

MANAGEMENT REPORT

2018



SOPHARMA GROUP

24 April 2019

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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 and other health related products, with a strong presence in Eastern and South-eastern Europe, offering a wide range of prescription medicines and OTC products and other health related 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;
- ✚ production of medicinal products and medicinal cosmetics, as plasters, bandages and sanitary-hygiene products focused on the production site in Sandanski city;
- ✚ 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 52 subsidiaries, directly or indirectly controlled by the Company. In addition the Group has investments in 1 joint venture and 1 associated company.

Company	Interest as at 31.12.2018 in %
Sopharma Trading AD, Sofia, Bulgaria*	72.96
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	93.56
Phyto Palauzovo AD, Kazanluk, Bulgaria	95.00
Sopharmacy EOOD, Sofia, Bulgaria**	72.96
Sopharmacy 2 EOOD, Sofia, Bulgaria**	72.96
Sopharmacy 3 EOOD, Sofia, Bulgaria**	72.96
Sopharmacy 4 EOOD, Sofia, Bulgaria**	72.96
Sopharmacy 5 EOOD, Sofia, Bulgaria**	72.96
Sopharmacy 6, EOOD, Sofia, Bulgaria**	72.96
Sopharmacy 7, EOOD, Sofia, Bulgaria**	72.96
Sopharmacy 8, EOOD, Sofia, Bulgaria**	72.96
Sopharmacy 9, EOOD, Sofia, Bulgaria**	72.96
Sopharmacy 10, EOOD, Sofia, Bulgaria**	72.96
Veta Pharma AD, Veliko Tarnovo, Bulgaria	99.98
Aromania OOD, Sofia, Bulgaria	76.00
Sopharmacy 11 (Pharmastore 1 OOD), Sofia, Bulgaria**	72.96
Sopharmacy 12 (Pharmastore 2 OOD), Sofia, Bulgaria**	72.96
Sopharmacy 13 (Pharmastore 3 OOD), Sofia, Bulgaria**	72.96
Sopharmacy 14 (Pharmastore 4 OOD), Sofia, Bulgaria**	72.96
Sopharmacy 15 (Pharmastore 5 OOD), Sofia, Bulgaria**	72.96
Sopharmacy 16, EOOD, Sofia, Bulgaria**	72.96
Sopharmacy 17, EOOD, Sofia, Bulgaria**	72.96
PAO Vitamini, 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**	72.96
BRIZ SIA, Riga, Latvia	66.13
Brititrade SOOO, Minsk, Belarus**	52.90
Tabina SOOO, Minsk, Belarus **	53.05

Sopharma Group

Company	Interest as at 31.12.2018 in %
Brizpharm SOOO, Minsk, Belarus**	35.85
OOO Sopharma Ukraine, Kiev, Ukraine	100.00
OOO Med-dent, Bobruisk, Belarus***	40.72
OOO Pharmacist Plus, Minsk, Belarus**	33.73
B000 SpetzApharmacia, Bobruisk, Belarus***	50.00
ZAO TBS Pharma, Vilnius, Lithuania**	33.73
OOO Bellerofon, Minsk, Belarus***	50.00
TOO Sopharma Kazakhstan, Almaty, Kazakhstan	100.00
ZAO Interpharm, Vitebsk, Belarus**	59.52
OOO Galenapharm, Pinsk, Belarus**	54.91
ODO Medjel, Minsk, Belarus**	54.23
ODO Alenpharm-Plus, Belarus**	55.54
OOO Pharmateia, Minsk, Belarus**	35.80
ODO Salius Line, Grodno, Belarus**	50.92
Rap Pharma International OOD, Kishinev, Moldova	51.00
Lekovit D.o.o., Sabac, Serbia**	51.00
OOO Zdorovei, Minsk, Belarus**	38.94
OOO Ivem i K, Minsk, Belarus**	29.65
OOO Ariens, Plotzk, Belarus**	39.83
OOO Zabolivaia apteka, Minsk, Belarus**	34.74
OOO Med-dent, Bobruisk, Belarus**	46.29
B000 SpetzApharmacia, Bobruisk, Belarus**	46.29

*effective interest in percent

**indirect interest

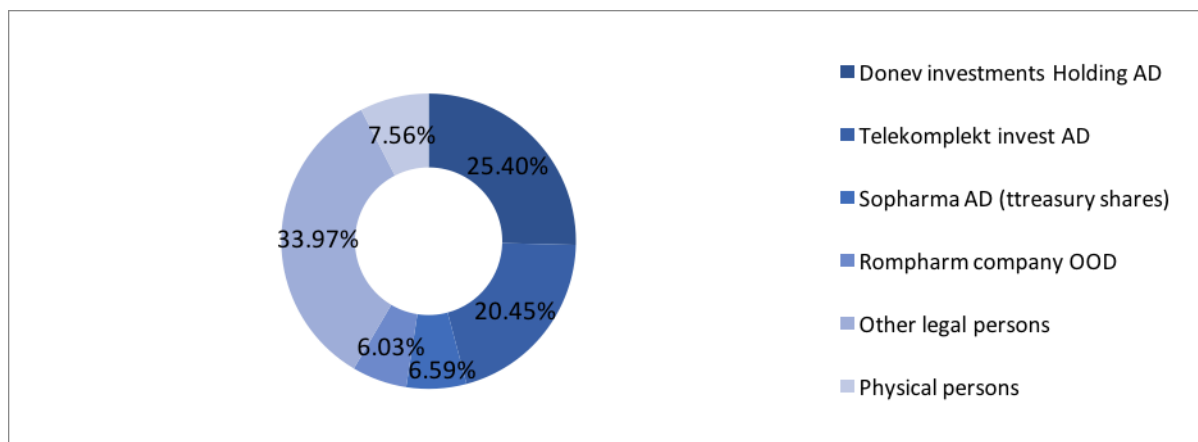
***joint venture

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, Ognian Palaveev and Ivan Badinsky (as of 01.08.2018). 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 2018



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.

