

MANAGEMENT REPORT

2018



SOPHARMA COMPANY

26 March 2019

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I. General information about Sopharma AD

1. Registration and activity of the Company

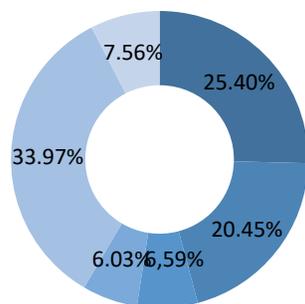
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16 Iliensko shose str.

Sopharma 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 pharmaceuticals. Sopharma Company provides services related to production, as well as to ancillary and supporting activities.

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

2. Shareholder structure as at 31 December 2018



- Donev Investnets Holding AD
- Telekomplekt Invest AD
- Sopharma AD (treasury shares)
- Romfarm company AD
- Other legal persons
- Other physical persons

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 and Ivan Venetskov Badinski (since 01.08.2018). The Company is represented

and managed by the Executive Director Ognian Donev, PhD.

II. Recent developments

1. Industrial activity

The Company has ten manufacturing facilities, located in Bulgaria, which are compliant with the EU regulations. The Company is the largest Bulgarian manufacturer of ampoules and suppositories.

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

- Substances and preparations based on vegetable raw materials (phytochemical production);
- Ready-to-use formulations, incl.
 - ✓ Hard tablets, coated tablets, film-coated tablets, capsules;
 - ✓ Galenic - suppositories, drops, syrups, ointments;
 - ✓ Parenteral - injection solutions, lyophilic powder for injection;
- Medical and cosmetic products, incl.
 - ✓ Plasters;
 - ✓ Dressing products;
 - ✓ Sanitary-hygiene products;
 - ✓ Herbal cosmetics;
 - ✓ Concentrates for hemodialysis.

2. Products

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

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

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

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

III. Information under Article 39 of the Accountancy Act

1. An overview of the Company's performance and main risks facing it (Article 39 (1) of the Accounting Act /

Key financial indicators

Indicator	1-12/2018 BGN '000	1-12/2017* BGN '000	Change %
Revenues	212 418	219 079	-3.0%
EBITDA	45 212	61 313	-26.3%
Operating profit	27 798	42 866	-35.2%
Net profit	33 298	44 228	-24.7%
CAPEX**	14 423	16 107	-10.5%

	31.12.2018	31.12.2017	
	BGN '000	BGN '000	
Non-current assets	410 609	407 791	0.7%
Current assets	197 617	183 360	7.8%
Owners' equity	489 219	477 478	2.5%
Non-current liabilities	25 606	33 913	-24.5%
Current liabilities	93 401	79 760	17.1%

* Recalculated data as a result of the merger of Unipharm AD, based on consolidation of the financial statements of Sopharma AD and Unipharm AD.

** tangible and intangible fixed assets acquired

Indicators	1-12/2018	1-12/2017*
EBITDA/ Revenues	21,3%	28,0%
Operating profit/Revenues	13,1%	19,6%
Net profit/Revenues	15,7%	20,2%
Attracted capital/ Equity	0,24	0,24**
Net debt/ EBITDA on annual basis	1,6x	1,2x**

* Recalculated data as a result of the merger of Unipharm AD, based on consolidation of the financial statements of Sopharma AD and Unipharm AD

** calculated on the basis of consolidated statements as at 31.12.2017

Risks, related 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, 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 multiple laws and regulations on environmental protection and health and safety work conditions and is exposed to potential environmental liabilities;
- Litigations or other out-of-court proceedings or actions may adversely affect the Company's business, financial condition and results of operations.

Risks, related to Bulgaria and other markets in which the Company operates

- The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Company's operations and position;
- The political environment in Bulgaria has a significant effect on the Company's operations and financial condition;
- The political environment in the Company's export markets, especially in Russia and Ukraine, has a significant effect on the Company's operations and financial condition.
- Risks, related to the Bulgarian legal system;
- Developing legal frameworks in some countries in which the Company sells its products, in particular Russia and Ukraine, may negatively impact the Company's operations in such countries;
- Risks, related to exchange rates and the Bulgarian Currency Board;
- Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Company may be changed.

