

# MANAGEMENT REPORT

H1 2018



**SOPHARMA GROUP**

29 August 2018

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## I. General information about Sopharma Group

### 1. Main activities

Sopharma Group (the Group) is a leading Bulgarian producer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and South-eastern Europe, offering a wide range of prescription medicines and OTC products.

The Group operates in the following areas:

- ✚ production of pharmaceutical products including medicines, primarily generics, herbal-based substances and food supplements, which is primarily done by Sopharma AD (the Company) and to a lesser extent by its production subsidiaries including Unipharm AD in Bulgaria and PAO Vitamini in Ukraine;
- ✚ production of medicinal products and medicinal cosmetics, as plasters, bandages and sanitary-hygiene products focused on the production site in Sandanski city (after the merger of Medica AD in Sopharma AD);
- ✚ distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements and cosmetics, which is mainly performed by Sopharma Trading in Bulgaria, Lekovit D.o.o. in Serbia, Briz SIA in the Baltic region, and Brititrade SOOO in Belarus;
- ✚ production and distribution of non-pharmaceutical products, primarily medical supplies such as syringes and other disposables used in medicine, which is mainly performed by Momina Krepost AD, and other complementary activities to the production of pharmaceutical products and distribution of pharmaceutical products.

### 2. Registration and activity of the Company

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

Sopharma was established in 1933. The court registration of the Group is from 15 November 1991, decision №1/1991 of Sofia City Court. Sopharma AD is a public company under the Public Offering of Securities Act.

The Group 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.

## 3. Controlled companies

Sopharma Group consists of Sopharma AD and 50 subsidiaries, directly or indirectly controlled by the Company. In addition, the Group has investments in 3 joint ventures, and 1 associate.

Group	Interest as at 30.06.2018 in %
Sopharma Trading AD, Sofia, Bulgaria*	72.89
Biopharm Engineering AD, Sliven, Bulgaria	97.15
Pharmalogistica AD, Sofia, Bulgaria	89.39
Elektroncommerce EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	40.38
Momina Krepost AD, Veliko Tarnovo, Bulgaria	93.56
Unipharm AD, Sofia, Bulgaria*	98.77
Phyto Palauzovo AD, Kazanluk, Bulgaria**	95.00
Sopharmacy EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 2 EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 3 EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 4 EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 5 EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 6, EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 7, EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 8, EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 9, EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 10, EOOD, Sofia, Bulgaria**	72.89
Veta Pharma AD, Veliko Tarnovo, Bulgaria	99.98
Aromania OOD, Sofia, Bulgaria	76.00
Sopharmacy 11 (PharmaStore 1) EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 12 (PharmaStore 2) EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 13 (PharmaStore 3) EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 14 (PharmaStore 4) EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 15 (PharmaStore 5) EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 16 EOOD, Sofia, Bulgaria**	72.89
Sopharmacy 17 EOOD, Sofia, Bulgaria**	72.89
PAO Vitaminy, Uman, Ukraine	99.56
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Sopharma Warsaw Sp. z. o. o, Warsaw, Poland	100.00
Sopharma Trading d.o.o. Belgrade **	72.89
BRIZ ZAO, Riga, Latvia	66.13
Brititrade SOOO, Minsk, Belarus**	52.90

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Tabina SOOO, Minsk, Belarus **	53.71
Brizpharm SOOO, Minsk, Belarus**	35.85
Sopharma Ukraine, Kiev, Ukraine	100.00
OOO Med-dent, Bobruisk, Belarus***	50.00
OOO Pharmacist Plus, Minsk, Belarus**	40.72
B000 SpetzApharmacia, Bobruisk, Belarus***	50.00
ZAO TBS Pharma, Vilnius, Lithuania**	33.73
OOO Bellerofon, Minsk, Belarus***	50.00
TOO Sopharma Kazakhstan, Almaty, Kazakhstan	100.00
ZAO Interpharm, Vitebsk, Belarus***	59.52
OOO Galenapharm, Pinsk, Belarus**	54.62
ODO Medjel, Minsk, Belarus**	55.55
ODO Alenpharm-Plus, Belarus**	52.24
OOO Pharmateia, Minsk, Belarus***	43.91
ODO Salius Line, Grodno, Belarus**	52.24
Rap Pharma International OOD, Kishinev, Moldova	51.00
Lekovit D.o.o., Sabac, Serbia**	51.02
OOO Zdorovei, Minsk, Belarus**	38.94
OOO Ivem i K, Minsk, Belarus**	46.18
OOO Ariens, Polotzk, Belarus**	39.83

\*effective interest in percent

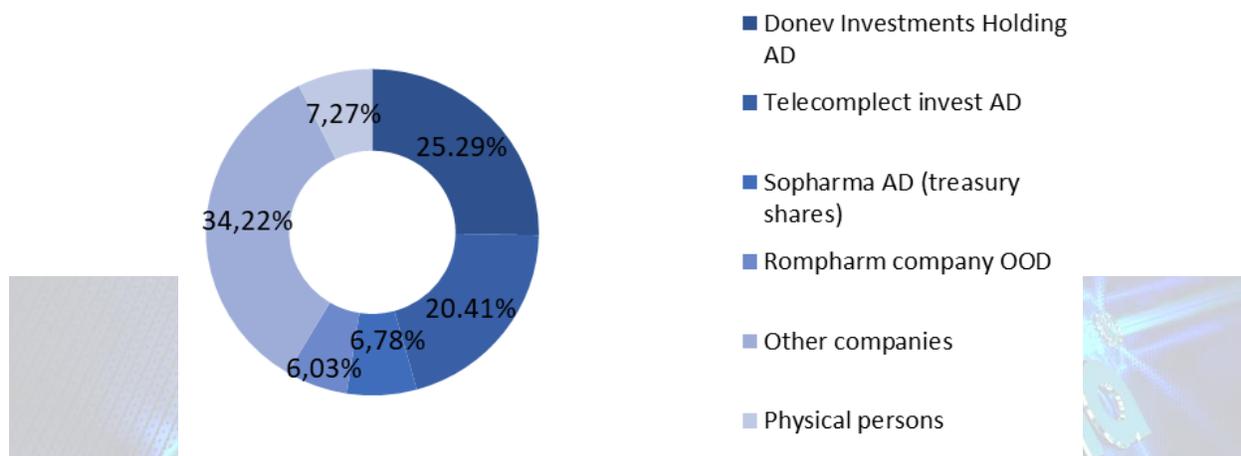
\*\*indirect interest

\*\*\*joint venture

#### 4. Board of directors

Sopharma AD has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD - Chairman and members Vessela Stoeva, Alexander Tchaushev, Ognian Palaveev and Ivan Badinski (from 01.08.2018). The company is represented and managed by the Executive Director Ognian Donev, PhD.

## 5. Shareholder structure as at 30 June 2018



## 6. Employees

As at 30.06.2018, the average number of employees of Sopharma Group is 5 100 (compared to 4 895 in 2017). The average number of employees of Sopharma AD as at 30.06.2018 is 2 038 (at 1 953 in 2017) and of Sopharma Trading AD is 824 (compared to 749 in 2017).

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

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

## II. Recent developments

### 1. Industrial activity

The company and its twelve manufacturing facilities are compliant with EU regulations and are located in Bulgaria and one facility in Ukraine certified and acknowledged by the local authorities and all countries from the CIS. With the exception of the facility in the Ukraine all other facilities have been examined and certified according to the EU GMP.

## Sopharma Group

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The production activities of the Group are carried out and developed in the following areas:

- ✚ production of pharmaceutical products;
- ✚ substances and preparations based on vegetable raw materials (phytochemical production);
- ✚ veterinary vaccines;
- ✚ infusion solutions;
- ✚ concentrates for hemodialysis;
- ✚ medical disposable products for human and veterinary medicine;
- ✚ injection molded products for the industry, agriculture and households.

