

**ATTACHMENT №1**  
**TO CONTRACT FOR TRANSFORMATION**  
**BETWEEN SOPHARMA AD AND BULGARIAN ROSE – SEVTOPOLIS AD**  
**FROM 19 JUNE 2014**

**JUSTIFICATION REPORT OF THE FAIR PRICE OF  
THE SHARES OF SOPHARMA AD**

**For transformation through merger of BULGARIAN ROSE - SEVTOPOLIS AD in SOPHARMA AD**

**THE FINANCIAL SUPERVISION COMMISSION IS NOT LIABLE FOR THE TRUTHFULNESS OF THE DATA CONTAINED IN THE  
JUSTIFICATION REPORT.**

**DATE OF THE FAIR PRICE EVALUATION: 12 JUNE 2014**

**JUSTIFICATION OF THE PROPOSED FAIR VALUE:**

**1. RESUME OF THE EVALUATION DATA**

**EVALUATION OF SOPHARMA AD**

Sopharma AD (the Company) proposes an evaluation of the fair price of one share of the Company for the purpose of the planned transformation calculated in accordance with each of the used evaluation methods:

*Table 1: Calculated fair price of the shares of Sopharma AD:*

<b>Indicator</b>	<b>Price per one share in BGN</b>	<b>Weight</b>	<b>Price per one share in BGN</b>
Share price at market closing on 11 June 2014	4.410	40%	1.764
Market analogues method	4.330	15%	0.650
Discounted cash flows method	4.292	25%	1.073
Net asset value method	3.258	20%	0.652
<b>Final evaluation</b>			<b>4.14</b>

This present evaluation adopts a downward rounding up to the second decimal place in the calculation of the final value of the shares of Sopharma AD.

According to the provisions of art. 5 of *Ordinance №41 for the requirements for the contents of the justification report of the share price of a public company, including the evaluation methods in the cases of transformation, joint venture contracts and tender offering* (Ordinance 41) the fair price of the actively traded shares is determined by the weighted average of the close price of the shares by using the evaluation methods under par. 2 of the same article. According to §1 from of the same Ordinance “actively traded shares” are shares, which have a minimum average daily turnover of at least 0.01% of the total number of shares of the company for the three months preceding the evaluation date. The shares of Sopharma AD are traded on the “Premium” segment of the Bulgarian Stock Exchange - Sofia AD (BSE), as well as on the Warsaw Stock Exchange (WSE). According to art. 5 of Ordinance 41 “the fair price of the actively traded shares... should be calculated on the market place, where the largest volume of the shares was traded...”. For the period 11 March 2014 to 11 June 2014 on the WSE were traded only 1,418 shares. For the same period on the BSE were traded 1,291,275 shares of the company with average daily volume of 21,168.44 (in 61 trade sessions). For this reason the market place with the highest volume traded is BSE. Taking into consideration the size of the capital of the company of 132 000 000 shares, the minimum required volume of traded shares for an actively traded company in the case of Sopharma AD is 13,200 shares. This means that the daily volume of traded shares of Sopharma AD is significantly above the minimum according to Ordinance №41 and therefore 40% of the evaluation price is comprised of the closing price.

*Table 2: Calculated fair price of the shares of Bulgarian Rose - Sevtopolis AD:*

<b>Indicator</b>	<b>Price per one share in BGN</b>	<b>Weight</b>	<b>Price per one share in BGN</b>
Share price at market closing on 11 June 2014	1.702	30%	0.511
Market analogues method	1.910	15%	0.287
Discounted cash flows method	2.032	30%	0.609
Net asset value method	2.046	25%	0.512
<b>Final evaluation</b>			<b>1.92</b>

*Table 3: Calculated exchange ratio:*

<b>Exchange ratio</b>	<b>Price per one share in BGN</b>
Fair price per share of Bulgarian Rose - Sevtopolis AD	1.92
Fair price per share of Sopharma AD	4.14
<b>Exchange ratio of one share of Bulgarian Rose - Sevtopolis AD for shares of Sopharma AD</b>	<b>0.463768</b>

**EVALUATION DATE AND VALIDITY PERIOD**

The evaluation has been conducted as at 12 June 2014 and is valid until the completion of the transformation through the registration of the change in the Commercial Register.

The Board of Directors of Sopharma AD does not believe that there is other information relevant to the evaluation of the shares apart from the information presented in this Justification report.

**FORECAST EVALUATION OF THE ACQUIRING COMPANY**

The evaluation of Sopharma AD in its role as acquiring company is as at 12 June 2014 and is valid until the completion of the registration of the transformation procedure with the Commercial Register.

*Table 4: FORECAST EVALUATION OF THE ACQUIRING COMPANY SOPHARMA AD*

<b>Indicator</b>	<b>Sopharma</b>	<b>Bulgarian Rose - Sevtopolis</b>
Number of shares	132,000,000	12,065,424
Fair price per share (BGN)	4.14	1.92
Value of the company (BGN)	546,480,000	23,165,614
<b>Fair price of the acquiring company after the transformation</b>		
Number of shares of the acquiring company after the transformation	134,798,527	
Fair value of Sopharma AD after the transformation (BGN)	558,065,902	
<b>Fair price of one share of Sopharma AD after the transformation in BGN</b>	<b>4.14</b>	

The Financial Supervision Commission has not approved nor has it denied approval of the fair price of the shares and is not responsible for the truthfulness and completeness of the information contained in the Justification report.

**2. EXPLANATION OF THE EVALUATION**

**BASIC INFORMATION ABOUT SOPHARMA AD**

Sopharma AD was established in 1933. Since 1991 with decision № 1/1991 of the Sofia City Court on company file № 19359/1991, Sopharma AD is registered in the Commercial Register under batch №561, volume 11, page 8.

In September 2000 Sopharma AD is fully privatized, turning into a private pharmaceutical company. Complying with the highest international standards for quality, the company reaches high efficiency in the production of pharmaceutical products and manages to prove itself as a leader not only on the Bulgarian market, but also as a strong and competitive regional player.

Sopharma AD is a public company with address and headquarters Sofia, 16 Iliensko shose Str., tel.: +359 2 8134200, fax: +359 2 9360286, e-mail: mail@sopharma.bg, website: www.sopharma.bg.

CORE BUSINESS: production of medical and chemo-physical products, trade in the country and abroad, research and development in the phyto-chemistry field, chemistry and pharmaceuticals.

Sopharma AD has a one tier management system with Board of directors of five members as follows:

- Ognian Donev, PhD - Executive director and manager of the Board of Directors
- Vessela Stoeva - Member of the Board of Directors
- Ognian Palaveev - Member of the Board of Directors
- Alexander Tchaouchev - Member of the Board of Directors
- Andrei Breshkov - Member of the Board of Directors

As at 31 March 2014 the Sopharma Group (the Group) includes the mother company and its 28 subsidiaries. In addition, the Group has investments in three joint ventures and does not have investments in associated companies. The core business of the companies of the Group is the production and trade of medicinal products as well as other activities, supporting the main business.

The subsidiaries of the Group as at 31 March 2014 were as follows:

- Sopharma Trading AD – a business entity registered in Bulgaria by Decision No. 3594/16.10.1998 of Varna District Court, with a seat and address of management: Sofia, Izgrev District, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 12;
- Bulgarian Rose Sevtopolis AD – a business entity registered in Bulgaria by Decision No. 3912/1991 of Stara Zagora District Court, with a seat and address of management: Kazanluk, 110, 23<sup>rd</sup> Pehoten Shipchenski Polk Blvd.;
- Pharmalogistica AD – a business entity registered in Bulgaria by Decision of Sofia City Court dated 12 August 2002, with a seat and address of management: Sofia, 16, Rozhen Blvd.;
- Electroncommerce EOOD – a business entity registered in Bulgaria by Decision of Sofia City Court under company File No. 24456 of 1991, with a seat and address of management: Sofia, 1, Samokovsko Shousse Str.;
- Biopharm Engineering AD – a business entity registered in Bulgaria by Decision No. 524/1997 of Sliven District Court, with a seat and address of management: Sliven, 75, Trakiya Blvd.;
- Momina Krepost AD – a business entity registered in Bulgaria by Decision No. 3426/1991 of Veliko Tarnovo District Court, with a seat and address of management: Veliko Tarnovo, 23, Magistralna Str.;
- Sopharma Buildings REIT – a business entity registered in Bulgaria by Decision No. 1/14.08.07 of Sofia City Court, with a seat and address of management: Sofia, Izgrev District, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 20;
- Unipharm AD – a business entity registered in Bulgaria by Decision of Sofia City Court under company File No. 3685 of 1994, with a seat and address of management: Sofia, 3, Traiko Stanoev Str.;
- Phyto Palauzovo AD – a business entity registered in Bulgaria by Decision № 20120924105551 from 24 September 2012 of the Registry Agency and with a seat and address of management: Kazanluk, 110, “23 Pehoten shipchenski polk” Blvd.;
- Sopharma Poland ZOO, in liquidation – a business entity registered in Poland by Decision No. KRS 0000178554 of 4 November 2003 of XX Economic Division of Warsaw Regional Court Register, with a seat and address of management: Poland, Warsaw, 58, Shashkova Str.;
- Sopharma Warsaw SP ZOO – a business entity registered in Poland by Decision No. DSR 0000372245 of 17 December 2010 by XII Economic Division of the State Court Register of Warsaw, with a seat and address of management: Poland, Warsaw, 8, Halubinskiego Str.;
- OOO Sopharma Ukraine – a business entity, registered in Ukraine by Decision № 10691020000029051 from 07 August 2012 of Unified State Register Of Legal Entities and Physical Persons – Entrepreneurs and with a seat and address of management – Ukraine, Kiev, Obolonski district, 9, “Moskovskii” prospekt, corpus 4, floor 2, office 4 – 203.
- Sopharma USA – a business entity registered in USA by Decision No. 97227599 of 25 April 1997 in California State Secretary Office, with a seat and address of management: USA, California, Los Angelis, 4622, Hollywood Blvd.;
- Extab Corporation USA – a business entity registered in USA by Decision No. 090292393 of 6 November 2008 in the Delaware State Secretary Office, with a seat and address of management: USA, Delaware, Wilmington, New Castle Region, 1209 Orange Street;

- Extab Pharma Limited, United Kingdom – a business entity registered in England by Decision No. 06751116 of 17 November 2008, with a seat and address of management: Oxfordshire, RG9 1AY, Henlay on Thames, 10 Station Road;
- PAO Vitamini – a business entity registered in Ukraine by Decision No. 133 dated 15 April 1994 of Uman City Court, with a seat and address of management: Ukraine, Cherkasy Province, Uman, 31, Leninski Iskri Str.;
- Ivanchich and Sons DOO – a business entity registered in Serbia by Fi-11350/91 on 14 October 1991 by the Commercial Court of Belgrade with a seat and address of management: Republic of Serbia, Belgrade, 13, Palmoticheva Str.;
- Briz Ltd, Latvia – a business entity registered in Latvia by Decision No. 000302737 dated 18 September 1991 of the Commercial Registry of the Republic of Latvia, with a seat and address of management: Latvia, Riga, Rasas No. 5, LV – 1057;
- SOOO Brititrade, Belarus – a business entity registered in Belarus by Decision No. 1983 dated 24 September 2004 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 118, M. Bogdanomicha Str., office 303 – B;
- OOO Tabina, Belarus – a business entity registered in Belarus by Decision No. 1432 dated 29 December 1999 of Minsk City Executive Committee, with a seat and address of management: Belarus, Minsk, 57, Kuybisheva Str., ap.1;
- ZAO Interpharm, Belarus - a business entity registered in Belarus in the Unified State Register of Legal Entities and Individual Entrepreneurs under No. 300000556, with a seat and address of management: Belarus, Vitebsk, Stroitelei Square, bl. 3 ap. 2;
- SOOO Brizpharm, Belarus - a business entity registered in the Minsk City Executive Committee in the Unified State Register Of Legal Persons and Physical Persons - Entrepreneurs under Decision No.800007989 form 07 July 2009 and with a seat and address of management: Belarus, Minsk, “Esenina” Str., d.16, room 1 H;
- ODO Alean, Belarus – a business entity registered in Belarus with decision №100160720 from 29 May 2001 in the Minsk City Executive Committee in the Unified State Register Of Legal Persons and Physical Persons – Entrepreneurs and with seat and address of management – Belarus, Minsk, 16 Tashkentskaia Str., corpus 1;
- OOO Pharmacist Plus, Belarus – a business entity registered in the Minsk City Executive Committee on 24 November 2000/№1348 in the Unified State Register Of Legal Persons and Physical Persons - Entrepreneurs under №190174236 and with a seat and address of management – Belarus, Minsk, 1<sup>st</sup> Tverdii Pereulok, d.7.
- UAB TBS Pharma, Lithuania - a company registered in the Lithuanian Register of Legal Entities on 1 March 2013/303011389, with seat and address of management - Lithuania, Vilnius, 8 Vitauto Str./7 Liubarto Str., PO Box: 08118.
- ODO Vestpharm, Belarus - a business entity registered in Belarus by Decision №590002202 of the Grodno City Executive Committee and with a seat and address of management – Belarus, Grodno, “Dombrovskogo” Str., d.47, k.3;
- OOO NPK Biotest, Belarus - a business entity registered in Belarus by decision №48 from 24 July 1990 of the Lenin District Committee of the People’s Representatives, with seat and address of management – Belarus, Grodno, 2 Gojskaia Str.;
- ODO BelAgroMed, Belarus - a business entity registered in Belarus by decision №009126 from 29 June 2001 of the Grodno City Executive Committee and with a seat and address of management – Belarus, Grodno, “17 Sentiabria” Str..

### *Joint ventures*

As at 31 March 2014 the joint ventures of the Group are:

- OOO Vivaton plus, Belarus - a business entity registered in Belarus by Decision №590004353 of the Grodno City Executive Committee and with a seat and address of management – Belarus, Grodno, pr. “Kletskovo”, d.13 B, office 2.
- OOO Med-dent, Belarus - a business entity registered in Belarus by decision № 0018240 from 11 March 2013 by Economy Management of Bobruisk City Executive Council with a seat and address of management – Belarus, Mogilev Region, Bobruisk, 120 K. Marks Str., office 4.
- BOOO SpecApharmacia, Belarus - a business entity registered in Belarus by decision № 22-8 from 30 October 2000 by Mogilev Region Executive Council with a seat and address of management – Belarus, Mogilev Region, Bobruisk, 120 K. Marks Str., office 2.