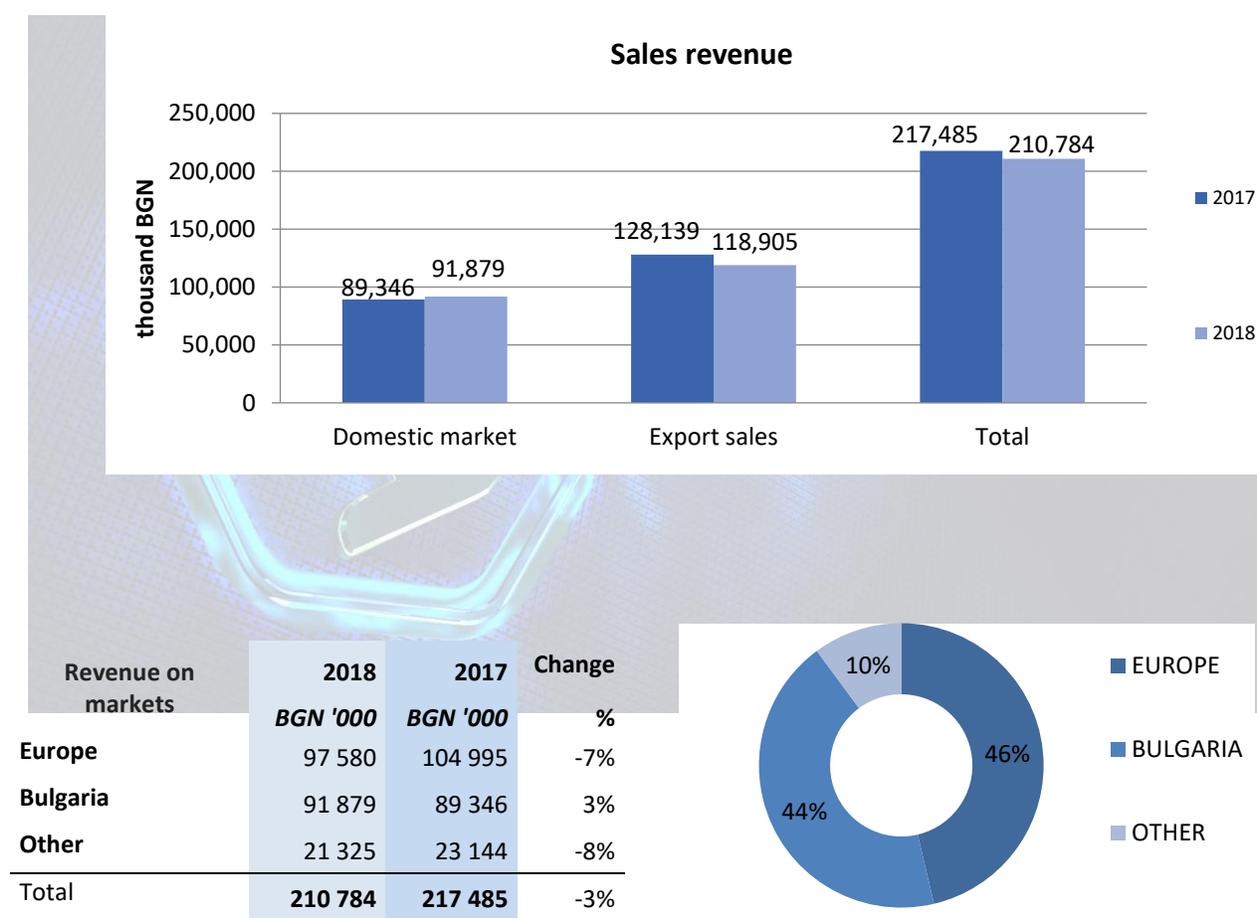
Currency risk

The Company carries out its activities in active exchange with foreign suppliers and customers. Therefore, it is exposed to currency risk, mainly against the US dollar. The Company supplies part of its main raw materials in US dollars. The currency risk is related to the negative movement of the US dollar exchange rate against the Bulgarian lev in the future business operations, the recognized foreign currency assets and liabilities and the net investments in foreign companies. The rest of the Company's operations are usually denominated in Bulgarian leva and / or in euro. The Company realizes part of its finished production in Russia in euros and thus eliminates the currency risk associated with the depreciation of the Russian ruble. In euro are also dominated the estimates with the subsidiaries in Ukraine. However, in order to minimize currency risk, the Company conducts through its subsidiaries a monetary policy that includes the application of advance payments and the reduction of deferred payment terms and immediate currency conversion of local currency

earnings as well as betting on higher trade mark-ups to offset possible future impairment of the hryvnia. In order to control the foreign currency risk in the Company, a system of planning of import deliveries, for foreign currency sales as well as procedures for daily monitoring of movements in the dollar exchange rate and control of forthcoming payments is introduced.

2. Analysis of financial and non-financial key performance indicators of Sopharma (Article 39, item 2 of the Accountancy Act), as well as a description of the company's status and explanation of the annual financial statement (Article 247 (1) of the Commercial Law/

Revenue from the sale of production in 2018 decreased by BGN 6,7 million or by 3% to BGN 210,8 million compared to BGN 217,5 million in 2017.



- European market

Sales revenue for European countries decreased by 7% compared to 2017, mainly due to a decrease in sales revenue in Russia by 11%. Sales in Poland decreased by 1%, as well as in Belarus, Balkan countries and others. An increase is reported for sales in Ukraine by 11%, Baltic with 1%, Czech Republic and others.

- Bulgarian market

Sales of Sopharma AD on the domestic market increased by 3% to BGN 91.9 million (according to recalculated data after merger with Medica and Unipharm). The products with the largest share of sales in the country are Analgin, Methylprednisolone, Vicetine, Vitamin C, Nivalin, medical supplies - gauzes, compresses and dressings. The Company accounts for nearly 3.4% of the total volume of the Bulgarian pharmaceutical market in value and 11.3% of sales in natural terms. The positions of the main competitors of the Company on the territory of the country are as follows: Novartis - 7% (4% in units), Roche - 6 (0.2% in units), Actavis - 5% (10% in units), Glaxosmithkline – 3.7% (2.8% in units), Pfizer – 3,6% (1% in units), Abbvie – 3.5% (0% in units), Sanofi-Aventis - 3% (2% in units), Astra Zeneca - 3%.(1% in units), Merck – 2,8% (1% in units).

- Other markets

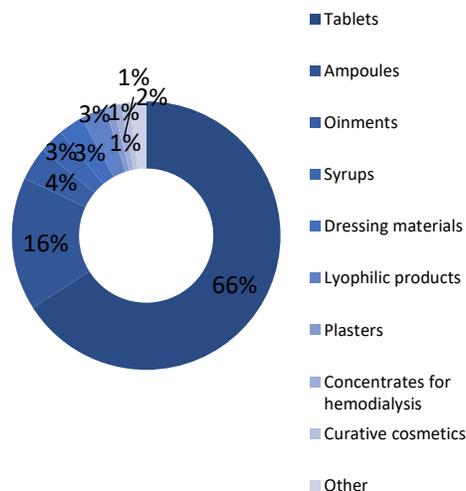
Revenue from other markets decreased by 8% compared to 2017 mainly as a result of a 15% drop in Vietnamese export and a 6% decrease in sales in the Caucasus and Central Asia.

Sales by type of formulation

With the highest relative share in the volume of sales proceeds are tablets, followed by ampoules, ointments, syrups, lyophilic products and others.

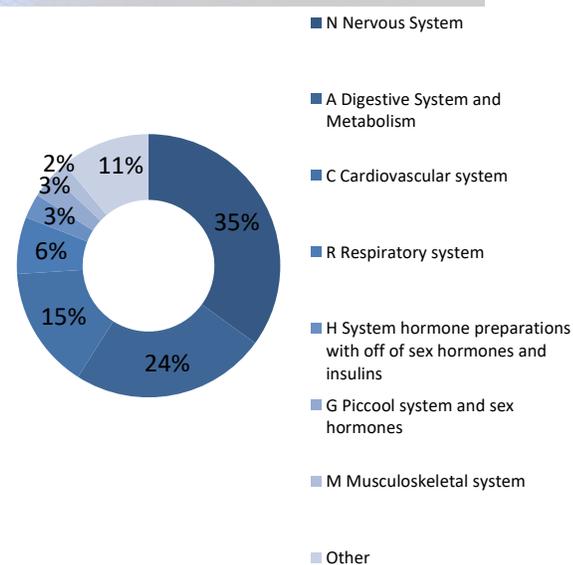
Revenue from medical forms	2018	2017	Change
	BGN '000	BGN '000	
Tablets	139 187	147 481	-6%
Ampoules	32 995	30 344	9%
Ointments	7 896	8 945	-12%
Syrups	7 595	8 014	-5%
Dressing materials	6 339	5 196	22%
Lyophilic products	6 281	5 591	12%
Plasters	3 074	3 093	-1%

Concentrates for hemodialysis	1 945	1 824	7%
Curative cosmetics	1 244	786	58%
Other	4 228	6 211	-32%
Total	210 784	217 485	-3%



Sales by therapeutic groups

Revenues by therapeutic Groups	2018 BGN '000	2017 BGN '000	Change %
N Nervous System	74 023	74 408	-1%
A Digestive System and Metabolism	50 521	52 814	-4%
C Cardiovascular system	30 919	25 092	23%
R Respiratory system	14 575	14 181	3%
H System hormone preparations with off of sex hormones and insulins	5 977	5 317	12%
G Piccool system and sex hormones	5 834	6 202	-6%
M Musculoskeletal system	3 703	4 616	-20%
Other	25 233	34 855	-28%
Total	210 784	217 485	-3%



Other operating profit

Other operating profit	2018 BGN '000	2017 BGN '000	Change %	Relative share 2018 %
Services rendered	2 612	1 877	39%	53%
Written off liabilities	1 398	213	556%	28%
Revenue from European funding	588	847	-31%	12%
Income from sales of LTA	148	222	-33%	3%
Profit from sale of goods	114	53	115%	2%
Income from sale of materials	72	73	-1%	1%
Net exchange loss on trade receivables and payables and current accounts	(226)	(335)	-33%	-5%
Other (see Notes to the financial statements)	204	130	57%	4%
Total other operating income	4 910	3 080	59%	100%

Other operating income increased by BGN 1.8 million, or by 59%, from BGN 3.1 million in 2017 to BGN 4.9 million in 2018, in the part of revenue from services rendered and derecognized liabilities, which are mainly written off tantieme.