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 traditional products, of which 12 products are phyto-based. The traditional products of the Company (and in particular Tabex, 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 - traditional plant-based product used to treat gastro-enterological diseases (liver diseases);
- ✚ Tempalgin - traditional analgesic (painkiller);
- ✚ Tabex - traditional plant-based anti-smoking drug;
- ✚ Tribestan - traditional plant-based product that stimulates the functions of the sexual system;
- ✚ Broncholitin - traditional plant-based product used to suppress cough;
- ✚ Analgin - generic analgesic (pain reliever);
- ✚ Nivalin - traditional 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.

Biopharm Engineering AD

The Company 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 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 IQVIA). Sopharma Trading is the only distributor on the Bulgarian market of particular pharmaceutical products for several leading international pharmaceutical and other companies the field of healthcare such as Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk.

The 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 etc.;
- + 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 as 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 pharmacovigilance 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	1-12/2018 BGN '000	1-12/2018 BGN '000	Change %
Revenues from sales	1 179 143	1 017 105	15.9%
EBITDA	72 278	85 944	-15.9%
Operating profit	39 143	55 836	-29.9%
Net profit	30 637	45 772	-33.1%
CAPEX*	36 414	28 015	30.0%
	31.12.2018 BGN '000	31.12.2018 BGN '000	
Non-current assets	480 688	468 369	2.6%
Current assets	529 915	512 364	3.4%
Owners' equity	508 529	503 110	1.1%
Non-current liabilities	69 175	80 061	-13.6%
Current liabilities	432 899	397 562	8.9%

* acquired tangible and intangible long-term assets

Indicator	1-12/2018	1-12/2018
EBITDA/Sales revenues	6,1%	8,4%
Operating profit / Sales revenues	3,3%	5,5%
Net profit/Sales revenues	2,6%	4,5%
Attracted capital / Equity	0,99	0,95
Net debt/EBITDA on annual basis	4,15x	3,02x

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

- ✦ The Group faces significant competition;
- ✦ Part of Sopharma Trading's revenues 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.

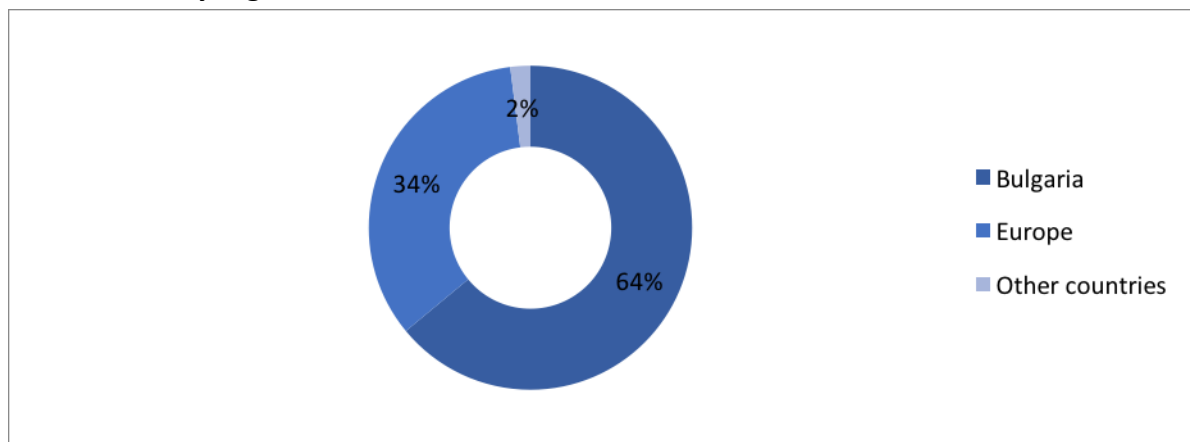
Through the companies in Belarus and Ukraine, the group carries out business operations in these countries and, accordingly, has substantial exposures in Belarusian rubles and Ukrainian hryvnia. The currency risk is related to the negative movement of the exchange rates of these currencies against the 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 162 million or 16%, reaching BGN 1 179 million in 2018 compared to BGN 1 101.7 million in 2017. Sales of goods increased by BGN 160.7 million or 21%, reaching BGN 928.3 million in 2018 compared to BGN 767.6 million in 2017. Sales of finished products increase by 1.3 million BGN, or 0.5%, to BGN 250.8 million in 2018 compared to BGN 249.5 million in 2017.

Sales by region



The contribution of sales in Bulgaria to the consolidated sales revenue in 2018 amounted to 64%, increasing by 9% compared to 2017. Sopharma has a 3.4% share of the Bulgarian pharmaceutical market in terms of value and a 11.3% 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% (0.2% in units), Actavis – 5% (10% in units), GlaxoSmithKline – 3.7% (2.8% in units), Pfizer – 3.6% (1% in units), Abbvie – 3.5% (0% in units), Sanofi-Aventis – 3% (2% in units), Astra Zeneca – 3% (1% in units), Merck – 2.8% (1% in units).

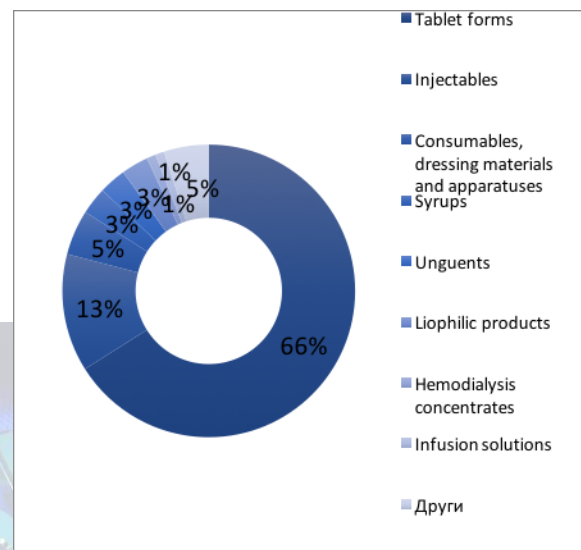
Revenues from sales of the Group on European markets different than the home market Bulgaria, amount to 34% of total consolidated sales revenues for 2018 and increase with 33% compared to 2017.