The joint venture Sopharma Zdrovit SA, Poland has been erased from the National Court Register of Poland on 25 February 2013.

### *Associated companies*

As at 31 March 2014 the Group has no investments in associated companies.

The companies OOO Med-dent, Belarus and BOOO SpetsApharmatsiya, Belarus, acquired by the Group in 2013, have had an initial status of “associated companies” (OOO Med-dent from 3 September 2013 until 17 December 2013, BOOO SpetsApharmatsiya – from 3 September 2013 until 20 January 2014). Subsequently the Group has increased its share in them and their status has been changed to “joint venture”.

### **THE GROUP’S CORE BUSINESSES ARE IN THE FOLLOWING AREAS:**

#### **PRODUCTION**

The production of the company is in the following areas:

- production of medicinal products;
- substances and preparations based on phyto products (phytochemical products);
- veterinary vaccines;
- infusion solutions;
- hemodialysis concentrates;
- medical products and consumables for the humane and veterinary medicine;
- plastic molded products for homes, agriculture and medical;
- food supplements.

The Company has more than 210 products in its portfolio, mainly generics and 15 original products, 12 of which are phyto based. The original products of the Company (Carsil and Tempalgin in particular) are the main contributors to its revenues from export markets, whereas for the sales on the domestic market the main contributors are the generic products of the Company from which the most important one by far is Analgin. The production is conducted mainly by Sopharma AD and to a lesser degree by its production subsidiaries, including Bulgarian Rose – Sevtopolis AD and Unipharm AD in Bulgaria, Vitamini in the Ukraine and Ivanchich and Sons in Serbia.

**DISTRIBUTION**

The distribution of the Group is conducted by Sopharma Trading AD – a leading distributor of pharmaceutical products, medical materials, sanitary materials, vitamins, food supplements and cosmetics and by Briz, Latvia. In Bulgaria, the company has a 22% market share according to IMS Health. Sopharma Trading AD is the only distributor on the Bulgarian market of a certain number of pharmaceutical products of some of the leading international pharmaceutical companies such as Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis, Novo Nordisk etc. The company offers more than 7,000 products (especially medicines, medical equipment and devices, consumables, cosmetics, vitamins and food supplements) in its portfolio including the trademarks of Sopharma and has exclusive rights for brands of strategic partners such as Aboca, Colief, Jamieson, Planter’s, Premax, Skincode, SVR Laboratories, US Pharmacia and Wyeth, specialized services (software solutions for pharmacies and consultancy services) and national logistics services. Sopharma Trading AD cooperates with more than 400 partners and 3,870 clients.

**RESEARCH AND DEVELOPMENT**

The Group focuses its R&D mainly on generics, as the projects are directed towards the development of new form, contents or physical qualities (as a medicinal or tablet form) of a certain product in order to adapt it to the current market needs. The strategic goal of Sopharma AD in the future is to reach a stable result in developing eight to ten generic products per year. Thanks to its R&D activities Sopharma AD has long been famous for its traditional production of its own products based on plant extracts using in-house-developed technologies. These product are protected with trademark and patent, but also with know-how. Throughout the years of its existence Sopharma AD generates and protects its own industrial property and as a result has a large number of industrial property objects most of which are registered rights (brands, trademarks, patents, designs) and a smaller number of unregistered rights, predominantly technologies.

**AUXILIARY AND SERVICING ACTIVITIES**

Some of the companies in the Group also provide services and conduct activities that are not directly related to the pharmaceutical sector, but are important because they back-up and provide for the successful functioning of the whole Group.

**SWOT ANALYSIS**

The competitive position of Sopharma AD in the sector – **SWOT** analysis

STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none"> <li>• Long-term experience in every area of the pharmaceutical sector – from developing original and generic products to production and distribution of these products;</li> <li>• Stable positions in Eastern Europe and the CIS;</li> <li>• Modern production facilities that meet the highest European standards;</li> <li>• Synergies arising from intercompany transactions within the Group;</li> <li>• Sufficient financial resources to support the regional expansion of the company;</li> <li>• Employees with extensive professional experience</li> </ul>	<ul style="list-style-type: none"> <li>• Development and introduction of new products;</li> <li>• Expanding the range of additional services to the existing portfolio of products;</li> <li>• Expansion of the customer base in the domestic and established foreign markets;</li> <li>• Expansion into new foreign markets;</li> <li>• Expansion of the Group through acquisitions and mergers as a result of the economic crisis;</li> </ul>

WEAKNESSES	THREATS
<ul style="list-style-type: none"> <li>• Low popularity of its products outside the main markets;</li> <li>• Part of the consolidated revenue is generated from sales to public hospitals, which represents the degree of business risk and makes the Group dependent on political decisions;</li> <li>• Production of mainly generic medicines, which are characterized by low added value, unlike the original forms;</li> <li>• Dependence of the Group on the distribution business of Sopharma Trading, which is mostly concentrated in Bulgaria and is highly competitive;</li> </ul>	<ul style="list-style-type: none"> <li>• Adverse changes in the law governing the business of the Group;</li> <li>• Increasing competition in the face of other companies;</li> <li>• Deterioration of the macroeconomic situation in Bulgaria as a result of adverse developments in the debt crisis in Europe;</li> <li>• Continuing of the trend of low public spending on health in Bulgaria compared to European standards, which otherwise would provide more predictable and stable sales.</li> </ul>

#### FINANCIAL AND OPERATING RATIOS

Summarized financial information on the last three financial years, as well as updated information on the basis of the last financial statements as at 31 March 2014, prepared in accordance with applicable accounting standards (on consolidated basis):

#### TOTAL VALUE OF ASSETS AND LIABILITIES

Given the core business of Sopharma AD, the major share of the fixed assets is represented by property, plant and equipment. The increase is in line with the increased business volume and sales, which by the end of 2013 reach 384,502 thousand BGN.

The increase in current assets in 2012 and 2013 is again a result of the increase in the business volume of Sopharma AD. For the last two years, inventories and trade receivables remained with a relatively stable share of 39-42% of total assets.

Table 5: Assets of Sopharma AD

Assets in thousand BGN	2011	2012	2013	31.3.2014
<b>Noncurrent assets including:</b>	<b>294,130</b>	<b>354,751</b>	<b>384,502</b>	<b>384,073</b>
Property, plant and equipment	236,338	292,074	306,781	304,109
Intangible assets	27,979	13,463	15,848	15,118
Reputation		12,917	12,890	11,807
Investment properties	6,555	7,110	10,526	10,528
Investments in associated companies		582	1,002	1,679
Available-for-sale investments	19,972	23,425	8,187	8,754
Long-term receivables from related parties	1,001	1,183	25,656	27,143
Other long-term receivables	576	1,460	585	688
Deferred taxes	1,709	2,537	3,027	4,247
<b>Current assets including:</b>	<b>382,458</b>	<b>390,667</b>	<b>398,286</b>	<b>415,085</b>
Inventory	126,022	130,950	139,596	140,484
Commercial receivables	136,756	160,558	191,132	207,588
Receivables from related parties	63,113	60,871	28,763	28,464
Other receivables and prepaid expenses	24,332	22,521	11,639	11,943
Cash and cash equivalents	32,235	15,767	27,156	26,606
<b>Total assets</b>	<b>676,588</b>	<b>745,418</b>	<b>782,788</b>	<b>799,158</b>

Source: Audited annual and unaudited intermediate consolidated financial statements of Sopharma AD

The apparent increase presented in the table for the liabilities of Sopharma AD is mostly due to the attracted interest-bearing funds as a result of the need for working capital to fund the performed sales growth and the need for funds to cover planned investments.

Similar to current assets in the structure of the company's assets, current liabilities to financial institutions and commercial liabilities also account for about 35-38% of total liabilities. This share decreased towards the end of the historical period. Long-term liabilities are themselves a small share throughout the period and take a little more than 9% of total liabilities.

Table 6: Liabilities of Sopharma AD

Liabilities in thousand BGN	2011	2012	2013	31.3.2014
<b>Equity attributable to equity holders of the parent</b>	<b>319,999</b>	<b>345,879</b>	<b>358,598</b>	<b>370,468</b>
Share capital	132,000	132,000	132,000	132,000
Premium from issuances	33,534	35,979	32,013	32,244
Retained earnings	154,465	177,900	194,585	206,224
<b>Non-controlling share</b>	<b>45,813</b>	<b>45,474</b>	<b>54,177</b>	<b>59,587</b>
<b>Total owners' equity</b>	<b>365,812</b>	<b>391,353</b>	<b>412,775</b>	<b>430,055</b>
<b>Long-term liabilities</b>	<b>35,102</b>	<b>70,088</b>	<b>72,245</b>	<b>71,507</b>
Long-term bank loans	23,280	56,844	55,992	53,949
Deferred taxes	6,531	5,792	4,647	6,644
Liabilities to the personnel upon retirement	2,389	2,331	3,557	3,349
Financial leasing	1,534	2,509	2,382	2,006
Government financing	1,368	2,567	5,612	5,474
Other non-current liabilities		45	55	85
<b>Current liabilities</b>	<b>275,674</b>	<b>283,977</b>	<b>297,768</b>	<b>297,596</b>
Short-term loans	169,880	203,994	208,643	210,244
Short-term part of long-term loans	24,535	9,559	7,083	6,340
Commercial liabilities	65,536	55,242	61,712	61,832
Liabilities to related parties	3,360	1,560	3,828	2,066
Liabilities to the personnel upon retirement	5,487	6,624	6,757	7,472
Tax liabilities	3,046	2,408	4,410	4,331
Other current liabilities	3,830	4,590	5,335	5,311
<b>Total liabilities</b>	<b>676,588</b>	<b>745,418</b>	<b>782,788</b>	<b>799,158</b>

Source: Audited annual and unaudited intermediate consolidated financial statements of Sopharma AD

#### AMOUNT OF REVENUES AND EXPENSES

Sales revenue of Sopharma AD reached nearly 767 million BGN in 2013, an increase of over 11% compared to 2012. The same indicator shows an increase of 14% in the first quarter of 2014 compared to the same period of 2013.

Table 7: Revenues of Sopharma AD

Consolidated revenues	2011	2012	2013	31.3.2014
<b>Revenues by type of goods</b>				
Tablet dosage forms	209,367	204,399	230,743	50,741
Ampoule dosage forms	100,634	115,617	135,152	41,315
Consumables, bandages and apparatuses	23,665	34,549	36,717	11,028
Drops	22,151	20,478	24,957	7,486
Syrup dosage forms	9,482	10,220	13,389	6,461
Cosmetic products			12,318	1,985
Ointments	9,418	10,077	12,076	4,732
Food supplements and herbs	4,703	8,916	10,032	3,077
Infusion solutions				1,080
Suppositories				924
Isotopes				535
Food products				373
Other	17,776	18,061	19,651	3,163
<b>Total</b>	<b>397,196</b>	<b>422,317</b>	<b>495,035</b>	<b>132,900</b>
<b>Sales of finished products by type</b>				
Tablet dosage forms	176,134	185,081	170,741	56,208
Ampoule dosage forms	28,477	33,434	44,979	10,628
Syrup dosage forms	17,001	15,163	14,951	4,932
Ointments	4,941	8,138	7,725	1,730

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Lyophilic products	5,943	5,164	9,198	3,302
Drops	3,709	5,007	4,552	624
Syringes	2,191	2,375	3,319	515
Infusion solutions	1,986	1,763	1,922	367
Blow-molded articles	1,015	1,033	1,136	154
Veterinary vaccines	806	876	1,596	
Suppositories				244
Other	5,332	8,228	7,535	2,688
<b>Total</b>	<b>247,535</b>	<b>266,262</b>	<b>267,654</b>	<b>81,392</b>
Other	1,775	2,328	4,911	3,133
<b>Total revenues</b>	<b>646,506</b>	<b>690,907</b>	<b>767,600</b>	<b>217,425</b>

Source: Audited annual and unaudited intermediate consolidated financial statements of Sopharma AD

Operating expenses for the period increased due to the increase in sales, which led to the need for more staff and more materials. The main item in them is the cost of goods sold.

Table 8: Expenses of Sopharma AD

Consolidated expenses in thousand BGN	2011	2012	2013	31.3.2014
Changes in the amounts of finished and unfinished products	10,414	2,678	(3,173)	(311)
Materials	(86,524)	(89,575)	(87,166)	(23,733)
Hired services	(59,336)	(55,492)	(59,305)	(18,181)
Personnel	(64,582)	(68,972)	(74,659)	(19,326)
Amortization	(19,732)	(21,995)	(26,219)	(7,612)
Cost of goods sold	(370,991)	(400,535)	(450,112)	(126,283)
Other	(9,730)	(11,548)	(14,131)	(957)
Financial expenses	(11,713)	(9,341)	(22,514)	(7,060)
<b>Total expenses</b>	<b>(612,194)</b>	<b>(654,780)</b>	<b>(737,279)</b>	<b>(203,463)</b>
Profit tax	(4,620)	(4,934)	(5,179)	(2,121)
<b>Net profit</b>	<b>40,336</b>	<b>37,960</b>	<b>32,638</b>	<b>12,931</b>

Source: Audited annual and unaudited intermediate consolidated financial statements of Sopharma AD

**RECEIVABLES**

Table 9: Receivables of Sopharma AD

Commercial and other receivables in thousand BGN	2011	2012	2013	31.3.2014
<b>Short-term receivables</b>				
Receivables from clients	134,789	158,129	189,818	198,980
Impairment of uncollectable receivables	(3,296)	(3,345)	(2,758)	(2,758)
Receivables from clients, net	131,493	154,784	187,060	196,222
Advance payments to suppliers	5,315	5,816	4,126	11,420
Impairment of advance payments	(42)	(42)	(54)	(54)
Advance payments granted, net	5273	5774	4072	11366
<b>Total</b>	<b>136,766</b>	<b>160,558</b>	<b>191,132</b>	<b>207,588</b>
<b>Other receivables and prepaid expenses</b>				
Awards on litigations	14,998	13,067	6,023	5,719
Impairment of awards on litigations	(496)	(2,736)	(5,226)	(5,006)
Awards on litigations, net	14,502	10,331	,797	,713
Taxes and recovered taxes	5,657	7,824	5,636	6,176
Prepaid expenses	1,930	1,519	1,669	1,330
Loans granted to third parties	-	482	1,242	1,283
Guarantees on litigations	508	846	733	577
Receivables provided as deposit guarantees	197	664	705	653
Funds provided to investment intermediaries	1239	652	327	376

Other	299	203	530	835
<b>Total receivables</b>	<b>24,332</b>	<b>22,521</b>	<b>11,639</b>	<b>11,943</b>

*Source: Audited annual and unaudited intermediate consolidated financial statements of Sopharma AD*

**LIABILITIES**

The largest share of the long-term liabilities of Sopharma AD are liabilities on bank loans, which reached nearly 56 million BGN at the end of March 2014 according to the unaudited interim consolidated financial statements of the company.

