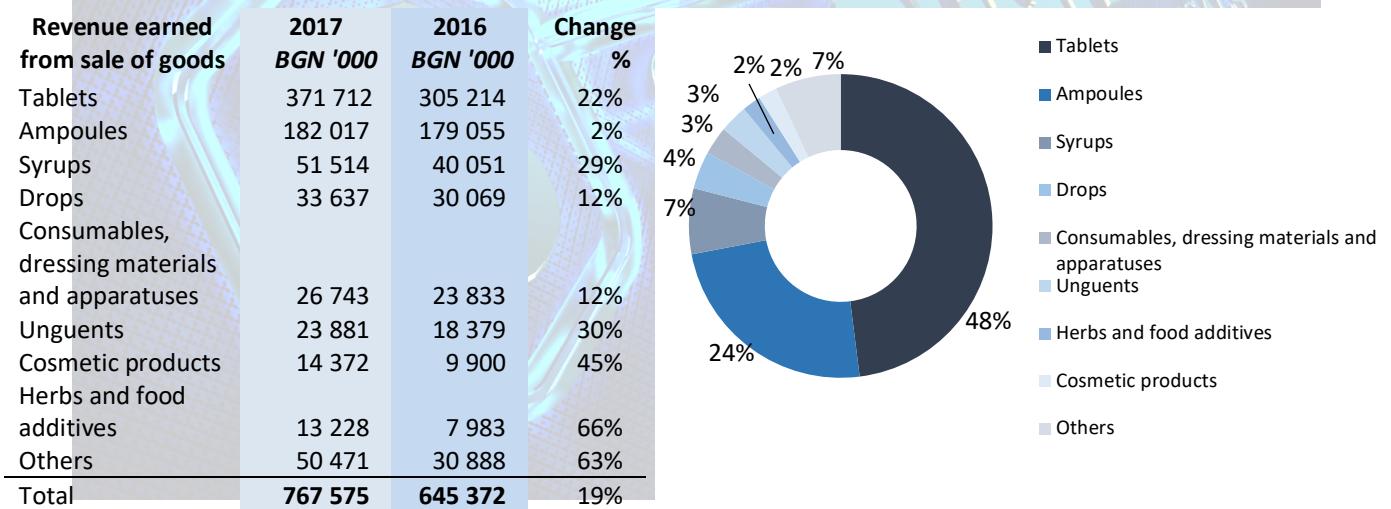
The reported revenue of the Group includes the following items: proceeds from the sale of finished goods and revenues from the sale of goods.

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

Sopharma Group



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



Other operating revenues

| Other revenues | 2017 | 2016 | change | Relative share 2017 |
|---|--------------|--------------|--------|---------------------|
| | BGN '000 | BGN '000 | % | % |
| Services rendered | 5 246 | 4 823 | 9% | 78% |
| Net loss from exchange rate differences under trade receivables and payables and current accounts | (2 924) | 297 | -1085% | -44% |
| Government grants | 1 156 | 1 187 | -3% | 17% |
| Rents | 909 | 792 | 15% | 14% |
| Services related to social activities and events | 874 | 837 | 4% | 13% |
| Income from sales of LTA | 346 | 372 | -7% | 5% |
| Profit from change in the fair value of investment property (Note 18) | 309 | 102 | 203% | 5% |
| Written-off liabilities | 129 | 222 | -42% | 2% |
| Other (see Notes to the financial statements) | 639 | 851 | -25% | 10% |
| Total other operating income | 6 684 | 9 483 | 30% | 100% |

Other operating income decrease by BGN 2.8 million, reaching BGN 6.7 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 with BGN 3.2 million.

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 | (8 741) | 994 | -979% | |
| Materials | 90 153 | 82 906 | 9% | 9% |
| Hired services | 63 546 | 56 408 | 13% | 7% |
| Personnel | 101 424 | 87 159 | 16% | 10% |
| Depreciation and amortization | 30 108 | 28 705 | 5% | 3% |
| Carrying amount of goods sold | 679 951 | 571 132 | 19% | 70% |
| Other operating expenses | 11 512 | 14 313 | -20% | 1% |
| Total | 967 953 | 841 617 | 15% | 100% |

Operating expenses in 2017 increased by BGN 126.3 million or by 15% from BGN 841.6 million in 2016 to BGN 967.9 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 and amortization.

The cost of materials (with a 9% share) is increased by BGN 7.2 million or 9% to BGN 90.1 million in 2017 compared to BGN 82.9 million in 2016. The cost of basic materials increased by BGN 4.1 million or by 7%, 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 1.8 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 and others.

External services expenses account for 7% relative share of operating expenses and increased by BGN 7.1 million or by 13% to BGN 63.5 million for 2017 compared to BGN 56.4 million for 2016. The increase includes rental costs of BGN 2 million, consulting services by BGN 1.5 million and making of medicines by BGN 1.1 million. Decrease is reported for the costs of advertising and marketing services, messaging, communications and others.

Personnel costs (with a share of 10%) increased by BGN 14.3 million or by 16% to BGN 101.4 million in 2017 compared to BGN 87.1 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 2.8 million or 20% from BGN 14.3 million in 2016 to BGN 11.5 million in due to reduced scrapping and lack of goods by BGN 1.8 million and written off receivables by BGN 3 million.

Depreciation costs (with a 3% share) increased by BGN 1.4 million or 5% from BGN 28.7 million in 2016 to BGN 30.1 million in 2017.

Financial income and costs

| Finance income | 2017 | 2016 | change | relative share of revenue of 2017 |
|--|--------------|--------------|------------|---|
| | BGN '000 | BGN '000 | % | % |
| Income from interest on arrears of trade receivables | 4 026 | 4 702 | -14% | 48% |
| Net gain on investment securities transactions | 2 965 | 322 | 821% | 35% |
| Interest income on granted loans | 1 213 | 1 792 | -32% | 14% |
| Income from dividends | 155 | 178 | -13% | 2% |
| Interest income on bank deposits in securities | 10 | 20 | -50% | 0% |
| Total | 8 369 | 7 014 | 19% | 100% |