Operating expenses

Operating expenses	2018 BGN '000	2017 BGN '000	Change %	Relative share of expenses in 2018 %
Changes in inventories of finished goods and work in progress	(2 016)	(6 439)	69%	-1%
Materials	75 752	76 906	-2%	40%
Hired services	38 654	33 921	14%	20%
Personnel	50 147	49 233	2%	26%
Depreciation and amortization	17 414	18 447	-6%	9%
Other operating expenses	9 579	7 225	33%	5%
Total	189 530	179 293	6%	100%

Operating expenses increased by BGN 10.2 million or by 6% from BGN 179.3 million in 2017 to BGN 189.5 million in 2018, as the main reasons are the increased cost price of production, as well as the higher advertising and marketing costs.

The costs of materials (with a 40% share) decreased by BGN 1.1 million or by 2% from BGN 76.9 million in 2017 to BGN 75.8 million in 2018, with the biggest impact being the decrease of the basic materials by BGN 1.2 million, mainly in the part of substances, liquid and solid chemicals, herbs, ampoules, aluminum and PVC foil.

External services expenses account for 20% relative share of operating expenses and increased by BGN 4.7 million or by 14% to BGN 38.6 million for 2018 compared to BGN 33.9 million for 2017. The most significant impact is the increase of the cost of advertising and marketing by BGN 4.1 million, the cost of maintenance of buildings and equipment by BGN 0.8 million, the cost of manufacture of medicaments by BGN 0.3 million.

Personnel costs (with a relative share of 26% of operating expenses) increased by BGN 0.9 million or by 2% from BGN 49.2 million in 2017 to BGN 50.1 million in 2018, due to an increase in share-based payments of BGN 1.2 million and tantieme by BGN 0.5 million.

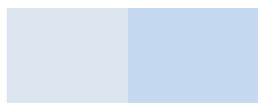
Other operating expenses (with a relative share of 5% of operating expenses) increased by BGN 2.3 million in 2018 compared to 2017, mainly in the part of representative activities, accruals of depreciation of finished products and work in progress, accrued impairment for credit losses of receivables, scrap of fixed assets and others.

Depreciation costs (with 9% relative share of operating expenses) decreased by BGN 1 million or 6% from BGN 18.4 million in 2017 to BGN 17.4 million in 2018.

Changes in inventories of finished goods and work in progress have reduced the reported costs by BGN 2 million compared to an adjustment of BGN 6.4 million in 2017.

Finance income and costs

Finance income



	2018	2017	Change	Relative share of revenue for 2018
	BGN '000	BGN '000	%	%
Income from equity share	8 789	7 314	20%	84%
Interest income on granted loans	1 579	1 699	-7%	15%
Net gain on exchange differences on receivables from sale of subsidiary	152	-	-	1%
Net gain from investment operations in securities and shares	-	1 239	-100%	0%
<i>Impairment of receivables from commercial loans granted</i>	-	(504)	-100%	0%
<i>Recovered impairment of receivables on commercial loans granted</i>	-	1 929	-100%	0%
<i>Net change in impairment of receivables from commercial loans granted</i>	-	1 425	-100%	0%
Revenue from liquidation of subsidiaries	-	7	-100%	0%
Total	10 520	11 684	-10%	100%

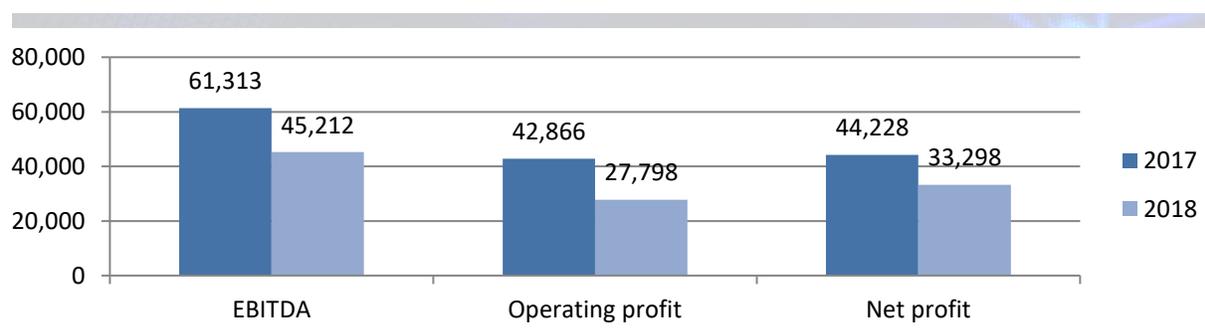
			Change	Relative share of expenses in 2018
			%	%
Finance costs				
Interest expenses on loans	1 255	1 358	-8%	65%
Bank fees on loans and guarantees	222	217	2%	10%
Net change in impairment on loans granted	154	-	-	0%
Financial guarantee provision	30	-	-	0%
Effects of derivatives	47	74	-36%	4%
Impairment of available-for-sale investments	-	4	-100%	0%
Interest expense on finance leasing	1	6	-83%	0%
Net loss on exchange differences on the disposal of a subsidiary	-	443	-100%	21%
Total	1 709	2 102	-19%	100%

Financial income decreased by BGN 1.2 million or by 10%, to BGN 10.5 million in 2018 compared to BGN 11.7 million in 2017. The reason is the decrease in net profit from operations with investments in securities and shares with BGN 1.2 million, as well as a reduction of reversed impairment of receivables on commercial loans granted by BGN 1.4 million.

Financial expenses decreased by BGN 0.4 million or by 19% to BGN 1.7 million in 2018 compared to BGN 2.1 million in 2017. This is mainly due to a decrease in the cost of interest on loans received by BGN 0.1 million, reduction of the loss on exchange differences on receivables from sale of a subsidiary with BGN 0.4 million.

Net financial revenues (expenses) decreased by BGN 0.8 million to BGN 8.8 million in 2018 compared to BGN 9.6 million in 2017.

Financial results



Profit before interest, taxes and depreciation (EBITDA) in 2018 decreased by BGN 16.1 million or 26% to BGN 45.2 million compared to BGN 61.3 million in 2017.

Operating profit decreased by BGN 15.1 million or 35% to BGN 27.8 million in 2018 compared to BGN 42.9 million in 2017.

The reasons for this are, on the one hand, the decline in sales in some major markets (Russia and Vietnam), as well as an increase in production cost on revenue from 52.7% in 2017 to 56.3% in 2018. The effect of these changes in total is a decrease in operating profit of 11.1 million.

An additional negative effect is the higher operating expenses, which increase by BGN 5.8 million in 2018 compared to the previous year. *Net profit* decreased by BGN 10.9 million or by 25% to BGN 33.3 million in 2018 compared to BGN 44.2 million in 2017.