*Table 10: Liabilities of Sopharma AD*

<b>Interest-bearing loans and credits in thousand BGN</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31.3.2014</b>
<b>Long-term liabilities</b>	<b>24,814</b>	<b>59,353</b>	<b>58,374</b>	<b>55,955</b>
Bank loans	23,280	56,844	55,992	53,949
Financial leasing	1,534	2,509	2,382	2,006
<b>Short-term liabilities</b>	<b>194,415</b>	<b>213,553</b>	<b>215,726</b>	<b>216,584</b>
Short-term liabilities	169,880	203,994	208,643	210,244
Short-term part of long-term loans	24,535	9,559	7,083	6,340
<b>Total</b>	<b>219,229</b>	<b>272,906</b>	<b>274,100</b>	<b>272,539</b>

<b>Commercial and other liabilities in thousand BGN</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31.3.2014</b>
Commercial liabilities	65,536	55,242	61,712	61,832
Liabilities to related parties	3,360	1,560	3,828	2,066
Liabilities to personnel and for social insurance	5,487	6,624	6,757	7,472
Taxes	3,046	2,408	4,410	4,331
Other	3,830	4,590	5,335	5,311
<b>Total</b>	<b>81,259</b>	<b>70,424</b>	<b>82,042</b>	<b>81,012</b>

*Source: Audited annual and unaudited intermediate consolidated financial statements of Sopharma AD*

**FINANCIAL COEFFICIENTS**

*Table 11: Financial information about Sopharma AD on consolidated basis*

<b>Consolidated data in thousand BGN</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>31.3.2014</b>
1 Revenues	644,731	688,579	762,689	214,292
2 Cost of goods sold	491,948	539,584	585,226	NA
3 Gross profit/loss	152,783	148,995	177,463	NA
4 Other operating expenses	(106,758)	(103,527)	(124,628)	NA
5 Operating profit/loss	46,025	45,468	52,835	21,022
6 Financial income	7,013	6,043	6,553	1,123
7 Financial expenses	(11,713)	(9,341)	(22,514)	(7,060)
8 Profit/loss before taxes	45,045	42,900	37,817	15,052
9 Taxes	(4,620)	(4,934)	(5,179)	(2,121)
10 Net profit/loss	40,425	37,966	32,638	12,931
11 Dividend	9,240	9,240	0	0
12 Cash and cash equivalents	32,235	15,767	27,156	26,606
13 Inventory	126,022	130,950	139,596	140,484
14 Current assets	382,458	390,667	398,286	415,085
15 Total assets	676,588	745,418	782,788	799,158
16 Current liabilities	275,674	283,977	297,768	297,596
17 Debt	219,229	272,906	274,100	272,539
18 Liabilities (raised capital)	310,776	354,065	370,013	369,103
19 Owners' equity	365,812	391,353	412,775	430,055
20 Working capital	106,784	106,690	100,518	117,489
21 Average weighted amount of shares	132,000	132,000	132,000	132,000

**JUSTIFICATION REPORT OF THE FAIR PRICE OF THE SHARES OF SOPHARMA AD**

<b>Profitability ratios</b>					
22	Gross profit margin (3/1)	0.24	0.22	0.23	NA
23	Operating profit margin (5/1)	0.07	0.07	0.07	0.10
24	Net profit margin (10/1)	0.06	0.06	0.04	0.06
25	Return on assets (10/15)	0.06	0.05	0.04	0.02
26	Return on owners' equity (10/19)	0.11	0.10	0.08	0.03
<b>Liquidity ratios</b>					
27	Asset turnover (1/15)	0.95	0.92	0.97	0.27
28	Working capital turnover (1/20)	6.04	6.45	7.59	1.82
29	Current liquidity (14/16)	1.39	1.38	1.34	1.39
30	Quick ratio ((14-13)/16)	0.93	0.91	0.87	0.92
31	Absolute liquidity (12/16)	0.12	0.06	0.09	0.09
<b>Share ratios</b>					
32	Sales per share (1/21)	4.88	5.22	5.78	1.62
33	Profit per share (10/21)	0.31	0.29	0.25	0.10
34	Accounting value of one share (19/21)	2.77	2.96	3.13	3.26
<b>Dividend ratios</b>					
35	Dividend payout (11/10)	0.229	0.243	0.000	0.000
36	Retained earnings	0.771	0.757	1.000	1.000
37	Dividend per share (11/21)	0.07	0.07	0	0
<b>Development ratios</b>					
38	Revenue growth	7.40%	6.80%	10.76%	14.22%
39	Gross profit growth	46.47%	-2.48%	19.11%	NA
40	Asset growth	8.22%	10.17%	5.01%	2.09%
<b>Leverage ratios</b>					
41	Debt/Total assets (17/15)	0.32	0.37	0.35	0.34
42	Debt/Capital (17/(17+19))	0.37	0.41	0.40	0.39
43	Debt/Owners equity (17/19)	0.60	0.70	0.66	0.63
44	Total assets/Owners equity (15/19)	1.85	1.90	1.90	1.86
<b>Market ratios</b>					
45	Price/Sales (X/32)	0.65	0.42	0.68	NA
46	Price/Profit (X/33)	10.38	7.65	15.83	NA
47	Price/Accounting value (X/34)	1.15	0.74	1.25	NA
48	<b>Market value</b>	<b>3.180</b>	<b>2.199</b>	<b>3.915</b>	<b>4.55</b>

Source: BSE - Sofia and audited annual and unaudited intermediate consolidated reports of Sopharma AD

Table 12: Financial information about Sopharma AD on individual basis

Individual data in thousand BGN	2011	2012	2013	31.3.2014
1 Revenues	209,847	210,291	216,054	51,124
2 Cost of goods sold	103,452	102,131	98,888	NA
3 Gross profit/loss	106,395	108,160	117,166	NA
4 Other operating expenses	62,425	67,344	71,599	NA
5 Operating profit/loss	43,970	40,816	45,567	8,799
6 Financial income	11,443	11,757	9,987	3,484
7 Financial expenses	(9,444)	(6,451)	(17,338)	(1,058)
8 Profit/loss before taxes	45,094	45,147	38,023	11,225
9 Taxes	(4,409)	(4,262)	(4,362)	(1,121)
10 Net profit/loss	40,685	40,885	33,661	10,104
11 Dividend	9,240	9,240	0	0
12 Cash and cash equivalents	18,038	2,595	8,198	4,275
13 Inventory	50,916	54,482	50,083	54,361
14 Current assets	243,774	258,289	191,027	196,328
15 Total assets	522,973	583,023	549,136	557,674
16 Current liabilities	178,131	174,436	121,463	119,752
17 Debt	171,784	211,127	151,472	147,311
18 Liabilities (raised capital)	202,305	232,083	179,450	175,883
19 Owners' equity	320,668	350,940	369,686	381,791

**JUSTIFICATION REPORT OF THE FAIR PRICE OF THE SHARES OF SOPHARMA AD**

20	Working capital	65,643	83,853	69,564	76,576
21	Average weighted amount of shares	132,000	132,000	132,000	132,000
<b>Profitability ratios</b>					
22	Gross profit margin (3/1)	0.51	0.51	0.54	N/A
23	Operating profit margin (5/1)	0.21	0.19	0.21	0.17
24	Net profit margin (10/1)	0.19	0.19	0.16	0.20
25	Return on assets (10/15)	0.08	0.07	0.06	0.02
26	Return on owners' equity (10/19)	0.13	0.12	0.09	0.03
<b>Liquidity ratios</b>					
27	Asset turnover (1/15)	0.40	0.36	0.39	0.09
28	Working capital turnover (1/20)	3.20	2.51	3.11	0.67
29	Current liquidity (14/16)	1.37	1.48	1.57	1.64
30	Quick ratio ((14-13)/16)	1.08	1.17	1.16	1.19
31	Absolute liquidity (12/16)	0.10	0.01	0.07	0.04
<b>Share ratios</b>					
32	Sales per share (1/21)	1.59	1.59	1.64	0.39
33	Profit per share (10/21)	0.31	0.31	0.26	0.08
34	Accounting value of one share (19/21)	2.43	2.66	2.80	2.89
<b>Dividend ratios</b>					
35	Dividend payout ratio (11/10)	0.227	0.226	0.000	0.000
36	Retained earnings ratio	0.773	0.774	1.000	1.000
37	Dividend per share (11/21)	0.07	0.07	0	0
<b>Development ratios</b>					
38	Revenue growth	-65.04%	0.21%	2.74%	6.13%
39	Gross profit growth	2.00%	1.66%	8.33%	N/A
40	Asset growth	-16.35%	11.48%	-5.81%	1.55%
<b>Leverage ratios</b>					
41	Debt/Total assets (17/15)	0.33	0.36	0.28	0.26
42	Debt/Capital (17/(17+19))	0.35	0.38	0.29	0.28
43	Debt/Owners equity (17/19)	0.54	0.60	0.41	0.39
44	Total assets/Owners equity (15/19)	1.63	1.66	1.49	1.46
<b>Market ratios</b>					
45	Price/Sales (X/32)	2.00	1.38	2.39	N/A
46	Price/Profit (X/33)	10.32	7.10	15.35	N/A
47	Price/Accounting value (X/34)	1.31	0.83	1.40	N/A
48	<b>Market value</b>	<b>3.180</b>	<b>2.199</b>	<b>3.915</b>	<b>4.550</b>

Source: BSE - Sofia and audited annual and unaudited intermediate consolidated reports of Sopharma AD

Based on the most recent reports of Sopharma AD and Bulgarian Rose – Sevtopolis AD as at 31 March 2014 we have presented forecast for Sopharma AD in its role as an acquiring company and the expected changes in the financial indicators:

Table 13: Financial information about Sopharma AD on individual basis

Individual data in thousand BGN	31.3.2014 before the transformation	31.3.2014 after the transformation
1 Revenues	51,124	51,124
2 Other profit/loss, net	1,207	1,263
3 Changes in the balance of products and unfinished goods	4,768	4,139
4 Materials	(16,154)	(19,748)
5 Hired services	(18,311)	(12,537)
6 Personnel expenses	(8,435)	(9,161)
7 Amortization	(4,834)	(5,109)
8 Other operating expenses	(566)	(581)
9 Operating profit/loss	8,799	9,390
10 Financial income	3,484	3,485
11 Financial expenses	(1,058)	(1,064)

12	Profit/loss before tax	11,225	11,811
13	Tax expense	(1,121)	(1,121)
14	Net profit/loss	10,104	10,690
15	Dividend	0	0
16	Cash and cash equivalents	4,275	5,245
17	Inventory	54,361	56,269
18	Short-term assets	196,328	200,121
19	Total assets	557,674	571,393
20	Short-term liabilities	119,752	122,009
21	Debt	147,311	147,710
22	Liabilities (raised capital)	175,883	173,615
23	Owners' equity	381,791	397,778
24	Working capital	76,576	78,112
25	Average weighted amount of shares	132,000	134,586
<b>Profitability ratios</b>			
26	Operating profit margin (9/1)	0.17	0.18
27	Net profit margin (14/1)	0.20	0.21
28	Return on assets (14/19)	0.02	0.02
29	Return on owners' equity (14/23)	0.03	0.03
<b>Liquidity ratios</b>			
30	Asset turnover (1/19)	0.09	0.09
31	Working capital turnover (1/24)	0.67	0.65
32	Current liquidity (18/20)	1.64	1.64
33	Quick ratio ((18-17)/20)	1.19	1.18
34	Absolute liquidity (16/20)	0.04	0.04
<b>One share ratios</b>			
35	Sales per share (1/25)	0.39	0.38
36	Profit per share (14/25)	0.08	0.08
37	Accounting value of one share (23/25)	2.89	2.96
<b>Dividend ratios</b>			
38	Dividend payout (15/14)	0.000	0.000
39	Retained earnings	1.000	1.000
40	Dividend per share (15/25)	0	0
<b>Development ratios</b>			
41	Revenue growth	6.13%	6.13%
42	Gross profit growth	N/A	N/A
43	Asset growth	1.55%	2.46%
<b>Leverage ratios</b>			
44	Debt/Total assets (21/19)	0.26	0.26
45	Debt/Capital (21/(21+23))	0.28	0.27
46	Debt/Owners equity (21/23)	0.39	0.37
47	Total assets/Owners equity (19/23)	1.46	1.44
<b>Market ratios</b>			
48	Price/Sales (X/35)	N/A	N/A
49	Price/Profit (X/36)	N/A	N/A
50	Price/Accounting value (X/37)	N/A	N/A
51	<b>Market value</b>	<b>4.550</b>	<b>4.550</b>

*Table 14: Financial information about Sopharma AD on consolidated basis*

Consolidated indicators in thousand BGN	31.3.2014 before the transformation	31.3.2014 after the transformation
1 Revenues	214,292	214,292
2 Other profit/loss, net	3,133	3,133
3 Changes in the balance of finished and unfinished products	(311)	(311)
4 Materials	(23,733)	(23,733)
5 Hired services	(18,181)	(18,181)
6 Personnel expenses	(19,326)	(19,326)
7 Amortization	(7,612)	(7,612)