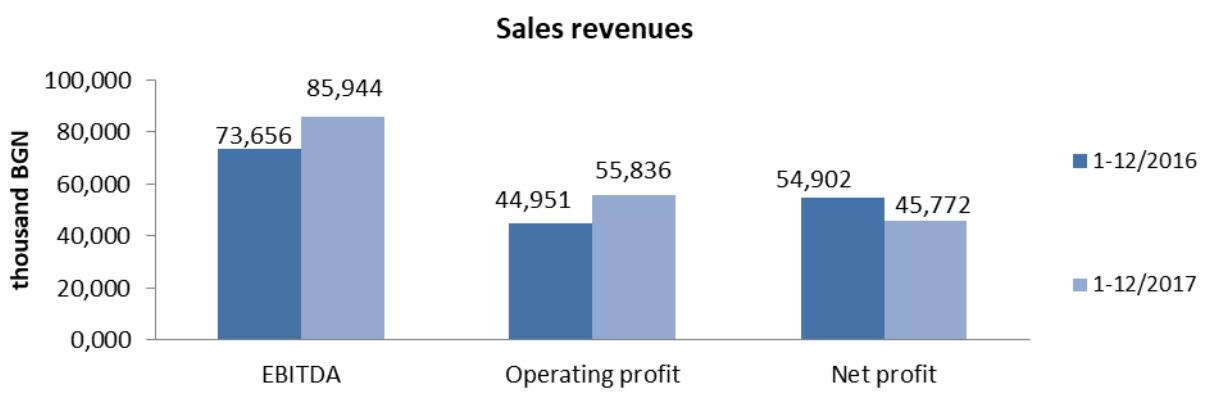
| Finance costs | | | change | relative share of expenses in 2017 |
|--|---------------|---------------|------------|--|
| Interest expenses on loans | 7 084 | 8 831 | -20% | 61% |
| Net loss on exchange rate differences on loans in foreign currencies | 2 904 | 1 074 | 170% | 25% |
| Bank fees on loans and guarantees | 814 | 859 | -5% | 7% |
| Factoring interest costs | 348 | 953 | -63% | 3% |
| Interest expense on finance lease | 272 | 341 | -20% | 2% |
| Impairment on commercial loans granted | 125 | 542 | -77% | 1% |
| Derivatives effects | 74 | 109 | -32% | 1% |
| Investment intermediation fees | 6 | - | - | 0% |
| Impairment of available-for-sale investments | 4 | 4 | 0% | 0% |
| Impairment of cash in banks under special | - | 8 | -100% | 0% |
| Total | 11 631 | 12 721 | -9% | 100% |

Financial revenues 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 1.1 million from BGN 12.7 million in 2016 to BGN 11.6 million in 2017. The most significant decrease is reported in interest expense on loans received by BGN 1.7 million. Factoring interest expense decreased by BGN 0.6 million and impairment of receivables on commercial loans by BGN 0.4 million. Net loss on exchange rate differences on foreign currency loans increased by BGN 1.8 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



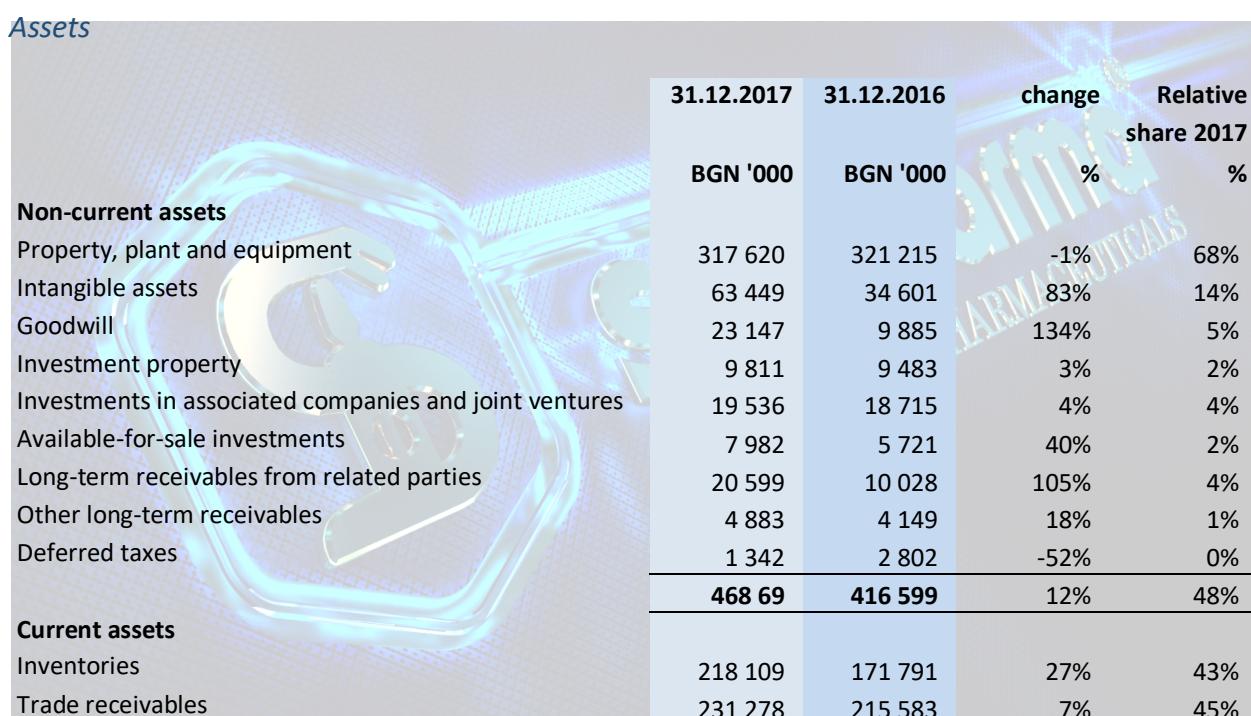
Sopharma Group

Profit before interest, taxes and depreciation (EBITDA) increased by BGN 12.3 million or 17%, reaching BGN 85.9 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 Group.

The operating profit increased by BGN 10.89 million or 24% to BGN 55.84 million in 2017 compared to BGN 44.95 million in 2016.

Net profit decreased by BGN 9.1 million or by 17% to BGN 45.8 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 BGN '000 | 31.12.2016 BGN '000 | change % | Relative share 2017 % |
|--|------------------------|------------------------|-------------|-----------------------------|
| Non-current assets | | | | |
| Property, plant and equipment | 317 620 | 321 215 | -1% | 68% |
| Intangible assets | 63 449 | 34 601 | 83% | 14% |
| Goodwill | 23 147 | 9 885 | 134% | 5% |
| Investment property | 9 811 | 9 483 | 3% | 2% |
| Investments in associated companies and joint ventures | 19 536 | 18 715 | 4% | 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 | 4 883 | 4 149 | 18% | 1% |
| Deferred taxes | 1 342 | 2 802 | -52% | 0% |
| TOTAL ASSETS | 468 69 | 416 599 | 12% | 48% |
| Current assets | | | | |
| Inventories | 218 109 | 171 791 | 27% | 43% |
| Trade receivables | 231 278 | 215 583 | 7% | 45% |
| Receivables from related parties | 4 694 | 14 982 | -69% | 1% |
| Other receivables and prepayments | 24 955 | 17 727 | 41% | 5% |
| Cash and cash equivalents | 33 328 | 22 539 | 48% | 7% |
| TOTAL ASSETS | 512 364 | 442 622 | 16% | 52% |
| | 980 733 | 859 221 | 14% | 100% |

Total assets increased by BGN 121.5 million or by 14%, from BGN 980.7 million as at 31 December 2017 to BGN 859.2 million as at 31 December 2016, due to an increase in non-current and current assets.

Non-current assets increased by BGN 51.7 million or 12%, mainly due to an increase in intangible assets, goodwill and long-term receivables from related companies.

Sopharma Group

Assets in property, plant and equipment decreased by BGN 3.6 million in the part of assets in land and buildings by BGN 1.9 million, machinery and equipment by BGN 4 million and others by BGN 0,8 million. Assets under process of acquisition increased by BGN 3.1 million.

Intangible assets increased by BGN 28.8 million, in the area of intellectual property rights by BGN 28.2 million and software products by BGN 1.4 million and other BGN 0,2 million and decreased mainly in the part of intangible assets in the process of acquisition by BGN 1 million.