Sales by type of formulation

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

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

Revenues from products	2018	2017	Change %
	BGN '000	BGN '000	
Tablets	166 405	165 907	0%
Ampoules	33 880	33 723	0%
	11 546	9 896	17%
Syrups	8 689	10 381	-16%
Unguents	8 294	8 792	-6%
Lyophilic Hemodialysis concentrates	6 736	6 807	-1%
Infusion solutions	1 945	1 824	7%
Other	11 745	10 496	12%
Total	250 809	249 530	0.5%



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

Revenue earned from sale of goods	2018 BGN '000	2017 BGN '000	Change %
Tablets	371 712	305 214	22%
Ampoules	182 017	179 055	2%
Syrups	51 514	40 051	29%
Drops	33 637	30 069	12%
Consumables, dressing materials and apparatuses	26 743	23 833	12%
Cosmetic products	23 881	18 379	30%
Unguents	14 372	9 900	45%
Herbs and food additives	13 228	7 983	66%
Others	50 471	30 888	63%
Total	767 575	645 372	19%

Sales	
Tablets	48%
Ampoules	21%
Syrups	8%
Drops	7%
Consumables, dressing materials and apparatuses	3%
Cosmetic products	3%
Unguents	3%
Herbs and food additives	2%
Others	5%
Total	100%

Other operating revenues

Other revenues	2018	2017	change	
	BGN '000	BGN '000		%
Services rendered	7 675	5 246		46%
Written-off liabilities	1 400	129		985%
Services related to social activities and events	910	874		4%
Government grants	889	1 156		-23%
Rents	822	909		-10%
Loss from change in the fair value of investment property (Note 18)	613	309		98%
Income from sales of LTA	446	346		29%
Income from sales of inventories	133	94		41%
Net loss from exchange rate differences under trade receivables and payables and current accounts	(1 688)	(2 924)		-42%
Other (see Notes to the financial statements)	637	545		17%
Total other operating income	11 837	6 684		77%

Other operating income increase by BGN 5.1 million, reaching BGN 11.8 million in 2018, compared to BGN 6.7 million in 2017 due to a increase in services rendered with BGN 2.4 thousand, written-off liabilities with BGN 1.3 thousand and decrease of net losses from exchange rate differences under trade receivables and payables and current accounts with BGN 1.2 million.

Operating expenses

Operating expenses	2018	2017	change	relative share of expenses in 2018
	BGN '000	BGN '000	%	%
Changes in inventories of finished goods and work in progress	(8 773)	(8 741)	0%	
Materials	91 303	90 153	1%	9%
Hired services	75 897	63 546	19%	7%
Personnel	119 441	101 424	18%	10%
Depreciation and amortization	33 135	30 108	10%	3%
Carrying amount of goods sold	825 571	679 951	21%	70%
Other operating expenses	15 263	11 512	33%	1%
Total	1 151 837	967 953	19%	100%

Operating expenses in 2018 increased by BGN 183.9 million or by 19% from BGN 967.9 million in 2017 to BGN 1 151.8 million in 2018. 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, amortization and other operating expenses.

The cost of materials (with a 8% share) is increased by BGN 1.2 million or 1% to BGN 91.3 million in 2018 compared to BGN 90.1 million in 2017. The cost of basic materials increased by 0.1%, the most significant impact being reported for the costs of packaging materials, which increase by BGN 2 million and the highest decrease show the cost of sanitary-hygiene and bandages with BGN 2 million. An 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 12.4 million or by 19% to BGN 75.9 million for 2018 resulting from increase in rental expenses with BGN 3.3. million, advertisement and marketing with BGN 2 million, consulting services with BGN 1.5 million and buildings maintenance and equipment with BGN 0.9 million. Decrease is reported for the costs for transportation, registration of medicines and other.

Personnel costs (with a share of 10%) increased by BGN 18 million or by 18% to BGN 119.4 million in 2018 compared to BGN 101.4 million in 2017. 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) increase by BGN 3.8 million or 33% from BGN 11.5 million in 2017 to BGN 15.3 million in due to increase of accrued depreciation of commercial, court and other receivables with BGN 1.7 million, rejects and missing goods with BGN 0.8 million and business expenses with BGN 0.7 million.

Depreciation costs (with a 3% share) increased by BGN 3 million or 10% from BGN 30.1 million in 2017 to BGN 33.1 million in 2018.

Financial income and costs

Financial revenues decrease by BGN 4.3 million to BGN 4 million in 2018 compared to

