

# MANAGEMENT REPORT

Q1 2017

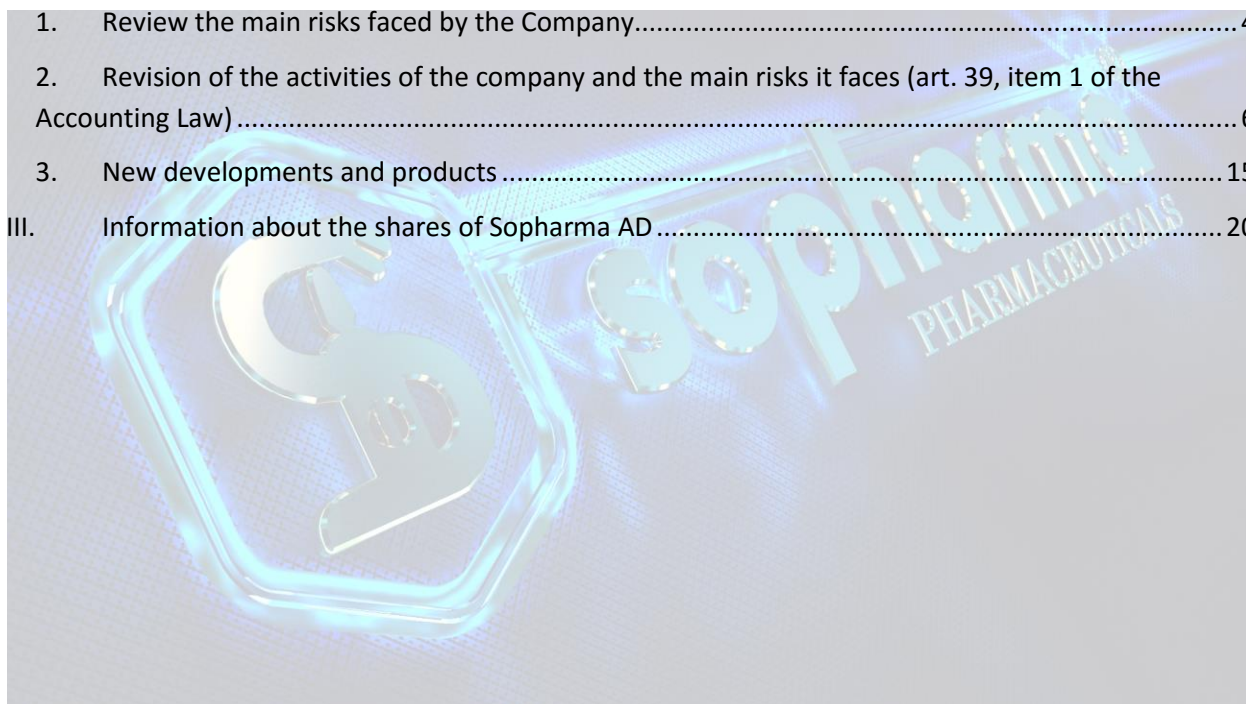


SOPHARMA AD

27 April 2017

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## I. General information about Sopharma AD

### 1. Registration and main activities

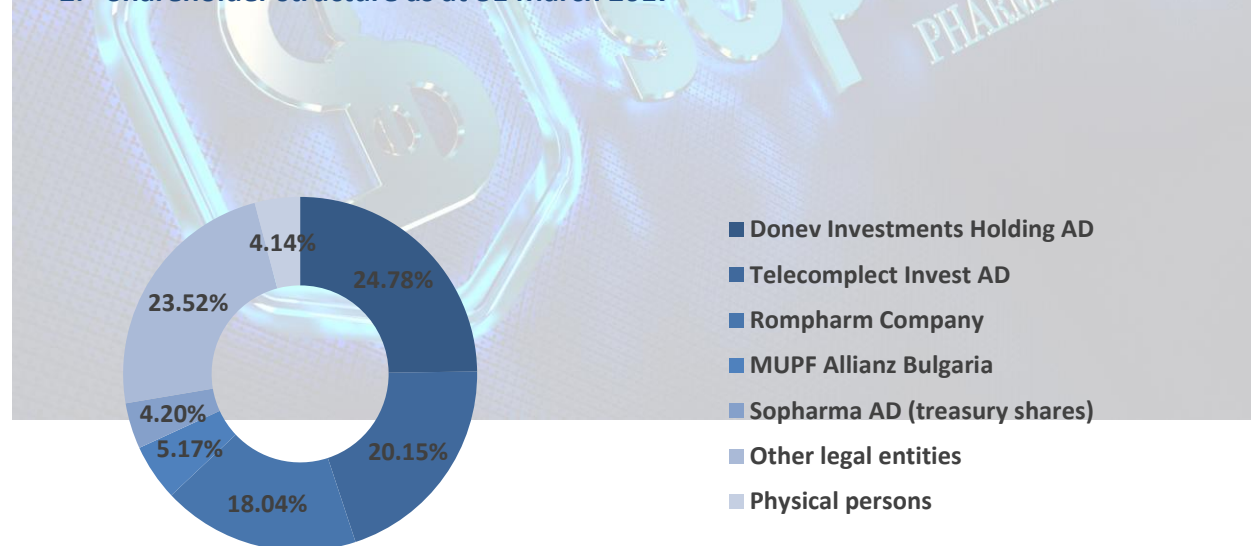
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16Iliensko shose str.