### *Sopharma AD*

The Company has a portfolio of more than 210 products: mainly generics and 15 original products, of which 12 products are phyto-based. The original products of the Group (and in particular Carsil and Tempalgin) are key contributors to its revenue from export markets, while for the domestic sales the most important products are generics, of which the leading drug is Analgin.

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

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

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

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

### *Unipharm AD*

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

#### Products:

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

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

### *Biopharm Engineering AD*

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

- ✚ Manufacture of infusion solutions;
- ✚ Production of injection solutions;
- ✚ Manufacture of veterinary medical preparations;

#### Main products:

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

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### Main Markets:

The manufactured infusion solutions are realized through Sopharma AD on both the Bulgarian and the international market. Veterinary medical products are available in Bulgaria and other European countries.

### *PAO Vitamini AD*

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

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

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

## **2. Distribution**

### *Sopharma Trading AD*

The company is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 22% (according to IMS). Sopharma Trading is the only distributor on the Bulgarian market of particular pharmaceutical products for several leading international pharmaceutical and other companies the field of healthcare such as Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk.

The Group offers more than 10 000 products (particularly pharmaceutical products, medical equipment and devices, accessories, cosmetics, vitamins and food supplements) in its portfolio, including the brands of Sopharma, and holds exclusive rights for Bulgaria over brands of strategic partners such as Aboca, Colief, Jamieson, Planter's, Premax, Skincodex, SVR Laboratories, US Pharmacia and Wyeth, specialized services (such as software solutions for

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pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and over 3 000 clients.

### *SIA BRIZ, Latvia*

Briz develops its activity in the following main directions:

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

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

### **3. Revision of the activities of the Group and the main risks it faces**

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

- + The Group faces significant competition;
- + Part of Sopharma Trading's revenue in Bulgaria is generated by sales to state hospitals, which predetermines a high degree of business risk;
- + Reputation of the Group may be adversely affected by untrue or misleading information available on websites containing the name "Sopharma", including [www.sopharma.com](http://www.sopharma.com), which have not been authorized by the Group;
- + The Group is dependent on regulatory approvals;

- ✦ Government regulations affecting the Group's business may change, thus possibly increasing compliance costs or otherwise affecting its operations;
- ✦ Part of the Group's revenues, in particular in Bulgaria, depend on the inclusion of the Group's medicines on reimbursement lists;
- ✦ The Group's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Group's operations;
- ✦ The Group's ability to pay dividends depends on a number of factors and there can be no assurance that the Group will be able to pay dividends in accordance with its dividend policy or at all in any given year;
- ✦ The Group is subject to operational risk, which is inherent to its business activities;
- ✦ The Group is subject to numerous environmental and health and safety laws and regulations and is exposed to potential environmental liabilities;
- ✦ Litigation or other out-of-court proceedings or actions may adversely affect the Group's business, financial condition and results of operations.

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

- ✦ The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Group's operations and position;
- ✦ The political environment in Bulgaria has a significant effect on the Group's operations and financial condition;
- ✦ The political environment in the Group's export markets, especially in Russia and Ukraine, has a significant effect on the Group's operations and financial condition;
- ✦ 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;
- ✦ Risks related to the Bulgarian legal system;

### *Currency risk*

The Group companies carry out their activities in active exchange with foreign suppliers and customers and are therefore exposed to currency risk.

Through the companies in Belarus and Ukraine, the group carries out business operations in these countries and, accordingly, has substantial exposures in Belarusian rubles and Ukrainian hryvnia. The currency risk is related to the negative movement of the exchange rates of these currencies against the Bulgarian lev in the future business operations, the recognized assets and liabilities in foreign currency and the net investments in foreign

companies. The rest of the companies abroad are selling mainly on local markets, leading to currency risk and against their currencies – Serbian Dinar, Polish zloty, Lithuanian litas, US dollars, British pounds and Kazakhstan tenge, and for Kazakhstan the Group minimizes risk through forward transactions.

Most of the operations of the Group companies are usually denominated in Bulgarian leva and the Bulgarian lev is fixed to the euro, which reduces the potential currency volatility for these companies in the Group.

To control the currency risk, a system is in place throughout the Group for import planning, for foreign currency sales, as well as procedures for day-to-day monitoring of movements in the US dollar exchange rate and for control over pending payments. The exposures of the subsidiaries in Bulgaria to currency risk are insignificant as almost all sales are realized on the local market in Bulgarian leva. Imports of goods are fully realized in euro. Loans when denominated in foreign currency are mainly denominated in euro.

#### 4. Analysis of the activities

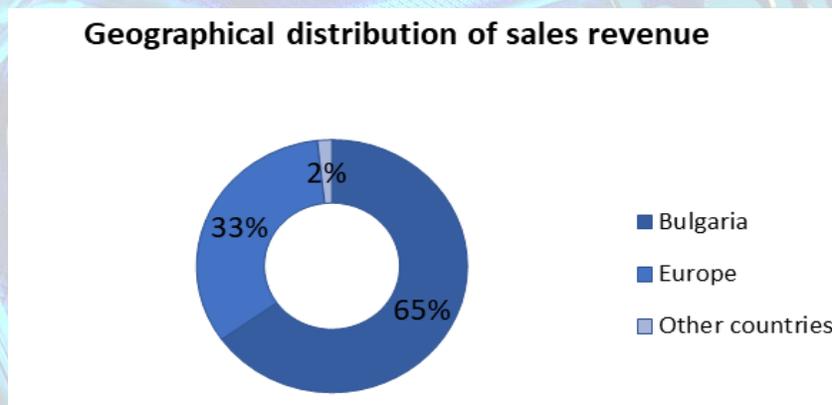
##### Key financial indicators

Indicator	1-6/2018 BGN '000	1-6/2017 BGN '000	Change %
Revenues from sales	569 762	470 300	21.1%
EBITDA	43 587	48 802	-10.7%
Operating profit	27 145	33 743	-19.6%
Net profit	22 459	29 993	-25.1%
CAPEX*	10 130	10 800	-6.2%
	<b>30.06.2018</b>	<b>31.12.2017</b>	
	<b>BGN '000</b>	<b>BGN '000</b>	
Non-current assets	464 898	468 369	-0.7%
Current assets	524 119	512 364	2.3%
Owners' equity	506 644	503 110	0.7%
Non-current liabilities	75 305	80 061	-5.9%
Current liabilities	407 068	397 562	2.4%

\*acquired tangible and intangible fixed assets

Indicator	1-6/2018	1-6/2017
EBITDA/Sales revenues	7,7%	10,4%
Operating profit / Sales revenues	4,8%	7,2%
Net profit/Sales revenues	3,9%	6,4%
Attracted capital / Equity	0,95	0,80
Net debt/EBITDA on annual basis	3,4x	2,7x

Revenue from sales of the Group increase with BGN 99.4 million or 21%, reaching BGN 569.8 million in H1 2018 compared to BGN 470.4 million in H1 2017. Sales of goods increased with BGN 102.5 million or 30%, reaching BGN 448.5 million in H1 2018 compared to BGN 346 million in H1 2017. Sales of finished products decrease by BGN 3 million, or 2%, to BGN 121.3 million in H1 2018 compared to BGN 124.3 million in H1 2017.



The contribution of sales in Bulgaria to the consolidated sales revenue in H1 2018 amounted to 65%, increasing by 10% compared to H1 2017. Sopharma has a 3.5% share of the Bulgarian pharmaceutical market in terms of value and a 12% share in terms of sold quantity (units). The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0.3% in units), Actavis – 5% (10% in units), GlaxoSmithKline – 4% (3% in units), Pfizer – 3.6% (1% in units), Sanofi-Aventis – 3.6% (3% in units), Abbvie – 3.5% (0% in units), Astra Zeneca – 3% (1% in units), Merck – 2.7% (1% in units).