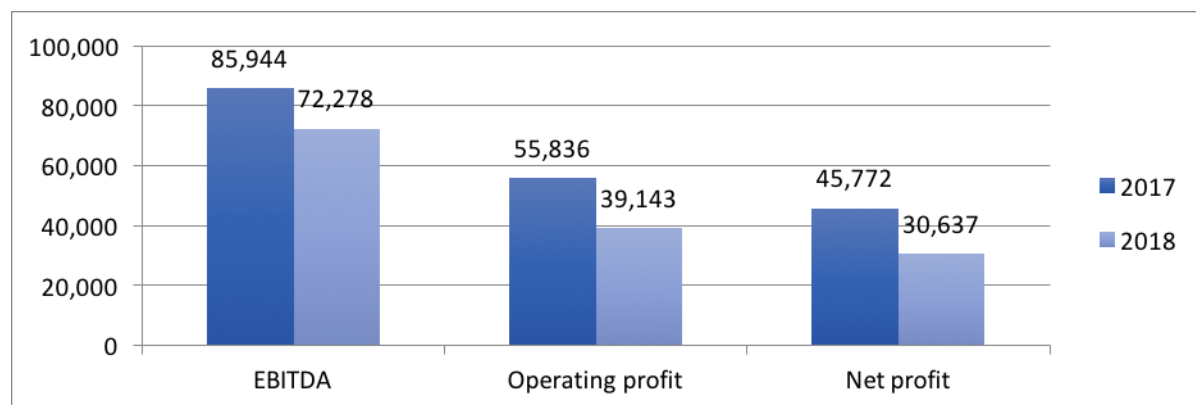
Finance income	2018	2017	change	relative share of revenue of 2018
	<i>BGN '000</i>	<i>BGN '000</i>	%	%
Income from interest on overdue trade receivables	2 616	4 026	-35%	65%
Income from interest on loans granted	1 167	1 213	-4%	29%
Net gain from exchange rate differences on receivables resulting from sales of a subsidiary	152	-	100%	4%
Income from dividends	96	155	-38%	2%
Interest income on bank deposits in securities	3	10	-70%	0%
Net gain on investment securities transactions receivables	-	2 965	-100%	0%
Total	4 034	8 369	-52%	100%
Finance costs			change	relative share of expenses in 2018
Interest expenses on loans	7 233	7 084	2%	74%
Bank fees on loans and guarantees	753	814	-7%	8%
Net loss on exchange rate differences on loans in foreign currencies	565	2 904	-81%	6%
Impairment of cash in banks under special supervision	528			5%
Factoring interest costs	374	348	7%	4%
Impairment on commercial loans granted	133	125	6%	1%
Interest expense on finance lease	84	272	-69%	1%
Derivatives effects	47	74	-36%	0%
Investment intermediation fees	-	6	-100%	0%
Impairment of available-for-sale investments	-	4	-100%	0%
Net loss from investments in securities	11	-	100%	0%
Total	9 728	11 631	-16%	100%

BGN 8.3 million in 2017, mainly due to an decrease in net profit from investment securities transactions by BGN 3 million and decrease of interest income interest on overdue trade receivables by BGN 1.4 million.

Financial expenses decreased by BGN 1.9 million from BGN 11.6 million in 2017 to BGN 9.7 million in 2018. The most significant decrease is reported in interest expense on loans received by BGN 2.3 million.

Net financial revenues (expenses) increased by BGN 2.4 million to BGN (5.7) million as at 31 December 2018 compared to BGN (3.3) million at 31 December 2017.

Financial result



Profit before interest, taxes and depreciation (EBITDA) decreased by BGN 13.6 million or 16%, reaching BGN 72.3 million in 2018, compared to BGN 85.9 million in 2017. *The operating profit* decreased by BGN 16.7 million or 30% to BGN 39.1 million in 2018 compared to BGN 55.8 million in 2017. *Net profit* decreased by BGN 15.1 million or by 33% to BGN 30.6 million in 2018 compared to BGN 45.8 million in 2017.

Assets

	31.12.2018	31.12.2017	change	Relative share 2018
	BGN '000	BGN '000	%	%
Non-current assets				
Property, plant and equipment	324 525	317 620	2%	68%
Intangible assets	62 195	63 449	-2%	13%
Goodwill	23 516	23 147	2%	5%
Investment property	10 427	9 811	6%	2%
Investments in associated companies and joint ventures	20 383	19 536	4%	4%
Other long-term capital investments	8 598	7 982	8%	2%
Long-term receivables from related parties	23 055	20 599	12%	5%
Other long-term receivables	6 399	4 883	31%	1%
Deferred taxes	1 590	1 342	18%	0%
	480 688	468 369	2.6%	48%
Current assets				
Inventories	235 763	218 109	8%	44%
Trade receivables	235 911	235 193	0%	45%
Receivables from related parties	9 942	4 694	112%	2%
Other receivables and prepayments	22 717	21 040	8%	4%
Cash and cash equivalents	25 582	33 328	-23%	5%
	529 915	512 364	3.4%	52%
TOTAL ASSETS	1 010 603	980 733	3.0%	100%

Total assets increased by BGN 39.9 million or by 3%, from BGN 1 010.6 million as at 31 December 2018 to BGN 980.7 million as at 31 December 2017, due to an increase in non-current and current assets.

Non-current assets increased by BGN 12.3 million or 3%, mainly due to an increase in property, plant and equipment, long-term receivables from related companies and other long-term receivables.

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 decrease by BGN 1.2 million, in the area of intellectual property rights by BGN 0.7 million and software products by BGN 0.8 million and other BGN 0.2 million and increase mainly in the part of intangible assets in the process of acquisition by BGN 0.2 million.

Investments in associates and joint ventures increased by BGN 0.8 million compared to 31 December 2017. Other long-term capital investments increased by BGN 0.6 million.

Long-term receivables from related companies increased by BGN 2.5 million to BGN 23.1 million.

Other long-term receivables increased by BGN 1.5 million.

Current assets increased by BGN 17.6 million or 3% to BGN 530 million as at 31 December 2018 compared to BGN 512.4 million as of 31 December 2017.

Inventories accounted for 44% of the current assets and increased by BGN 17.7 million compared to 31 December 2017, mainly in the goods segment by BGN 15 million, inventories with BGN 1.2 million and unfinished products by BGN 3 million.

Trade receivables have a 45% share of current assets and increased by BGN 0.7 million in advances, net of BGN 7 million and decrease in the receivables from customers, net by BGN 6.3 million.

Receivables from related companies account for a 2% share of current assets and increased by BGN 5.2 million, mainly for sales of goods and materials by BGN 1.8 million and commercial loans granted by BGN 5.2 million.

Other short-term receivables and assets accounted for 4% of current assets and increased by BGN 1.7 million as a result of tax reimbursement by BGN 1.8 million, receivables from investment transactions by BGN 0.3 million and court and receivables, net with BGN 0.2 million. Cash and cash equivalents decrease by BGN 7.7 million as compared to 31 December 2017, with deposits amounting to 2.8 million at the end of the period.