Assets

	31.12.2018	31.12.2017	Change	Relative share 2018
	BGN '000	BGN '000	%	%
Non-current assets				
Property, plant and equipment	226 956	239 721	-5%	55%
Intangible assets	11 881	12 457	-5%	3%
Investment property	37 451	24 799	51%	9%
Investments in subsidiaries	89 945	89 729	0%	22%
Investments in associated companies	7 962	7 740	3%	2%
Other long - term equity investments	7 599	7 552	1%	2%
Long-term receivables from related parties	23 055	21 583	7%	6%
Other long-term receivables	5 760	4 210	37%	1%
	410 609	407 791	0.7%	68%
Current assets				
Inventories	68 499	69 018	-1%	35%
Receivables from related parties	91 509	77 218	19%	46%
Trade receivables	19 431	23 258	-16%	10%
Loans granted to third parties	3 270	3 201	2%	2%
Other receivables and prepayments	5 937	4 901	21%	3%
Cash and cash equivalents	8 971	5 764	56%	5%
	197 617	183 360	8%	32%
TOTAL ASSETS	608 226	591 151	3%	100%

Total assets increased by BGN 17.1 million or by 3% to BGN 608.2 million, compared to BGN 591.1 million as at 2017.

Non-current assets increased by BGN 2.8 million, or 1%, mainly due to an increase in investment properties with BGN 12.6 million. Property, plant and equipment decreased net by BGN 12.8 million mainly due to a decrease in the balance of land and buildings by BGN 9 million, machines, equipment and other fixed assets with BGN 4.3 million and an increase in the carrying amount of assets under construction with BGN 0.9 million.

Current assets increased by BGN 14.2 million or by 8% to BGN 197.6 million as at 31.12.2018 compared to BGN 183.4 million as at 31.12.2017. Inventories decreased by BGN 0.5 million or 1% compared to 31.12.2017 mainly due to a decrease in inventories of finished goods by BGN 1.9 million and semi-manufactured - by BGN 1.6 million. Receivables from related parties increased by BGN 14.3 million, mainly in the part of receivables of contracts with customers by BGN 7 million and commercial loans granted to related parties by BGN 7.3 million.

Trade receivables decreased by BGN 3.8 million. Cash and cash equivalents increased with BGN 3.2 million and as at 31.12.2018 are BGN 9 million compared to 5.8 million as at 31.12.2017.

Liabilities and owners' equity

EQUITY	31.12.2018	31.12.2017	Change	From owners'
	BGN '000	BGN '000	%	%
Share capital	134 798	134 798	0%	28%
Treasury shares	(33 337)	(33 834)	-1%	-7%
Reserves	357 310	330 683	8%	73%
Retained earnings	30 448	45 831	-34%	6%
TOTAL EQUITY	489 219	477 478	2%	100%
LIABILITIES	31.12.2018	31.12.2017	Change	% Total liabilities 2018
	BGN '000	BGN '000	%	
Non-current liabilities				
Long-term bank loans	9 556	16 691	-43%	8%
Deferred tax liabilities	6 235	7 153	-13%	5%
Government grants	5 397	5 930	-9%	5%
Long-term liabilities to personnel	4 418	4 139	7%	4%
	25 606	33 913	-24%	22%
Current liabilities				
Short-term bank loans	65 652	53 088	24%	55%
Current portion of long-term bank loans	7 168	7 392	-3%	6%
Trade payables	8 922	7 713	16%	7%
Payables to related parties	633	818	-23%	1%
Tax payables	1 884	1 525	23%	2%
Payables to the personnel and for social security	7 119	7 828	-9%	6%
Other current liabilities	2 023	1 396	45%	2%
	93 400	79 760	17%	78%
TOTAL LIABILITIES	119 007	113 673	5%	100%
TOTAL EQUITY AND LIABILITIES	608 226	591 151	3%	

The equity of Sopharma Company increased by BGN 11.7 million or 2%, reaching BGN 489.2 million as at 31.12.2018 compared to BGN 477.5 million as at 31.12.2017, mainly due to an increase in retained earnings with BGN 26.6 million.

Non-current liabilities decreased by BGN 8.3 million, or 24% to BGN 25.6 million at the end of 2018, compared to BGN 33.9 million at the end of 2017, mainly from a decrease in long-term bank loans with BGN 7.1 million.

Current liabilities increased by BGN 13.6 million to BGN 93.4 million at the end of 2018 compared to BGN 79.8 million at the end of 2017. Short-term bank loans increased by BGN 12.6 million, commercial payables by BGN 1.2 million and other current liabilities of BGN 0.6 million. Payables to related parties decreased by BGN 0.2 million and personnel and social security liabilities by BGN 0.7 million. Total bank exposure to the Company as at 31.12.2018 decreased by BGN 5.2 million compared to 31.12.2017.

Ratios

	31.12.2018	31.12.2017	Change
ROE	6,9%	8,8%	-1.9%
ROA	5,5%	7,1%	-1.6%
Asset turnover	0,35	0,35	-
Current liquidity	2,12	2,20	-0,08
Quick ratio	1,38	1,36	0,02
Cash/current liabilities	0,10	0,04	0,06
Owners' equity/liabilities	4,11	4,27	-0,16

- 1 Net profit on an annual basis / arithmetic mean of equity for the last five quarters
- 2 Net profit on an annual basis / arithmetic mean of total assets for the last five quarters
- 3 Revenue from sales on an annual basis / arithmetic mean of total assets for the last five quarters
- 4 Current assets / current liabilities
- 5 Receivables + Cash / Current liabilities
- 6 Cash / Current liabilities
- 7 Equity / Liabilities

Cash flow

	1-12/2018 BGN '000	1-12/2017* BGN '000
Net cash flow from/(used in) operations	32 317	46 937
Net cash flow used in investment activities	(13 032)	(21 487)
Net cash flow (used in)/from financial operations	(16 078)	(30 842)

Net increase/(decrease) of cash and cash equivalents	3 207	(5 392)
Cash and cash equivalents on 1 January	5 764	11 156
Cash and cash equivalents on 31 December	8 971	5 764

* Recalculated data as a result of the merger of Medica AD, based on consolidation of the financial statements of Sopharma AD and Medica AD

Net cash flows in 2018 generated by operating activities amounted to BGN 32.3 million inflow, from investment activity amounted to BGN 13 million outflow and from financial activity amounted to BGN 16.1 million outflow. As a result of these activities, the cash and cash equivalents net increased by BGN 3.2 million and as at 31.12.2018 amounted to BGN 9 million compared to BGN 5.8 million at 01.01.2018.

Ecology and environmental protection

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

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

In 2018 the separately collected waste was increased by 3.2% compared to the previous year. Production waste is handed over to licensed recyclers. The annual emissions of waste gases into the ambient air as well as the emissions in the wastewater are within the required standards. The conditions of the Discharge Permit are met. Once a month, a report is made on the packaging imported and / or marketed by type of material for which a monthly installment is paid to EcoBulpak AD, with which Sopharma AD has concluded a contract for the recovery of packaging waste.

Personnel

As at 2018, the average number of employees of Sopharma AD is 2085 (compared to 2 182 in 2017). The table below provides more detailed information about the company's personnel.