Revenues from sales of the Group in Europe amount to 33% of total consolidated sales revenues for H1 2018 and increase with 56% compared to H1 2017.

## Sales by type of formulation

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

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

Revenues from products	1-6/2018	1-6/2017	Change	
	BGN '000	BGN '000		
Tablets	80 408	84 235	-5%	<ul style="list-style-type: none"> <li>■ Tablets</li> <li>■ Ampoules</li> <li>■ Consumables, dressing materials and apparatuses</li> <li>■ Unguents</li> <li>■ Syrups</li> <li>■ Lyophilic products</li> <li>■ Infusion solutions</li> <li>■ Veterinary vaccines</li> <li>■ Total</li> </ul>
Ampoules	17 081	16 632	3%	
Consumables, dressing materials and apparatuses	5 088	3 732	36%	
Unguents	4 174	4 876	-14%	
Syrups	3 568	4 282	-17%	
Lyophilic products	2 882	3 319	-13%	
Infusion solutions	989	793	25%	
Veterinary vaccines	842	769	9%	
Other	6 264	5 647	11%	
<b>Total</b>	<b>121 296</b>	<b>124 285</b>	<b>-2%</b>	

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

Revenue earned from sale of goods	1-6/2018	1-6/2017	Change	
	BGN '000	BGN '000		
Tablets	215 766	170 785	26%	<ul style="list-style-type: none"> <li>■ Tablets</li> <li>■ Ampoules</li> <li>■ Syrups</li> <li>■ Drops</li> <li>■ Cosmetic products</li> <li>■ Unguents</li> <li>■ Consumables, dressing materials and apparatuses</li> <li>■ Food supplements and herbs</li> <li>■ Others</li> </ul>
Ampoules	103 333	87 105	19%	
Syrups	31 593	23 617	34%	
Drops	27 858	15 126	84%	
Cosmetic products	12 763	6 257	104%	
Unguents	12 635	9 870	28%	
Consumables, dressing materials and apparatuses	11 341	12 590	-10%	
Food supplements and herbs	9 559	10 784	-11%	
Others	23 618	9 881	139%	
<b>Total</b>	<b>448 466</b>	<b>346 015</b>	<b>30%</b>	

## Other operating revenues

Other revenues	1-6/2018	1-6/2017	change	Relative share 2018
	BGN '000	BGN '000	%	%
Services rendered	3 631	2 044	78%	78%
Government grants	449	570	-21%	10%
Services related to social activities and events	437	431	1%	9%
Rents	359	364	-1%	8%
Income from sales of LTA	110	124	-11%	2%
Profit / (loss) from sale of materials	48	33	45%	1%
Written-off liabilities	2	37	-95%	0%
Net exchange losses on trade receivables and payables	(574)	(1 301)	-56%	-12%
Other (see Notes to the financial statements)	222	354	-37%	5%
<b>Total other operating income</b>	<b>4 684</b>	<b>2 656</b>	<b>76%</b>	<b>100%</b>

Other operating income increase by BGN 2.1 million, reaching BGN 4.7 million in H1 2018, compared to BGN 2.6 million in H1 2017 due to an increase in services rendered by BGN 1.6 million. Decrease by BGN 0.7 million in net losses from exchange rate differences under trade receivables and payables and current accounts.

## Operating expenses

Operating expenses	1-6/2018	1-6/2017	change	relative share of expenses in 2018
	BGN '000	BGN '000	%	%
Changes in inventories of finished goods and work in progress	(14 047)	(6 123)	129%	-3%
Materials	44 583	45 694	-2%	8%
Hired services	35 880	28 472	26%	7%
Personnel	59 892	48 058	25%	11%
Depreciation and amortization	16 442	15 059	9%	3%
Carrying amount of goods sold	400 421	304 602	31%	73%
Other operating expenses	4 130	3 451	20%	1%
<b>Total</b>	<b>547 301</b>	<b>439 213</b>	<b>25%</b>	<b>100%</b>

*Operating expenses* in H1 2018 increased by BGN 108.1 million or by 25% from BGN 439.2 million in H1 2017 to BGN 547.3 million in H1 2018. The change is a consequence of growth of sales and, respectively, of the carrying amount of goods sold by the group, an increase in the cost of hired services, personnel costs, depreciation.

*The cost of materials* (with a 8% share) decreased by BGN 1.1 million or 2% to BGN 44.6 million in H1 2018 compared to BGN 45.7 million in H1 2017. The cost of basic materials decreased by BGN 1.6 million or by 5%, the most significant impact being reported for the costs of substances, sanitary and hygienic materials and ampoules, which decrease by BGN 2.5 million, BGN 0.3 million and BGN 0.2 million respectively. An increase is reported for the costs of auxiliary materials, spare parts, laboratory and technical materials, costs of heating, fuels and lubricants and others.

*External services expenses* account for 7% relative share of operating expenses and increased by BGN 7.4 million or by 26% to BGN 35.9 million for H1 2018 compared to BGN 28.5 million for H1 2017. The increase includes advertising and marketing services by BGN 2.6 million, rentals by BGN 1.4 million, consulting services by BGN 0.5 million, bank and regulatory fees by BGN 0.1 million, maintenance costs for buildings and equipment by BGN 0.7 million, subscription fees by BGN 0.5 million, making of medicines by BGN 0.9 million. Decrease is reported for the costs of forwarding and transport services by BGN 0.4 million, service taxes and others.

*Personnel costs* (with a share of 11%) increased by BGN 11.8 million or by 25% to BGN 59.9 million in H1 2018 compared to BGN 48.1 million in H1 2017. The overall growth of these expenses is due both to the increase in the remuneration of the hired personnel and the increased staff in the Group as a result of the consolidation of new companies (Lekovit Serbia and pharmacy chain PharmaStore).

*Other operating expenses* (with a 1% share) increased with BGN 0.6 million or 20% from BGN 3.5 million in H1 2017 to BGN 4.1 million in H1 2018. Increase in costs for representative events, trainings, scrap of fixed assets, accrued impairment of current assets, net and other costs.

*Depreciation costs* (with a 3% share) increased by BGN 1.3 million or 9% from BGN 15.1 million in H1 2017 to BGN 16.4 million in H1 2018.

## Financial Income and Expenses

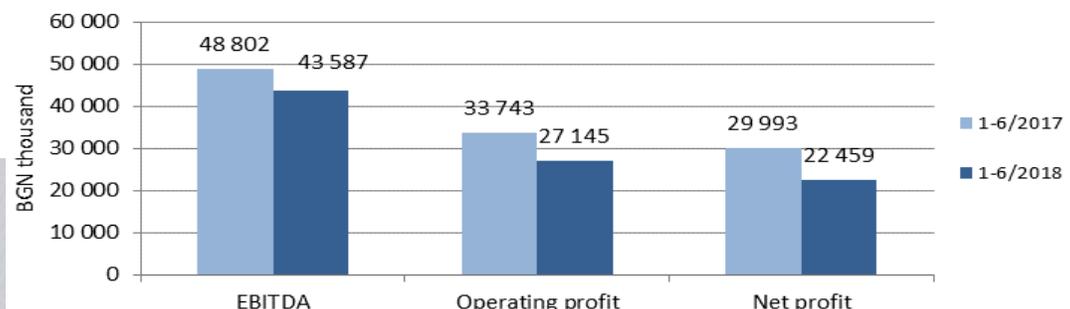
Finance income	1-6/2018	1-6/2017	change	relative share
	BGN '000	BGN '000	%	of revenue of 2018 %
Income from interest on arrears of trade receivables	1 108	1 952	-43%	42%
Net gain on investment securities transactions	543	2 936	-82%	21%
Interest income on granted loans	541	598	-10%	21%
Net foreign exchange gains on foreign currency loans	282	-	-	11%
Revenue from liquidation of subsidiaries	91	-	-	3%
Income from equity (dividends)	58	157	-63%	2%
Interest on receivables on special contracts	12	18	-33%	0%
Interest income on bank deposits	3	5	-40%	0%
<b>Total</b>	<b>2 638</b>	<b>5 666</b>	<b>-53%</b>	<b>100%</b>
			<b>change</b>	<b>relative share</b>
<b>Finance costs</b>				<b>of expenses in 2018</b>
Interest expenses on loans	3 233	3 598	-10%	84%
Bank fees on loans and guarantees	344	401	-14%	9%
Interest costs on factoring	140	178	-21%	4%
Impairment of receivables from commercial loans granted	70	478	-85%	2%
Interest expense on finance lease	41	171	-76%	1%
Derivatives effects	2	80	-98%	0%
Net foreign exchange losses on foreign currency	-	1 578	-100%	0%
<b>Total</b>	<b>3 830</b>	<b>6 484</b>	<b>-41%</b>	<b>100%</b>