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

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

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

### 2. Shareholder structure as at 31 March 2017



### 3. Board of Directors

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

## 4. Personnel

The average number of employees in 2017 in Sopharma AD is 1,842 workers and employees (1,873 in 2016). The table below provides more detailed information about the company's staff.

	31.03.2017	Ref. Share %
Number of employees as at 31.03.2017	1865	100%
Higher education	812	44%
A college education	43	2%
Secondary education	979	52%
Primary education	31	2%
Employees under 30	190	10%
Employees 31 - 40 years	401	22%
Employees 41 - 50 years	616	33%
Employees 51 - 60 years	536	29%
Employees over 60	122	6%
Women	1158	62%
Men	707	38%

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

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

## 5. Production activity

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

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

- Substances and preparations based on plant raw materials (phytochemical);
- Ready-to-use formulations, incl.



- ✓ Solid tablets, coated tablets, film-coated tablets, capsules;
- ✓ Gallbits - suppositories, drops, syrups, ointments;
- ✓ Parenteral - injection solutions, lyophilisate powder for injection.

### 6. Products

The company has more than 210 products in its portfolio: mainly generics and 15 original products, 12 of the products are plant-based. The Company's original products (in particular, Carsil and Tempagine) make a major contribution to its export market income, while domestic sales are of major importance to the company's generic products, including Analgin's first drug.

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

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

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

## II. Development of the activity

### 1. Review the main risks faced by the Company

Sopharma AD has eight manufacturing facilities, which are compliant with EU regulations and are located in Bulgaria. The Company is the largest Bulgarian producer of sterile forms and suppositories.

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

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

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

- ✚ The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Group's operations and position.
- ✚ The political environment in Bulgaria has a significant effect on the Group's operations and financial condition.
- ✚ The political environment in the Group's export markets, especially in Russia and Ukraine, has a significant effect on the Group's operations and financial condition.
- ✚ Risks related to the Bulgarian legal system.
- ✚ Developing legal frameworks in some countries in which the Group sells its products, in particular Russia and Ukraine, may negatively impact the Group's operations in such countries.

- ✚ Risks relating to exchange rates and the Bulgarian Currency Board.
- ✚ Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change.

### Currency risk

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

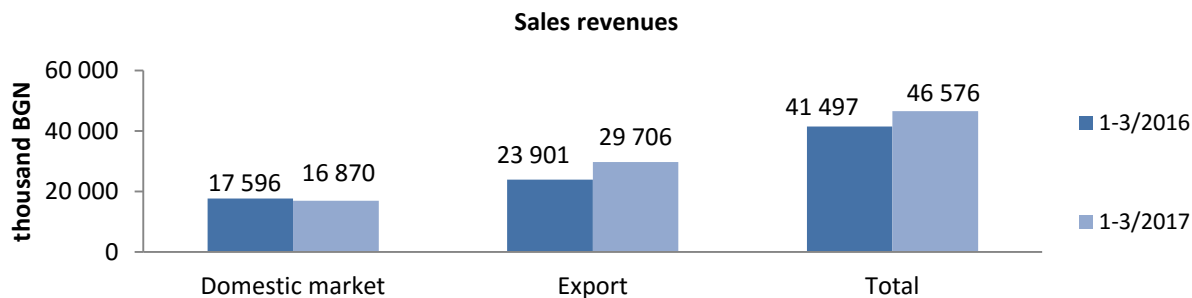
### 2. Revision of the activities of the company and the main risks it faces (art. 39, item 1 of the Accounting Law)