Liabilities and owners' equity

EQUITY	31.12.2018	31.12.2017	change	From owners equity 2018
	BGN '000	BGN '000	%	%
Equity attributable to owners of the parent				
Share capital	134 798	134 798	0%	27%
Reserves	55 661	53 576	4%	11%
Retained earnings	285 101	281 509	1%	56%
	475 560	469 883	1%	94%
NON-CONTROLLING INTEREST	32 969	33 227	-1%	6%
TOTAL EQUITY	508 529	503 110	1%	100%
	31.12.2018	31.12.2017	change	% total liabilities 2018
	BGN '000	BGN '000	%	
LIABILITIES				
Non-current liabilities				
Long-term bank loans	41 124	50 526	-19%	8%
Deferred tax liabilities	11 781	13 704	-14%	2%
Long-term liabilities to personnel	6 015	5 458	10%	1%
Finance lease liabilities	2 486	1 950	27%	0%
Government grants	7 470	8 250	-9%	1%
Other non-current liabilities	299	173	73%	0%
	69 175	80 061	-14%	14%
Current liabilities				
Short-term bank loans	242 859	194 165	25%	48%
Current portion of long-term bank loans	14 874	14 478	3%	3%
Trade payables	124 476	135 168	-8%	25%
Payables to related parties	467	757	-38%	0%
Payables on contract for factoring	21 791	19 403	12%	4%
Payables to the personnel and for social security	14 176	12 895	10%	3%
Tax payables	6 675	7 375	-9%	1%
Other current liabilities	7 581	13 321	-43%	2%
	432 899	397 562	9%	86%
TOTAL LIABILITIES	502 074	477 623	5%	100%
TOTAL EQUITY AND LIABILITIES	1 010 603	980 733	3.0%	

Sopharma Group

The equity of Sopharma Group increased by BGN 5.4 million compared to 31 December 2017, mainly due to an increase in retained earnings and reserves. The non-controlling interest is increased by BGN 0.3 million. The equity related to the equity holders of the Company is 47% of the total equity and liabilities, and there is improvement in the financial autonomy of the Group. The latter increases by BGN 5.7 million mainly due to the undistributed profit and reserves.

Non-current liabilities decrease by BGN 10.9 million, or 14%, from BGN 80.1 million at the end of 2017 to BGN 69.2 million at the end of 2018, mainly from an decrease in long-term bank loans with BGN 9.4 million, deferred tax liability with BGN 1.9 million and government grants by BGN 0.8 million.

Current liabilities increased by BGN 35.3 million or by 9% compared to the end of 2017, mainly due to an increase of short-term loans by banks by BGN 48.7 million, short-term part of long-term bank loans by BGN 0.4 million, personnel and social security liabilities increased by BGN 1.3 million, factoring liabilities by BGN 2.4 million. Commercial liabilities decrease with BGN 10.7 million, tax liabilities by BGN 0.7 million and other current liabilities by 5.7 million. Total liabilities on bank loans, leasing and factoring of the Group increased by BGN 42.6 million compared to the end of 2017, with the net debt after deduction net of cash and cash equivalents increased by BGN 50.4 million.

Ratios

	31.12.2018	31.12.2017
ROE ¹	6,0%	8,5%
ROA ²	2,9%	4,4%
Asset turnover ³	1,19	1,12
Current liquidity ⁴	1,22	1,29
Quick ratio ⁵	0,68	0,71
Cash/current liabilities ⁶	0,06	0,06
Owners' equity/liabilities ⁷	1,01	1,05

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

	31.12.2018	31.12.2017
	BGN '000	BGN '000
Net cash flow from/(used in) operations	(123 784)	(58 344)
Net cash flow used in investment activities	(41 178)	(76 807)
Net cash flow (used in)/from financial operations	166 477	135 426
Net increase/(decrease) of cash and cash equivalents	1 515	275
Cash and cash equivalents on 1 January	22 614	22 339
Cash and cash equivalents on 31 December	24 129	22 614

Net cash flows in 2018 generated by operating activities amounted to BGN 123.8 million outflow, from investment activity amounted to BGN 41.2 million outflow and from financial activity amounted of BGN 166.5 million inward flow. As a result of these activities, the cash and cash equivalents net increased by BGN 1.5 million and as at 31 December 2018 amounted to BGN 24.1 million compared to BGN 22,6 million at 1 January 2018.

Factoring inflow amounting to BGN 153.6 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 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 Sofia.

In 2018 the separately collected waste was increased by 3.2% 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 31.12.2018, the average number of employees of Sopharma AD is 5 075 (compared to 4 895 in 2017). The average number of employees in Sopharma AD as at 31.12.2018 is 2 085 (compared to 2 182 in 2017), and in Sopharma Trading AD is 820 (compared to 749 in 2017).

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 2 January 2019, the merger of OO Meddend, Belarus with BOOO SpecApharmacia, Belarus was registered by merging the assets and liabilities of the two companies. The activity of the merged company OOO Meddend is terminated and all its rights and obligations at the moment of the merger are borne by BOOO SpecApharmacia, Belarus.
- ✚ On 15 January 2019, an agreement was signed for the acquisition of a 30% non-controlling stake of the subsidiary Sopharma Trading AD in the capital of Lekovit O.O. After the performance of the contract, on 04.02.2019 100% ownership of the capital was registered by the subsidiary Sopharma Trading AD.
- ✚ As at 30 January 2019 the share participation of ZUPF Allianz Bulgaria in the capital of Sopharma AD reached 5.09%.
- ✚ On 31 January 2019, the company received a valid production / import authorization for medicinal products № BG / MIA - 0081 from the Bulgarian Drug Agency, which includes the merged subsidiary Unipharm AD.
- ✚ On 15 February 2019, Sopharma AD sold 253,000 shares of the capital of Momina Krepost AD and after the transaction was completed the share of Sopharma AD in the capital of Momina Krepost AD dropped from 93.56% to 78.60%.