Investments in associates and joint ventures increased by BGN 0.8 million compared to 31 December 2016. Available-for-sale investments increased by BGN 2.3 million.

Long-term receivables from related companies increased by BGN 10.6 million to BGN 20.6 million.

Other long-term receivables increased by BGN 0.7 million.

Current assets increased by BGN 69.7 million or 16% to BGN 512.3 million as at 31 December 2017 compared to BGN 442.6 million as of 31 December 2016.

Inventories accounted for 42% of the current assets and increased by BGN 46.3 million compared to 31 December 2016, mainly in the commodity segment by BGN 45 million.

Trade receivables have a 45% share of current assets and increased by BGN 15.7 million in advances, net of BGN 1 million and receivables from customers, net by BGN 14.7 million.

Receivables from related companies account for a 1% share of current assets and decreased by BGN 10.3 million, mainly for sales of goods and materials by BGN 1.8 million and commercial loans granted by BGN 8.5 million.

Other short-term receivables and assets accounted for 5% of current assets and increased by BGN 7.2 million as a result of tax reimbursement by BGN 1.2 million, other short-term receivables by BGN 4.2 million and court and receivables, net with BGN 2.6 million. Cash and cash equivalents increased by BGN 10.8 million as compared to 31 December 2016, with deposits amounting to 2.9 million at the end of the period (BGN 4 million at the end of 2016).

Liabilities and owners' equity

| EQUITY | 31.12.2017 | 31.12.2016 | change | From owners equity 2017 |
|--|----------------|----------------|--------|----------------------------|
| | BGN '000 | BGN '000 | | |
| Equity attributable to owners of the parent | | | | |
| Share capital | 134 798 | 134 798 | 0% | 27% |
| Reserves | 53 576 | 62 708 | -15% | 11% |
| Retained earnings | 281 509 | 259 984 | 8% | 56% |
| | 469 883 | 457 490 | 3% | 93% |
| NON-CONTROLLING INTEREST | | | | |
| | 33 227 | 33 733 | -2% | 7% |
| TOTAL EQUITY | 503 110 | 491 223 | 32 | 100% |

| | 31.12.2017 | 31.12.2016 | change | % total liabilities 2017 |
|---|----------------|----------------|--------|-----------------------------|
| | BGN '000 | BGN '000 | % | |
| LIABILITIES | | | | |
| Non-current liabilities | | | | |
| Long-term bank loans | 50 526 | 25 924 | 95% | 11% |
| Deferred tax liabilities | 13 704 | 11 752 | 17% | 17% |
| Long-term liabilities to personnel | 5 458 | 4 539 | 20% | 1% |
| Finance lease liabilities | 1 950 | 2 582 | -24% | 0% |
| Government grants | 8 250 | 9 011 | -8% | 2% |
| Other non-current liabilities | 173 | 34 | 409% | 0% |
| | 80 061 | 53 842 | 49% | 17% |
| Current liabilities | | | | |
| Short-term bank loans | 194 165 | 170 842 | 14% | 41% |
| Current portion of long-term bank loans | 14 478 | 9 478 | 53% | 3% |
| Trade payables | 135 168 | 92 053 | 47% | 28% |
| Payables to related parties | 757 | 566 | 34% | 0% |
| Payables on contract for factoring | 19 403 | 20 033 | -3% | 4% |
| Payables to the personnel and for social security | 12 895 | 10 093 | 28% | 3% |
| Tax payables | 7 375 | 5 949 | 24% | 2% |
| Other current liabilities | 13 321 | 5 142 | 159% | 3% |
| | 397 562 | 314 156 | 27% | 83% |
| TOTAL LIABILITIES | 477 623 | 367 998 | 30% | 100% |
| TOTAL EQUITY AND LIABILITIES | 982 261 | 859 221 | 14% | |

The equity of Sopharma Group increased by BGN 11.9 million compared to 31 December 2016, mainly due to an increase in retained earnings. The non-controlling interest is increased by BGN 0.5 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 12.4 million mainly due to the undistributed profit.

Non-current liabilities increased by BGN 26.2 million, or 49%, from BGN 53.8 million at the end of 2016 to BGN 80.1 million at the end of 2017, mainly from an increase in long-term bank loans with BGN 24.6 million. Increase is recorded by deferred tax liability with BGN 2 million and long-term liabilities to the personnel by BGN 0.9 million.

Current liabilities increased by BGN 83.4 million or by 27% compared to the end of 2016, mainly due to an increase of short-term loans by banks by BGN 23 million, short-term part of long-term bank loans by BGN 5 million, as well as trade payables of BGN 43.1 million. Personnel and social security liabilities increased by BGN 2.8 million, tax liabilities by BGN 1.4 million and other current liabilities by 8.2 million. Total liabilities on bank loans, leasing and factoring of the Group increased by BGN 51.7 million compared to the end of 2016, with the net debt after deduction net of cash and cash equivalents increased by BGN 40.9 million.

Ratios

| | 31.12.2017 | 31.12.2016 |
|---|------------|------------|
| ROE ¹ | 8,5% | 11,9% |
| ROA ² | 4,4% | 6,0% |
| Asset turnover ³ | 1,12 | 1,05 |
| Current liquidity ⁴ | 1,29 | 1,41 |
| Quick ratio ⁵ | 0,71 | 0,86 |
| Cash/current liabilities ⁶ | 0,06 | 0,07 |
| Owners' equity/liabilities ⁷ | 1,05 | 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 | (58 344) | (68 768) |
| Net cash flow used in investment activities | (76 807) | (6 862) |
| Net cash flow (used in)/from financial operations | 135 426 | 74 855 |
| Net increase/(decrease) of cash and cash equivalents | 275 | (775) |
| Cash and cash equivalents on 1 January | 22 339 | 23 114 |
| Cash and cash equivalents on 31 December | 22 614 | 22 339 |

Net cash flows in 2017 generated by operating activities amounted to BGN 58.3 million outflow, from investment activity amounted to BGN 76.8 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 December 2017 amounted to BGN 22.6 million compared to BGN 22.3 million at 1 January 2017.

Factoring inflow amounting to BGN 131.3 million is 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.

Ecology and environmental protection

Sopharma Group

Sopharma AD maintains and observes its commitments in compliance with the national legislation in the field of environmental protection. The company applies measures to:

- separate collection of waste, minimization, recovery and recycling of production and household waste;
- providing appropriate personnel training on environmental and pollution prevention issues;
- responsibly fulfills the imperative requirements of the Council of Ministers Decree 137 and the Packaging and Waste Ordinance;
- annual emissions of waste gases into the ambient air from the Phytochemical Plant and the Solid Form Factory are measured;
- Monthly Sofiyska Voda measures the emissions in waste water on production sites A and B.

In 2017 the separately collected waste was increased by 2.5% compared to the previous year. Production waste is handed over to licensed recyclers. The annual emissions of waste gases into the ambient air as well as the emissions in the wastewater are within the required standards. The conditions of the Discharge Permit are met. Once a month, a report is made on the packaging imported and / or marketed by type of material for which a monthly installment is paid to EcoBulpak AD, with which Sopharma AD has concluded a contract for the recovery of packaging waste.