	31.12.2018	Relative share %
Number of employees as at 201831.12.2018	2 274	100%
Higher education	926	41%
College education	51	2%
Secondary education	1263	56%
Primary education	34	1%
Employees up to 30 years	229	10%
Employees 31 - 40 years	447	20%
Employees 41 - 50 years	702	31%
Employees 51 - 60 years	716	31%
Employees over 60 years	180	8%
Women	1396	61%
Men	878	39%

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

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

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

- As at 30.01.2019 the share participation of ZUPP Allianz Bulgaria in the capital of Sopharma AD reached 5.09%.
- On 31.01.2019 the Company received from the Bulgarian Drug Agency a current production/import authorization for medicinal products № BG/MIA - 0081, in which the merged subsidiary Unipharm AD was registered.
- On 15.02.2019, a disposal transaction was executed by Sopharma AD of 253,000 shares of the capital of Momina Krepost AD, with which the share of Sopharma AD in the capital of Momina Krepost AD drops from 93,56% to 78,60%.

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

- On the local market, the Company aims to provide patients with more affordable treatment by registering new generic products in shorter terms;

- On the foreign markets, efforts are focused on preserving and increasing the share of the Company in the main markets (Russia, Ukraine and Poland), as well as establishing and expanding market positions in other countries (USA, Middle and Eastern Europe and Caucasus region).
- The Company continues the policy of active partnership with established international pharmaceutical companies, with new companies, as well as expanding the product range of already established collaborations.

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

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

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

Intellectual Property

Although oriented towards generic pharmaceutical products, Sopharma AD has been known for years with the traditional production of several unique products based on plant extracts obtained from own-produced technologies. These products are protected not only by trademark, but also by patent or company know-how. Regarding the generic products it produces, for their market distinctiveness, Sopharma AD relies on brand names, all of which are registered trademarks of the Company.

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

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

New developments and products

- New Products for the period January - December 2018

A Marketing Authorization has been received for the medicinal product "Tuspan syrup" (Poland).

- New medicinal products introduced into production

For the period January - December no new medicinal products have been introduced.

By the end of 2019, it is expected that 3 to 5 new medicinal products will be introduced.

- New registrations and re-registrations / changes

New registrations

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

Gentamicin Sopharma 40 mg/ml solution for injection; Gripofen C 500 mg/ 25mg/ 200mg granules for oral solution; Imomed 2 mg tablets; Vitamin C 100 mg/ ml, 2 ml oral solution (food supplement); Vitamin C 100 mg/ ml, 5 ml oral solution (food supplement).

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

✓ Cosmetic products

10 new cosmetic products have been notified in Bulgaria.

2 cosmetic products are registered in Ukraine.

✓ Food supplements

8 food supplements have been notified in Bulgaria.

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

✓ Medical devices

401 medical devices are registered in Bulgaria and Moldova.

Re-registrations / changes

Updated Authorizations for the use of 86 medicinal products.

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

1107 changes have been made for medicinal products to agencies.

Agreements approved by the agencies 861 for medicinal products.

- **Developments**

There is a pharmaceutical development of 15 new medicinal products. 19 manufacturing processes and technologies have been transferred and validated/ optimized.

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

In the current year 210 462 shares were purchased and 3 000 shares were sold. The treasury shares purchased during the year amount to 0,16% of the Company's share capital and the average acquisition price is BGN 4.07 per share.

	Shares	Equity, net of treasury shares
	Number	BGN '000
Balance at 1 January 2018	125 764 919	100 964
Share-based payments	288 500	1,082

Effects of merging a subsidiary	70 606	265
Treasury shares sold	3 000	11
Treasury shares bought back	(210 462)	(857)
Expense on treasury shares	-	(4)
Balance at 31 December 2018	125 916 563	101 461

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

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

Sopharma holds 8 881 336 own shares, representing 6.59% of the Company's capital.

7. Existence of branches of the enterprise / Article 39, item 7 of the Accounting Act /

Sopharma AD has no branches.

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

Overall risk management focuses on the difficulties in predicting financial markets and minimizing potential negative effects that may affect the financial performance and the company's performance. Financial risks are currently identified, measured and monitored by various control mechanisms introduced to determine adequate prices for the company's products and services and borrowed capital and to adequately assess the market circumstances of the company investments and forms of maintenance of the free liquid assets, without allowing undue concentration of a risk.

Risk management is currently conducted by the management of the company in accordance with the policy defined by the Board of Directors. The latter has adopted basic principles for general financial risk management, on the basis of which specific procedures have been developed for the management of individual specific risks, such as currency, price, interest, credit and liquidity, and the risk of using non-derivative instruments.

Credit risk

The credit risk is the risk that the clients of the company will not be able to pay fully and within the usual time limits the amounts due from them under the trade receivables. The latter are presented in the statement of financial position in net amount after deducting the accrued

impairment for doubtful and bad debts. Such impairments are made where and when there are events identifying loss of uncollectability under previous experience.

In its commercial practice, the company has applied different distribution schemes until it achieves the current effective approach tailored to the market situation of business, the various forms of payment, and the inclusion of commercial rebates. The company works with contractors with a history of relationships in its core markets, partnering with more than 70 Bulgarian and foreign licensed drug dealers.

Work with NHIF and state hospitals also requires a policy of deferred payments. In this sense, although there is a concentration of credit risk, it is controlled through selection, ongoing monitoring of liquidity and financial stability of the trading partners as well as direct communication with them and the search for rapid measures at first indicators of problems.

Liquidity risk

The liquidity risk is expressed in the negative situation that the company will not be able to meet unconditionally all its obligations according to their maturity.

The Company generates and maintains a sufficient volume of liquidity. An internal source of liquidity for the company is its core business generating sufficient operational flows. External sources of funding are banks and other permanent partners. In order to isolate potential liquidity risk, the company operates a system of alternative mechanisms of action and forecasts, the ultimate effect of which is the maintenance of good liquidity, respectively the ability to finance its business activity. This is complemented by ongoing monitoring of the maturity of assets and liabilities and control of outgoing cash flows.

Risk of interest-bearing cash flows

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

(a) optimizing sources of credit resources to achieve a relatively lower cost of borrowed funds;

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

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

IV. Information under Article 247 and Art. 240b of the Commercial Code

1. Information under Art. 247 of the Commercial Code

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

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

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

The remuneration and other short-term income of the Board of Directors for 2018 amounted to BGN 1,282 thousand. (2017: BGN 1,759 thousand) are as follows:

- Current - BGN 851 thousand (2017: BGN 1.357 thousand);
- Tantieme - BGN 429 thousand (2017: BGN 402 thousand);
- Share-based payments - BGN 2 thousand (2017 - none).

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

The shares of the Company acquired, held and transferred by the members of the Board of directors in 2018 are as follows:

	31.12.2018	31.12.2017
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Members of the Board of directors	Shares	Relative share of the capital %	Shares	Relative share of the capital %	Acquired in 2018	Transferred in 2018	Change
Ognian Ivanov Donev	1 391 129	1.03%	910 000	0,68%	481 129	-	481 129
Vessela Lyubenova Stoeva	150	0.0001%	0	0%	150	-	150
Ognian Kirilov Palaveev	187 520	0,14%	160 430	0,12%	27 090	-	27 090
Alexander Viktorov Tchaushev	111 042	0,08%	111 042	0,08%	-	-	-
Ivan Venetskov Badinski	350	0.0002%	0	0%	350	-	350

The Company has no issued bonds.