*Financial revenue* decreased by BGN 3 million to BGN 2.6 million in H1 2018 compared to BGN 5.6 million in H1 2017, mainly due to a decrease in revenue from interest on arrears of trade receivables by BGN 0.8 million and a decrease in the net profit from investment securities transactions by BGN 2.4 million.

*Financial expenses* decreased by BGN 2.7 million from BGN 6.5 million in H1 2017 to BGN 3.8 million in H1 2018, mainly due to a decrease in interest expense on loans received by BGN 0.4 million and a decrease in the net loss from exchange rate differences on foreign currency loans of BGN 1.6 million.

*Net financial revenues (expenses)* changed by BGN 0.4 million to BGN 1.2 million as at 30 June 2018 compared to BGN 0.8 million at 30 June 2017.

## Financial result



*Profit before interest, taxes and depreciation (EBITDA)* decreased by BGN 5.2 million or 11% as in the first half of 2018 it amounted to BGN 43.6 million compared to BGN 48.8 million in the first half of 2017.

*The operating profit* decreased by BGN 6.6 million or 20% to BGN 27.1 million in H1 2018 compared to BGN 33.7 million in H1 2017.

*Net profit* decreased by BGN 7.5 million or by 25% to BGN 22.5 million in H1 2018 compared to BGN 30 million in H1 2017.

## Assets

	30.06. 2018	31.12.2017	change	Relative share 2018
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	315 251	317 620	-1%	68%
Intangible assets	60 715	63 449	-4%	13%
Goodwill	23 287	23 147	1%	5%
Investment property	9 747	9 811	-1%	2%
Investments in associated companies and joint ventures	19 349	19 536	-1%	4%
Available-for-sale investments	7 614	7 982	-5%	2%
Long-term receivables from related parties	21 991	20 599	7%	5%
Other long-term receivables	5 395	4 883	10%	1%
Deferred taxes	1 549	1 342	15%	0%

	<b>464 898</b>	<b>468 369</b>	-0.7%	47%
<b>Current assets</b>				
Inventories	234 380	218 109	7%	45%
Trade receivables	235 741	231 278	2%	45%
Receivables from related parties	6 489	4 694	38%	1%
Other short-term receivables and assets	25 876	24 955	4%	5%
Cash and cash equivalents	21 633	33 328	-35%	4%
	<b>524 119</b>	<b>512 364</b>	2.3%	53%
<b>TOTAL ASSETS</b>	<b>989 017</b>	<b>980 733</b>	0.8%	100%

*Total assets* increased by BGN 8.3 million or by 1%, from BGN 980.7 million as at 31.12.2017 to BGN 989 million as at 30.06.2018, due to an increase in current assets.

*Non-current assets* decreased by BGN 3.5 million or by 0.7%, mainly due to a decrease in the intangible assets by BGN 2.7 million as well as property, plant and equipment with BGN 21.4 million.

*Property, plant and equipment* decreased in the part of machines, plant and equipment, and in process of acquisition. The decrease in intangible assets is due to a decrease of intellectual property rights by BGN 2.4 million and of software products by BGN 0.8 million.

*Current assets* increased by BGN 11.7 million or 2%, to BGN 524.1 million as at 30.06.2018 compared to BGN 512.4 million as at 31.12.2017 mainly in the part of inventories with BGN 16.3 million, trade receivables by BGN 4.5 million, other short-term receivables and assets with BGN 0.9 million and receivables from related parties by BGN 1.8 million. The increase in inventories compared to 31.12.2017 is in the part of unfinished production, finished products, goods and semi-finished products.

*Trade receivables* increase by BGN 4.5 million in the part of customer receivables by BGN 1.4 million and in the part of advances provided, net by BGN 3.1 million.

*Cash and cash equivalents* decreased by BGN 11.7 million as compared to 31.12.2017 and deposits provided at the end of the period to the amount of BGN 2.1 million and blocked cash to the amount of BGN 1.3 million.

### *Liabilities and owners' equity*

EQUITY	30.06. 2018	31.12.2017	change	From owners' equity 2018
	BGN '000	BGN '000	%	%
<b>Equity attributable to owners of the parent</b>				
Share capital	134 798	134 798	0%	27%
Reserves	56 453	53 576	5%	11%

Retained earnings	283 653	281 509	1%	56%
	<b>474 904</b>	<b>469 883</b>	1%	94%
<b>NON-CONTROLLING INTEREST</b>	31 740	33 227	-4%	6%
<b>TOTAL EQUITY</b>	<b>506 644</b>	<b>503 110</b>	1%	100%
	<b>30.06.2018</b>	<b>31.12.2017</b>	<b>change</b>	<b>% total liabilities 2018</b>
<b>LIABILITIES</b>	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	
<b>Non-current liabilities</b>				
Long-term bank loans	46 152	50 526	-9%	10%
Deferred tax liabilities	13 485	13 704	-2%	3%
Long-term liabilities to personnel	5 785	5 458	6%	1%
Finance lease liabilities	1 701	1 950	-13%	0%
Government grants	7 897	8 250	-4%	2%
Other non-current liabilities	285	173	65%	0%
	<b>75 305</b>	<b>80 061</b>	-6%	16%
<b>Current liabilities</b>				
Short-term bank loans	211 153	194 165	9%	44%
Current portion of long-term bank loans	14 573	14 478	1%	3%
Trade payables	115 116	135 168	-15%	24%
Payables to related parties	8 049	757	963%	2%
Payables on contract for factoring	22 589	19 403	16%	5%
Payables to the personnel and for social security	16 207	12 895	26%	3%
Tax payables	5 404	7 375	-27%	1%
Other current liabilities	13 977	13 321	5%	3%
	<b>407 068</b>	<b>397 562</b>	2%	84%
<b>TOTAL LIABILITIES</b>	<b>482 373</b>	<b>477 623</b>	1%	100%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>989 017</b>	<b>980 733</b>	0.8%	

The equity of Sopharma Group increased by BGN 7 million compared to 31.12.2017, mainly due to an increase in retained earnings and reserves. The non-controlling interest is increased by BGN 1.6 million. The equity related to the equity holders of the Company is 48% of the total equity and liabilities, and there is improvement in the financial autonomy of the Group. The latter increases by BGN 5 million mainly due to the undistributed profit and reserves.

Non-current liabilities decreased by BGN 4.7 million, or 6%, from BGN 80 million at the end of 2017 to BGN 75.3 million at 30.06.2018, mainly from a decrease in long-term bank loans with BGN 4.4 million.