Personnel

As at 31.12.2017, the average number of employees of Sopharma AD is 4 895 (compared to 4 543 in 2016). The average number of employees in Sopharma AD as at 31.12.2017 is 1 953 (compared to 2 076 in 2016), and in 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.

3. Significant events occurring after the date of preparation of the annual financial statements / Article 39, paragraph 3 of the Accounting Law /

- ➡ On 30 January 2018, Sopharma AD received a notification for disclosure of shareholding under Art. 145 of the Public Offering of Securities Act from ZUPF Allianz Bulgaria for the sale of 250 000 shares representing 0.19% with which the share participation of ZUPF Allianz Bulgaria in the capital of Sopharma AD reached 4.99%.

- ⊕ 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 23.02.2018 an Extraordinary General Meeting of Shareholders of Unipharm AD took place, where the following decisions were taken: GMS decided to transform 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; Approved the Transformation Agreement through the merger of Unipharm AD into Sopharma AD, concluded on 14.09.2017 and of Additional Agreement No 1 of 08.11.2017 to it; Approves the Report of the Management Board of Unipharm AD to the shareholders of the company, Art. 262i of the Commercial Law, on the transformation through merger of Unipharm AD into Sopharma AD; Approves the Auditor's Report under Art. 262m of the Commercial Law on the transformation through merger of Unipharm AD into Sopharma AD; GMS decided to terminate Unipharm AD without liquidation due to its transformation through merger into Sopharma AD.

4. Future development of Sopharma Group (article 39, item 4 of the Accountancy Law) and planned economic policy in the following year (Article 247 (3) of the Commercial Law)

- ⊕ On the local market, the company aims to provide patients with more affordable treatment by registering new generic products in shorter terms;
- ⊕ On the foreign markets, efforts are focused on preserving and increasing the share of the company in the main markets (Russia, Ukraine and Poland), as well as establishing and expanding market positions in other countries (USA, Middle and Eastern Europe and Caucasus region).
- ⊕ The Group continues the policy of active partnership with established international pharmaceutical companies, with new companies, as well as expanding the product range of already established collaborations.

Sopharma Group plans to build a new lyophilic plant in Sofia, which will start in the first half of 2018. With the construction of the plant, the Company would double the capacity of its current production facilities, which will ensure the production of sufficient quantities of the life-saving hospital product Methylprednisolone and create additional jobs. The whole project is expected to cost around BGN 30 million.

5. Research and development (article 39, item 5 of the Accounting Law)

The Group focuses its research and development mainly on generic products. Research and development projects are focused on finding and developing new formulas and composition or physical properties (such as medicine form or tablet form) of a product in order to adapt it to current market needs. The strategic goal of Sopharma AD is to achieve in the future a stable result of developing eight to ten new products per year.

The company mainly submits applications for new product authorizations including new product forms in Bulgaria and / or export markets and for existing products in new markets.

Intellectual Property

Although oriented towards generic pharmaceutical products, Sopharma AD has been known for years with the traditional production of several unique products based on plant extracts obtained from own-produced technologies. These products are protected not only by trademark, but also by patent or company know-how.

Regarding the generic products it produces, for their market distinctiveness, Sopharma Group relies on brand names, all of which are registered trademarks of the Company.

Sopharma Group

Throughout its years of existence, Sopharma Group has generated and defended its industrial property. As a result, the Group owns a large number of industrial property sites, the majority of which - registered rights (trademarks, patents, designs) and fewer unregistered objects - mainly technology.

These assets are the result of the Group's special policy towards product and technological innovation, and in particular innovation.

New developments and products

New Products for the period January - December 2017

Authorizations have been obtained for 3 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.

Documents for the registration of 41 medicinal products have been submitted to agencies of new destinations.

Re-registrations / changes

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

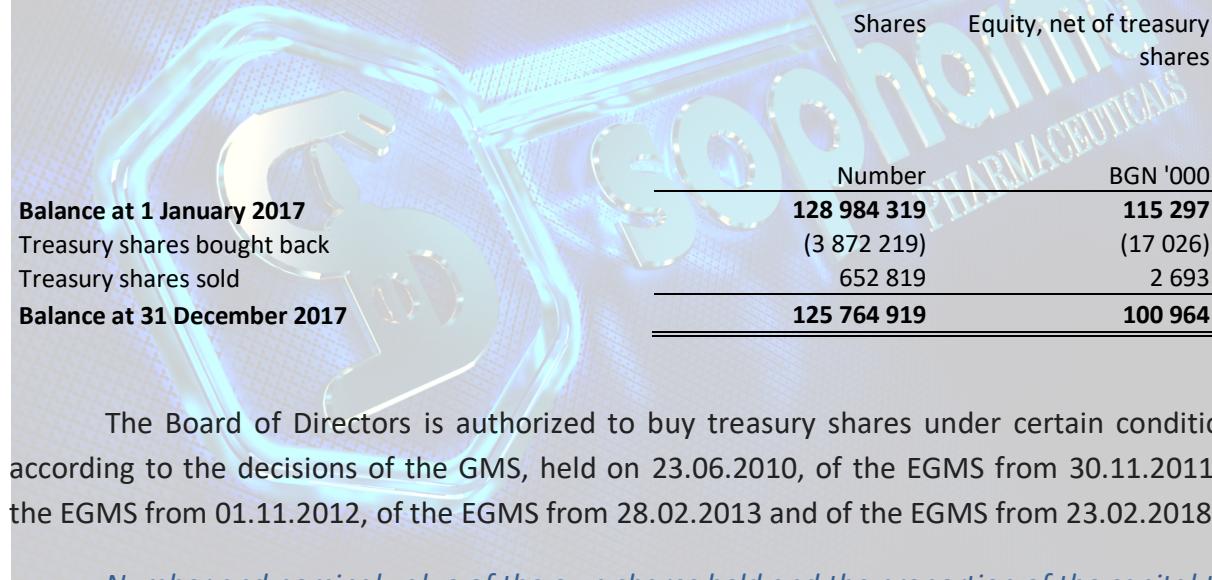
Developments

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.

6. Information on the acquisition of own shares required by Article 187d of the Commercial Law / Article 39, Item 6 of the Accountancy Law/

In 2017 3 872 219 shares (2016: 554 158 shares) were purchased and 652 819 shares were sold (2016: 221 723 shares). The treasury shares purchased during the year amount to 3% of the Company's share capital and the average acquisition price is BGN 4.27 per share.



| | Shares Number | Equity, net of treasury shares BGN '000 |
|------------------------------------|--------------------|---|
| Balance at 1 January 2017 | 128 984 319 | 115 297 |
| Treasury shares bought back | (3 872 219) | (17 026) |
| Treasury shares sold | 652 819 | 2 693 |
| Balance at 31 December 2017 | 125 764 919 | 100 964 |

The Board of Directors is authorized to buy treasury shares under certain conditions, according to the decisions of the GMS, held on 23.06.2010, of the EGMS from 30.11.2011, of the EGMS from 01.11.2012, of the EGMS from 28.02.2013 and of the EGMS from 23.02.2018.

Number and nominal value of the own shares held and the proportion of the capital they represent

Sopharma holds 9 032 980 own shares, representing 6.70% of the company's capital.

7. Existence of branches of the Company / Article 39, item 7 of the Accounting Law/

Sopharma Group has no branches.