**JUSTIFICATION REPORT OF THE FAIR PRICE OF THE SHARES OF SOPHARMA AD**

8	Cost of sales		
9	Other operating expenses	(126,283)	(126,283)
10	Operating profit/loss	(957)	(957)
11	Financial income	21,022	21,022
12	Financial expenses	1,123	1,123
13	Profit/loss before tax	(7,060)	(7,060)
14	Tax expense	15,052	15,052
15	Net profit/loss	(2,121)	(2,121)
16	Dividend	12,931	12,931
17	Cash and cash equivalents	0	0
18	Inventory	26,606	26,606
19	Short-term assets	140,484	140,484
20	Total assets	415,085	415,085
21	Short-term liabilities	799,158	799,158
22	Debt	297,596	297,596
23	Liabilities (raised capital)	272,539	272,539
24	Owners' equity	369,103	369,103
25	Working capital	430,055	430,055
26	Weighted average number of shares (thousand)	132,000	134,586
<b>Profitability ratios</b>			
27	Operating profit margin (9/1)	0.10	0.10
28	Net profit margin (14/1)	0.06	0.06
29	Return on assets (14/19)	0.02	0.02
30	Return on owners' equity (14/23)	0.03	0.03
<b>Liquidity ratios</b>			
31	Asset turnover (1/19)	0.27	0.27
32	Working capital turnover (1/24)	1.82	1.82
33	Current liquidity (18/20)	1.39	1.39
34	Quick ratio ((18-17)/20)	0.92	0.92
35	Absolute liquidity (16/20)	0.09	0.09
<b>One share ratios</b>			
36	Sales per share (1/25)	1.62	1.59
37	Profit per share (14/25)	0.10	0.10
38	Accounting value of one share (23/25)	3.26	3.20
<b>Dividend ratios</b>			
39	Dividend payout ratio (15/14)	0.000	0.000
40	Retained earnings ratio	1.000	1.000
41	Dividend per share (15/25)	0	0
<b>Development ratios</b>			
42	Revenue growth	14.22%	14.22%
43	Gross profit growth	NA	NA
44	Asset growth	2.09%	2.09%
<b>Leverage ratios</b>			
45	Debt/Total assets ratio (21/19)	0.34	0.34
46	Debt/Capital ratio (21/(21+23))	0.39	0.39
47	Debt/Owners equity ratio (21/23)	0.63	0.63
48	Total assets/Owners equity ratio (19/23)	1.86	1.86
<b>Market ratios</b>			
49	Price/Sales (X/35)	NA	NA
50	Price/Profit (X/36)	NA	NA
51	Price/Accounting value (X/37)	NA	NA
52	<b>Market value</b>	<b>4.55</b>	<b>4.55</b>

Previous financial results cannot be regarded as necessarily indicative of future financial results of the company and the results of the interim periods cannot be regarded as necessarily indicative of annual financial results.

**HISTORICAL MILESTONES OF THE EVALUATED COMPANY**

**1933** Sopharma AD is a leading Bulgarian manufacturer, exporter and distributor of pharmaceutical products with strong roots in Eastern and Southeastern Europe, offering a wide range of prescription medicines and OTC products. Sopharma has its origins in 1933. The company is the successor of Galenus factory, renamed after the nationalization of the pharmaceutical plant.

**1953** For the period 1953-2000 Sopharma AD is a leading pharmaceutical manufacturer in Bulgaria.

**2000** In September 2000, after a successful privatization, Sopharma AD becomes a private company. A period of continuous expansion and modernization follows. For the two-year post-privatization period Sopharma AD unites six enterprises in a modern, dynamic corporate structure, including: Sopharma AD, Unipharm AD, Vramed AD, Pharmachim Holding AD, NIHVI AD, and Rostbalkanpharm.

**2003** In 2003 the pharmaceutical plant Sopharma Vrabevo is officially opened. In its new plant for medicines Sopharma AD invests 20 million BGN. Each step of the construction of the plant is in line with European standards of Good Manufacturing Practice (GMP).

**2004** In 2004 Sopharma AD licenses all production facilities according to European standards of Good Manufacturing Practice, which secures its strategic position after 2007. In the same year Sopharma increases its production capacity by acquiring a controlling stake in Bulgarian Rose - Sevtopolis AD.

**2005** In 2005 the most modern logistics center (terminal) in Bulgaria for distribution of medicinal products conforming to European Good Distribution Practice opens.

**2006** In 2006, Sopharma starts designing a new high-tech plant for solid dosage forms with doubled capacity and investment potential of over 40 million EUR. All activities related to the design, construction and validation are subject to European standards for pharmaceutical production and are consistent with GMP. For the upcoming construction of the new plant Sopharma received the First Class Investment Award.

**2007** In 2007 Sopharma AD made the next step in the modernization and expansion of the production capacity in the tablet production of Bulgarian Rose - Sevtopolis AD - Kazanluk and the construction of phyto-chemical plant for the production of pharmaceutical substances. The official opening of the new plant for the production of pharmaceutical substances took place in 2008.

**2009** In November 2009 Sopharma AD completed the acquisition of shares of the Latvian company Briz OOO - Sopharma AD was recorded as a shareholder holding 51% of equity.

**2010** In April 2010 Sopharma AD opened new laboratories for physical and chemical tests, equipped with instruments allowing the development of the most advanced methods for quality control of raw inputs, materials, and finished medicinal forms. During the same year Sopharma presented on the Bulgarian market a new medicine for the treatment of high blood pressure and heart disease - Nebikard.

In September 2010, together with its Serbian partner Ivanchich and Sons and official guests, Sopharma AD started the construction of a plant for solid dosage forms near Belgrade. In September 2011, the Sopharma AD plant was opened. The investment was around 16 million BGN.

**2011** In 2011 Sopharma AD signed a contract for a project under OP Competitiveness of around 8 million BGN. The project is related to equipment designed for the new high-tech plant for solid dosage forms in Sofia.

In the same year the subsidiary Briz signed an agreement to acquire Belarusian pharmacies chain ZAO Interpharm. The first stage of the procedure - the acquisition of 44.07%, was completed in early 2011. Also in 2011 the Commission for Protection of Competition (CPC) granted the concentration requested by Sopharma AD in connection with the acquisition of shares of Unipharm through the BSE.

At the end of 2011 the shares of Sopharma AD were admitted for trading on the Warsaw Stock Exchange.

**2012** In June 2012 in Belgrade Sopharma AD was awarded the prestigious international award “Business Partner of the year 2012” in connection with the opening of a second plant in Belgrade in 2011.

**2013** In June 2013 the new tablet plant of Sopharma AD was officially opened. The investment is over 70 million BGN on gross floor area of 20,000 square meters and a production capacity of 4 billion tablets per year of over 100 medicinal products. On 12 September 2013 Sopharma AD received official confirmation from the Ministry of Economy and Energy for the project “Implementation of innovative products in the ampoule production of Sopharma AD” under the program Development of the Competitiveness of the Bulgarian Economy. The company was ranked fifth on the list of the large Bulgarian companies. The project was included in the list of proposals approved for funding under the above procedure with a maximum grant amount of 3 million BGN. The total project cost is over 6 million BGN without VAT.

## **RELEVANT ECONOMIC TRENDS AND CONDITIONS IN THE REPUBLIC OF BULGARIA AND THE WORLD**

### **MARKET REVIEW**

The pharmaceutical industry in the country is divided into three sectors: pharmaceutical manufacturers, distributors and retailers (pharmacies). To operate, all traders and manufacturers of medicinal products must obtain permission from the Bulgarian Drug Agency (BDA), part of the Ministry of Health. With greatest influence on the pharmaceutical market are manufacturers and distributors.

According to IMS Health ([www.imshealth.com](http://www.imshealth.com)) in the first quarter of 2014 the growth in value of the pharmaceutical market is 6.9% compared to the same period in 2013. In January and February sales of medicines in pharmacies continued to increase, but in March decreased. The reason for this growth is the flu epidemic that led to increased purchases of antivirals, antibiotics, vitamins and medications to treat complications. Total first quarter 2014 sales increase by 5% compared to last year. Meanwhile, purchases of medicines by hospitals increased by 18%. The main reason for this growth are cancer medicines. Every year in Bulgaria are discovered on average 34 thousand new patients and about 250 thousand patients in total are treated. Anti-cancer medicines began getting covered by the health insurance fund three years ago and are the reason for the continuous growth of hospital medicines. However, purchases of medicines from hospitals remain at relatively low levels, namely 370 million BGN, half of them for cancer therapies. Meanwhile, sales in pharmacies are about 2.2 billion BGN. In 2013 the market for medicines also increased by 6.3% to 2.343 billion BGN compared to 2.206 billion BGN in 2012. Therefore it can be accepted that the pharmaceutical market overcame the reported slowdown during the global financial and economic crisis that led to its slowest growth in its duration by 5.2%, which was recorded in 2012.

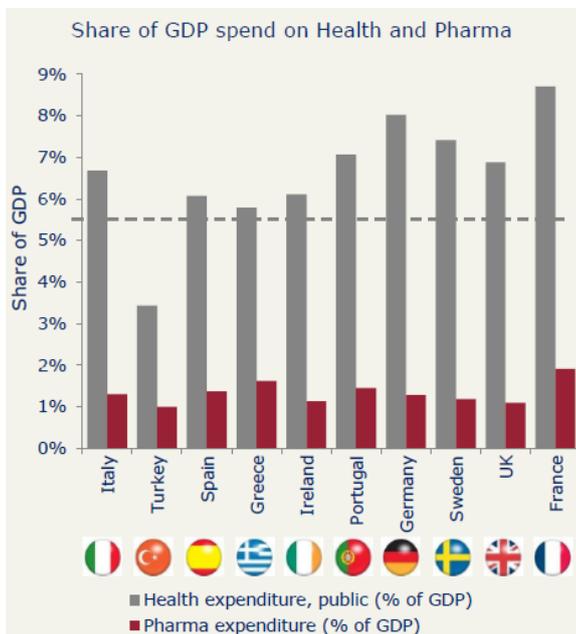
Competition in the pharmaceutical market is very strong and the market is highly fragmented. First by market share in value in 2013 is the Swiss conglomerate Novartis, the results of which are combined with those of its generic division Sandoz. Second in market share is the American corporation Actavis. Third is the Swiss concern Roche. The majority of foreign manufacturers, operating on the Bulgarian market, have a rather low market share in terms of quantity, while having a substantial market share in terms of value, as they sell original products, which fall in the high price segment. In quantitative terms among the leaders on the Bulgarian market are Actavis and Sopharma AD, with both companies producing mainly generics which fall in the low price segment.

LOCAL AND GLOBAL TRENDS

Despite all reforms in the health system after the nineties, Bulgaria is still considerably behind compared to many European countries in terms of health practices and standards. One of the main trends in health care costs in the world is their constant and steady growth due to the rapid development of technology, the increase in volume and prices of health services and an aging population.

Healthcare around the world has one of the highest shares in both the amount of public spending and as a share of GDP for the EU countries. Costs in the Health sector in 2013 are set to amount 3.353 billion BGN, or 4.1% of GDP. In comparison, the share of public spending on health in the countries of Central and Western Europe is in the higher limits namely:

Chart 1: Share of health spending as a percentage of gross domestic product (GDP)



As Seen from the graph, Bulgaria would be below the minimum limit of 5.5%, which is exceeded by all countries of Central and Western Europe. This is due to both the low level of development of our health insurance system and the lower well-being of our economy, which requires greater cost sharing by the patients.

Internationally US share of global consumption will drop from 41% in 2006 to 31% in 2016. For the same period the share of Europe will decrease to 13%. At the same time several emerging markets including India, China, Russia, Mexico and Brazil will increase their share of total consumption to 30% in 2016 from only 12% in 2005.

Source: IMS Health

IMS Health forecasts global rise in healthcare costs by 2017 of 4%-7%. With improved economic conditions in our country both a nominal increase in healthcare costs should be expected while

maintaining the same percentage of GDP, as well as further increase of this percentage in line with European standards. The next graph shows the expected growth in sales of medicines globally.

Figure 2: Global sales (in billions of dollars) and increase until 2017



Source: IMS Health

Figure 3: Estimated sales and share in Eastern Europe

Regional Performance			
	Sales bn 2017 (\$)	Share 2017	CAGR 2013-2017
Russia	27.3	43%	8-11%
Poland	8.2	13%	1-4%
Ukraine	5.1	8%	7-10%
Romania	4.4	7%	3-6%
Hungary	3.1	5%	1-4%
Czech Rep	2.9	5%	(-2)-1%
Slovak Rep	1.8	3%	2-5%
Bulgaria	1.3	2%	2-5%
Baltics	1.4	2%	3-6%
Serbia	1.0	2%	3-6%
Croatia	0.8	1%	(-2)-1%
Slovenia	0.6	1%	(-2)-1%
Rest CIS	4.5	7%	7-10%
Rest Balkans	0.6	1%	4-7%
Rest Adriatic's	0.5	1%	4-7%
<b>East Europe</b>	<b>63.5</b>	<b>100%</b>	<b>5-8%</b>

The most significant growth in Eastern European countries is expected in Russia and Ukraine, the first traditionally held a significant share of total sales. Bulgaria ranks seventh in proportion with an expected market size of \$1.3 billion.

GENERICS

In the following years the consumption of generics will increase its share at the expense of original products. This trend is due to the increasing consumption of generic medicines in developing markets as well as the expiration of many patents in the next few years, mostly in developed countries.

Again, according to information prepared by IMS Health, trends in generic medicines include a slowly reduction of branded generics due to pressure from customers for prices reductions, improved standards in the production and presence of a few dominant players and business models in line with the global consolidation.

Source: IMS Health

LEGISLATIVE FRAMEWORK

The pharmaceutical market is one of the most regulated sectors in the health care system, considering market failures, on the one hand and combining the interests of patients, industry and financial institutions on the other. Although the regulation of the market of medicines is carried out depending on the type of health care system in a given country, it can be concluded that all countries apply a wide range of measures to contain the cost of pharmaceutical products from both the demand and the supply sides. Various forms of direct, in most cases economically indirect tools are used to regulate the pharmaceutical market, as well as some administrative measures.