## Sopharma Group

*Current liabilities* increased by BGN 9.5 million or by 2% compared to the end of 2017, mainly due to an increase of short-term bank loans by BGN 17 million as well as the payables on contract for factoring by BGN 3.2 million, other current liabilities by BGN 0.7 million, payables to related parties by BGN 7.3 million and payables to personnel and social security with by BGN 3.3 million. There is a decrease of trade liabilities by BGN 20 million in the part of liabilities to suppliers. Total liabilities on bank loans, leasing and factoring of the Group increasing by BGN 15.7 million compared to the end of 2017, with the net debt after deduction of cash and cash equivalents increased by BGN 27 million.

### Ratios

	30.06.2018	30.06.2017
ROE <sup>1</sup>	6,7%	11,8%
ROA <sup>2</sup>	3,3%	6,2%
Asset turnover <sup>3</sup>	1,16	1,08
Current liquidity <sup>4</sup>	1,29	1,39
Quick ratio <sup>5</sup>	0,71	0,87
Cash/current liabilities <sup>6</sup>	0,05	0,05
Owners' equity/liabilities <sup>7</sup>	1,05	1,25

<sup>1</sup> Net profit on an annual basis attributable to equity holders of the Company / arithmetic mean of non-minority interest for the last five quarters

<sup>2</sup> Net profit on an annual basis attributable to equity holders of the Company / arithmetic mean of total assets for the last five quarters

<sup>3</sup> Revenue from sales on an annual basis / arithmetic mean of total assets over the last five quarters

<sup>4</sup> Current assets / current liabilities

<sup>5</sup> Receivables + Cash / Current liabilities

<sup>6</sup> Cash / Current liabilities

<sup>7</sup> Own capital / Liabilities

### Cash flow

	30.06.2018 BGN '000	30.06.2017 BGN '000
Net cash flow from/(used in) operations	(78 506)	(47 332)
Net cash flow used in investment activities	(12 383)	(48 565)
Net cash flow (used in)/from financial operations	88 555	90 655
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(2 334)</b>	<b>(5 242)</b>
Cash and cash equivalents on 1 January	22 614	22 339
Cash and cash equivalents on 30 June	20 280	17 097

Net cash flows in H1 2018 generated by operating activities amounted to BGN 78.5 million outflow, from investment activity amounted to BGN 12.4 million outflow and from financial activity amounted of BGN 88.6 million inward flow. As a result of these activities, the cash and cash equivalents net decreased by BGN 2.3 million and as at 30.06.2018 amounted to BGN 20.3 million compared to BGN 22.6 million at 01.01.2018.

Factoring inflow amounting to BGN 78.6 million are reported as cash flows from financing activities. As a consequence, a significant decrease in net cash flows from operating activities is recorded at the expense of an increase in net cash flows from financing activities.

### New developments and products

#### + New Products for the period January - June 2018:

A Marketing Authorization has been granted for the medicinal product Tuspan Syrup (in Poland).

#### + New medicinal products introduced into production:

For the period January – June – no new medicinal products introduced into production.

By the end of 2018, 2 to 4 new medicinal products are expected to be implemented.

#### + New registrations and re-registrations / changes:

##### New registrations

Permissions for use for new destinations of 21 medicinal products - Deavit Neo 0.5 mg / ml oral drops, 10 ml; Allergosan 10 mg / g cream; Digoxin Sopharma 0.25 mg / ml solution for injection; Atropine Sopharma 1 mg / ml solution for injection; Felogel Forte 5% gel; Syafen 100 mg / 5 ml oral suspension; Phenobarbital Sopharma 100 mg / ml solution for injection; Sopharol 0.5 mg / ml oral solution; Analgin 500 mg tablets; Lidocaine Sopharma 10 mg / ml solution for injection; Lidocaine Sopharma 20 mg / ml solution for injection; Clenbuterol Sopharma 0.02 mg tablets; Troxerutin Vip Pharma 20 mg/g gel (Estonia); Sophalor 5 mg film-coated tablets; Ivadron 3 mg/3 ml solution for injection; Ivadron 150 mg film-coated tablets; Allergosan 10 mg/g ointment; Sopral 20 mg gastro-resistant hard capsules; Urimax Duo 0.5 mg/0.4 mg capsules, hard; Tabex Elite 1.5 mg film-coated tablets; Vicetin 10 mg tablets; Vicetin 5 mg/ml solution for infusion.

Submitted to agencies of new destinations documents for the registration of 34 medicinal products.

Prepared and distributed to production are documents for the temporary importation of 6 medicinal products into third countries.

### Cosmetic products:

10 new cosmetic products have been notified in Bulgaria.  
2 cosmetic products are registered in Ukraine.

### Food additives:

2 food supplements have been notified in Bulgaria.  
2 food supplements are registered in Poland, Armenia and Georgia and sent for registration in seven countries.

### Medical supplies:

152 medical supplies are registered in Bulgaria and Moldova.  
6 new medical supplies have been submitted for registration in Bulgaria.

### Re-registrations / changes:

Updated authorizations for use of 47 medicinal products.  
Submission of documentation for the renewal of the Marketing Authorizations for 61 medicinal products to agencies.  
512 changes have been made for medicinal products to agencies.  
386 changes approved by the agencies for medicinal products.

### Developments:

There is a pharmaceutical development of 9 new medicinal products.  
10 manufacturing processes and technologies have been transferred and validated / optimized.

## **5. Significant events in the first half of 2018 and until the date of the interim consolidated management report**

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

✚ On 23 February 2018 an Extraordinary General Meeting of the Shareholders of Sopharma AD, where the following decisions were taken:

1. The GMS decided on the transformation through the merger of Unipharm AD into Sopharma AD. As a result of the merger, the entire property of Unipharm AD will be transferred to Sopharma AD under the conditions of a general succession;
2. The GMS approved the Transformation Agreement through the merger of Unipharm AD with Sopharma AD, concluded on 14.09.2017 and of Supplementary Agreement No 1 of 08.11.2017 to it;
3. The GMS approved the Report of the Board of Directors of Sopharma AD to the shareholders of the company regarding the merger of Unipharm AD into Sopharma AD;
4. The GMS approved the Auditor's Report under Art. 262m of the Commercial Law on the transformation through the merger of Unipharm AD into Sopharma AD;
5. The GMS adopted amendments to the Articles of Association of the Company which allow the payment of an interim dividend on the basis of a 6-month financial statement pursuant to the Public Offering of Securities Act.;
6. The GMS adopted a resolution for the buyback of its own shares, on the grounds of Art.187b of the Commercial Law and Art.111, para 5 of POSA under the following conditions: up to 10% of the total number of shares issued by the Company but not more than 3% each calendar year; term of the redemption - no longer than 5 (five) years; minimum redemption price - not less than the nominal value per share of the company's capital; maximum redemption price - BGN 5.50 per share.

✚ Due to the refusal issued by the Registry agency for the registration of the transformation through merger of Unipharm AD into Sopharma AD that started in September 2017, the Board of directors of Sopharma AD took a decision to close the previous and start a new procedure for transformation of Sopharma AD under the conditions of Chapter XVI of the Commercial Law and Art. 122 and et seq of the Public Offering of Securities Law, to be implemented through the merger of Unipharm AD, UIC 831537465, with headquarters and address of management in Sofia, Studentski district, Darvenitsa, 3 Trayko Stanoev Str. into Sopharma AD. The Board of Directors of the Company elects the investment intermediary Elana Trading AD, UIC 831470130, with headquarters and address of management in Sofia, 5, Lachezar Stanchev Str., as consultant in connection with the implementation of the transformation procedure.