8. Used financial instruments / Article 39, item 8 of the Accountancy Law /

Overall risk management focuses on the difficulties in predicting financial markets and minimizing potential negative effects that may affect the financial performance and the Group's performance.

Financial risks are currently identified, measured and monitored by various control mechanisms introduced to determine adequate prices for the company's products and services and borrowed capital and to adequately assess the market circumstances of the company investments and forms of maintenance of the free liquid assets, without allowing undue concentration of a risk.

Risk management is currently carried out by the management of the parent company and, respectively, the management of the subsidiaries according to the policy determined by the Board of Directors of the parent company. The Board of Directors has adopted basic principles for general financial risk management, on the basis of which specific procedures have been developed for the management of individual specific risks, such as currency, price, interest, credit and liquidity, and the risk of using non-derivative instruments.

Credit risk

Credit risk is the risk that the clients of the Group will not be able to pay fully and within the usual time limits the amounts due from them under the trade receivables. The latter are presented in the statement of financial position in net amount after deducting the accrued impairment for doubtful and bad debts. Such impairments are made where and when there are events identifying loss of uncollectability under previous experience.

The Group has developed policies and procedures for assessing the creditworthiness of its counterparties and setting credit rating and credit limits by group of clients.

Cash in the Group and the payment operations are concentrated in various premium banks. In the distribution of cash flows between them, the management of the Company and the subsidiaries take into account a number of factors, including the capital, security, liquidity, credit potential and rating of the bank, etc.

Liquidity risk

The liquidity risk is expressed in the negative situation that the Group will not be able to meet unconditionally all its obligations according to their maturity, including due to the presence of over-inflation, and the indexation of sales figures for companies operating in such an environment.

The Group generates and maintains a sufficient volume of liquidity. An internal source of liquidity for the Group is the main business of its companies generating sufficient operating flows. External sources of funding are banks and other permanent partners.

Risk of interest-bearing cash flows

In the structure of the Group's assets, interest-bearing assets are represented by the cash at floating rate and the loans granted at a fixed interest rate. On the other hand, the borrowed funds of the Group in the form of long-term and short-term loans are usually variable interest rates. This circumstance partly puts the cash flows of the company in line with interest rate risk. The coverage of this risk is achieved in two ways:

- (a) optimizing sources of credit resources to achieve a relatively lower cost of borrowed funds; and
- (b) combined structure of interest rates on loans, which contains two components - permanent and variable, the ratio between which and their absolute value can be achieved and maintained at a favorable rate for the companies in the Group. The permanent component has a relatively low absolute value and a large enough relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rates with a possible update of the variable component. This also minimizes the probability of a change in the unfavorable direction of cash flows.

The management of the Group companies together with the management of the Company are currently monitoring and analyzing its exposure to changes in interest rates. Different scenarios of refinancing, renewal of existing positions and alternative financing are simulated. Based on these scenarios, the effect on financial result and equity is measured when changing with certain points or percentages. For each simulation, the same assumption of interest rate change applies to all major currencies. Calculations are made for significant interest-bearing items.

IV. Information on Annex 10 to art. 32, para 1, item 2 of Regulation 2 of POSA

1. Information given in value or quantitative terms about the main categories of goods, products and / or services provided, including their share in sales revenue of Sopharma AD in general and changes in the reporting year

The information is included in Section III, item 2 of this document. The Group does not publish quantitative information due to the specifics of the production.

- 2. Information about the revenues allocated by separate categories of activities, domestic and foreign markets and information on sources for supply of materials needed for production of goods or the provision of services with the degree of dependence on any individual seller or buyer / user, in case their share exceeds 10 per cent of the expenses or sales revenue, provide information for each person for his share in sales or purchases and links with the issuer**

Information about the revenues allocated by separate categories of activities, domestic and foreign markets are provided in Section III item 2 of this report.

For 2017, there are no customers whose relative share exceeds 10% of total sales revenue.

The raw materials used exceed 3,500 nomenclature numbers, which have a dynamic structure and a variety of origins (synthetic, plant), aggregate (liquid, solid, gaseous).

The bulk of the raw materials are secured by imports. Sources of supply are validated manufacturers, which is in line with regulatory requirements and aims to maintain quality consistency and traceability. The respective contractors operate according to GMP, GDP and other industry standards. Sopharma Group works with a number of Bulgarian and foreign suppliers and their selection is carried out according to an elaborated intra-company procedure and aims at providing both alternative provisioning in the supply process and competitive flexibility in the trade relations. The starting conditions for Sopharma Group are: quality consistency, competitive prices, attractive payment conditions, rhythmic and timely deliveries, preventing the accumulation of inventories on the one hand and at the same time ensuring the regularity of the production process.

For 2017, there are no suppliers whose relative share exceeds 10% of total costs of services and materials.

3. Information on Significant Transactions

The Company has accepted that significant transactions are those that lead or can reasonably be expected to result in a favorable or unfavorable change of 5 or more per cent of revenue or net profit. There are no such deals in 2017.

- 4. Information regarding transactions between the issuer and related parties during the reporting period, proposals for concluding such transactions as well as transactions that are outside its usual activity or substantially deviate from market conditions when, the issuer or its subsidiary is party, indicating the value of the transactions, the nature of relatedness and any information necessary to assess the impact on the financial position of the issuer**

Information regarding the transactions between Sopharma Group and related parties during the period is specified in Notes to the Financial Statements "Related Parties Transactions".

On an EGM which took place on 24 April 2017 the Board of Directors has proposed for voting the following transactions between the Group and related parties:

- ⊕ Rental contract under which Sopharma AD will rent property from Sopharma Properties REIT real estate, representing Office-1B-B18, consisting of a real part of Office-1-B18, located on floor 18 in Building B of administrative-shopping complex with underground garages Sopharma Business Towers, 5 Lachezar Stanchev str. office space of 1B-B18, amounting to 189.91 square meters, of which 165.14 sq.m. net rental area and 24.77 sq.m. common parts.
- ⊕ Sales transaction with medicinal products between Sopharma AD as a producer and seller of the products and TOO Sopharma Kazahstan as a buyer, under which the Company will incur a receivable from a subsidiary totalling 20 269 thousand EUR. The transaction will be concluded for a term of 5 years.

Sopharma AD has not concluded transactions outside of its main activities or that substantially deviate from the market conditions.

5. Information about events and indicators unusual for the issuer that have a significant impact on its activity and realized income and expenses; assessment of their impact on the current year results

In 2017 there were no events and indicators of unusual nature for the Group.

6. Information on off-balance sheet transactions - nature and business purpose, the financial impact of transactions on the activity, if the risks and benefits of these transactions are material to the issuer and the disclosure of this information is essential for assessing the financial position of the issuer

The off-balance transactions for the Group as at December 31, 2017 are listed in the annual report in the "Contingent liabilities and commitments" section.

7. Information on shares of the issuer, its major investments in the country and abroad (in securities, financial instruments, intangible assets and real estate), as well as investments in equity securities outside its group of companies under Accounting Law and the sources / methods of financing

Information on shareholdings and major investments, domestic and foreign, of Sopharma Group are listed in the Notes to the annual financial statements - "Investments in subsidiaries", "Investments available for sale" and "Investments in associates". Information regarding

investments in intangible assets and real estate is presented in the Notes "Intangible assets", "Property, plant and equipment" and "Investment property".