The pharmaceutical market in Bulgaria after the changes in 1989 developed dynamically and was characterized by several clear trends and factors. The country is developing a system of mandatory health insurance when in 1998 the Health Insurance Act was adopted. Mandatory health insurance guarantees free access of insured persons to medical care through a certain type, scope and amount of health services. There is an established National Health Insurance Fund (NHIF), the main task of which is to implement and administer the mandatory health insurance in Bulgaria in the part of the management of

the collected funds and the payment of the used health services and medicines (within a certain range and volume) in favor of the insured persons. The NHIF's budget is the main financial plan for raising and spending of funds for mandatory health insurance and is separated from the national budget. NHIF's revenues are raised mostly through health insurance contributions. Currently NHIF covers fully or partially almost 1700 product, which in nominal terms represents around 500 million BGN or one quarter of the market. Many of these medicines are original products (scientific development with patent), for which may be negotiated additional lower prices or quantities because of the guaranteed market. At the end of 2012 the list of medicines that the health fund pays will be optimized, because currently there is an accumulation of many medicines in a Group with a similar therapeutic effect and therefore there is ineffective use of resources.

#### **CHOICE OF METHODS FOR DETERMINING THE FAIR VALUE OF SHARES**

According to Ordinance №41 of FSC for the 41 for the requirements for the contents of the justification report of the share price of a public company, including the evaluation methods in the cases of transformation, joint venture contracts and tender offering (Ordinance №41), the fair value of a share of a public company is based on:

- The closing price on the last day on which transactions have taken place in the last three months preceding the date of the evaluation on the market place with the highest traded volume of shares on that day;
- Weighted average of the values of the shares received by the following valuation methods:
  - Method of market multiples of analogous companies;
  - Method of Discounted cash flows;
  - Net asset value.

The data used in determining the fair value of the shares of Sopharma AD is based on the latest interim unaudited consolidated financial statements of the company as at 31 March 2014, and projected financial performance for the period 2014-2019. The fair value per share of Sopharma AD is obtained by, as prescribed by art. 5, par. 3 of Ordinance 41, weighting the above methods with weights that give the most realistic estimate as at the date of the evaluation - 40% weight is given to the evaluation by the closing price on 11 June 2014 and 60% to the evaluation by the methods described above.

#### **EVALUATION RESULTS BY THE DIFFERENT METHODS**

##### **METHOD OF MARKET MULTIPLES OF ANALOGOUS COMPANIES**

###### **ANALOGOUS COMPANIES**

The method of market multiples of analogous companies is one of the main methods for assessing the value of a company and is widely used by both investors and analysts to determine fair value. The most important step in the implementation of this method is the choice of analogous companies that are most appropriate for comparison with the evaluated company. Compliance depends on similar characteristics of the evaluated company and the analogous company such as similarities in the business, their size, the markets they operate on and their respective market share. Another important factor when choosing the right analogous company is that the company must be traded on a regulated market and ensure transparency and provide timely and reliable information about its business.

##### **SOPHARMA AD (TICKER SYMBOL – SO5)**



Sopharma AD is a leading Bulgarian manufacturer, exporter and distributor of pharmaceutical products with a strong presence in Eastern and Southeastern Europe. Sopharma Group (the Group) comprises of the parent company and its twenty-eight

(31 December 2013: twenty-eight) subsidiaries. Additionally, the Group has investments in three joint ventures (31 December 2013: two joint ventures). At the date of preparation of the consolidated condensed interim financial statements the Group has no investments in associated companies (31 December 2013: one associated company).

The Group operates in the following areas: manufacturing of pharmaceutical products, incl. medicines, mainly generics, herbal substances and food supplements; distribution of pharmaceuticals, medical consumables, sanitary materials, vitamins, food supplements; production and distribution of medical consumables. Sopharma AD has more than 210 products in its portfolio directed at the treatment of cardiac, gastrointestinal, neurological, psychiatric, urological and gynecological disorders as well as diseases of the respiratory system, dermatological, pain-reducing. Some products are available without a prescription.

For the purpose of the evaluation as analogous companies to Sopharma AD are used Alkaloid, Krka, Grindex and Olainfarm. The selected companies are pharmaceutical companies based in Eastern Europe, producing both original and generic medications. All selected companies export most of its production to foreign markets. Below are presented the main characteristics and financial indicators of the evaluated company and the selected analogous companies.



Alkaloid is Macedonian pharmaceutical company which produces medicines for the treatment of cardiovascular, dermatological, gynecological disorders, and disorders of the nervous system, gastrointestinal tract, blood and other infectious diseases. The company also offers various salts, teas, chemicals, demineralized water, etc. Important part of the business of Alkaloid are its cosmetic, botanical and chemical divisions. The company has 13 subsidiaries based in Serbia, Montenegro, Kosovo, Albania, Bulgaria, Switzerland, Russia, Romania,

Ukraine and others.



The Krka Company, founded in 1954, develops, manufactures and markets medicinal products in Slovenia and abroad. The portfolio includes medicines for cardiovascular diseases, metabolic diseases, central nervous system infections, blood diseases, and respiratory and dermatological products. Krka offers products, which do not require a prescription - for treating allergies, pain, common cold, headache, muscle aches, for enhancing memory and the immune system, for sleep disorders, depression and other. The company also manufactures supplements and vitamins and veterinary products. KRKA invests in the development of generic medicines sold under its own brands.



Grindex is the leading pharmaceutical company in the Baltic countries. The company develops, produces and sells both original and generic pharmaceutical products and active substances. The company specializes in the production of cardiovascular and anti-cancer medicines. It also offers more than 100 medicines that can be sold without a prescription. Grindex has four subsidiaries - in Latvia, Estonia and Russia, as well as representative offices in 11 countries. Over 90% of the company's production is exported. The main export markets are the Baltic countries, Russia, CIS, Germany, Holland, Japan, and USA.



Olainfarm is one of the largest pharmaceutical companies in the Baltic countries, offering seven original products, 26 generic medicines, and over 25 pharmaceutical ingredients. The company's products are directed at the treatment of neurological, cardiovascular disease, Alzheimer's disease, influenza agents, and antibacterial agents. Only 5-10% of the production of Olainfarm is sold on the Latvian market. The rest is exported, with the main export markets being Russia, Ukraine, Kazakhstan, and Belarus.

Table 15: Key financial indicators of Sopharma AD and the selected analogous companies based on recent published reports on these companies as at 31 December 2013.

№	Indicators - thousand BGN	Sopharma	Alkaloid	KRKA	Grindex	Olainfarm
1	Sales revenue	762,689	224,678	2,348,613	231,690	147,033
2	Profit before tax	37,817	36,046	393,789	31,862	32,649
3	Total assets	782,788	301,083	3,442,034	295,340	139,312

4	Total capital and reserves	412,775	239,671	2,606,363	234,567	100,379
5	Short-term assets	398,286	153,661	1,537,145	144,861	83,547
6	Short-term liabilities	297,768	58,815	583,696	39,973	32,709
7	Outstanding shares (in thousand)	132,000	1,420	35,400	9,590	14,090
8	Market capitalization (as at 12 June 2014)	580,800	202,316	4,766,944	132,410	200,473
9	Market price of one share (as at 12 June 2014 in BGN)	4.40	141.60	134.95	13.53	14.24
10	Net profit	32,638	19,011	338,038	21,514	24,937
<b>Ratios</b>						
11	Profit margin before tax (2/1)	0.05	0.16	0.17	0.14	0.22
12	Return on equity (2/4)	0.09	0.15	0.15	0.14	0.33
13	Return on assets (2/3)	0.05	0.12	0.11	0.11	0.23
14	Current liquidity (5/6)	1.34	2.61	2.63	3.62	2.55
15	Asset turnover (1/3)	0.97	0.75	0.68	0.78	1.06
16	Earnings per share (1/7)	5.78	158.22	66.35	24.16	10.44
17	Profit before tax per share (2/7)	0.29	25.38	11.12	3.32	2.32
18	Total assets per share (3/7)	5.93	212.03	97.23	30.80	9.89

Source: Bloomberg

For the conversion of the financial data has been used the fixed exchange rate EUR/BGN, namely 1.95583.

Under the provisions of par. 1, item 15 of the Additional Provisions of Ordinance №41, the market coefficients used in the method of market multiples of analogous companies include at least the following coefficients: market price/earnings (P/E), market price/book value (equity) (P/B) and market price/sales (P/S). Performance of analogous companies shown in Table №16 below are taken from the Bloomberg system on 12 June 2014. The index P/E is calculated as the market capitalization of the particular company, divided by its net profit as at 31 December 2013 (8/10 from Table №15). The index P/B is calculated as the market capitalization of the particular company, divided by the value of its equity at 31 December 2013 (8/4 from Table №15). The index P/S is calculated as the market capitalization of the particular company, divided by the value of its sales as at 31 December 2013 (8/1 from Table №15). Due to rounding in the calculations and the used foreign exchange rates, the Bloomberg system shows some deviation in the final values of the indicators. The evaluation uses the data published in the Bloomberg system on 12 June 2014 and no direct calculation of the data in Table №15 above has been made.

For finding the fair value of a share of Sopharma AD based on the indicators P/E, P/B, P/S, the following coefficients have been calculated:

- Net profit per share of Sopharma AD in the amount of 0.204 BGN - calculated as the ratio between the profit for one year and the number of outstanding shares. Several approaches may be applied as basis for the calculation of profit for one year: using the company's profit according to the latest annual financial statements; calculating the profit for the past 12 months based on the last published report of the company; using sources of information and analysis on the estimated profit of the company for the next 12 months. In order to obtain more current and realistic assessment of the value of the shares of Sopharma AD, reflecting the data published in the last financial statements of the company, the calculation of the profit for one year takes the last 12 months of operations by adding the results after 31 March 2013 to those of the last interim consolidated financial statements as at 31 March 2014;
- The book value per share of Sopharma AD in the amount of 2.807 BGN - calculated as the ratio between the value of the company's equity according to the latest interim financial statements as at 31 March 2014 and the number of shares outstanding;
- Sales per share of Sopharma AD in the amount of 5.980 BGN - calculated as the ratio of sales for one year and the number of outstanding shares. The calculation of sales for one year can also be approached in several ways: using the annual sales of the company according to the latest annual financial statements; calculating the sales for the last 12 months based on the last published report of the company; using sources of information and analysis on the estimated sales of the company for the next 12 months. The calculation of the annual sales in this evaluation takes the last 12 months of operations by adding the results after 31 March 2013 to those of the last interim consolidated financial statements as at 31 March 2014.

TABLE 16: EVALUATION BASED ON THE MARKET MULTIPLES OF ANALOGOUS COMPANIES

company	Country	P/E	P/B	P/S
Alkaloid	Macedonia	10.54	0.84	0.90
KRKA	Slovenia	13.75	1.78	1.90
Grindex	Latvia	5.06	0.61	0.60
Olainfarm	Latvia	7.90	1.74	1.30
<b>Average</b>		<b>9.31</b>	<b>1.24</b>	<b>1.18</b>

Sopharma AD	EPS	BVPS	SPS
Value per one share	0.20	3.26	5.98
Price for one share	<b>1.90</b>	<b>4.05</b>	<b>7.03</b>
<b>Price for one share (Average of applies methods)</b>		<b>4.33</b>	

Source: Bloomberg

The value per share on the basis of market multiples of analogous companies amounts to **4.33 BGN**.

### DISCOUNTED CASH FLOWS EVALUATION METHOD

The discounted cash flow valuation method is based on the concept of the value of money over time and is the primary method for determining the value of a company by converting the amount of cash flows that the company is expected to generate in the future to its present value. The discount rate, in turn, reflects the risk and the required rate of return on investment over the projection period.

The value of the capital of Sopharma AD by discounting the projected cash flows is obtained by applying the following formula:

$$V_0 = \frac{FCFF_{2014}}{(1+WACC)^{n/365}} + \frac{FCFF_{2015}}{(1+WACC)^{1 n/365}} + \dots + \frac{FCFF_{2019}+P_{2019}}{(1+WACC)^{5 n/365}}$$

where:

- $V_0$  – is the capital value;
- $FCFF_{2014-2019}$  – are the projected cash flows, generated by the company for the particular year;
- WACC – is the average weighted price of the capital of the company;
- P – is the terminal value, calculated in the following way:

$$P_{2019} = \frac{FCFF_{2019}*(1+g)}{(WACC-g)}$$

- g – is the continues growth of cash flows for the period after 2019;
- n – the actual number of days of the respective period; The accepted number for the actual number of days for a year is 365.

### EARNINGS

TABLE 17: REVENUE OF SOPHARMA AD

Revenue in thousand BGN	2011	2012	2013	31.3.2014
Total sales revenue	644,731	688,579	762,689	214,292
Other operating revenue	1,775	2,328	4,911	3,133
Financial revenue	7,013	6,043	6,553	1,123
<b>Total revenue</b>	<b>653,519</b>	<b>696,950</b>	<b>774,153</b>	<b>218,548</b>

Source: Audited annual and unaudited intermediate consolidated financial statements of Sopharma AD

The estimated earnings of the company for the period 2014-2019 are presented in three scenarios - a realistic, optimistic and pessimistic. The different rate of growth for each scenario reflects the expectations for market growth as a whole, the

market share of the company, as well as the possibility of selling products with a higher price and profit margin. Expectations of the company are based on the following assumptions for the development of the business:

- Historically, growth in revenues of the company on a consolidated level is primarily due to the business of the distributors of the Group. In this regard, the business of Sopharma Trading AD, the results of which appear in the consolidated results of Sopharma AD and being the leading distributor in the country, significantly affects the company's future expectations for sales growth. On the other hand the distributor Briz, Latvia continues to expand its position in the region, acquires pharmacy chains and thus achieves a strong growth in sales. With the expected growth of the market described in the “Market Review” above, even in the case of the market shares of the distributors not growing further, the Group's consolidated sales will grow during the forecast period;
- Sales of products with a higher price and profit margin. Sopharma Trading AD operates not only as a distributor but also as a service provider in the field of health. As a result of this strategy in recent years Sopharma Trading AD entered in various markets such as that of redistribution, medical equipment, medical cosmetics, various items related to improving quality of life and health. This results in a significant increase in revenue compared to previous periods. At the same time, these new activities for the Group have the characteristics of a business with a higher profit margin than the distribution of medicines;
- Development of new products and registration of existing products in new markets. Besides the usual business of developing generic products, the Group works on projects related to the promotion of its original products in markets such as the USA, China, Japan, etc. These are medium and long-term projects and bear high risk;
- Acquisition of manufacturers and distributors in the region. For reasons of confidentiality the company cannot give any names of potential acquisitions, but currently monitors the feasibility of such transactions.