✚ On 15 June 2018 a regular General Meeting of Shareholders of Sopharma AD took place, where the following decisions were taken:

1. GMS approved the Annual Report of the Board of Directors on the company's activities in 2017;
2. The GMS approved the Annual Report of the Investor Relations Director in 2017;
3. The GMS approved the audited Annual Individual Financial Statement of the Company for 2017;
4. The GMS approved the audited Annual Consolidated Financial Statement of the Company for 2017;
5. The GMS approved the Auditor's Report on the Audit of the Annual Individual Financial Statements of the Company for the year 2017;
6. The GMS approved the Auditor's Report on the Audit of the Annual Consolidated Financial Statements of the Company for the year 2017;
7. The GMS approved the proposal of the Board of Directors for the distribution of the company's profit in 2017 and undistributed profits from previous periods as follows: The total amount of the profit to be distributed amounts to BGN 43,010,955.52 (forty three million ten thousand nine hundred fifty-five leva and fifty-two stotinki) of which BGN 42,237,884.12 (forty two million two hundred thirty seven thousand eight hundred eighty four and twelve stotinki) profits realized in 2017 and BGN 773,071.40 (seven hundred seventy-three thousand seventy-one leva and forty cents) undistributed profits from past periods. After allocating 10% to a mandatory reserve, a dividend of BGN 0.11 per share is distributed. The amount left over after the allocation should be taken as an additional reserve of the company. The right to receive a dividend shall have the persons entered in the registers of the Central Depository as shareholders on the 14th day following the day of the General Meeting at which the Annual Financial Statement has approved a decision on the distribution of the profit was taken. The Company shall ensure the payment of the dividend voted to the shareholders at the General Meeting within 60 days of its execution. The costs of dividend payment are at the company's expense. The payment of the dividend is made with the assistance of the Central Depository. The shareholders with open accounts with an investment intermediary will receive their dividend through the respective intermediary and those shareholders who do not

use the services of an investment intermediary will receive their dividends from the branches of Eurobank Bulgaria AD (Postbank) in the country;

8. The GMS approved the Audit Committee's report on its activities in 2017;
9. The GMS released the members of the Board of Directors from responsibility for their activities in 2017;
10. The GMS elected a registered auditor to verify and certify the Annual Financial Statements of the Company for 2018, as proposed by the Audit Committee, included in the items on the agenda;
11. The General Meeting approved the Report of the Board of Directors on the Application of the Remuneration Policy of the Members of the Board of Directors of the Company for 2017;
12. Pursuant to Art. 24, para. 3, letter A of the Articles of Association of the company, the GMS decided: the permanent remuneration of the members of the Board of Directors and the permanent remuneration of the Executive Director in 2018 remain unchanged;
13. Pursuant to Art. 24, para. 3, letter B of the Articles of Association, the Executive Director of the company shall be paid an additional remuneration of 1% (one percent) of the amount of profits realized in 2017 according to the approved Annual Financial report;
14. The General Meeting adopted a decision of 2% (two percent) of the profit realized in 2017 to be distributed among the members of the company's senior management team, subject to the requirements of Art. 26a, item 12 of the Articles of Association of the Company;
15. The GMS adopted the Substantiated Report of the Board of Directors for transactions within the scope of Art. 114, para. 1 of POSA;
16. The GMS empowered the representative of the public company Sopharma AD to conclude on behalf of the company as a contracting entity a transaction with Telecomplect AD as a contractor falling within the scope of Art. 114, para. 1, in conjunction with para. 6 of the same provision of POSA, under the conditions specified in the Substantiated Report;

17. The GMS empowered the representative of the public company Sopharma AD as a seller to conclude a transaction with Sopharma Trading AD as a buyer falling within the scope of Art. 114, para. 1 of the POSA, under the conditions specified in the Substantiated Report;
18. The GMS empowered the representative of the public company Sopharma AD to conclude on behalf of the company as a co-debtor an overdraft loan agreement with creditor Eurobank Bulgaria AD and Momina Krepost AD as a debtor - a transaction falling within the scope of Art. 114, para. 1 of POSA, according to the conditions stated in the Substantiated Report;
19. The GMS empowered the representative of the public company Sopharma AD to conclude a transaction with Sopharma Properties REIT - a transaction falling within the scope of Art. 114, para. 1 of POSA, according to the conditions stated in the Substantiated Report;
20. The GMS decided shares of the Company to be granted as a bonus for 2018 on the occasion of the 85th anniversary of the Company to all persons having an employment relationship with the Company or working under a management contract at the date of this decision taking the bonus is at the expense of the Company's own shares. The proposal of the Board of Directors included in the agenda items contains detailed information on how to determine the number of shares to be given to each person. The GMS empowers the Chairman of the Board of Directors and Executive Director to perform all necessary actions for the final transfer from the Company of the shares provided as a bonus to the employees.

✚ On 21 June 2018 a regular General Meeting of Shareholders of Sopharma Buildings REIT was held where the following decisions were taken:

1. The General Meeting of Shareholders adopted the Annual Report of the Board of Directors on the activities of the Company in 2017; The Annual Activity Report of the Investor Relations Director in 2017; The Auditor's Report on the Audit of the Annual Financial Statements of the Company for 2017; The Audited Annual Financial Statement of the Company for 2017; The audit committee's report on its activities in 2017; The Report of the Board of Directors on the Implementation of the Remuneration Policy of the Members of the Board of Directors of the Company for the year 2017;

2. The General Meeting of Shareholders approved the proposal of the Board of Directors that the Company should not distribute a dividend for 2017 on the grounds that the Company had completed the accounting year 2017 with a negative financial result. The resulting loss for 2017, amounting to 65,736.31 (sixty-five thousand seven hundred thirty-six leva and thirty-one stotinki), shall be covered by the accumulated reserves of the Company's Equity Premiums Fund;
3. The General Meeting of Shareholders released from liability the members of the Board of Directors of the Company for their activity in 2017;
4. The General Meeting of Shareholders kept the current amount of the constant monthly remunerations of the members of the Board of Directors of the Company in 2018;
5. The General Meeting of Shareholders elected the Specialized Audit Company Baker Tilly Klitou and Partners OOD, Sofia, 1612 Akad. Ivan Evst. Geshov Blvd., № 104, for verifying and certifying the Annual Financial Statements of The Company for 2018, as proposed by the Audit Committee of the Company.

✚ On 14 June 2018 the General Meeting of shareholders of Momina krepost AD - Veliko Tarnovo was held and were taken the following decisions:

1. The GMS Approved the annual report of the Board of Directors on the activity of the company in 2017 together with the corporate governance statement and the non-financial declaration for 2017;
2. The GMS approved the Annual Activity Report of the Investor Relations Director in 2017;
3. The GMS approved the Audit Report for the Audit of the Annual Financial Statements of the Company for the year 2017;
4. The GMS approved the Audited Annual Financial Statement of the Company for the year 2017;
5. The GMS approved the Audit Committee's report on its activities in 2017;
6. The GMS approved a decision for allocation of the financial result / net loss of BGN 207 thousand / of the Company realized in 2017;
7. The GMS approved a decision on the discharge of the members of the Board of Directors for their activity in 2017;

8. The GMS elected a registered auditor to verify and certify the Company's Annual Financial Statement for 2018, as proposed by the Audit Committee;
9. The GMS approved a report on the implementation of the remuneration policy of the members of the Board of Directors of Momina Krepost AD for 2017;
10. The GMS decided on the extension of the current term of office of the Board of Directors for a new period of five (five) years from the date of expiration of the present mandate;
11. The GMS decided the amount of the permanent monthly remuneration of the Chairman of the Board of Directors in 2018 to be BGN 1500, the members of the Board of Directors - BGN 1200 and the amount of the monthly remuneration under the Management Contract of the Executive Director for 2018 will be BGN 2600.