8. Information about the concluded by the issuer, its subsidiary or parent company in their capacity as borrowers, loan contracts specifying the terms and conditions, including the deadlines for repayment as well as information about guarantees and commitments

Information on concluded by Sopharma and its subsidiaries loan agreements are listed in the annual report in the Notes to the annual consolidated financial report "Long-term bank loans" and "Short-term bank loans."

9. Information about the concluded by the issuer, its subsidiary or parent company in their capacity of lenders, loan agreements, including the provision of guarantees of any kind, including related parties, and the specific terms, including the deadlines for payment and the purpose for which they were granted

The long-term loans granted to related parties are of an associate and a company controlled by an associate:

- Contractual amount 29 384 thousand EUR; interest rate - 3.5%; maturity – 31 December 2019; balance at 31 December 2017 – 16 538 thousand BGN.
- Contractual amount 13 900 thousand BGN; interest rate - 3.0%; maturity – 11 June 2019; Balance at 31 December 2017 - 3 818 thousand BGN.

The long-term loans provided to related parties are intended to assist in the financing of activities under shared strategic objectives. They are secured by betting on securities (stocks).

Commercial loans granted to related parties are unsecured to companies linked by key management personnel and companies controlled by an associate:

Companies connected through key management personnel:

- Contractual amount EUR 8 154 thousand; interest rate – 4,10%; maturity – 31 December 2017; balance as at 31 December 2017 – BGN 0;
- Contractual amount BGN 66 700 thousand; interest rate – 2,81%; maturity – 31 December 2018; balance as at 31 December 2017 – BGN 2 956 thousand;
- Contractual amount EUR 12 807 thousand; interest rate – 3,05%; maturity – 31 December 2017; balance as at 31 December 2017 – BGN 0;

Company controlled by an associate:

- Contractual amount BGN 190 thousand; interest rate – 3,50%; maturity – 31 December 2018; balance as at 31 December 2017 – BGN 62 thousand;
- Contractual amount BGN 300 thousand; interest rate – 3,10%; maturity – 31 August

2018; balance as at 31 December 2017 – BGN 305 thousand;

Companies under common control:

- Contractual amount BYR 186 thousand; interest rate – 27,50%; maturity – 8 June 2018; balance as at 31 December 2017 – 0;
- Contractual amount BYR 122 thousand; interest rate – 27,50%; maturity – 28 January 2018; balance as at 31 December 2017 – 0;
- Contractual amount BYR 70 thousand; interest rate - 20.00%; maturity – 24 March 2018; Balance at 31 December 2017 - 0;
- Contractual amount BYR 126 thousand; interest rate – 27,50%; maturity – 25 November 2017; balance as at 31 December 2017 – 0;
- Contractual amount BYR 23 thousand; interest rate - 20.00%; maturity – 28 April 2018; Balance at 31 December 2017 - 0;

10. Information on the use of funds from the issuance of new issue of securities during the reporting period

During the reporting period, the company did not issue securities.

11. Analysis of the relationship between the financial results reflected in the financial statements for the financial year and earlier published forecasts for these results

There are no published forecasts of financial results.

12. Analysis and evaluation of the policy on the management of financial resources, including the ability to meet its obligations, possible threats and measures that the issuer has taken or will take to resolve them

The management of the parent company and, respectively, the management of the subsidiaries currently control the collection of receivables, the implementation of financial ratios of bank contracts concluded and regularly services its obligations. Financial risk management is fully disclosed in the "Financial Risk Management" as part of the individual financial statements of the Company.

13. Assessment of the feasibility of investment intentions, indicating the amount of available funds and possible changes in the financing structure of this activity

The planned investment program for 2018 includes investments of 13 million BGN for the acquisition of buildings, machinery, equipment and software. Sources of funding are its own funds from regular business. The Company is not experiencing difficulties in carrying out its

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investment intentions and payments for operating activity thanks to the generated positive thanks to cash flow and good liquidity.

14. Information about changes in the reporting period in the basic principles of management of the issuer and its group of companies under the Accounting Law

During the reporting period there were no changes in the basic management principles of Sopharma AD and its economic group.

15. Information about the main characteristics applied by the issuer in the process of preparing the financial statements, internal control system and risk management

The information is provided in item 3 of the Corporate Governance Declaration pursuant to Art. 100n para 8 of POSA, which is a separate report, published together with the management report.

16. Information about changes in management and supervisory boards during the accounting year

In 2017 there is no change in the management bodies of Sopharma AD.

17. Information on the amount of remuneration, rewards and / or benefits of each of the members of the management and supervisory bodies for the financial year, paid by the issuer and its subsidiaries, regardless of whether they have been included in the expenses of the issuer, or arising from profit distribution, including:

- amount of accrued by the Company remuneration of the Board of Directors and the Procurator

| | Remuneration BGN | Tantiems BGN | Total |
|---|-----------------------------|-------------------------|--------------|
| Ognian Ivanov Donev | 331 663 | 377 699 | 709 362 |
| Vesela Lyubenova Stoeva | 120 400 | - | 120 400 |
| Andrey Lyudmilov Breshkov | 126 222 | - | 126 222 |
| Ognian Kirilov Palaveev | 120 400 | - | 120 400 |
| Alexander Victorov Tchaushev | 120 400 | - | 120 400 |
| Ivan Venetzkov Badinski - Procurator | 60 000 | - | 60 000 |

- amount of paid by the Company remuneration of the Board of Directors and the Procurator

| | Remuneration BGN | Tantiems BGN | Total |
|---|---------------------|-----------------|---------|
| Ognian Ivanov Donev | 331 663 | 280 476 | 612 139 |
| Vesela Lyubenova Stoeva | 120 400 | - | 120 400 |
| Andrey Lyudmilov Breshkov | 126 222 | - | 126 222 |
| Ognian Kirilov Palaveev | 120 400 | - | 120 400 |
| Alexander Victorov Tchaushev | 120 400 | - | 120 400 |
| Ivan Venetzkov Badinski - Procurator | 60 000 | - | 60 000 |

The remuneration and other income of the key management personnel of the parent company amounted to BGN 1,321 thousand. (2016: BGN 1,368 thousand), including:

- current remuneration - BGN 922 thousand (2016: BGN 1,092 thousand);
- tantiems - BGN 399 thousand (2016: 276 thousand BGN).

Remuneration and other income of key management personnel and executive directors, members of the Board of Directors and managers of subsidiaries of the Group amounted to BGN 6,806 thousand. (2016: BGN 5,021 thousand), including:

- current remunerations - BGN 6,274 thousand (2016: BGN 4,512 thousand);
- tantiems - BGN 532 thousand (2016: 509 thousand BGN).

 contingent or deferred wages arising during the year, even if the remuneration is due at a later date

On the grounds of Art. 24 para 3, part B of the Articles of Association of the Company to the Executive director of the company is entitled to an additional remuneration to 1% of the profit according to the approved on the General meeting of shareholders relevant Annual Financial Report. According to Article 7.2, para 3 of the Remuneration policy, 40% of the additional remuneration to the Executive director is as follows:

- BGN 101 415,43 has a maturity of 2019;
- BGN 96 151.96 has a maturity of 2020;
- BGN 151 046.79 has a maturity of 2021.

 the amount of accrued and paid remunerations to the members of the Audit Committee

| Members of the Audit Committee | Remuneration BGN |
|--------------------------------|---------------------|
| Tzvetanka Zlateva | 12 000 |
| Vasil Naidenov | 12 000 |
| Vasil Piralkov | 5 045 |
| Kristina Atanasova | 8 253 |

18. Information on held by members of management and supervisory bodies, the procurators and the senior management of the issuer shares, including the shares held by each of them individually and as a percentage of shares of each class and provided by the issuer options on its securities - type and amount of securities on which options have been set, exercise price of the options, purchase price, if any, and the term of the options.