The combination of positive development or the lack of it in the above assumptions give different expectations for the sales growth of the company in the considered forecast period. They have an impact on the pace of sales growth in the three prepared scenarios.

The data used in this document is based on the interim financial results of the company as at 31 March 2014. This allows the management to predict to some extent the final financial result for 2014.

*TABLE 18: FORECAST ABOUT THE REVENUE OF SOPHARMA AD*

<b>Pessimistic scenario thousand BGN</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Sales	803,778	839,948	865,146	882,449	900,098	909,099
Other operating income/(loss), net	4,862	5,081	5,233	5,338	5,445	5,499
<b>Total operating revenue</b>	<b>808,640</b>	<b>845,029</b>	<b>870,380</b>	<b>887,787</b>	<b>905,543</b>	<b>914,598</b>
<i>Annual growth rate</i>	<i>5.99%</i>	<i>4.50%</i>	<i>3.00%</i>	<i>2.00%</i>	<i>2.00%</i>	<i>1.00%</i>

<b>Realistic scenario thousand BGN</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Sales	820,016	877,417	908,127	935,370	954,078	973,159
Other operating income/(loss), net	5,058	5,412	5,602	5,770	5,885	6,003
<b>Total operating revenue</b>	<b>825,074</b>	<b>882,830</b>	<b>913,729</b>	<b>941,140</b>	<b>959,963</b>	<b>979,162</b>
<i>Annual growth rate</i>	<i>8.11%</i>	<i>7.00%</i>	<i>3.50%</i>	<i>3.00%</i>	<i>2.00%</i>	<i>2.00%</i>

<b>Optimistic scenario thousand BGN</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Sales	852,492	937,741	,989,317	1,018,996	1,039,376	1,070,558
Other operating income/(loss), net	5,304	5,834	6,155	6,340	6,467	6,661
<b>Total operating revenue</b>	<b>857,796</b>	<b>943,575</b>	<b>,995,472</b>	<b>1,025,336</b>	<b>1,045,843</b>	<b>1,077,218</b>
<i>Annual growth rate</i>	<i>12.34%</i>	<i>10.00%</i>	<i>5.50%</i>	<i>3.00%</i>	<i>2.00%</i>	<i>3.00%</i>

Historically, for the past ten years the annual revenue growth rate of the Company on a consolidated basis has not fallen below 6.8%, with this growth rate being over 11% for the last full financial year. This allows the Company to assume that in a realistic scenario, this rate will exceed the smallest such registered for the last decade. The pessimistic scenario assumes that the rate of sales growth may drop slightly below the historical low level and the optimistic scenario assumes a rate, which slightly exceeds the one realized in 2013.

EXPENSES

TABLE 19: EXPENSES OF SOPHARMA AD

Consolidated expenses in thousand BGN	2011	2012	2013	31.3.2014
Changes in finished and unfinished products	10,414	2,678	(3,173)	(311)
Materials	(86,524)	(89,575)	(87,166)	(23,733)
Hired services	(59,336)	(55,492)	(59,305)	(18,181)
Personnel expenses	(64,582)	(68,972)	(74,659)	(19,326)
Amortization	(19,732)	(21,995)	(26,219)	(7,612)
Book value of sold goods	(370,991)	(400,535)	(450,112)	(126,283)
Other operating expenses	(9,730)	(11,548)	(14,131)	(957)
<b>Total operating expenses</b>	<b>(600,481)</b>	<b>(645,439)</b>	<b>(714,765)</b>	<b>(196,403)</b>

Source: Audited annual and unaudited intermediate consolidated financial statements of Sopharma AD

At the end of March 2014, the operating expenses of Sopharma AD increase compared to the same period in 2013 due to increased sales, the additional investments resulting in additional costs for depreciation, additionally hired employees, and others. The same can be observed for the entire historical period due to growth in the sales of the Company.

For the period 2014-2019, the Company's expenses are estimated based on historical reported profit margins of the business and in particular the operating profit margin, i.e. profit margin before interest and taxes. The costs are estimated based on the expectation that these margins will vary according to close ranges depending on the forecast scenarios. Historical data on the operating profit is shown in the following table:

TABLE 20: OPERATING PROFIT MARGIN OF SOPHARMA AD

Consolidated indicators in thousand BGN	2011	2012	2013	31.3.2014
1 Sales revenue	644,731	688,579	762,689	214,292
2 Cost of sales	491,948	539,584	585,226	NA
3 Gross profit/loss (1-2)	152,783	148,995	177,463	NA
4 Other operating expenses	(106,758)	(103,527)	(124,628)	NA
5 Operating profit/loss (3-4)*	46,025	45,468	52,835	21,022
6 Operating profit margin (5/1)	7.14%	6.60%	6.93%	9.81%

Source: Audited annual and unaudited intermediate consolidated financial statements of Sopharma AD

\* - The company reports a breakdown of costs of sales and other operating expenses only in annual reports.

Evident from the annual results, the operating profit margin varies around 7%. The Company predicts preservation of the historical indicators and therefore has based the costs off the pessimistic variant, leading to a margin below 7% in 2014 and 2015 with a gradual increase over the projection period. In view of the realized margin for the first quarter of 2014 of nearly 10%, the company predicts over 7% in the realistic scenario and a margin, which gradually reaches and exceeds 8% in the optimistic scenario.

In addition, the estimated costs are also calculated based on the following assumptions:

- The pessimistic scenario assumes unfavorable development of the additional and new activities of the Group, which are characterized by a higher rate of return and therefore increase in the proportion of pure distribution of medicines. It carries a relatively low profit margin of 3-4% annually. As at the date of the evaluation Sopharma AD is a co-debtor on bank loans and a guarantor to banks, including through the issuance of a promissory note, for third parties as follows:

TABLE 21: CONTINGENT LIABILITIES OF SOPHARMA AD

**JUSTIFICATION REPORT OF THE FAIR PRICE OF THE SHARES OF SOPHARMA AD**

<b>Liabe person</b>	<b>Repayment date</b>	<b>Currency type</b>	<b>Contracted amount in the original currency in thousand</b>	<b>Contracted amount in thousand BGN</b>
Sopharma Trading AD	30.9.2014	EUR	66	129
Sopharma Trading AD	30.9.2014	EUR	8,434	16,495
Sopharma Trading AD	30.9.2014	BGN	3,732	3,732
Sopharma Trading AD	30.9.2014	EUR	10,000	19,558
Sopharma Trading AD	30.9.2014	BGN	10,000	10,000
Sopharma Trading AD	30.10.2014	EUR	2,050	4,009
Sopharma Trading AD	30.10.2014	EUR	1,278	2,500
Sopharma Trading AD	28.9.2014	EUR	2,000	3,912
Energoinvestment AD	28.8.2014	BGN	2,018	2,018
Momina Krepost AD	20.9.2014	BGN	500	500
Veta Pharma AD	19.11.2014	BGN	1,000	1,000
<b>Total for 2014</b>				<b>63,853</b>
Bulgarian Rose Sevtopolis AD	31.1.2015	EUR	1,617	3,163
Sopharma Trading AD	31.8.2015	EUR	15,500	30,315
Sopharma Trading AD	25.4.2015	EUR	3,000	5,867
Sopharma Trading AD	30.11.2015	EUR	113	221
Mineralcommerce AD	20.12.2015	EUR	50	98
Mineralcommerce AD	27.3.2015	BGN	100	100
Vitamina AD	25.3.2015	EUR	7,000	13,691
<b>Total for 2015</b>				<b>53,455</b>
Sopharma Trading AD	25.5.2016	EUR	89	174
Sopharma Trading AD	25.7.2016	EUR	63	124
Sopharma Trading AD	25.6.2016	EUR	22	43
Sopharma Trading AD	25.6.2016	EUR	23	45
Sopharma Trading AD	25.5.2016	EUR	41	80
Sopharma Trading AD	25.9.2016	EUR	22	42
Sopharma Trading AD	25.10.2016	EUR	432	846
Sopharma Trading AD	25.9.2016	EUR	15	29
<b>Total for 2016</b>				<b>1,383</b>
Sopharma Trading AD	25.6.2017	EUR	7,500	14,669
Mineralcommerce AD	20.7.2017	BGN	85	85
Sopharma Trading AD	31.12.2017	EUR	1,448	2,832
Sopharma Trading AD	31.12.2017	EUR	450	881
Sopharma Trading AD	25.11.2017	EUR	87	29
Mineralcommerce AD	20.9.2017	EUR	100	196
<b>Total for 2017</b>				<b>18,692</b>
Sopharma Trading AD	30.7.2018	EUR	2,000	3,912
Sopharma Trading AD	15.11.2018	EUR	521	1,005
<b>Total for 2018</b>				<b>4,917</b>
Sopharma Trading AD	31.12.2019	EUR	3,000	5,867
Sopharma Properties REIT	29.12.2020	EUR	30,000	58,675
Biopharm Engineering AD	16.4.2023	EUR	4,500	8,312

<b>Total for 2019 and following</b>	72,854
<b>TOTAL FOR THE PERIOD</b>	<b>215,154</b>

Source: Sopharma AD

At present, as well as in the history of the Company, there is no case in which Sopharma AD had to enter into its role as a co-debtor or guarantor due to the inability of the liable person to repay their debt. However, due to the nature of the pessimistic version, it allows for the occurrence of this event. The calculation of the possible negative effects of such an event uses the latest available statistics as at the date of this evaluation by BNB for bad loans (overdue by more than 90 days) of non-credit institutions and corporate clients in the economy as at 31 March 2014. According to the statistics the percentage of bad loans is 18.6% of the value of the total loans for these customers. This percentage has been reflected by setting 18.6% of the total contingent liability for the year as other expenses. The last year, namely 2019, also includes the loans with maturity after that year. Based on its history, Sopharma AD does not expect the materialization of similar costs in the future and therefore they are not reflected in the realistic and optimistic option.

- Realistic scenario: Maintaining of the ongoing development of sales of new products and activities and slightly improved profit margins compared to historical values because of the relatively low share of these items in the sales of the Group;
- Optimistic scenario: A significant increase in the share of new products and activities in total sales and successful performance of new medicines in foreign markets, including the implementation of appropriate acquisitions of partners, manufacturers, and distributors.

TABLE 22: PROJECTED EXPENSES OF SOPHARMA AD

<b>Pessimistic scenario thousand BGN</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Materials	-116,508	-121,401	-124,922	-127,295	-129,332	-130,496
Operating and other expenses	-156,318	-162,883	-167,607	-170,791	-174,207	-175,949
Cost of sales	-459,787	-479,098	-492,992	-502,852	-512,909	-518,038
Amortization	-22,053	-22,935	-23,508	-23,861	-24,338	-24,582
Other expenses (related to contingent liabilities)	-11,877	-9,943	-257	-3,477	-915	-13,551
<b>Operating profit</b>	<b>42,098</b>	<b>48,769</b>	<b>61,093</b>	<b>59,511</b>	<b>63,842</b>	<b>51,983</b>
<i>Operating margin</i>	<i>5.24%</i>	<i>5.81%</i>	<i>7.06%</i>	<i>6.74%</i>	<i>7.09%</i>	<i>5.72%</i>

<b>Realistic scenario thousand BGN</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Materials	-118,440	-126,375	-130,419	-133,810	-135,951	-138,534
Operating and other expenses	-158,910	-169,557	-174,983	-179,533	-183,123	-186,786
Cost of sales	-467,413	-498,730	-514,689	-530,130	-540,732	-551,547
Amortization	-22,053	-23,597	-24,423	-25,155	-25,658	-26,172
<b>Operating profit</b>	<b>58,258</b>	<b>64,570</b>	<b>69,214</b>	<b>72,512</b>	<b>74,498</b>	<b>76,124</b>
<i>Operating margin</i>	<i>7.10%</i>	<i>7.36%</i>	<i>7.62%</i>	<i>7.75%</i>	<i>7.81%</i>	<i>7.82%</i>

<b>Optimistic scenario thousand BGN</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Materials	-122,759	-134,667	-141,670	-145,353	-147,679	-151,961
Operating and other expenses	-164,705	-180,682	-190,077	-195,019	-198,920	-204,887
Cost of sales	-484,459	-531,451	-559,087	-575,859	-587,377	-604,998
Amortization	-22,053	-24,258	-25,593	-26,360	-26,887	-27,694
<b>Operating profit</b>	<b>63,819</b>	<b>72,517</b>	<b>79,046</b>	<b>82,744</b>	<b>84,980</b>	<b>87,677</b>
<i>Operating margin</i>	<i>7.49%</i>	<i>7.73%</i>	<i>7.99%</i>	<i>8.12%</i>	<i>8.18%</i>	<i>8.19%</i>

## NET WORKING CAPITAL

Net working capital (NWC) is a financial indicator related to the liquidity of the company. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital and is calculated by current assets minus short-term liabilities.