- ✦ On 27 February 2019 and 18 March 2019, the Board of Directors of the subsidiary Sopharma Trading AD decided to change the names of the companies Sopharma Trading Belgrade OOD, Serbia and Lekovit OOD, Serbia respectively to "Sopharma Trading Pharmaceuticals" and "Sopharma Trading".
- ✦ On 28 February 2019 in the Commercial Register is registered "Sopharmacy 18" EOOD with sole owner of the capital "Sopharmacy" EOOD. The newly established company's headquarters and address of management is Republic of Bulgaria, Sofia 1756, Izgrev district, Lachezar Stanchev 5, Sopharma Business Towers Building A, fl. 12.
- ✦ On 7 March 2019, through its subsidiary SOOO Britetrade, Belarus, the Group acquired a 25% stake in OSB Bellerofon, Belarus, as a result of which the parent acquires control and the company is classified as a subsidiary.
- ✦ As of 29 March 2019, after the sale of 126,626 shares of the capital of Momina Krepost AD, the share of Sopharma AD in the capital of Momina Krepost AD dropped below 75% - from 78.60% (1 329 212 shares) to 71.11% (1 202 590 shares).
- ✦ As of 2 April 2019, after the acquisition of 127,000 shares of the capital of Momina Krepost AD, the share of Medical Supplies Ltd. in the capital of Momina Krepost AD reached 22.47% (380,000 shares).

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 Group aims to provide patients with more affordable treatment by registering new generic products in shorter terms and in the distribution sector to provide innovative services facilitating the access to health related products;
- ✦ On the foreign markets, efforts are focused on preserving and increasing the share of the Group 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.

- ✚ An ongoing task for the Group is the optimization of the product portfolio.

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 the Group 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.

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 2018

Authorizations have been obtained for Tuspan syrup in Poland.

- ✚ New medicinal products introduced into production

For the period January – December there are no new medicinal products introduced into production.

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 41 medicinal products have been received - Deavit Neo 0.5 mg/ml oral drops, 10 ml; Allergosan 10 mg/g cream; Digoxin Sopharma 0.25 mg/ml solution for injection; Atropine Sopharma 1 mg/ml solution for injection; Felogel Forte 5% gel; Syafen 100 mg/5 ml oral suspension; Phenobarbital Sopharma 100 mg/ ml solution for injection; Sopharol 0.5 mg/ml oral solution; Analgin 500 mg tablets; Lidocaine Sopharma 10 mg/ml solution for injection; Lidocaine Sopharma 20 mg/ml solution for injection; Clenbuterol Sopharma 0.02 mg tablets. Troxerutin Vip Pharma 20 mg/g gel ; Sophalor 5 mg film-coated tablets; Ivadron 3 mg/3 ml solution for injection; Ivadron 150 mg film-coated tablets; Allergosan 10 mg/g ointment; Sopral 20 mg gastro-resistant hard capsules; Urimax Duo 0.5 mg/0.4 mg capsules, hard; Tabex Elite 1.5 mg film-coated tablets; Vicetin 10 mg tablets; Vicetin 5 mg/ml solution for infusion; Haloperidol Sopharma 5 mg/ml solution for injection; Pyraminol 800 mg film-coated tablets; Desloratadine Sopharma 5 mg film-coated tablets; Sophtensif 1.5 mg prolonged-release tablets; Deflamol 350 UI/400 UI/g ointment; Diazepam Sopharma 5 mg/ml solution for injection; Ambixol 3 mg/ml syrup; Pyraminol 200 mg/ml solution for injection; Famotidine Sopharma 20 mg film-coated tablets, Analgin Kids 500 mg/ml oral drops, solution; Broncholytin Ivy 7 mg/ml syrup; Dexamethasone Sopharma 4 mg/ml solution for injection; Felogel 1 % gel; Gentamicin Sopharma 40 mg/ml solution for injection; Gripofen C 500 mg/ 25mg/ 200mg granules for oral solution; Imomed 2 mg tablets; Vitamin C 100 mg/ ml, 2 ml oral solution (food supplement); Vitamin C 100 mg/ ml, 5 ml oral solution (food supplement).

Documentation has been submitted for the registration of 53 medicinal products to agencies of new destinations. Preparations and dissemination for production are documents for the temporary importation of 6 medicinal products into third countries.

✓ Cosmetic products

10 new cosmetic products have been notified in Bulgaria.

2 cosmetic products are registered in Ukraine.

✓ Food supplements

8 food supplements have been notified in Bulgaria.

Sopharma Group

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

- ✓ Medical devices

401 medical devices are registered in Bulgaria and Moldova.

Re-registrations / changes

Updated Authorizations for the use of 86 medicinal products.

Documentation for the renewal of the Marketing Authorizations for 76 medicinal products submitted to agencies.

1107 changes have been made for medicinal products to agencies.

Agreements approved by the agencies 861 for medicinal products.

- **Developments**

There is a pharmaceutical development of 15 new medicinal products. 19 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 2018 210 462 shares were purchased and 73 606 shares were sold. The treasury shares purchased during the year amount to 0.16% of the Company's share capital and the average acquisition price is BGN 4.09 per share.

	Shares	Equity, net of treasury shares
	Number	BGN '000
Balance at 1 January 2018	125 764 919	100 964
Share based payments	288 500	1,082
Treasury shares bought back	(210 462)	(861)
Treasury shares sold	73 606	(276)
Balance at 31 December 2018	125 916 563	101 461

The Board of Directors is authorized to buy treasury shares under certain conditions, according to the decisions 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 8 881 336 own shares, representing 6.59% 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 2018, 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 2018, 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 2018.

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 on transactions concluded between Sopharma AD and related parties during the reporting period is set out in an annex to the consolidated financial statements "Related party transactions".

At the Regular General Meeting of Shareholders, held on 15.06.2018, the following transactions were concluded between the Company and related parties:

- Sale of medicinal products and medical devices between Sopharma AD as a producer and seller of goods and Sopharma Trading AD as a buyer under which a receivable will arise for the Company against the subsidiary Sopharma Trading AD, up to 180 million leva. The deal is scheduled to be concluded with a deadline of 31.06.2020.
- Conclusion of a contract for services related to construction, installation and repair activities and disposal between Sopharma AD and services renderer Telecomplekt AD as a contractor and supplier, therefore, the Company will incur a liability to the related party Telecomplekt AD at the amount to BGN 15 million. The deal is planned to be concluded with a 5-year term, in which the total value of the transaction for the envisaged period of its operation will amount to BGN 75 million.