✚ On 15 June 2018 the General Meeting of shareholders of Sopharma Trading AD was held and the following decisions were taken:

1. The GMS approved the annual report of the Board of Directors on the activity of the company in 2017 year;
2. The GMS approved the Annual Activity Report of the Investor Relations Director in 2017;
3. The GMS approved the Auditor's Report on the Audit of the Annual Financial Statements of the Company for 2017;
4. The GMS approved the Audited Annual Financial Statements of the Company for 2017;
5. The GMS approved the Auditor's Report for the Audit of the Consolidated Annual Financial Statements of the Company for 2017;
6. The GMS approved the Audited Consolidated Annual Financial Statements of the Company for 2017;
7. The GMS approved the report of the Board of Directors under Art. 12, para. 1 of Ordinance No 48 of 20 March 2013 on the remuneration requirements;
8. The GMS approved the Audit Committee's report on its activities in 2017;
9. The GMS approved the proposal of the Board of directors for distribution of the Company's profit realized in 2017: The net financial result of BGN 14,581,004.27 / fourteen million five hundred eighty one thousand four leva and twenty seven stotinki

/ divided as follows: BGN 1 458 100,43 / one million four hundred and fifty-eight thousand one hundred and forty-three stotinki / shall be assigned to the Reserve Fund as a 10% reserve, 9 871 502,70 BGN / nine million eight hundred seventy and one thousand five hundred and two levs and seventy cents / to be distributed a cash dividend of the shareholders, BGN 3,251,401.14 / three million two hundred fifty one thousand four hundred and one levs and fourteen stotinki / to be taken as an additional reserve of the company. The proposed gross dividend per share is BGN 0.30 (thirty cents);

10. The GMS approved a decision to discharge the members of the Board of Directors for their activities in 2017;

11. The GMS discharged of the members of the Board of Directors of Sopharma Trading AD due to the expiry of their mandate;

12. The GMS elected Ognian Donev, Dimitar Dimitrov and Angel Yordanov for members of the Board of Directors of Sopharma Trading AD and determined of their management guarantee in the amount of BGN 6000, which each member of the board of directors has to pay within 7 days;

13. The GMS determined the amount of the monthly remuneration of each member of the Board of Directors for 2018 in the amount of BGN 2000;

14. The General Meeting of Shareholders decided to pay a variable remuneration to the Executive Director of Sopharma Trading AD to be paid a one-time remuneration amounting to one percent of the net profit of the company in 2017 according to the approved Annual Financial Statement for 2017. The payment of 40% the remuneration shall be spread over a period of three years. The payment of the deferred portion of the variable remuneration shall be made in proportion, in equal monthly installments;

15. The GMS elects a registered auditor to be appointed for verification and certification of the Company's Annual Financial Statement for 2018 and the Consolidated Annual Financial Statements of the Company for the year 2018, as proposed by the Audit Committee;

16. The GMS approved the Substantiated report of the Board of Directors under Art. 114a, para 1 of the Public Offering of Securities Act on the feasibility and conditions of transactions from the scope of Article 114, paragraph 1 of POSA;

17. - 35. Empowering the Board of Directors of the company to conclude transactions in the scope of Art.114, para 1 of POSA according to the Substantiated report of the Board of Directors from Section I to Section XIX.

✚ Sopharma Trading AD entered in the Commercial Register a subsidiary under the name Sopharmacy 16 EOOD and Sopharmacy 17 EOOD. They are based in Sofia, Izgrev district, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, 12th floor and manager - Valeria Vidulova - Kaneva. Sopharmacy 16 EOOD will operate under UIC 205116765 and Sopharmacy 17 - UIC 205117397 In the meantime, the company also registered a change in the names of the five companies Pharmastore. The new names are as follows: Pharmastore 1 EOOD - Sopharmacy 11 EOOD; Pharmastore 2 EOOD - Sopharmacy 12 EOOD; Pharmastore 3 EOOD - Sopharmacy 13 EOOD; Pharmastore 4 EOOD - Sopharmacy 14 EOOD; Pharmastore 5 EOOD - Sopharmacy 15 EOOD. All of them also have a management address in Sofia, Izgrev district, 5 Lachezar Stanchev Str., Sopharma Business Towers, A building, 12th floor and manager - Valeria Vidulova – Kaneva.

✚ On 25 June 2018 Sopharma AD received approval from the FSC of the Transformation Agreement through the merger of Unipharm AD into Sopharma AD as well as the reports of the management bodies and the reports of the auditors. The fair value of the shares of the companies involved in the transformation is determined on the basis of generally accepted valuation methods. Based on the fair price of the shares of the companies involved in the transformation, a replacement ratio of 0.957502 is formed, which means that one share of the transforming company Unipharm AD should be replaced by 0.957502 shares of the receiving company Sopharma AD from the redemption shares, which the receiving company has. All the terms of the transformation are described in detail in the Transformation Agreement and the reports of the Managing Authorities were approved at the General Meetings of the Companies.

✚ Due to non-fulfillment of the requirements of Art. 41, para. 2, in conjunction with Art. 6, para. 2, item 1 and item 2 of Part III Rules for Admission to Trading by the Rules and Regulations of BSE AD, as at 1 August 2018 the registration of the BSE Main Market, Standard Segment of the Issuer Momina Krepost AD with BSE code 5MR and is admitted to trading on the Alternative Market BaSE, the Equities segment.

✚ On 29 July 2018 Unipharm AD informs that by letters dated 27 July 2018 to the Bulgarian Stock Exchange and Central Depository AD, the Company has temporarily suspended the stock exchange trading by issue of shares issued by Unipharm AD, stock exchange code (59X ), ISIN code BG1100154076, from 30.07.2018 until completion of the transformation.

✚ Due to non-fulfillment of the requirements of Art. 41, para. 2, in conjunction with Art. 6, para. 2, item 1 and item 2 of Part III Rules for Admission to Trading by the Rules and Regulations of BSE AD, as at 1 August 2018 the registration of the BSE Main Market, Standard Segment of the Issuer Momina Krepost AD with BSE code 5MR and is admitted to trading on the Alternative Market BaSE, the Equities segment.

✚ On 1 August 2018 a regular General Meeting of Shareholders of Unipharm AD was held and the following decisions were taken:

1. The General Meeting of Shareholders accepted the Annual Report of the Management Board on the Company's activities in 2017;

2. The General Meeting of Shareholders approved the Investor Relations Director's Activity Report for 2017;

3. The General Meeting of Shareholders approved the audited Annual Financial Statement of the Company for the year 2017;

4. The General Meeting of Shareholders approved the Auditor's Report on the Audit of the Annual Financial Statements of the Company for 2017;

5. The General Meeting of Shareholders approved the Report of the Audit Committee on its activities in 2017;

6. The General Meeting of Shareholders approved the proposal of the Management Board for distribution of the company's profit realized in 2017, namely: the profit for 2017 years at the amount of BGN 1,641,990.55 (one million six hundred forty one thousand nine hundred and ninety leva fifty five cents), after deduction of 10% (ten percent) of the statutory reserve - BGN 164 199 (one hundred and sixty four thousand one hundred ninety-nine leva) to be taken as an additional reserve of the company. No dividend is distributed to the shareholders;

7. The General Meeting of Shareholders released the members of the Management Board from responsibility for their activity in 2017;

8. The General Meeting of Shareholders released the members of the Supervisory Board from responsibility for their activity in 2017;

9. The General Meeting of Shareholders kept the monthly remuneration of the members of the Supervisory Board at its current amount;