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

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

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

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

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

- Donev Investments Holding AD, UIC 831915121, with headquarters in Sofia, 12 Pozitano Str.;
- Telecomplect invest AD, UIC 201653294, with headquarters in Sofia, 9 Slaveikov Str.
- Telecomplect AD, UIC 831643753, with headquarters in Sofia, 5 Lachezar Stanchev Str.
- Sopharma Buildings REIT, UIC 175346309, with headquarters in Sofia, 5 Lachezar Stanchev Str.;
- Sopharma Properties REIT, UIC 175059266, with headquarters in Sofia, 5 Lachezar Stanchev Str., Building A;
- Sofprint Group AD, UIC 175413277 with seat and headquarters: Sofia, 12 Pozitano Str.;
- Sofconsult Group AD, UIC 175413245, with seat and headquarters: Sofia, 12 Pozitano Str.;
- Sofia Inform AD, UIC 121303553, with headquarters in Sofia, 12 Pozitano Str.;
- Elpharma AD, UIC 130299513, with seat and headquarters: Sofia, 16 Iliensko shose Str.;
- Sopharma Trading AD, UIC 103267194, with seat and headquarters: Sofia, 5 Lachezar Stanchev Str.;

- Sopharma AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str;

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

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

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

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

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

- Mill Stefanovo Village EOOD, UIC 201045146, with headquarters in Stefanovo Village, Lovech District.
- Sirius OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 Apriltsi Str.
- OKP Investments OOD, UIC 204361991, with headquarters in Sofia, 15 Krushova gradina Str.

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

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

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

member of the Board of Directors and Executive Director.

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

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

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

1. Monbat AD, UIC 111028849, with registered office in Sofia, Lozenets area, 4 Golo Bardo Str. – member of the Board of Directors;
2. DK-Domostroene AD, UIC 102148397, with registered office in Burgas, PO Box 8000, Pobeda area – member of the Board of Directors;
3. Agency management and advertising in sport EAD, UIC 130969084, with registered office in Sofia, Vazrazhdane, Todor Alexandrov № 42 – Member of the Board of Directors.
4. Sopharma AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.

Ivan Venetskov Badinski participates in the management/supervisory body of the following companies:

1. Sopharma AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.

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

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

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

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

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

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

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

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

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

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

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

Major customers of the Company with a share over 10% in sales revenues for 2018 are Sopharma Trading AD with 43% share, Delta Sales Ltd. with 27% share and OOO Sopharma Ukraine with a relative share of 10%.

- Sopharma Trading AD is headquartered in Sofia district Nadezhda, bul. Rozhen № 16, its main activity is wholesale and retail of medicines and sanitary products. Sopharma Trading AD is a subsidiary of Sopharma AD, acting as a "pre-wholesaler" in the process of realization of its production.

- Delta Sales Ltd. With headquarters 45 PALL Mall London UK, with main activity trade with medicines abroad. Relations between the company and Sopharma AD are governed by a sales agreement.
- OOO Sopharma Ukraine has its headquarters and address of management - Ukraine, Kiev, Obolonski area, Prospect Moskovskii № 9, hull 4, fl. 2, office 4-203. Sopharma Ukraine is a subsidiary of Sopharma AD.

Materials used exceed 3500 items which have a dynamic structure and diverse origin (synthetic, vegetable), physical state (liquid, solid, gaseous).

The largest share of the cost of the basic materials are active substances - 42%, followed by packaging materials - 20%, liquid and solid chemicals - 15%, herbs – 6%, sanitary-hygienic and dressing materials – 5%, ampoules - 4% and others.

The main share of raw materials is secured by imports. Sources of supply are validated manufacturers, which is in line with regulatory requirements and aims to maintain consistency and traceability in terms of quality.

The respective counterparty companies operate according to the requirements of GMP, GDP and other industry standards. Sopharma AD is working with a number of Bulgarian and foreign suppliers as their selection is done according to procedure developed in-house and aims to provide an alternative security in the supply and competitive flexibility in trade relations. Non-negotiable conditions that Sopharma AD implies in the negotiation process are: consistent quality, competitive prices and attractive payment terms, rhythmic and timely deliveries which prevent the accumulation of inventories on the one hand, while guaranteeing the regularity of the production process.

2018 none of the suppliers' share exceeds 10% of the total cost of services rendered and materials.

3. Information on significant transactions concluded

The Company has adopted that significant transactions are those that result or may be reasonably assumed that will lead to favorable or unfavorable change in the amounts of 5 or more percent of sales revenues or net profit. There are no such transactions in 2018.

4. Information regarding transactions between the issuer and related parties during the reporting period, proposals for concluding such transactions as well as transactions that are outside its usual activity or substantially deviate from market conditions when, the

issuer or its subsidiary is party, indicating the value of the transactions, the nature of relatedness and any information necessary to assess the impact on the financial position of the issuer

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

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

- ✓ A deal for the purchase and sale of medicinal products and medical devices between Sopharma AD as a producer and seller of the goods and Sopharma Trading AD as a buyer under which a transaction for the Company will arise to the subsidiary Sopharma Trading AD, amounting to BGN 180 million. The deal is foreseen to be concluded with a deadline of 31.06.2020.
- ✓ Conclusion of a contract for services related to construction, installation and repair activities and waste disposal between Sopharma AD as contracting authority and recipient of the services and Telekomplekt AD as a contractor and supplier, therefore, for the Company will incur an obligation to the related person Telekomplekt AD amounting to BGN 15 million. The deal is planned to be concluded for a period of 5 years, in which the total value of the transaction for the foreseen term of its operation will amount to BGN 75 million.

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

- ✓ Conclusion of an export contract between Sopharma Trading AD as contracting authority and Sopharma AD as a contractor for the production and supply of food supplements and medical devices, bearing a trademark of Sopharma Trading AD. Upon execution of the subject of the contract for Sopharma AD will incur a receivable for the subsidiary Sopharma Trading AD, with a forecast amount of up to BGN 300 thousand per year (VAT excluded) during the term of the contract for 5 years.
- ✓ A deal under which Sopharma AD as a lessor to provide Sopharma Trading AD as a tenant a real estate representing a Warehouse for finished pharmaceuticals (Terminal 1) with a monthly rent of BGN 37,400 excluding VAT. It is foreseen that the tenancy agreement for the described property will be concluded for a period of 5 (five) years, with the possibility of continuing its effect for a further period. The receivable for the provided usage, which will incur in favor of Sopharma AD on the basis of the transaction representing a long-term lease

of real estate, amounts to BGN 448.8 thousand excluding VAT per year or BGN 2,244 thousand excluding VAT for the term of the contract.

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

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

In 2018 there were no events and indicators of unusual nature.

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

The contingent obligations taken by the Company as at 31 December 2018 are stated in the annual financial statements in the annex "Contingent Liabilities and Commitments".

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

The information on shareholdings and major investments, domestic and foreign, of Sopharma AD are listed in the Notes to the annual financial statements - "Investments in subsidiaries", "Investments available for sale" and "Investments in associates". Information regarding investments in intangible assets and real estate is presented in the Notes "Intangible assets", "Property, plant and equipment" and "Investment property".

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

The information on concluded by Sopharma loan agreements are listed in the annual report in the Notes to the annual financial report "Long-term bank loans" and "Short-term bank loans." The information on the loans of subsidiaries will be available in the consolidated financial statements.