At the Extraordinary General Meeting of Shareholders, held on 14.09.2018, the following transactions were concluded between the Company and related parties:

- Conclusion of a contract for production between Sopharma Trading AD as contracting authority and Sopharma AD as a service renderer for the production and supply of food supplements and medical devices bearing a trade mark owned by Sopharma Trading AD. Upon execution of the subject of the contract for Sopharma AD, a liability will arise for the subsidiary Sopharma Trading AD, at a forecast amount of up to BGN 300 thousand per year (VAT excluded) for the period of validity of the contract for 5 years.

- Conclusion of a contract under which Sopharma AD as a landlord will provide to Sopharma Trading AD as a tenant a real estate representing a Warehouse for finished pharmaceutical products (Terminal 1) with a monthly rent of BGN 37,400 excluding VAT. It is envisaged that the agreement for the described immovable property will be concluded for a period of 5 (five) years, with the possibility of continuing its effect for a further period. The receivable that will arise in favor of Sopharma AD on the basis of the transaction representing a long-term lease of immovable property, amounts to BGN 448.8 thousand excluding VAT per year or BGN 2 244 thousand without VAT for the duration of the contract.

Sopharma AD or its subsidiary has not entered into transactions that are outside its normal business or materially 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 2018 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, 2018 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 EUR 31 091 thousand; interest rate - 3.5%; maturity – 31 December 2021; balance at 31 December 2018 – 17 574 thousand BGN.
- Contractual amount BGN 29 900 thousand; interest rate - 3.0%; maturity – 31 December 2021; Balance at 31 December 2018 - 904 thousand BGN.
- Contractual amount EUR 700 thousand; interest rate - 3%; maturity – 31 December 2021; balance at 31 December 2018 – 1 383 thousand BGN.

The long-term loans granted to affiliated enterprises are intended to assist in the financing of activities under common strategic objectives and are secured accordingly.

The long-term loans granted to third parties are as follows:

- Contractual amount EUR 695 thousand; interest rate - 3.05%; maturity - 12 October 2022; Balance at 31.12.2018 - BGN 1 360 thousand;
- Contractual amount EUR 1,000 thousand; interest rate - 3.05%; maturity - 29.06.2023; Balance at 31.12.2018 - BGN 961 thousand;
- Contractual amount EUR 40 thousand; interest rate - 6%; maturity - 30.09.2021; Balance at 31 December 2018 - BGN 92 thousand;
- Contractual amount EUR 30 thousand; interest rate - 6%; maturity - 30.09.2021; Balance at 31 December 2018 - BGN 69 thousand;
- Contractual amount EUR 30 thousand; interest rate - 6%; maturity - 30.09.2021; Balance at 31 December 2018 - BGN 68 thousand;
- Contractual amount BGN 24 thousand; interest rate - 5%; maturity - 14.03.2023; Balance as of 31.12.2018 - BGN 20 thousand;

Commercial loans granted to affiliated enterprises are unsecured and are related to companies connected through key management personnel and companies controlled by an associate:

Companies related through key management personnel:

- Contractual amount EUR 2 735 thousand; interest rate - 2.81%; maturity - 31.12.2019; balance at 31.12.2018 –BGN 5 371 thousand;

- Contractual amount BGN 67,450 thousand; interest rate - 2.81%; maturity - 31.12.2018; Balance at 31.12.2018 - BGN 0 thousand;

Companies controlled by an associate:

- Contractual amount of BGN 190 thousand; interest rate - 3.50%; maturity - 31.12.2019; Balance at 31 December 2018 - BGN 55 thousand;
- Contractual amount 3 130 thousand BGN; interest rate - 3.10%; maturity - 31.08.2019; Balance at 31.12.2017 - BGN 3 140 thousand;

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 2019 includes investments of 9 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 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

The GM that took place on 1 August 2018 elected Ivan Badinski as a member of the BoD 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	Bonus shares	By employment contract	Total
Ognian Ivanov Donev	326 834	359 557	636.41	-	687 027.41
Vesela Lyubenova Stoeva	120 100	-	636.41	64 229.18	184 965.59
Andrey Lyudmilov Breshkov	50 000	-	-	-	50 000
Ognian Kirilov Palaveev	120 636	12 764	636.41	-	134 036.41
Alexander Victorov Tchaushev	120 524	-	424.27	-	120 948.27
Ivan Venetzkov Badinski	50 000	-	-	54 306.48	104 306.48
Procurator – Ivan Badinski	60 000	-	-	-	60 000

- Amount of paid by the Company remuneration of the Board of Directors and the Procurator:

	Remuneration BGN	Tantiems BGN	Bonus shares	By employment contract	Total
Ognian Ivanov Donev	326 834	422 379	636.41	-	749 849.41
Vesela Lyubenova Stoeva	120 100	-	636.41	64 229.18	184 965.59
Andrey Lyudmilov Breshkov	50 000	-	-	-	50 000
Ognian Kirilov Palaveev	120 636	6 560	636.41	-	127 772.41
Alexander Victorov Tchaushev	120 524	-	424.27	-	120 948.27
Ivan Venetzkov Badinski	50 000	-	-	54 306.48	104 306.48
Procurator – Ivan Badinski	60 000	-	-	-	60 000

Information about the amount of remuneration of the Board of Directors of Sopharma AD is referred to in Section IV of this report - information under Art. 247 of the Commercial Law, para 2.

The remuneration and other income of the key management personnel of the parent company amounted to BGN 1 401 thousand. (2017: BGN 1 759 thousand), including:

- current remuneration - BGN 970 thousand (2017: BGN 357 thousand);
- tantiems - BGN 429 thousand (2017: 402 thousand BGN);
- Share based payments – BGN 2 thousand (2017: none).

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 5 889 thousand (2017: BGN 6 806 thousand), including:

- current remunerations - BGN 5 312 thousand (2017: BGN 6 272 thousand);
- tantiems - BGN 575 thousand (2017: 534 thousand BGN).
- Share based payments – BGN 2 thousand (2017: none).