The shares acquired, held, and transferred by the members of the Board of Directors in 2017 are as follows:

| Members of the Board of directors | 31.12.2017 | | 31.12.2016 | | Acquired shares in 2017 | Transferred shares in 2017 | change |
|-----------------------------------|------------------|-----------------------------|------------------|-----------------------------|-------------------------|----------------------------|---------|
| | Number of shares | relative share of capital % | Number of shares | relative share of capital % | | | |
| Ognian Ivanov Donev | 910 000 | 0,68% | 246 600 | 0,18% | 668 700 | 5 300 | 663 400 |
| Vessela Lyubenova Stoev | - | - | - | - | - | - | - |
| Andrey Lyudmilov Breshkov | - | - | - | - | - | - | - |
| Ognian Kirilov Palaveev | 160 430 | 0,12% | 120 430 | 0,09% | 40 000 | - | 40 000 |
| Alexandar Viktorov Tchaushev | 111 042 | 0,08% | 59 462 | 0,04% | 51 580 | - | 51 580 |

The company has no issued bonds.

| Members of the Audit Committee | 31.12.2017 | | 31.12.2016 | | change |
|--------------------------------|------------------|-----------------------------|------------------|-----------------------------|--------|
| | Number of shares | relative share of capital % | Number of shares | relative share of capital % | |
| Tzvetanka Zlateva | - | - | - | - | - |
| Vasil Naidenov | 186 | 0,00007% | 100 | 0,00007% | 86 |
| Kristina Atanasova | - | - | - | - | - |

19. Arrangements (including after the end of the financial year) as a result of which future changes may occur in the holding of shares or bonds by current shareholders or bondholders

There are no such arrangements.

20. Information about pending legal, administrative or arbitration proceedings relating to liabilities or receivables of the issuer of at least 10 percent of its equity; if total liabilities or receivables of the issuer in all proceedings exceeds 10 per cent of its equity, provide information about each case separately

There are no pending legal, administrative or arbitration proceedings relating to liabilities or receivables.

21. Information about the Investor Relations Director, including telephone number and mailing address

Director of Investor Relations of the parent company is Pelagiya Viyacheva, tel. +359 2 8134 523, correspondence address - Sofia, 5 Lachezar Stanchev str., Building A, fl. 11.

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.

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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 |
| Net earnings per share in BGN ¹ | 0,310 | 0,390 |
| Price per share at the end of the period in BGN | 4,282 | 2,992 |
| Price/Earnings ratio (P/E) | 13,81 | 7,67 |
| Book value per share in BGN ² | 3,74 | 3,55 |
| Price/Book value ratio (P/B) | 1,14 | 0,84 |
| Sales per share in BGN ³ | 8,09 | 6,80 |
| Price per share / Sales per share(P/S) | 0,53 | 0,44 |
| Market capitalization in BGN | 577 204 604 | 403 315 314 |

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

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

³Revenue 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 1 January 2017 – 31 December 2017.



V. Information under Article 247 and Art. 240b of the Commercial Law

1. Information under Art. 247 of the Commercial Law

Information concerning the course of activity and the condition of the Company and explanations regarding the annual financial statements

Section II, item 2 describes the activity and the state of the Company and explains the annual financial statement.

Remuneration received during the year by members of the Board of directors

In Section IV, item 17, the remuneration and other earnings of key management personnel are stated.

Acquired, held and transferred by the members of the Board during the year shares and bonds of the company

In section IV, item 18, the shares of the company acquired, owned and by the members of the Board of Directors in 2016 are stated.

The company has no issued bonds.

Rights of members of Board to acquire shares and bonds of the company

The Articles of Association of Sopharma AD do not contain any restrictions on the right of the members of the Board of directors to acquire shares and bonds of the company.

Participation of members of the Board of directors in commercial companies as unlimited liability partners, the holding of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or co-operatives, such as procurators, managers or board members

Participation of the members of the Board of Directors by more than 25 per cent of the capital of other companies:

Ognian Ivanov Donev has a direct / indirect significant share (over 25%) of the capital of the following companies:

- Donev Investments Holding AD, UIC 831915121, with headquarters in Sofia, 12 Pozitano Str.;
- Telecomplex invest AD, UIC 201653294, with headquarters in Sofia, 9 Slaveikov Str.
- Telecomplex AD, UIC 831643753, with headquarters in Sofia, 5 Lachezar Stanchev Str.

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- + Sopharma Buildings REIT, UIC 175346309, with headquarters in Sofia, 5 Lachezar Stanchev Str.;
- + Sopharma Properties REIT, UIC 175059266, with headquarters in Sofia, 5 Lachezar Stanchev Str., Building A;
- + Sofprint Group AD, UIC 175413277 with seat and headquarters: Sofia, 12 Pozitano Str.;
- + Sofconsult Group AD, UIC 175413245, with seat and headquarters: Sofia, 12 Pozitano Str.;
- + Sofia Inform AD, UIC 121303553, with headquarters in Sofia, 12 Pozitano Str.;
- + Elpharma AD, UIC 130299513, with seat and headquarters: Sofia, 16 Iliensko shose Str.;
- + Sopharma Trading AD, UIC 103267194, with seat and headquarters: Sofia, 5 Lachezar Stanchev Str.;
- + Sopharma AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str.;

Vessela Lyubenova Stoeva controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

- + VES elekroinvest systems EOOD, UIC 201712700, with seat and headquarters: Sofia, 9 P. R. Slaveykov Square;
- + Eco Solar Invest OOD, UIC 201634905, with seat and headquarters: Sofia, 48 Alabin Str;
- + Aquatex OOD, UIC 203934379, with seat and headquarters: Sofia, 9 P. R. Slaveykov Square.

Alexandar Victorov Tchaushev controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

- + Sofservice OOD, UIC 131407109, with headquarters in Sofia, 339, Tsar Boris III Blvd;
- + Alpha In EOOD, UIC 131156322, with headquarters in Sofia, 1B Dimcho Debelianov Str.

Andrey Lyudmilov Breshkov controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

- + Breshkov and Sons OOD, UIC 115114555, with headquarters in Plovdiv, 36 Gladstone Str.
- + CFM OOD, UIC 131304899, with headquarters in Sofia, 2 Nikolay Haitov Str.

Ognian Kirilov Palaveev controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

- + Mill Stefanovo Village EOOD, UIC 201045146, with headquarters in Stefanovo Village, Lovech District.
- + Sirius OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 Apriltsi Str.

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- OKP Investments OOD, UIC 204361991, with headquarters in Sofia, 15 Krushova gradina Str.