#### Key financial indicators

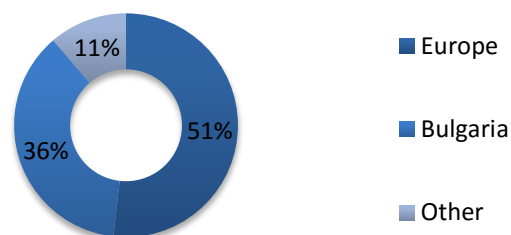
Indicators	1-3/2017 BGN '000	1-3/2016 BGN '000	change %
Sales revenues	46 576	41 497	12,2%
EBITDA	16 496	16 498	0%
Operating profit	12 824	12 985	-1,2%
Net profit	12 012	11 711	2,6%
CAPEX	1 666	2 517	-33,8%
	<b>31.03.2017</b>	<b>31.12.2016</b>	

	BGN '000	BGN '000	
Non-current assets	408 486	407 099	2,1%
Current assets	168 480	162 009	-5,7%
Owners' equity	474 871	462 875	7,2%
Non-current liabilities	36 188	38 062	-14,1%
Current liabilities	65 907	68 171	-28,0%
<b>Ratios</b>	<b>1-3/2017</b>	<b>1-3/2016</b>	
EBITDA / Sales revenues	35,4%	39,8%	
Operating profit/ Sales revenues	27,5%	31,3%	
Net profit/ Sales revenues	25,8%	28,2%	
Borrowed capital/Owners' equity	0,21	0,23	
Net debt/ EBITDA	1,69x	2,61x	

Sales revenues of production decrease by BGN 10 million or 6%, reaching BGN 163.8 million at the end of 2016, compared to BGN 173.8 million at the end of 2015.



Revenues by market	1-3/2017 BGN '000	1-3/2016 BGN '000	Change %
Europe	24 431	20 408	20%
Bulgaria	16 870	17 596	-4%
Other	5 275	3 493	51%
<b>Total</b>	<b>46 576</b>	<b>41 497</b>	<b>12%</b>





### Europe

Revenues from sales to European countries decreased by 10% compared to 2015 due to the decrease of sales in Russia, Poland, Belarus and Serbia. The sales in Latvia, Ukraine, Croatia, Kosovo, Bosna and Herzegovina increase. Towards the end of the period certain signals for stabilization of the Russian economic and political situation were visible and this provides a certain degree of comfort for 2017. This effect for the export sales will be supported also by the recovering sales in the Ukraine. After the restructuring of the export activities in the Company the local structures are focused on increasing the sales on a number of markets as Poland, Belarus, Latvia etc.

### Bulgaria

The sales of Sopharma AD on the domestic market decrease by BGN 1.6 million, or 3% and reached BGN 62.2 million at the end of 2016 compared to BGN 63,8 million at the end of 2015, the main reason being the overall price erosion on the market (for the same period the company realized 7% increase in volume of sales). The products with largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C and Nivalin. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 14% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0,3% in units), Actavis – 5% (11% in units), GlaxoSmithKline – 4% (2% in units), Sanofi-Aventis – 4% (3% in units), Astra Zeneca – 3% (1% in units), Bayer – 3% (2% in units).

### Other markets

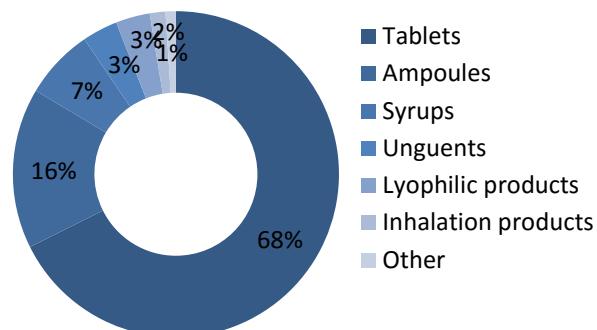
Revenues from other markets increase with 3% compared to 2015. These mainly include revenues from sales in the Caucasus and Central Asia. Sales revenue in Vietnam, USA and Mongolia.

## Sales by type of formulation

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

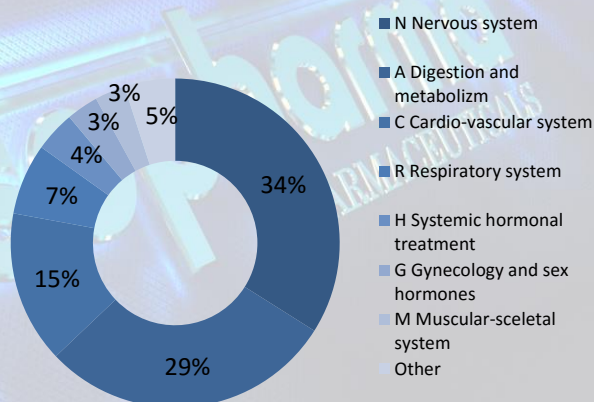
Revenues by type of formulation	1-3/2017 BGN '000	1-3/2016 BGN '000	Change %
Tablets	31 523	28 805	9%
Ampoules	7 609	6 278	21%
Syrups	3 077	1 652	86%
Unguents	1 562	1 509	4%