- Deferred or contingent remuneration during the year, even if the remuneration is due at a later time:

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 CEO is deferred for three years and the amounts due are as follows:

- BGN 96 151,96 has a maturity of 2019;
 - BGN 151 046,79 has a maturity of 2020;
 - BGN 166 079,36 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
Kristina Atanasova - Eliot	12 000

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 2018 are as follows:

Members of the Board of directors	31.12.2018		31.12.2017		Acquired shares in 2018	Transferred shares in 2018	change
	Number of shares	relative share of capital %	Number of shares	relative share of capital %			
Ognian Ivanov Donev	1 391 129	1.03%	910 000	0,68%	481 129	-	481 129
Vessela Lyubenova Stoev	150	0.0001%	-	-	150	-	150
Ognian Kirilov Palaveev	187 520	0,14%	160 430	0,12%	27 090	-	27 090
Alexandar Viktorov Tchaushev	111 042	0,08%	111 042	0,08%	-	-	-
Ivan Venetzkov Badinsky	350	0.0002%	-	-	350	-	350

The company has no issued bonds.

Members of the Audit Committee	31.12.2018			31.12.2017			change
	Number of shares	of relative share of capital %	of	Number of shares	of relative share of capital %	of	
Tzvetanka Zlateva	-	-	-	-	-	-	-
Vasil Naidenov	186	0,00007%	-	100	0,00007%	-	86
Kristina Atanasova - Eliot	-	-	-	-	-	-	-

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 31.12.2018, 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.

Sopharma Group

The shares of Sopharma AD are traded on the official market of BSE - Sofia AD and on the official market of the Warsaw Stock Exchange. The shares of the Company are traded on the Bulgarian Stock Exchange - Sofia AD, the Main Market (BSE), the PREMIUM Shares Market and on the official market of the Warsaw Stock Exchange.

The shares participate in the formation of the SOFIX, BGBX40 and BGTR30 indices of BSE - Sofia AD. The company's shares are included in the Dow Jones STOXX EU Enlarged Total Market Index with a weight of 0.11%, with a weight of 5% in Erste Bank Bulgaria Basket, in the Raiffeisen Bank's Raiffeisen Osteuropa Fonds certificate as well as in the new Dow blue-chip index Jones STOXX Balkan 50 Equal Weighted Index.

Sopharma AD is one of the three Bulgarian companies included in the Central and Eastern Europe (CEE) Index, which the Warsaw Stock Exchange began to calculate as of May 30, 2012. The index is called WIG-CEE and is the third after WIG-Poland and WIG-Ukraine, which is based on the country's country of origin. WIG-CEE is calculated on a common yield basis and includes dividend yield and share subscription rights.

Key indicators of the shares of Sopharma AD

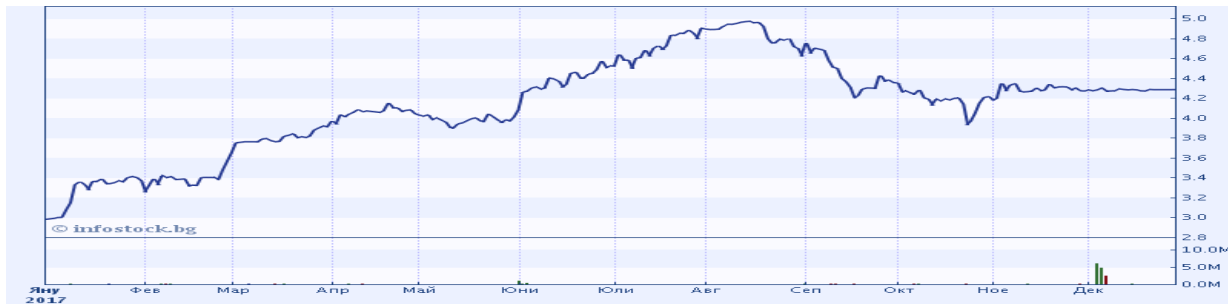
	31.12.2018	30.09.2017
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	125 798 842	128 901 614
Number of shares outstanding at the end of the period	125 916 563	125 764 919
Net earnings per share in BGN ¹	0,225	0,310
Price per share at the end of the period in BGN	3,517	4,282
Price/Earnings ratio (P/E)	15,63	13,81
Book value per share in BGN ²	3,78	3,74
Price/Book value ratio (P/B)	0,93	1,14
Sales per share in BGN ³	9,36	8,09
Price per share / Sales per share(P/S)	0,37	0,53
Market capitalization in BGN	474 724 305	577 204 604

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

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

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

Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 1 January 2018 – 31 December 2018.



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 2018 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

Sopharma Group

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.;
- ✚ Telecomplect invest AD, UIC 201753294, with headquarters in Sofia, 9 Slaveikov Str.
- ✚ Telecomplect AD, UIC 831643753, with headquarters in Sofia, 5 Lachezar Stanchev Str.
- ✚ 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 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 elektroinvest systems EOOD, UIC 201812700, with seat and headquarters: Sofia, 9 P. R. Slaveykov Square;
- ✚ Eco Solar Invest OOD, UIC 201734905, 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:

- ✚ Alpha In EOOD, UIC 131156322, with headquarters in Sofia, 1B Dimcho Debelianov 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.

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

Ivan Venetzkov Badinsky does not own directly or indirectly more than 25% share in the capital of legal entities.

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 Dondukov Blvd – Member of the Supervisory Board.
7. 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 elektroinvest systems EOOD, UIC 201812700, 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 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.

Ican Venetzkov Badinsky participates in the management/supervisory body for the following companies:

1. 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. Mill Stefanovo Village EOOD, UIC 201045146, with headquarters: Stafanovo village, Lovech district.
4. OKP Investments OOD, UIC 204361991, with headquarters 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**

Sopharma Group

In 2018, there are no contracts that go beyond the ordinary business of the company or significantly deviate from market conditions.



Ognian Donev, PhD
Executive director