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

Long-term loans by Sopharma AD to associated companies:

- Contractual amount 31 091 thousand EUR; interest rate - 3.5%; maturity – 31.12.2021; balance at 31.12.2018 – 17 574 thousand BGN.

Long-term loans to subsidiaries:

- Contractual amount 500 thousand EUR; interest rate - 6.6%; maturity – 01.03.2019; balance at 31.12.2018 - 0 thousand BGN.

Long-term loans to other related parties:

- Contractual amount 29 900 thousand BGN; interest rate - 3.0%; maturity – 31.12.2021; balance at 31.12.2018 – 3 904 thousand BGN.
- Contractual amount 700 thousand BGN; interest rate - 3.0%; maturity – 31.12.2021; balance at 31.12.2018 – 1 383 thousand BGN.

Long-term loans to related parties were granted to assist in financing the activities of these companies for common strategic objectives. They are secured by pledges of securities (shares) promissory notes.

Long-term loans provided by Sopharma to third parties:

- Contractual amount of EUR 695 thousand; interest rate - 3.05%; maturity – 12.10.2022; balance at 31.12.2018 - BGN 1 360 thousand;
- Contractual amount of EUR 1 000 thousand; interest rate – 3.05%; maturity – 29.06.2023; balance at 31.12.2018 - BGN 961 thousand;
- Contractual amount of EUR 24 thousand; interest rate – 5.00%; maturity – 14.03.2023; balance at 31.12.2018 – BGN 20 thousand.

Provided current commercial loans by Sopharma AD to related companies:

Companies related through key management:

- Contractual amount 2 735 thousand EUR; interest rate – 2.81%; maturity – 31.12.2019; balance at 31.12.2017 – 5 371 thousand BGN;
- Contractual amount 67 450 thousand BGN; interest rate - 2.81%; maturity - 31.12.2018; balance at 31.12.2018 – 0 thousand BGN.

Subsidiaries:

- Contractual amount 2 770 thousand EUR; interest rate - 4.70%; maturity - 31.12.2019; Balance at 31.12.2019 – 4 812 thousand BGN;
- Contractual amount 12 229 BGN; interest rate - 4.10%; maturity - 31.12.2019; Balance at 31.12.2018 – 3 599 thousand BGN;
- Contractual amount 500 thousand EUR; interest rate – 6.60%; maturity – 01.03.2019; balance at 31.12.2018 – 985 thousand BGN;
- Contractual amount 1 550 thousand BGN; interest rate - 3.50%; maturity – 31.12.2019; balance at 31.12.2018 – 935 thousand BGN;
- Contractual amount 390 thousand BGN; interest rate - 3.95%; maturity – 10.05.2019; balance at 31.12.2018 – 806 thousand BGN.

Other related parties:

- Contractual amount 190 thousand BGN; interest rate - 3.50%; maturity - 31.12.2019; balance at 31.12.2018 - 55 thousand BGN;
- Contractual amount 3 130 thousand BGN; interest rate - 3.10%; maturity - 31.12.2019; balance at 31.12.2018 – 3 140 thousand BGN.

Provided short-term loans to related parties are to help finance the activities of these companies for achieving their strategic purposes. They are secured by pledges of shares and securities.

The information on the loans of subsidiaries will be available in the consolidated financial statements.

The commercial loans provided by Sopharma AD to third parties are as follows:

- Contractual amount BGN 4 184 thousand; interest rate – 4,30%; maturity – 31.12.2019; balance as at 31.12.2018 – BGN 2 764 thousand;
- Contractual amount BGN 732 thousand; interest rate – 4.50%; maturity – 31.12.2019; balance as at 31.12.2018 – BGN 408 thousand;
- Contractual amount BGN 949 thousand; interest rate – 4.70%; maturity – 31.12.2019; Balance as at 31.12.2018 – BGN 98 thousand.

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

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

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

There are no published forecasts of financial results.

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

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

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

The planned investment program for 2019 includes investments of 9 million BGN for the acquisition of lands, buildings, machinery, equipment and software.

Sources of funding are its own funds from regular business. The Company is not experiencing difficulties in carrying out its investment intentions and payments for operating activity thanks to the generated positive thanks to cash flow and good liquidity.

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

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

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

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

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

The General Meeting of Shareholders, held on 01.08.2018 elected Ivan Venetskov Badinski as a member of the Board of Directors of Sopharma AD.

17. Information on the amount of remuneration, rewards and / or benefits of each of the members of the management and supervisory bodies for the financial year, paid by the

issuer and its subsidiaries, regardless of whether they have been included in the expenses of the issuer, or arising from profit distribution, including:

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

	Remuneration BGN	Tantiems BGN	Bonus shares	By employment contract	Total
Ognian Ivanov Donev	326 834	359 557	636.41		687 027.41
Vesela Lyubenova Stoeva	120 100	-	636.41	64 229.18	184 965.59
Andrey Lyudmilov Breshkov	50 000	-			50 000
Ognian Kirilov Palaveev	120 636	12 764	636.41		134 036.41
Alexander Victorov Tchaushev	120 524	-	424.27		120 948.27
Ivan Venetzkov Badinski Procurator – Iv. Badinski	50 000	-		54 306.48	104 306.48
	60 000				60 000

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

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

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

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

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

According to Article 7.2, para. 3 of the Remuneration policy, 40% of the additional remuneration to the CEO is deferred for three years and the amounts due are as follows:

- BGN 96 151,96 has a maturity of 2019;
- BGN 151 046,79 has a maturity of 2020;
- BGN 166 079,36 has a maturity of 2021.

- The amount of accrued and paid remunerations to the members of the Audit Committee:

Members of the Audit Committee	Remuneration BGN
Tzvetanka Zlateva	12 000
Vasil Naidenov	12 000
Kristina Atanasova - Eliot	12 000

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

Information held by members of the Board of Directors shares of Sopharma AD is listed in section IV of this report - information Art.247a paragraph 2 of the Commercial Law.

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

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

There are no such arrangements.

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

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

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

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

VI. Information Appendix 11 to Article 32, paragraph 1, item 4 of Ordinance 2 of POSA

1. Structure of the capital of the Company, including securities not admitted to trading on a regulated market in Bulgaria or another Member State, indication of the different classes of shares, the rights and obligations of each class of shares and the portion of the total capital represented by each class.

The capital of the Company is divided into 134 797 899 registered dematerialized shares each with a nominal value of 1.00 BGN. Each share entitles to one vote at a General Meeting of Shareholders, right to dividends and a liquidation share in proportion to its nominal value.

Structure of the capital of Sopharma AD as at 201831 December 2018:

- Physical persons: 7 002 – 10 187 993 shares - 7,56%
- Legal persons: 170 – 124 609 906 shares - 92,44%

The capital of the Company may be increased by a decision of the General Meeting of Shareholders adopted by majority as required by law.

Sopharma AD

In case of capital increase, each Shareholder has the right to acquire shares of the new emission, which correspond to their share in the capital before the increase.

A shareholder cannot participate in person or by proxy in voting related to:

- ✓ claims against them;
- ✓ taking action or refusal to act, related to the fulfillment of obligations to the Company;
- ✓ taking of decision under art. 114, par. 1 of POSA, in case they are an interested party within the meaning of POSA;

The shares of the Company are traded on the Bulgarian Stock Exchange – Sofia AD, Main Market (BSE), Segment PREMIUM and on the official market of Warsaw Stock Exchange. Shares participate in the formation of the indices SOFIX, BGBX40 and BGTR30 of BSE - Sofia. The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds and the certificate ABN AMRO SOFIX - Open-end-certificate and the new blue-chip index Dow Jones STOXX Balkan 50 Equal Weighted Index.