Lyophilic products	1 542	2 278	-32%
Inhalation products	798	588	36%
Other	465	387	20%
<b>Total</b>	<b>46 576</b>	<b>41 497</b>	<b>12%</b>



## Sales by therapeutic group

Revenues by therapeutic group	1-3/2017 BGN '000	1-3/2016 BGN '000	Change %
N Nervous system	15 960	13 898	15%
A Digestion and metabolism	13 574	12 724	7%
C Cardio-vascular system	6 864	5 467	26%
R Respiratory system	3 455	3 675	-6%
H Systemic hormonal treatment	1 689	1 000	69%
G Gynecology and sex hormones	1 563	1 415	10%
M Muscular-skeletal system	1 189	694	71%
Other	2 282	2 624	-13%
<b>Total</b>	<b>46 576</b>	<b>41 497</b>	<b>12%</b>



### Other operating revenues

Other operating revenues	1-3/2017 BGN '000	1-3/2016 BGN '000	Change %	Share 2017 %
Income from services rendered	768	736	4%	82%
Income from financing under European programs	125	124	1%	13%
Income from sale of goods	51	77	-34%	5%
Income from sale of LTA		30	-100%	0%
Income from sale of materials	30	13	131%	3%
Net loss from exchange rate differences from CR, CP, BA	(67)	(100)	-33%	-7%
Other (see Notes to the FS)	26	43	-40%	3%
<b>Total</b>	<b>933</b>	<b>923</b>	<b>1%</b>	<b>100%</b>

Other operating income increased by BGN 0,5 million or 15% from BGN 3.7 million in 2015 to BGN 4.2 million in 2016.

### Operating expenses

Operating expenses	1-3/2017 BGN '000	1-3/2016 BGN '000	Change %	Share 2017 %
Changes in the finished goods and work-in-progress inventory	(4 143)	(7 029)	-41%	-12%
Materials	17 032	16 452	4%	49%
External services	8 133	7 036	16%	23%
Personnel	9 327	8 820	6%	27%
Amortization	3 672	3 513	5%	11%
Other operating expenses	664	643	3%	2%
<b>Total</b>	<b>34 685</b>	<b>29 435</b>	<b>18%</b>	<b>100%</b>

Operating expenses increased by BGN 5.3 million or 18% from BGN 29.4 million in the first quarter of 2016 to BGN 34.7 million in the first quarter of 2017, which is linked to A rise in sales since the beginning of 2017 and an increase in inventories of finished goods and work in progress. Cost of materials (39% share) decreased by BGN 6.4 million or 10% from BGN 61.6 million in 2015 to BGN 55.2 million in 2016.

Expenditure on raw materials (by 49%) increased by BGN 0.6 million or by 4% from BGN 16.4 million in the first quarter of 2016 to BGN 17 million in the first quarter of 2017 , With the greatest impact being the decrease of the basic materials by BGN 0.2 million mainly in the part

of liquid and solid chemicals, vials, ampoules and herbs. Discounts show the costs of substances and packaging materials.

Expenditure on external services accounted for 23% relative share of operating expenses and increased by BGN 1.1 million or 16% to BGN 8.1 million in the first quarter of 2017 compared to BGN 7 million in the first quarter of 2016. The most significant impact is the increase in the cost of manufacturing of medicaments by BGN 0.7 mln, the cost of consultancy services by BGN 0.3 mln and the transport costs by 0.3 mln leva.

Personnel costs (with a relative share of 27% of operating costs) increased by BGN 0.5 million or by 6% from BGN 8.8 million in the first quarter of 2016 to BGN 9.3 million. In the first quarter of 2017.

Other operating costs (with a relative share of 2% of operating costs) retained their value in the first quarter of 2017 compared to the first quarter of 2016.

Depreciation costs (with a relative share of 11% of operating expenses) registered an increase of BGN 0.2 million or by 4% from BGN 3.5 million in the first quarter of 2016 to BGN 3.7 million in the first quarter of 2017.

Changes in inventories of finished goods and work in progress have an impact on the increase in operating expenses by BGN 3 million.