10. The General Meeting of Shareholders chooses the specialized auditing company Baker Tilly Klitou and partners OOD, UIC 131349346, with address Sofia 1612, Acad. Ivan Evstatiev Geshov № 104, for audit and verification of the Annual Financial Statements of Unipharm AD for 2018, as proposed by the Audit Committee;
11. The General Meeting of Shareholders approved the Report on the Implementation of the Board of Directors' Remuneration Policy for 2017 approved by the Supervisory Board;
12. The GMS transformed through merger of Unipharm AD into Sopharma AD. As a result of the merger, the entire property of Unipharm AD will be transferred to Sopharma AD under the terms of a general succession;
13. The GMS approved the contract for transformation through merger of Unipharm AD into Sopharma AD, concluded on 17.05.2018 and of Annex No. 1 of 13.06.2018 to it;
14. The GMS approved the Report of the Management Board of Unipharm AD to the shareholders of the company, under Art. 262 and of the Commercial Law on the transformation through merger of Unipharm AD into Sopharma AD;
15. The GMS approved the Auditor's Report under Art. 262m of the Commercial Law on the transformation through merger of Unipharm AD into Sopharma AD.
16. The GMS terminated Unipharm AD without liquidation due to its transformation through merger into Sopharma AD.
  - ✚ On 1 August 2018 an extraordinary General Meeting of the Shareholders of Sopharma AD was held, where the following decisions were taken:
    1. The General meeting of shareholders approved the decision for transformation of Sopharma AD, UIC: 831902088 by merging Unipharm AD, UIC: 831537465 into it. As a result of the merger, the entire property of Unipharm AD, UIC: 831537465 will be transferred to Sopharma AD, UIC: 831902088 under the conditions of general succession;
    2. The General meeting of shareholders approved the Contract for transformation through merger of Unipharm AD into Sopharma AD, concluded on 17.05.2018 and the Additional Agreement №1 of 13.06.2018 to it;
    3. The General meeting of shareholders approved the Report of the Board of Directors of Sopharma AD to the shareholders of the company regarding the transformation through merger of Unipharm AD into Sopharma AD;

4. The General meeting of shareholders approved the Auditor's Report under Art. 262m of the Commercial Law on the transformation through merger of Unipharm AD into Sopharma AD;
  5. The General Meeting approved the Substantiated report of the Board of Directors for transactions within the scope of Art. 114 of the POSA;
  6. The General Meeting of Shareholders empowers the Board of Directors to enter into transactions with Sopharma AD as a co-debtor under the conditions of solidarity under an Investment Credit Agreement for the implementation of a project under an Operational Program and a Contract for a credit line for working capital to be concluded between DSK Bank as a creditor and its subsidiary Biopharm-Engineering AD, Sliven, as a borrower under the conditions set out in the Substantiated Report prepared by the Board of Directors;
  7. The General Meeting elected Ivan Badinski as a member of the Board of Directors of Sopharma AD.
- ✚ Sopharma AD-Sofia presented an invitation for the Extraordinary General Meeting of Shareholders and materials for the General Meeting of Shareholders to be held on 14 September 2018 from 11:00 in Sofia-1756, 5 Lachezar Stanchev Str., SBT, Building B, floor 3, with the following agenda:
1. Approval of the individual financial statements for the first half of 2018;
  2. Taking a decision under Art. 30, para. 5-7 of the Company's Articles of Association for the distribution of profits and the payment of an interim dividend on the basis of the approved six-month financial statements;
  3. Approval of a Substantiated Report of the Board of Directors for transactions within the scope of Art. 114 of POSA; Draft decision: The GMS approves a Substantiated Report of the Board of Directors for Transactions within the scope of Article 114 of the POSA;
  4. Empowerment within the meaning of Art. 114, para. 1 of the Public Offering of Securities Act concerning the conclusion of a transaction under Section One of the Substantiated Report prepared by the Board of Directors;
  5. Empowerment within the meaning of Art.114, para 1 of the Public Offering of Securities Act, regarding the conclusion of a transaction under Section Two of the Substantiated Report prepared by the Board of Directors;

6. Empowerment within the meaning of Article 114, para 1 of the Public Offering of Securities Act for conclusion of a transaction under Section Three of the Substantiated Report prepared by the Board of Directors;
7. Empowerment within the meaning of Art.114, para 1 of the Public Offering of Securities Act, regarding the conclusion of a transaction under Section Four of the Substantiated Report prepared by the Board of Directors;
8. Miscellaneous.

### 6. Transactions with related parties

The information concerning transactions with related parties is presented in details in the Notes to the financial report.

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

The total number of shares issued by Sopharma, issued on 30.06.2018, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, according to the Articles of Association of the Company. All issued shares are of one class. Each share gives equal rights to its holder in proportion to the nominal value of the share.

The shares of the Company are traded on the Bulgarian Stock Exchange - Sofia AD, the Main Market (BSE), the PREMIUM Shares Market and on the official market of the Warsaw Stock Exchange. The shares participate in the formation of the SOFIX, BGBX40 and BGTR30 indices of BSE - Sofia AD. The company's shares are included in the Dow Jones STOXX EU Enlarged Total Market Index with a weight of 0.11%, with a weight of 5% in Erste Bank Bulgaria Basket, in the Raiffeisen Bank's Raiffeisen Osteuropa Fonds certificate as well as in the new Dow blue-chip index Jones STOXX Balkan 50 Equal Weighted Index. Sopharma AD is one of the three Bulgarian companies included in the Central and Eastern Europe (CEE) Index. 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*

	30.06.2018	30.06.2017
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the	129 325 750	128 956 563

## Sopharma Group

last four quarters

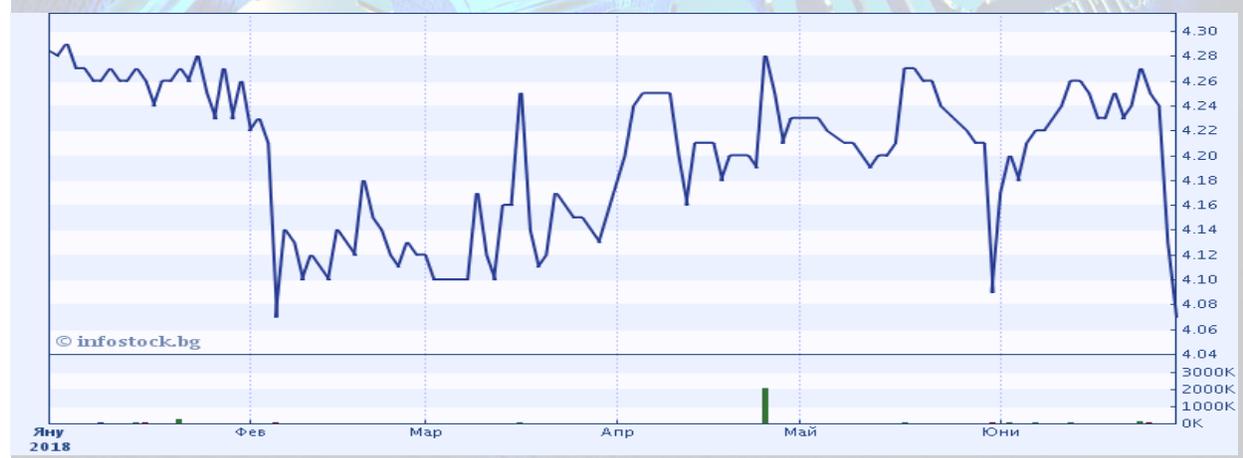
Number of shares outstanding at the end of the period	125 658322	129 148 984
Earnings per share in BGN <sup>1</sup>	0,246	0,413
Price per share at the end of the period in BGN	4,086	4,501
Price/Earnings ratio (P/E)	16,61	10,90
Book value per share in BGN <sup>2</sup>	4,03	3,67
Price/Book value ratio (P/B)	1,01	1,23
Sales per share in BGN <sup>3</sup>	8,89	1,378
Price per share / Sales per share(P/S)	0,46	7,15
Market capitalization in BGN	550 784 215	606 725 343

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

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

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

*Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 1 January 2018 – 30 June 2018.*




Ognian Donev, PhD  
/Executive Director/