Sopharma AD is one of the three Bulgarian companies included in an index for Central and Eastern Europe (CEE), which the Warsaw Stock Exchange started to calculate on 30 May 2012. The name of the index is WIG-CEE and it is the third one after WIG-Poland and WIG-Ukraine, which is based on the origin of companies by country. WIG-CEE is calculated based on total return and includes income from dividends and subscription rights.

Key indicators of the shares of Sopharma AD

	31.12.2018	31.12.2017
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	125 798 842	129 039 942
Number of shares outstanding at the end of the period	125 916 563	125 764 919
Earnings per share in BGN ¹	0,265	0,327
Price per share at the end of the period in BGN	3,517	4,282
Price/Earnings ratio (P/E)	13,27	13,09
Book value per share in BGN ²	3,885	3,803
Price/Book value ratio (P/B)	0,91	1,13
Sales per share in BGN ³	1,687	1,632
Price per share / Sales per share(P/S)	2,08	2,62
Market capitalization in BGN	474 084 211	577 204 604

¹Net profit for the last four quarters / weighted average number of shares in the same period

²Equity/number of shares outstanding at the end of the period

³Sales revenue for the last four quarters / number of shares outstanding at the end of the period

Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2018 – 31 December 2018.



2. Restrictions on transfer of securities, such as restrictions for possession of securities or the need to obtain approval of the Company or another shareholder

There is no restriction on the ownership of shares or need to obtain approval from Sopharma AD or another shareholder. No information has been received by the Company, which gives reason to believe that there are any restrictions on the transfer of shares.

The replacement of dematerialized registered shares with bearer shares and placement of restrictions on their transfer is allowed after removal of the Company from the register of the Financial Supervision Commission.

Transactions with dematerialized shares of the Company may be made only on the regulated markets of securities by investment intermediaries, as well as in other way, regulated by law.

The transfer of registered dematerialized shares, issued by the Company, is effective at the time of entering of the transaction in the register of the Central Depository, proving the rights to these shares. The transfer of registered shares is in accordance with the requirements of current legislation.

3. Information regarding the direct and indirect ownership of 5 percent or more of the voting rights at the General Meeting of the Company, including details of the Shareholders, the size of their shareholding and the type of shareholding

Shareholders holding more than 5 percent of the Company's capital as at 31 December 2018

are as follows:

Shareholders	31.12.2018		31.12.2018	
	Number of shares	% of the capital	Number of shares	% of the capital
Donev Investment Holding AD , UIC 0831915121, Sofia, 12 Positano Str.	34 240 629	25,40%	33 968 289	25,20%
Telecomplect invest AD , UIC 201753294, Sofia, 9 Slaveikov Square	27 571 252	20,45%	27 516 752	20,41%
Sopharma AD , UIC 831902088, Sofia, 16 Iliensko Shose Str	8 881 336	6,59%	9 032 980	6,70%
Rompharm Company OOD , UIC 200732874, Sofia, Mladost, 7 Boian Damianov Str.	8 131 347	6,03%	10 131 347	7,52%

4. Information about shareholders with special control rights

The Articles of Association of Sopharma AD do not provide special control rights.

5. System for control of exercising votes when employees of the Company are also its shareholders and when the control is not exercised directly by them

There is no special system for control of voting in the event that employees of the Company are also its shareholders and when the control is not exercised directly by them. The Shareholders may attend the General Meeting either personally or through an authorized representative. Several Shareholders may authorize a joint representative.

To participate in the General Meeting of Shareholders the Shareholders shall identify themselves with the statutory document certifying their rights on the shares they own. Representatives of the General Meeting of Shareholders shall identify themselves with an explicit written authorization having a minimum content set by Decree. The voting right shall be exercised by persons who acquired shares not later than 14 days prior to the General Meeting.

6. Restrictions on the voting rights, such as limitations on the voting rights of Shareholders by a certain percentage or number of votes, deadlines for exercising the voting rights or systems in which with the cooperation of the Company the financial rights attached to shares are separated from the ownership of shares.

There are no such restrictions.

7. Agreements between Shareholders which are known to the Company and which may lead to restrictions on the transfer of shares or voting right.

There are no such agreements.

8. The provisions concerning the appointment and dismissal of members of the governing bodies of the Company and on the making of amendments to the Articles of Association.

Members of the Board of Directors may be physical or legal persons meeting the requirements of Article 234 of the Commercial Law and Article 116a, paragraph 2 of the Public Offering of Securities.

When a member of the Board of Directors is a legal entity, it shall designate a representative/s/ for the performance of duties in the Board. The legal entity is jointly and unlimitedly liable with the other members of the Board for the obligations arising from the actions of his representative.

Physical persons who represent legal persons - members of the Board of Directors must meet the requirements of Art. 234, para 2 of the Commercial Law.

Members of the Board of Directors cannot be persons who were members of management or supervisory body of a company terminated due to bankruptcy in the last two years preceding the date of the declaration of insolvency, if unsatisfied creditors.

A person who has been governor, member of the management or supervisory body of a company, which was established by an effective penalty decree defaulting on creation and preservation of its defined levels of stocks under the Law on stocks of oil and oil products cannot be a member of the Board.

At least one third of members of the Board of Directors must be independent. The independent member of the Board cannot be:

- ✓ an employee of the public company;
- ✓ a shareholder, who owns directly or through related parties, at least 25 percent of the votes in the General Meeting or in a related company person who has a long-term business relation to the public company;
- ✓ a person who is in permanent trade relations with the public company;
- ✓ a member of the management or supervisory body, procurator or employee of a company or other entity;
- ✓ a person connected with another member of the management or supervisory body of the public company.

Members of the Board of Directors can be reelected without limitation.

With changes in legislation, the next General Meeting of Shareholders shall decide on amending the Articles of incorporation in order to align its provisions with those of existing regulations. By making this decision, the affected versions of the Articles of incorporation shall be interpreted in accordance with the Constitution and laws of the country.

The Articles of Association shall be amended by the General Meeting of Shareholders with a majority of 2/3 / two thirds / of the represented at the General Meeting capital. The current Articles of Association is entered in the Commercial Register under the number 20180308134116.

9. Powers of the management bodies of the company, including the right to decide on the issue and redemption of shares

The powers of the Board of Directors are regulated by the Articles of Association. The decisions that may be taken by a qualified majority of two thirds of the members of the Board of Directors to be valid are defined.

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

10. Significant contracts of the Company that take effect, are amended or terminated due to a change in control of the company in a mandatory tender offer and the effects thereof, except where disclosure of this information may cause serious damage to the company; exemption under the preceding sentence shall not apply in cases where the company is obliged to disclose information under the Law

There are no such contracts, amendments or terminations.

11. Agreements between the Company and its management bodies or employees for payment of compensation upon retirement or dismissal without legal grounds or upon termination of employment for reasons related to a tender offering.

There are no such agreements.



Date: 26.03.2019

Ognian Donev, PhD
/Executive Director/