Participation of Board members in the management of other companies or cooperatives as procurators, managers or board members:

Ognian Ivanov Donev participates in the managing/controlling body in the following companies:

1. Elpharma AD, UIC 130299513, with seat and headquarters: Sofia, 16 Iliensko shose Str. – member of the Board of Directors and Executive Director.
2. Sopharma Trading AD, UIC 103267194, with headquarters in Sofia, 5 Lachezar Stanchev Str. – Chairman of the Board of Directors.
3. Donev Investments Holding AD, UIC 831915121, with headquarters in Sofia, 12 Pozitano Str. – Member of the Board of directors.
4. Kaliman - RT AD, UIC 121120513, with headquarters in Sofia, 5 Lachezar Stanchev Str. – Chairman of the Board of Directors.
5. Telecomplex AD, UIC 831643753, with address management in Sofia, 5 Lachezar Stanchev Str., Building A – Chairman of the Supervisory Board.
6. Doverie Capital AD, UIC 130362127, with headquarters in Sofia, 82 Knyaz Donukov Blvd – Member of the Supervisory Board.
7. Unipharm AD, UIC 831537465, with headquarters in Sofia, 3 Trajko Stanoev Str. – Chairman of the Supervisory Board.
8. Sopharma AD, UIC 831902088, with seat and headquarters: Sofia, 16 Iliensko Shousse Str. – member of the Board of Directors and Executive Director.

Vessela Lyubenova Stoeva participates in the management/supervisory body for the following companies:

1. Elpharma AD, UIC 130299513, with seat and headquarters: Sofia, 16 Iliensko shose Str. - member of the Board of Directors;
2. VLS AD, UIC 175082980, with headquarters in Sofia, Slaveikov Square 9 - member of the Board of Directors;
3. VES elekroinvest systems EOOD, UIC 201712700, with seat and headquarters: Sofia, 9 P. R. Slaveykov Square - Manager.
4. Sopharma AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – Deputy Chairperson of the Board of Directors.

Alexandar Victorov Tchaushev participates in the management/supervisory body of the following companies:

1. Monbat AD, UIC 111028849, with registered office in Sofia, Lozenets area, 4 Golo Bardo

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- Str. – member of the Board of Directors;
2. DK-Domostroene AD, UIC 102148397, with registered office in Burgas, PO Box 8000, Pobeda area – member of the Board of Directors;
 3. Agency management and advertising in sport EAD, UIC 130969084, with registered office in Sofia, Vazrazhdane, Todor Alexandrov № 42 – Member of the Board of Directors.
 4. Sopharma AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.

Andrey Lyudmilov Breshkov participate in the management/supervisory body for the following companies:

1. Simol EAD, UIC 101795403, with headquarters in Blagoevgrad, 3 Georgy Izmirliev Square – Chairman of the Board of Directors
2. Vizaton OOD, UIC 202235166, with seat and headquarters: Sofia, Sredets, 225A Tsar Boris III Blvd – Chairman of the Board;
3. ZAD Energy, UIC 831040933, with seat and headquarters: Sofia, 33 Knyaz Dondukov Blvd - member of the Board of Directors.
4. Sopharma AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.

Ognyan Kirilov Palaveev participates in the management/supervisory body of the following companies:

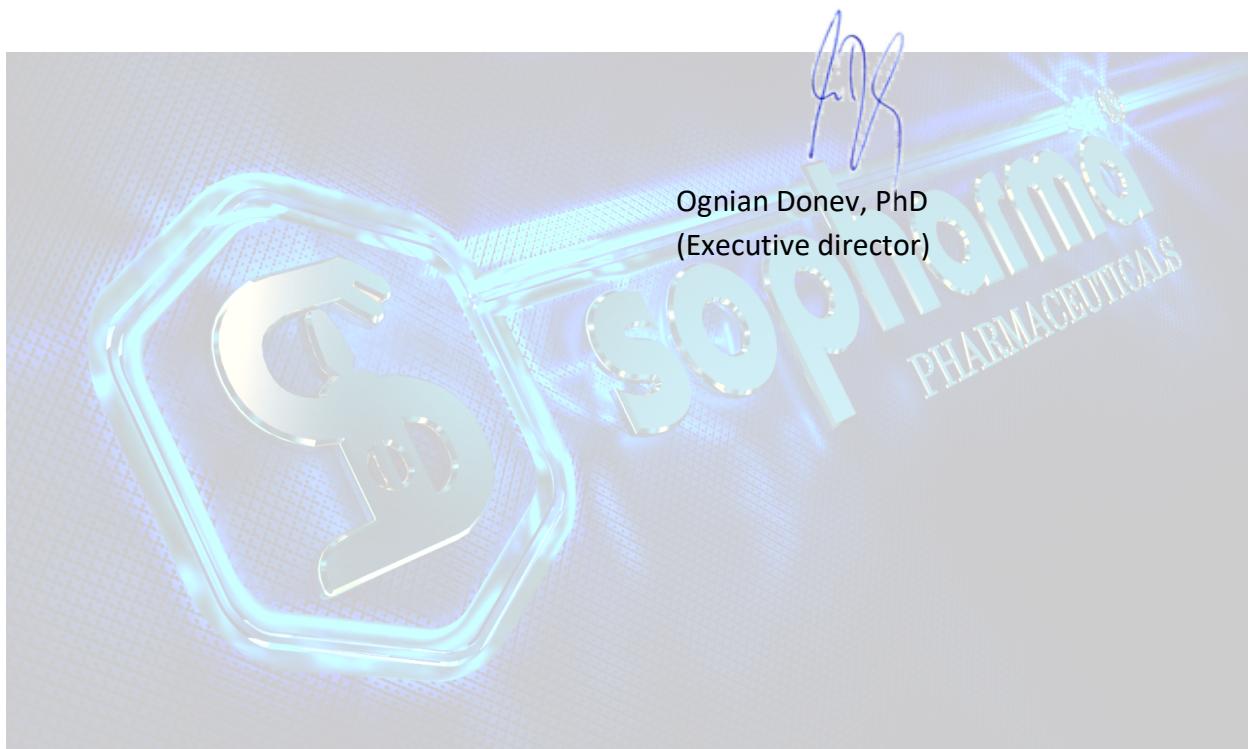
1. Sirius OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 Apriltsi Str. – member of the Management Board;
2. Sopharma AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.
3. Unipharm AD, UIC 831537465, with headquarters in Sofia, Darvenitsa district, 3 Traiko Stanoev Str. – member of the Board of Directors.
4. Mill Stefanovo Village EOOD, UIC 201045146, with headquarters: Stefanovo village, Lovech district.
5. OKP Investments OOD, UIC 204361991, with headwarters in Sofia, 15 Krushova gradina Str.

Planned economic policy in the next year (Article 247, paragraph 3 of the Commercial Law)

The information is reflected in Section III, paragraph 4 of this Report - Future development of the Company (Article 39, paragraph 4, of the Accounting Law).

2. Information under art. 240b of the Commercial Law on the obligation of Board members to notify in writing the Board of Directors or the Management Board when they or their related parties conclude contracts with the company that go beyond its usual activity or substantially deviate from market conditions

In 2017, there are no contracts that go beyond the ordinary business of the company or significantly deviate from market conditions.



Ognian Donev, PhD
(Executive director)