### Financial income and expenses

<b>Financial income</b>	<b>1-3/2017 BGN '000</b>	<b>1-3/2016 BGN '000</b>	<b>Change %</b>	<b>Share 2016 %</b>
Interest income on loans granted	342	586	-42%	34%
Reversal of impairment of trade loans	651	-	-	66%
Net gains on securities transactions	-	5	-100%	0%
<b>Total</b>	<b>993</b>	<b>591</b>	<b>68%</b>	<b>100%</b>
<b>Financial expenses</b>				
Expenses for interest on loans received	269	513	-48%	73%
Hedging of monetary funds effects	97	144	-33%	21%
Bank fees for loans and guarantees	47	44	7%	6%
Financial leasing expenses	-	1	-100%	0%
<b>Total</b>	<b>413</b>	<b>702</b>	<b>-41%</b>	<b>100%</b>

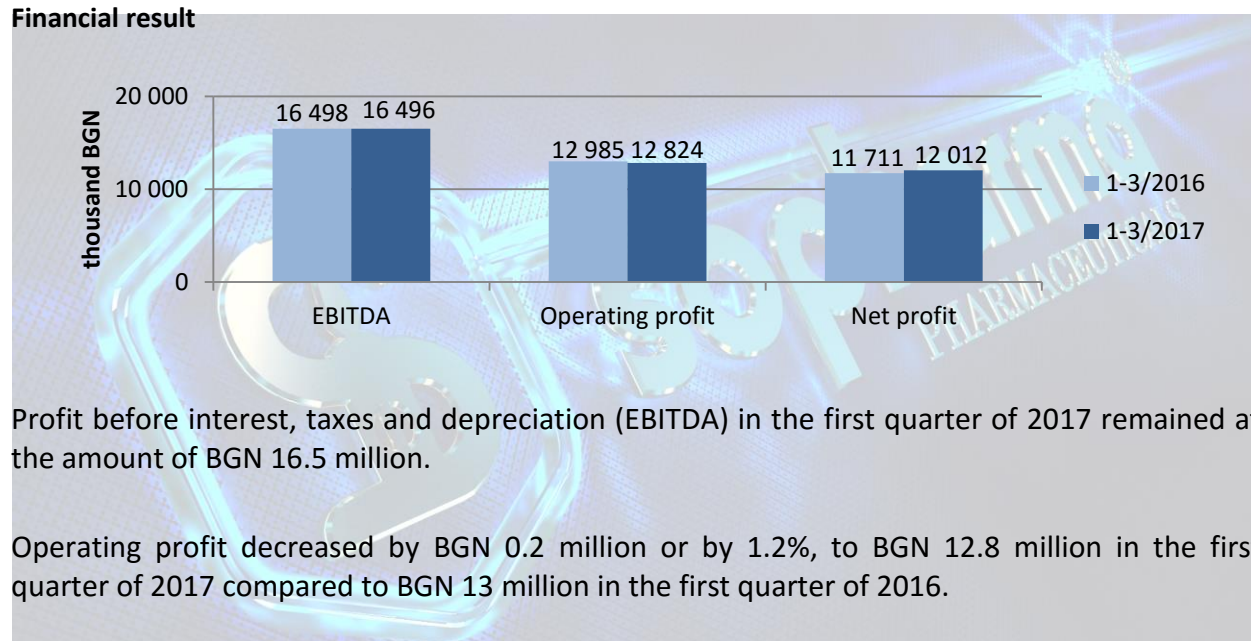


Financial revenues increased by BGN 0.4 million or 68%, to BGN 1 million in the first quarter of 2017 compared to BGN 0.6 million in the first quarter of 2017. This is the result of a recovered impairment of trade Loans with BGN 0.7 million.

Financial expenses are reduced by BGN 0.3 million or by 41% to BGN 0.4 million in the first quarter of 2017 compared to 0.7 million BGN in the first quarter of 2016. This is mainly due to Decrease of the interest on loans received by BGN 0.2 million.

Net financial revenues increased by BGN 0.7 million reaching BGN 0.6 million for the first quarter of 2017 compared to BGN 0.1 million for the first quarter of 2016.

### Financial result



Profit before interest, taxes and depreciation (EBITDA) in the first quarter of 2017 remained at the amount of BGN 16.5 million.

Operating profit decreased by BGN 0.2 million or by 1.2%, to BGN 12.8 million in the first quarter of 2017 compared to BGN 13 million in the first quarter of 2016.

Net profit increased by BGN 0.3 million or 2.6%, to BGN 12 million in the first quarter of 2017 compared to BGN 11.7 million in the first quarter of 2016. The main The reasons for its growth are an increase in financial income in the portion of recovered impairment of trade loans, as well as a decrease in interest expense on bank borrowing as a result of the improvement of the price conditions and reduction of the exposure to financial institutions.