The calculation of the NWC of Sopharma AD is based on the projected financial position, which is in line with future estimates of income and expenses and again presented in three scenarios - optimistic, realistic and pessimistic. For the purposes of this assessment, the NWC is calculated as the difference between non-cash current assets and non-interest liabilities. Key indicators in calculating net working capital are: receivables, liabilities and inventory turnover in days. The essential difference between the three scenarios is different assumptions about the receivables turnover in days. Turnover is estimated based on the historical performance of the company, which are adjusted depending on the nature of the scenario. Historical indicators for receivables turnover are shown in the following table:

TABLE 23: RECEIVABLES TURNOVER IN DAYS FOR THE HISTORIC PERIOD

Receivables turnover (in days)	2011	2012	2013
1 Total sales revenue	646,506	690,907	767,600
2 Expenses (personnel and amortization cost excluded)	526,581	557,150	610,714
3 Total receivables	224,201	243,950	231,534
4 Inventory	126,022	130,950	139,596
5 Non-interest-bearing liabilities	81,259	70,424	82,042
6 Receivables turnover in days (365/(1/3))	127	129	110
7 Inventory (365/(1/4))	71	69	66
8 Payables to suppliers (365/(2/5))	56	46	49

Receivables turnover for the year is calculated as sales revenue for the year divided by the receivables. The resulting ratio is the turnover ratio. 365 (number of days in a year) is divided by the turnover ratio to obtain the receivables turnover in days. Similar calculations are performed to obtain the remaining data for inventories turnover. Payables turnover to suppliers was calculated by similar calculations using the sum of the costs (personnel and amortization cost excluded as far as they are not obligations to suppliers) and the amount of non-interest-bearing liabilities.

Forecast for the indicators of working capital turnover in days for the period 2014-2019, consistent with historical performance and the nature of the scenarios is presented in the following table:

TABLE 24: FORECAST FOR THE RECEIVABLES TURNOVER IN DAYS

Receivables turnover (in days)	2013	2014	2015	2016	2017	2018	2019
<i>Pessimistic scenario</i>							
Receivables turnover in days	110	110	112	115	118	120	122
Inventory	66	67	67	68	69	69	70
Liabilities to suppliers	49	47	46	45	44	43	45
<i>Realistic scenario</i>							
Receivables turnover in days	110	108	105	105	104	103	102
Inventory	66	66	65	65	64	64	64
Liabilities to suppliers	49	48	47	47	46	46	45
<i>Optimistic scenario</i>							
Receivables turnover in days	110	106	104	102	101	100	99
Inventory	66	65	64	63	62	62	61
Liabilities to suppliers	49	48	47	46	45	44	43

TABLE 25: CHANGES IN THE NON-MOMENTARY NET WORKING CAPITAL OF SOPHARMA AD

Indicator	2011	2012	2013
Current assets (cash excluded)	350,223	374,900	371,130
Current liabilities (interest-bearing liabilities excluded)	81,259	70,424	82,042
Non-cash working capital	268,964	304,476	289,088
Change in non-cash working capital	24,507	35,512	(15,388)

Source: Audited annual consolidated financial statements of Sopharma AD

Change in non-cash working capital is based on the calculation of each of its metrics. The calculation of current assets (cash excluded) for the year has been conducted in the following way: the sum of sales for a particular year and the

particular scenario has been multiplied by the ratio of receivables turnover for the same period and the same scenario and the product has been divided by 365 (the number of days in one year). To this result have been added similar calculations for the inventories turnover, where the indicator for the relevant period and scenario has been multiplied by the sales revenue and the product has been divided by 365. Similar calculations were made for the calculation of current liabilities (interest-bearing liabilities excluded). An example of each scenario for 2014 and 2015 is given in the following table to illustrate the calculations:

TABLE 26: EXAMPLE FOR THE METHOD OF CALCULATION OF THE CHANGE IN NON-CASH WORKING CAPITAL

Indicator in thousand BGN	2014	2015
<i>Pessimistic scenario</i>		
1 Sales revenue	808,640	845,029
2 Expenses (personnel and amortization cost excluded)	664,995	694,950
3 Receivables turnover in days	110	112
4 Inventory	67	67
5 Liabilities to suppliers	47	46
6 Current assets (cash excluded) $((1*3+1*4)/365)$	392,135	414,411
7 Current liabilities (interest-bearing liabilities excluded) $((2*5)/365)$	85,629	87,583
8 Non-cash working capital (6-7)	306,506	326,829
9 Change in non-cash working capital	17,418	20,323
<i>Realistic scenario</i>		
10 Sales revenue	825,074	882,830
11 Expenses (personnel and amortization cost excluded)	663,682	707,906
12 Receivables turnover in days	108	105
13 Inventory	66	65
14 Liabilities to suppliers	48	47
15 Current assets (cash excluded) $((10*12+10*13)/365)$	393,323	411,181
16 Current liabilities (interest-bearing liabilities excluded) $((11*14)/365)$	87,279	91,155
17 Non-cash working capital (15-16)	306,044	320,026
18 Change in non-cash working capital	16,956	13,982
<i>Optimistic scenario</i>		
19 Sales revenue	857,796	943,575
20 Expenses (personnel and amortization cost excluded)	687,669	764,300
21 Receivables turnover in days	106	104
22 Inventory	65	64
23 Liabilities to suppliers	48	47
24 Current assets (cash excluded) $((19*21+19*22)/365)$	401,871	434,303
25 Current liabilities (interest-bearing liabilities excluded) $((20*23)/365)$	90,433	98,417
26 Non-cash working capital (24-25)	311,438	335,886
27 Change in non-cash working capital	22,350	24,448

Source: Tables 19, 22 and 24

Projected change in non-cash working capital of Sopharma AD in each of the three scenarios is presented in the following tables:

TABLE 27: CHANGE IN THE NON-CASH WORKING CAPITAL OF SOPHARMA AD

Indicator in thousand BGN	2013	2014	2015	2016	2017	2018	2019
<i>Pessimistic scenario</i>							
Current assets (cash excluded)	371,130	392,135	414,411	436,382	454,839	468,898	481,104
Current liabilities (interest-bearing liabilities excluded)	82,042	85,629	87,583	87,353	87,749	87,280	93,980
Non-cash working capital	289,088	306,506	326,829	349,029	367,090	381,618	387,124
Change in non-cash working capital	(15,388)	17,418	20,323	22,201	18,061	14,528	5,506
<i>Realistic scenario</i>							
Current assets (cash excluded)	371,130	393,323	411,181	425,572	433,182	439,216	445,318
Current liabilities (interest-bearing liabilities excluded)	82,042	87,279	91,155	94,038	94,645	96,470	96,244
Non-cash working capital	289,088	306,044	320,026	331,534	338,538	342,746	349,074
Change in non-cash working capital	(15,388)	16,956	13,982	11,508	7,004	4,208	6,328

<i>Optimistic scenario</i>							
Current assets (cash excluded)	371,130	401,871	434,303	450,008	457,890	464,182	472,205
Current liabilities (interest-bearing liabilities excluded)	82,042	90,433	98,417	102,298	103,436	103,367	104,213
Non-cash working capital	289,088	311,438	335,886	347,710	354,454	360,815	367,992
Change in non-cash working capital	(15,388)	22,350	24,448	11,824	6,743	6,362	7,177

### DISCOUNT RATE

The discount rate represents the rate that future cash flows are discounted by to their present value and is a major variable in the process. In essence, it reflects the return that this investor requires to take an investment at a given level of risk.

Another approach for determining the discount rate is the rate of return when the capital required by the particular investment is invested in another venture with a similar level of risk (i.e. the opportunity cost of capital). For example, if the capital required for a project can bring a return of 10% if invested elsewhere, then this rate can be used as a discount rate in the calculation of the Net present value, which will allow a direct comparison between the two projects.

Discount rate equal to the weighted average cost of capital (WACC) is used when for the calculation of the cost of capital is applied the model of the Discounted cash flows of the company. Other things being equal, a company's WACC increases when its beta and the required rate of return on equity increase, with the increase leading to a lower valuation of the company and a higher rate of risk.

TABLE 28: HISTORICAL CAPITAL STRUCTURE OF SOPHARMA AD (THOUSAND BGN)

Consolidated indicators	2011	2012	2013
Equity	365,812	391,353	412,775
Debt	219,229	272,906	274,100
Total	585,041	664,259	686,875
% Equity	62.53%	58.92%	60.09%
% Debt	37.47%	41.08%	39.91%

Source: Audited annual and unaudited interim consolidated financial statements of Sopharma AD

The management of Sopharma AD does not predict a significant increase in the current debt levels of the company, but rather that current liabilities will be served in accordance with their repayment schedules. Estimates for the period 2014-2019 are based on the maintaining of the levels of debt in the ratio of about 60/40 in favor of equity at the end of the forecast period in line with the reported historical results of Sopharma AD of about 60/40.

The methodology for determining the cost of capital is based on the methods of prof. Damodaran, author of numerous studies on the problems of assessing companies. On his website: <http://pages.stern.nyu.edu/~adamodar/>, prof. Damodaran publishes updated data for the risk premium on so-called "developed" and also "developing" markets. These estimates are used by a wide range of investors and analysts around the world, including the World Bank and the International Monetary Fund.

The weighted average cost of capital is calculated based on the following formula:

$$WACC = WE \cdot R + WD \cdot CD \cdot (1 - T)$$

Where:

WACC – weighted average cost of capital

WE – relative weight of equity financing

R – cost of equity

WD – relative weight of debt financing

CD – cost of borrowed capital

T – tax rate for the company

The weighted average cost of capital is defined by multiplying the cost of equity and debt financing by their relative weights, which are calculated for each year in each of the three scenarios.

In turn, the cost of equity is calculated based on the following formula:

$$R = R_f + \beta * R_m + R_b$$

Where:

R<sub>f</sub> – risk-free rate of return

β – „beta” of Sopharma AD

R<sub>m</sub> – risk premium for a “developed” market for shares

R<sub>b</sub> – country risk premium

The present calculations are based on data as at 12 June 2014. For the risk-free rate of return (R<sub>f</sub>) has been used the yield on 10-year German government bonds (DE0001102358 maturing on 15 May 2024) – 1.374405%.

Sopharma AD was registered as a public company on 2001, i.e. historically the company's shares have been traded for almost 13 years. Shares of Sopharma AD are listed for trading in the segment “Premium” on the “Bulgarian Stock Exchange - Sofia” and belong to its main index SOFIX. The shares are considered among the most liquid instruments on the floor of the local market. Also, the company may be defined as “actively traded” under par. 1, item 1 of Ordinance №41 of the FSC, which is why we believe that the use of the market “beta” is appropriate in calculating the fair value of the shares. These circumstances are sufficient to determine the real market “beta”, which shall define the market risk of the company.

Information on “beta” of Sopharma AD may be obtained from the Bloomberg system. That “beta” of the Company listed there amounted to 0.75.

The calculation of the total risk premium for the shares of Sopharma AD begins with the addition of risk premium required for a “developed” market and a country risk premium. Historically, the risk premium for developed markets is estimated at 5%, according to data published on the website of prof. Damodaran. Country risk premium is determined by the adjusted difference in profitability of assets rated Baa3 (which is Bulgaria's rating by Moody's) and the risk-free rate of return. According to prof. Damodaran government bonds rated Baa3 are traded at a premium of 285 basis points over securities rated AAA. To obtain a country risk premium for a market for shares, this premium should be adjusted by the volatility coefficient of the particular market for shares. According to prof. Damodaran this coefficient has a historical average of 1.5. After adjustment, the country risk premium amounts to 427.5 basis points (4.275%).

To finalize the calculation of the rate of return required by shareholders, we should summarize the information available so far:

TABLE 29: DATA ON THE REQUIREMENTS OF THE RATE OF RETURN ON EQUITY

Indicator	Result
Current yield on 10-year German government bonds	1.37%
Beta	0.75
Risk premium for a developed market of shares	5.000%
Country risk premium	4.275%
Required rate of return	9.399%

To determine the cost of debt financing of Sopharma AD we have used a publication by BNB, according to which the average interest rate on loans in BGN for non-financial companies as of March 2014 is 7.85% (this includes all loans with different maturities except overdraft loans). This statistic best reflects the market reality in Bulgaria and therefore 7.85% can be considered a realistic market price for debt financing.

TABLE 30: EQUITY TO DEBT RATION

Indicator in thousand BGN	31.3.2014	Share of total capital
Equity	430,055	61.21%
Total borrowed capital	272,539	38.79%
<b>Total capital</b>	<b>702,594</b>	<b>100.00%</b>

SOURCE: CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF SOPHARMA AD

The company has long-term bank loans amounting to 55,955 BGN and current portion of long-term bank loans amounting to 216,584 thousand BGN. Thus the total amount of debt capital of the company is 272,539 thousand BGN. Equity of the company amounts to 430,055 thousand BGN. Weighing of each type of capital against the total capital of the company shows that the relative weight of equity financing is 61.21% and the relative weight of debt financing is 38.79%.

The formula for calculating the weighted average cost of capital is:

$$WACC = WE * R + WD * CD * (1 - T)$$

Substituting the above calculated values of the different components in it:

$$WACC = 61.21\% \times 9.399\% + 38.79\% \times 7.850\% \times (1 - 10\%) = 8.494\%$$

results in 8.494% as an average weighted price of capital of Sopharma AD.

The growth of the company after the final period (in the post-projection period) is a key indicator to which the price of a discounted cash flow is particularly sensitive. It is determinant for the post-projection period, providing that there will be no significant changes in the scale and profitability of the business and therefore we forecast that the net cash flows will remain constant or increase steadily – g.

For a starting point for determining the growth of the company in the post-projection period is taken the long-term forecast for economic growth in the country in which the company operates. According to economic theory, any company cannot grow indefinitely at a rate higher than that of the economy in which it operates. Therefore, the value of g should be close to the values with which the Bulgarian GDP can be expected to grow in the long run.

Given the three scenarios we see different growth rates, namely:

**Realistic: 2%** - Bulgaria as part of the European Union depends on its economic development and condition. So in the long run it is assumed that Bulgaria's economy will converge to the average growth rates of the Member States. Normal growth rates of the economies of the EU in the long run are around 2% according to various studies and organizations. Therefore, in the period after the final year the earnings of Sopharma AD are expected to grow by an average of 2% annually.

**Optimistic: 3%** - The optimistic scenario forecasts a growth of 3% or 1% above than the realistic scenario. This rate should reflect not only better than expected development of the Bulgarian economy, but in particular the development of the pharmaceutical industry in the long run with higher rates above the average of the economy.

**Pessimistic: 1%** - In the pessimistic scenario the same logic is applied as in the optimistic scenario, but it is assumed that the Bulgarian economy will grow at a slower pace than expected in the realistic scenario, and that the pharmaceutical industry will fall behind the pace of other industries. Therefore, this scenario is based on growth of 1% or 1% less than realistic scenario.