### Assets

	31.03.2017	31.12.2016	Change	Share
	BGN '000	BGN '000	%	2016
<b>Non-current assets</b>				
Property, plant and equipment	207 338	209 326	-1%	51%
Intangible assets	2 107	2 177	-3%	1%
Investment property	22 840	22 840	0%	6%
Investments in subsidiaries	147 654	147 583	0%	36%
Investments in associated companies	5 219	5 219	0%	1%
Available-for-sale investments	5 138	5 229	-2%	1%
Long-term receivables from related parties	14 528	11 011	32%	4%
Other long-term receivables	3 662	3 714	-1%	1%
	<b>408 486</b>	<b>407 099</b>	<b>0.3%</b>	<b>71%</b>
<b>Current assets</b>				
Inventories	59 148	56 807	4%	35%
Receivables from related parties	76 213	71 076	7%	45%
Commercial receivables	24 116	22 479	7%	14%
Other receivables and prepaid expenses	3 749	4 859	-23%	2%
Cash and cash equivalents	2 425	4 343	-44%	1%
	<b>168 480</b>	<b>162 009</b>	<b>4%</b>	<b>29%</b>
<b>TOTAL ASSETS</b>	<b>576 966</b>	<b>569 108</b>	<b>1%</b>	<b>100%</b>

Total assets increased by BGN 7.9 million or by 1% to BGN 577 million, compared to BGN 569.1 million as at 31.12.2016.

Non-current assets increased by BGN 1.4 million, or 0.3%, mainly due to an increase in long-term receivables from related enterprises by BGN 3.5 million. Decrease assets in property, plant and equipment by 2 Million BGN, mainly in the part of machinery and equipment by BGN 1.8 million, as well as in the part of land and buildings by BGN 0.9 million. The increase by BGN 1 million is recorded for the assets in Acquisition process.

Intangible assets decreased by BGN 0.07 million, mainly in the area of intellectual property rights.

Current assets increased by 6.5 million. Lev or 4% to 168.5 million. BGN to 31.03.2017 to 162 million. BGN to 31.12.2016 Inventories increased by 2.3 million. BGN or 4% compared to 31.12.2016 mainly by an increase in stocks of finished goods 3.6 million. BGN and stocks of semi 1.5 million. BGN receivables from related parties increased by 5 million In the part of receivables from sales of products and materials by BGN 6.1 million and decreased by BGN 1.9 million in commercial loans and in 31.03.2017 are 2.4 million. BGN to 4.3 million. BGN to 31.12.2016.

Liabilities and owners' equity

	31.03.2017	31.12.2016	Change	Share
	BGN '000	BGN '000	%	2016
<b>OWNERS' EQUITY</b>				
Share capital	134 798	134 798	0%	28%
Treasury stock	(18 809)	18 809)	0%	-4%
Reserves	304 387	304 403	0%	64%
Retained earnings	54 495	42 483	28%	11%
<b>TOTAL OWNERS' EQUITY</b>	<b>474 871</b>	<b>462 875</b>	3%	100%
	31.03.2017	31.12.2016	Change	Share
	BGN '000	BGN '000	%	2016
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	22 047	23 844	-8%	22%
Liabilities on deferred taxes	5 686	5 703	0%	6%
Government financing	5 741	5 866	-2%	6%
Long-term liabilities to the personnel	2 714	2 649	2%	3%
	<b>36 188</b>	<b>38 062</b>	-5%	35%
<b>Current liabilities</b>				
Short-term bank loans	41 416	48 291	-14%	41%
Short-term part of long-term bank loans	7 153	7 185	0%	7%
Commercial liabilities	6 418	4 712	36%	6%
Liabilities to related parties	1 775	497	257%	2%
Liabilities for taxes	1 582	609	160%	2%
Liabilities to the personnel and for social insurance	6 054	5 363	13%	6%
Other current liabilities	1 509	1 514	0%	1%
	<b>65 907</b>	<b>68 171</b>	-3%	65%
<b>TOTAL LIABILITIES</b>	<b>102 095</b>	<b>106 233</b>	-4%	100%
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>	<b>576 966</b>	<b>569 108</b>	1.4%	

The share capital increased by BGN 12 million or by 3% to BGN 474.9 million as of 31.03.2017 compared to BGN 462.9 million as of 31.12.2016, mainly as a result of an increase in Unallocated profit of BGN 12 million.

Non-current liabilities decreased by BGN 1.9 million or 5% to BGN 36.2 million at the end of the first quarter of 2017 compared to BGN 38.1 million at the end of 2016 mainly due to a decrease Of long-term bank loans by BGN 1.8 million.

Current liabilities decreased by BGN 2.3 million or 3%, to BGN 65.9 million at the end of March 2017 compared to BGN 68.2 million at the end of 2016. This is mainly due to Decrease of short-term bank loans by BGN 6.9 million. Increase in liabilities to related enterprises by BGN 1.3 million trade liabilities by BGN 1.7 million, liabilities to personnel and social security by 0.7 mln. And tax liabilities by BGN 1 million.

Total exposure to bank loans to the Company as at 31 March 2017 decreased by BGN 8.7 million compared to 31.12.2016

### Ratios

	31.12.2016	31.12.2015	Change
ROE	31.12.2016	31.03.2016	1,4%
ROA	8,3%	6,9%	1,5%
Asset turnover	6,6%	5,1%	-0,01
Current liquidity	0,29	0,30	0,62
Quick ratio	2,56	1,94	0,45
Cash/current liabilities	1,66	1,21	-0,07
Owners' equity/liabilities	0,04	0,11	1,33

### Cash flow

	1-3/2017 BGN '000	1-3/2016 BGN '000
Net cash flow from/(used in) operations	10 125	11 040
Net cash flow used in investment activities	(3 231)	(2 973)
Net cash flow (used in)/from financial operations	(8 812)	(1 858)
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(1 918)</b>	<b>6 209</b>
Cash and cash equivalents on 1 January	4 343	3 745
Cash and cash equivalents on 31 December	2 425	9 954

### 3. New developments and products



New Products with First-Trimester Authorizations 2017



Authorizations for new product destinations Amlodipine tablets, Zondaron ampoules have been received and Analgin drops for children and Softensif 1.5 mg have been introduced. Film-coated tablets with prolonged release.



### Expected 2017

By the end of 2017, it is expected that 3-5 new products will be introduced.



### Developments

More than 15 production processes and technologies are in process of transfer, validation and optimization. Documentation has been submitted for new registrations of more than 10 products.

## 5. Significant events in the first quarter of 2017 and the publication of the interim activity report

- On 5 January 2017 a merger agreement has been announced in the United States between Acta Life Lives Inc., a company in which Sopharma holds 4.7 percent of the capital and Onco Gennes Pharmaceuticals Inc., according to which Onco Gennes Pharmaceuticals Inc. will acquire Achieve Life Securities Inc. through an all- Stock transaction). Upon completion of the proposed merger, unit-holders of Achieve Livescence Inc will be expected to have 75% of the unincorporated shares of the combined entity, and current shareholders of Onco Gennes Pharmaceuticals Inc. will hold the remaining 25% of the outstanding shares. The agreement has been submitted to the Securities and Exchange Commission (SEC). Following its approval, the combined company will be renamed Achieve Life Inc. and will be listed on the NASDAQ. As a result of the aforementioned actions, Sopharma AD will own 423,000 shares (3,525%) of the share capital of Achieve Life Seans Inc.,
- Pursuant to Art. 100k., Para. 1 of the Public Offering of Securities Act shall be announced that on 31.01.2017, on the grounds of art. 222e and later of the Commercial Law Medica JSC, transforming company, and Sopharma AD, receiving company, have entered into a Transformation Conversion Contract. The merger transformation agreement regulates the way in which the transformation will be carried out through the merger of Medica AD into Sopharma AD and the consequent consequences for the transforming and the receiving company. The fair value of the shares of the companies involved in the transformation has been determined on the basis of generally accepted valuation methods. Based on the fair price of the shares of the companies involved in the transformation, a replacement ratio of 0.9486 is formed, which means that one share of the transforming Medica AD should be replaced by 0.9486 shares of the receiving company Sopharma AD. On March 24, 2017, an additional agreement between Sopharma AD (acquiring company) and Medika AD (transforming company) was submitted for review to the Financial Supervision Commission (FSC) and updated

justifications of the fair prices of the two companies in accordance with the instructions of the FSC . Against each of its shares by Medika AD each shareholder of the company on the grounds of Art. 261b, ap. 1 of the Commerce Act will acquire 0.8831 shares of the capital of Sopharma AD. All other transformation terms are defined in the Transformation Agreement. As of the date of issue of this report, the FSC has not granted approval under Article 104 of the POSA to the transformation contract.