#### FINAL RESULT

Using the Discounted cash flows of the Company we receive the fair value of the Company's business as at 12 June 2014. The period of discounting is also determined according to this date and considers the days between 12 June 2014 and 31 December 2019. The final date of the first period is 31 December 2014 and the number of days between the date of evaluation and the end of 2014 is divided by 365. The fair value of the Company is obtained by deducting the net liabilities (total debt minus cash and cash equivalents), recorded on the basis of the latest interim consolidated statement of Sopharma AD as at 31 March 2014.

The following tables provide detailed forecasts and calculations for each of the three scenarios:

TABLE 31: PESSIMISTIC SCENARIO

Thousand BGN	2014	2015	2016	2017	2018	2019
Sales	803,778	839,948	865,146	882,449	900,098	909,099
Other operating income/(loss), net	4,862	5,081	5,233	5,338	5,445	5,499
<b>Total operating revenue</b>	<b>808,640</b>	<b>845,029</b>	<b>870,380</b>	<b>887,787</b>	<b>905,543</b>	<b>914,598</b>
<i>Annual growth rate</i>	<i>5.99%</i>	<i>4.50%</i>	<i>3.00%</i>	<i>2.00%</i>	<i>2.00%</i>	<i>1.00%</i>
Materials	-116,508	-121,401	-124,922	-127,295	-129,332	-130,496
Operating and other expenses	-156,318	-162,883	-167,607	-170,791	-174,207	-175,949
Cost of sales	-459,787	-479,098	-492,992	-502,852	-512,909	-518,038
Amortization	-22,053	-22,935	-23,508	-23,861	-24,338	-24,582
Other expenses (related to Contingent liabilities)	-11,877	-9,943	-2,257	-3,477	-915	-13,551
<b>Operating profit</b>	<b>42,098</b>	<b>48,769</b>	<b>61,093</b>	<b>59,511</b>	<b>63,842</b>	<b>51,983</b>
<i>Operating margin</i>	<i>5.24%</i>	<i>5.81%</i>	<i>7.06%</i>	<i>6.74%</i>	<i>7.09%</i>	<i>5.72%</i>
Tax rate	10%	10%	10%	10%	10%	10%
Operating profit after taxes	37,888	43,892	54,984	53,560	57,458	46,784
Amortization	22,053	22,935	23,508	23,861	24,338	24,582
Investments	25,790	25,842	25,894	25,945	25,997	26,049
Change in working capital	17,418	20,323	22,201	18,061	14,528	5,506
<b>Net free cash flow</b>	<b>16,733</b>	<b>20,662</b>	<b>30,398</b>	<b>33,415</b>	<b>41,271</b>	<b>39,811</b>
Discount rate	8.49%	8.49%	8.49%	8.49%	8.49%	8.49%
Discount factor	0.96	0.88	0.81	0.75	0.69	0.64
<b>Present value of free cash flows</b>	<b>15,995</b>	<b>18,204</b>	<b>24,680</b>	<b>25,005</b>	<b>28,467</b>	<b>25,310</b>
Terminal value						<b>536,561</b>
Sum of present values of free cash flows	137,661					
Present value of terminal value	341,116					
<b>Fair value of the company</b>	<b>478,777</b>					
Net debt as at 31 March 2014	246,944					
<b>Fair value of equity of the company</b>	<b>231,833</b>					
Number of shares	132,000,000					
<b>Value per share in BGN</b>	<b>1.756</b>					

TABLE 32: REALISTIC SCENARIO

Thousand BGN	2014	2015	2016	2017	2018	2019
Sales	820,016	877,417	908,127	935,370	954,078	973,159
Other operating income/(loss), net	5,058	5,412	5,602	5,770	5,885	6,003
<b>Total operating revenue</b>	<b>825,074</b>	<b>882,830</b>	<b>913,729</b>	<b>941,140</b>	<b>959,963</b>	<b>979,162</b>
<i>Annual growth rate</i>	<i>8.11%</i>	<i>7.00%</i>	<i>3.50%</i>	<i>3.00%</i>	<i>2.00%</i>	<i>2.00%</i>
Materials	-118,440	-126,375	-130,419	-133,810	-135,951	-138,534
Operating and other expenses	-158,910	-169,557	-174,983	-179,533	-183,123	-186,786
Cost of sales	-467,413	-498,730	-514,689	-530,130	-540,732	-551,547
Amortization	-22,053	-23,597	-24,423	-25,155	-25,658	-26,172
<b>Operating profit</b>	<b>58,258</b>	<b>64,570</b>	<b>69,214</b>	<b>72,512</b>	<b>74,498</b>	<b>76,124</b>
<i>Operating margin</i>	<i>7.10%</i>	<i>7.36%</i>	<i>7.62%</i>	<i>7.75%</i>	<i>7.81%</i>	<i>7.82%</i>
Tax rate	10%	10%	10%	10%	10%	10%
Operating profit after taxes	52,432	58,113	62,293	65,261	67,048	68,511
Amortization	22,053	23,597	24,423	25,155	25,658	26,172
Investments	25,868	26,250	26,637	27,030	27,571	28,122
Change in working capital	16,956	13,982	11,508	7,004	4,208	6,328
<b>Net free cash flow</b>	<b>31,661</b>	<b>41,479</b>	<b>48,571</b>	<b>56,383</b>	<b>60,928</b>	<b>60,233</b>
Discount rate	8.49%	8.49%	8.49%	8.49%	8.49%	8.49%
Discount factor	0.96	0.88	0.81	0.75	0.69	0.64
<b>Present value of free cash flows</b>	<b>30,264</b>	<b>36,545</b>	<b>39,434</b>	<b>42,193</b>	<b>42,025</b>	<b>38,293</b>
Terminal value						<b>946,082</b>
Sum of present values of free cash flows	228,753					

Present value of terminal value	601,467
<b>Fair value of the company</b>	<b>830,220</b>
Net debt as at 31 March 2014	246 944
<b>Fair value of equity of the company</b>	<b>583,276</b>
Number of shares	132,000,000
<b>Value per share in BGN</b>	<b>4.419</b>

TABLE 33: OPTIMISTIC SCENARIO

Thousand BGN	2014	2015	2016	2017	2018	2019
Sales	852,492	937,741	,989,317	1,018,996	1,039,376	1,070,558
Other operating income/(loss), net	5,304	5,834	6,155	6,340	6,467	6,661
<b>Total operating revenue</b>	<b>857,796</b>	<b>943,575</b>	<b>,995,472</b>	<b>1,025,336</b>	<b>1,045,843</b>	<b>1,077,218</b>
<i>Annual growth rate</i>	<i>12.34%</i>	<i>10.00%</i>	<i>5.50%</i>	<i>3.00%</i>	<i>2.00%</i>	<i>3.00%</i>
Materials	-122,759	-134,667	-141,670	-145,353	-147,679	-151,961
Operating and other expenses	-164,705	-180,682	-190,077	-195,019	-198,920	-204,887
Cost of sales	-484,459	-531,451	-559,087	-575,859	-587,377	-604,998
Amortization	-22,053	-24,258	-25,593	-26,360	-26,887	-27,694
<b>Operating profit</b>	<b>63,819</b>	<b>72,517</b>	<b>79,046</b>	<b>82,744</b>	<b>84,980</b>	<b>87,677</b>
<i>Operating margin</i>	<i>7.49%</i>	<i>7.73%</i>	<i>7.99%</i>	<i>8.12%</i>	<i>8.18%</i>	<i>8.19%</i>
Tax rate	10%	10%	10%	10%	10%	10%
Operating profit after taxes	57,437	65,265	71,141	74,470	76,482	78,910
Amortization	22,053	24,258	25,593	26,360	26,887	27,694
Investments	25,868	26,385	26,913	27,451	28,000	28,560
Change in working capital	22,350	24,448	11,824	6,743	6,362	7,177
<b>Net free cash flow</b>	<b>31,272</b>	<b>38,690</b>	<b>57,997</b>	<b>66,635</b>	<b>69,008</b>	<b>70,866</b>
Discount rate	8.49%	8.49%	8.49%	8.49%	8.49%	8.49%
Discount factor	0.96	0.88	0.81	0.75	0.69	0.64
<b>Present value of free cash flows</b>	<b>29,893</b>	<b>34,088</b>	<b>47,087</b>	<b>49,865</b>	<b>47,598</b>	<b>45,053</b>
Terminal value						1,328,614
Sum of present values of free cash flows	253,583					
Present value of terminal value	844,659					
<b>Fair value of the company</b>	<b>1,098,242</b>					
Net debt as at 31 March 2014	246 944					
<b>Fair value of equity of the company</b>	<b>851,298</b>					
Number of shares	132,000,000					
<b>Value per share in BGN</b>	<b>6.449</b>					

The weights the different scenarios have in the overall evaluation by the method of Discounted cash flows reflect the views of the management of Sopharma AD about the likelihood of the different scenarios.

TABLE 34: FAIR VALUE BASED ON THE METHOD OF DISCOUNTED CASH FLOWS

Scenario	Price per share BGN	Weight	Price per share in BGN
Pessimistic scenario	1.756	20%	0.351
Realistic scenario	4.419	60%	2.651
Optimistic scenario	6.449	20%	1.290
<b>Average</b>			<b>4.292</b>

#### NET ASSET VALUE EVALUATION METHOD

The value of the shares by the Net asset value method is determined by taking the value of the assets on the balance sheet of the company, subtracting from it the value of current and non-current liabilities on the balance sheet and all lawful

claims of investors holding priority over holders of ordinary shares and dividing the result by the number of ordinary shares outstanding.

The value of the assets and liabilities of the company is determined on the basis of the latest consolidated interim financial statements of Sopharma AD as at 31 March 2014. The company has no issued securities giving priority to investors over owners of ordinary shares. The result of the calculations based on the interim consolidated financial statements of Sopharma AD as at 31 March 2014 is 3.258 BGN per share of the company:

*Table 35: Fair price by the method of Net asset value*

<b>Indicator as at 31 March 2014</b>	<b>Amount in thousand BGN</b>
Assets	799,158
Total short-term liabilities	297,596
Total long-term liabilities	71,507
<b>Net asset value (1-2-3)</b>	<b>430,055</b>
Number of shares (thousand)	132,000
<b>Net asset value per share (BGN)</b>	<b>3.258</b>

**JUSTIFICATION OF THE WEIGHTS OF THE VALUATION METHODS**

The weights used in estimating the fair value of the shares of Sopharma AD are those that most closely match the core business of the company and its size. The weights of each of the valuation methods represent a very well founded basis for comparison of the investment and the risk characteristics of Sopharma AD. The relative weights are as follows:

- The method of the closing price of Sopharma AD under art. 5, par. 1 of Ordinance №41 has a weight of 40%. The weight reflects the fact that the closing price sufficiently integrates the views of investors about their value and growth potential. Furthermore, the weight is made based on liquidity trading in the shares of the company. It belongs to the segment “Premium” of BSE – Sofia and to the main index of the Bulgarian exchange - “SOFIX”. In this regard, the company is considered one of the pillars of the local trading of securities and its shares enjoy wide interest and confidence of professional and non-professional investors;
- The Discounted cash flows method has a weight of 25% due to its suitability to incorporate the outlook of the company, its ability to generate cash and calculating its present value by discounting it with the adopted discount rate. In times of local financial crisis and global recovery from such it is difficult to carry out a sufficiently precise short-term and medium-term forecast. Therefore the Discounted cash flows method, which normally would receive a higher weight in the final evaluation, received a relatively low weight in the present evaluation;
- The evaluation by the method of the Net asset value is included with a weight of 20%. This method reflects the current assets and liabilities of the company and may not assess the full development potential of the company. If investors believe that the company has significant growth opportunities in the future, they will be willing to pay for its shares a value that exceeds the one determined by this method. Nevertheless, under conditions of difficult forecasting the net asset value method reflects more fully the value of the company and therefore receives a relatively high weight in this assessment compared to the one, which would have theoretically been assigned to it.
- The method of market multiples of analogous companies receives a 15% weight. The usage of this method would be most appropriate for evaluating when there is a substantial overlap in indicators such as: type of business of the companies, size, markets in which they operate, products, trademarks owned, etc., as well as if they are traded on a regulated market. The disadvantage of this method is that its implementation is often associated with corrections by the evaluator, as in most cases the selected analogous companies are rather similar than identical to the evaluated company.

**FAIR VALUE OF THE SHARES OF SOPHARMA AD BASED ON THE EVALUATION METHODS**

As stated Sopharma AD meets the requirements of par. 1 of the additional provisions of Ordinance №41 and the shares of the company can be defined as actively traded. The total volume of shares traded in the last three months – from 11 March 2014 until 11 June 2014 was 1,291,275 shares and the average weighted daily volume is 21,168.44 (in 61 trading sessions). The shareholders’ equity of Sopharma AD is divided into 132 million shares and taking the requirement for the daily volume of Ordinance №41 of 0.1% results in a requirement for a trading volume of at least 13,200 shares per day.

This present evaluation adopts a downward rounding up to the second decimal place in the calculation of the final value of the shares of Sopharma AD.

*Table 1: Fair price of the shares of Sopharma AD by the different evaluation methods*

<b>Indicator</b>	<b>Price per one share in BGN</b>	<b>Weight</b>	<b>Price per one share in BGN</b>
Share price at market closing on 11 June 2014	4.410	40%	1.764
Market analogues method	4.330	15%	0.650
Discounted cash flows method	4.292	25%	1.073
Net asset value method	3.258	20%	0.652
<b>Final evaluation</b>			<b>4.14</b>

**BASED ON THE ABOVE EVALUATION, SOPHARMA AD, FOR THE PURPOSE OF THE TRANSFORMATION OFFERS A FAIR VALUE OF THE PRICE OF ONE SHARE OF THE COMPANY OF 4.14 BGN PER SHARE.**

**FOR SOPHARMA AD:  
OGNIAN DONEV  
EXECUTIVE DIRECTOR**

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**FOR THE AUTHOR OF THE EVALUATION ELANA TRADING AD:**

**RADOSLAVA MASLARSKA  
CHAIRMAN OF THE BOARD OF DIRECTORS**

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**MOMCHIL TIKOV  
EXECUTIVE DIRECTOR**

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