- On 13.02.2017 the merger agreement, the reports of the management bodies of the companies involved in the transformation and the report of the examiner under Art. 622m of the Commercial Act for transformation by merger between Sopharma AD and Medika AD were submitted for approval to the FSC on the grounds of Art.124 , Para 1 of the Public Offering of Securities Act. As a result of the merger, all the assets of Medika AD will be transferred to Sopharma AD and the latter will become its successor. Medika AD will cease without liquidation.
- On 20 March 2017, Sopharma AD and Medika AD signed an additional agreement to the Transformation Concession Agreement as directed by the FSC. All documents will be submitted for approval to the FSC on the grounds of Art. 124, para. 1 of the Public Offering of Securities Act, following the preparation of an independent auditor's report. As a result of the merger, all shareholders of the transforming Medika AD, with the exception of the receiving company Sopharma AD, which is also a shareholder in the transforming company, will acquire shares in the capital of Sopharma AD and become shareholders in it. Against each of its shares by Medika AD each shareholder of the company on the grounds of Art. 261b, ap. 1 of the Commerce Act will acquire 0.8831 of the repurchased shares of the capital of Sopharma AD. All other transformation terms are defined in the Transformation Agreement.
- On 17.03.2017 Sopharma AD made a tender offer under Art. 149, para. 6 of POSA from for the purchase of the shares of the remaining shareholders of Unipharm AD at a price of BGN 4,350 per share. Sopharma AD as a commercial offeror declares that it does not own 1 342 234 shares representing 22.37% of the total number of ordinary shares with ISIN code BG1100154076 and from the votes in the General Assembly of Unipharm AD and makes a proposal to the other holders of ordinary shares Of Unipharm AD for the purpose of their acquisition. On 12.04.2017 the Financial Supervision Commission (FSC) issued a temporary ban on the publication of a tender offer by Sopharma AD for the purchase of shares of Unipharm AD from the other shareholders of the company.
- On 05.04.2017 Sopharma AD received a decision of the CPC that the acquisition by Sopharma AD of shares of the capital of Doverie United Holding AD at this stage is not subject to prior notification under Art. 24, para. 2 of the LPC. Sopharma AD will take

appropriate action in reaching the established thresholds requiring a tender offer to the other shareholders of Doverie United Holding AD.

- On April 18, 2016, Sopharma AD announced that the Company acquired 51% of the capital of the Moldovan distributor of medicinal products RAP Pharma International after obtaining permission from the Moldovan Competition Commission to realize the acquisition
- On 24.04.2017 an Extraordinary General Meeting of Shareholders of Sopharma AD took place and took the following decisions:

1. Approval of Substantiated report by the Board of Directors for transactions under art. 114, par. 1 of POSA; Draft decision: EGM approves the Substantiated report, prepared by the Board of Directors, for transactions under art. 114, par. 1 of POSA, with the participation of the public company SOPHARMA AD.

2. Authorization of the Board of Directors of the Company to conclude a contract for provisioning of collateral in the form of a corporate guarantee in the form of a mortgage on a real estate owned by Sopharma AD and a special pledge on machines and equipment, as a collateral under a contract with a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter One of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Company to conclude a contract for provisioning of collateral in the form of a corporate guarantee according to the terms and conditions, listed in Chapter One of the Substantiated report, i.e. conclude a contract for provisioning of collateral in the form of a corporate guarantee in the form of a mortgage on a real estate owned by Sopharma AD and a special pledge on machines and equipment, as a collateral under a contract with a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD.

3. Authorization of the Board of Directors of the Company to conclude a contract as a co-debtor for a contract between a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA, according to Chapter Two of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Company to conclude a contract as a co-debtor for a contract between a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA, according to Chapter Two of the Substantiated report.



4. Authorization of the Board of Directors of the Company to conclude a contract as a co-debtor with a Financial Institution (DSK Bank Bulgaria) for an overdraft credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA, according to Chapter Three of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Company to conclude a contract as a co-debtor with a Financial Institution (DSK Bank Bulgaria) for an overdraft credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1, item 2 of POSA, according to Chapter Three of the Substantiated report.

5. Authorization of the Board of Directors of the Company to conclude a contract as a co-debtor with a Financial Institution (Societe Generale Expressbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Four of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Company to conclude a contract as a co-debtor with a Financial Institution (Societe Generale Expressbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Four of the Substantiated report.

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

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

### **5. Related party information**

Related party disclosures are disclosed in the notes to the interim financial statements.



### III. Information about the shares of Sopharma AD

The total number of shares issued by Sopharma, issued on 31.03.2017, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, in accordance with the Articles of Association of the Company. All issued shares are of one class. Each share entitles one vote to the General Meeting of Shareholders, a right to dividend and a liquidation share proportional to the nominal value of the share.

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

#### Key indicators of the shares of Sopharma AD

	31.03.2017	31.03.2016
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	129 284 722	129 598 457
Number of shares outstanding at the end of the period	129 135 485	129 576 603
Earnings per share in BGN	0,294	0,230
Price per share at the end of the period in BGN	3,90	2,687
Price/Earnings ratio (P/E)	13,27	11,68
Book value per share in BGN	3,68	3,422
Price/Book value ratio (P/B)	1,06	0,79
Sales per share in BGN	1,308	1,349
Price per share / Sales per share(P/S)	2,98	1,99
Market capitalization in BGN	525 711 806	362 201 955

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

