

MANAGEMENT REPORT

Q2 2017

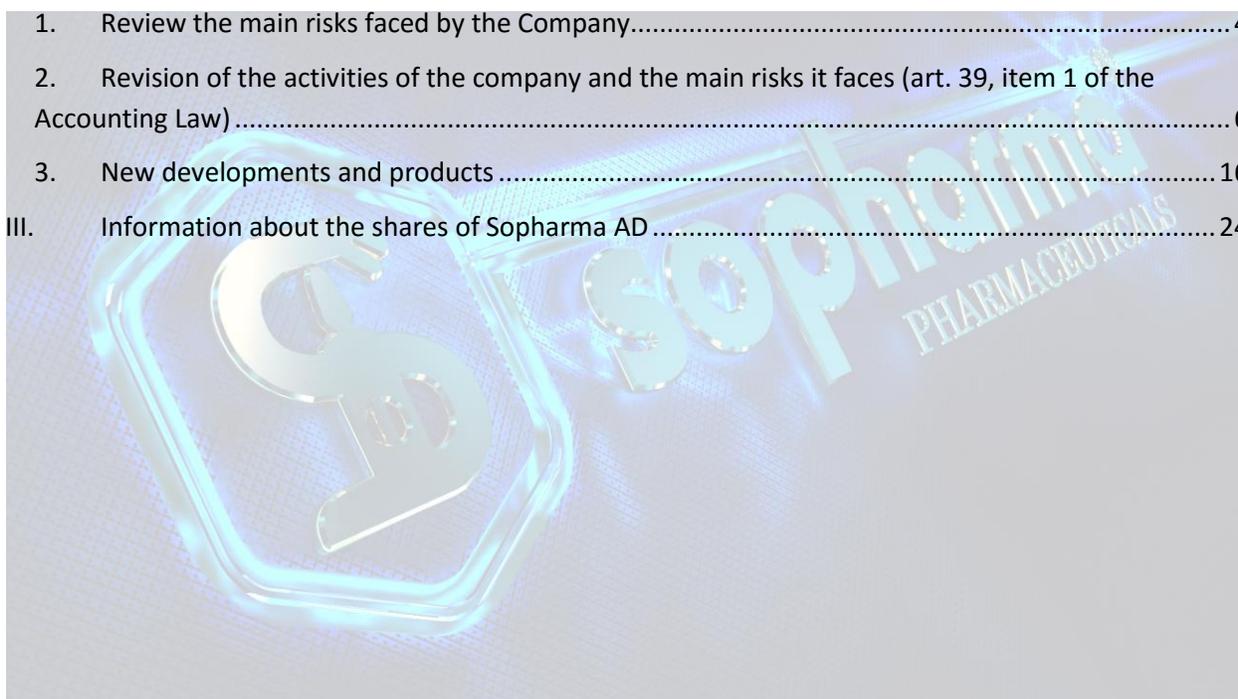


SOPHARMA AD

28 July 2017

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I. General information about Sopharma AD

1. Registration and main activities

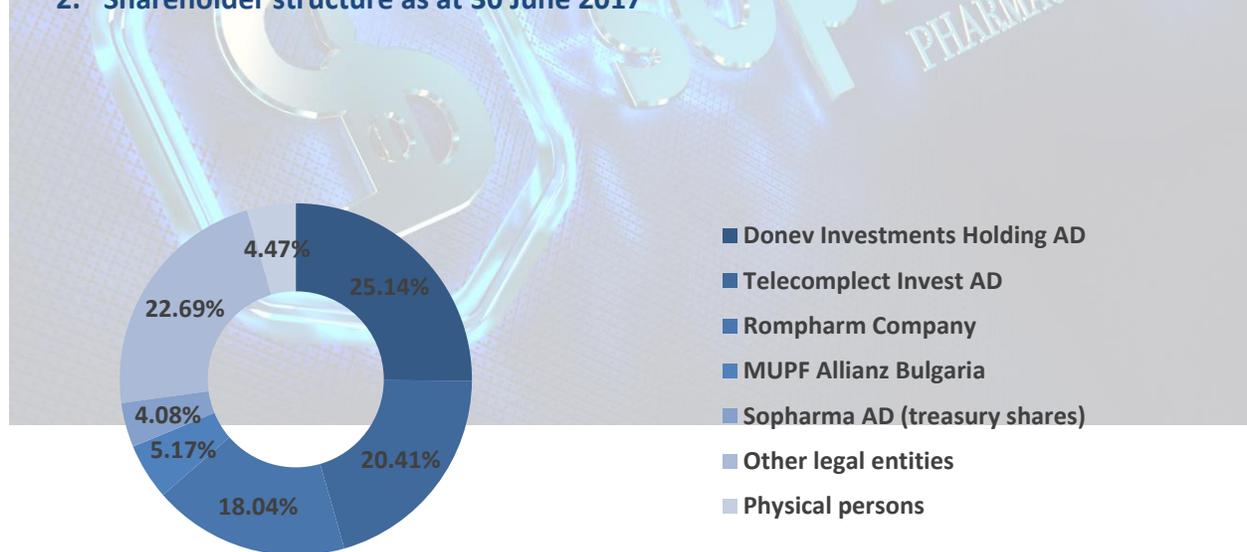
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16Iliensko shose str.

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

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

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

2. Shareholder structure as at 30 June 2017



3. Board of Directors

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

4. Personnel

The average number of employees in 2017 in Sopharma AD is 1,860 workers and employees (1,873 in 2016). The table below provides more detailed information about the company's staff.

	30.06.2017	Ref. Share %
Number of employees as at 30.06.2017	1890	100%
Higher education	815	44%
A college education	43	2%
Secondary education	997	52%
Primary education	35	2%
Employees under 30	190	10%
Employees 31 - 40 years	394	21%
Employees 41 - 50 years	615	33%
Employees 51 - 60 years	551	29%
Employees over 60	140	7%
Women	1186	63%
Men	704	37%

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

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

5. Production activity

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

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

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

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

6. Products

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

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

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

- **Carsil - an original plant-based product used to treat gastro-enterological diseases (liver diseases);**
- **Tempalgin - an original analgesic (painkiller);**
- **Tabex - an original plant-based drug against tobacco smoke;**
- **Tribestan - an original plant-based product that stimulates the functions of the sexual system;**
- **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.**

II. Development of the activity

1. Review the main risks faced by the Company

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

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

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

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

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

- ✚ Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change.

Currency risk

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

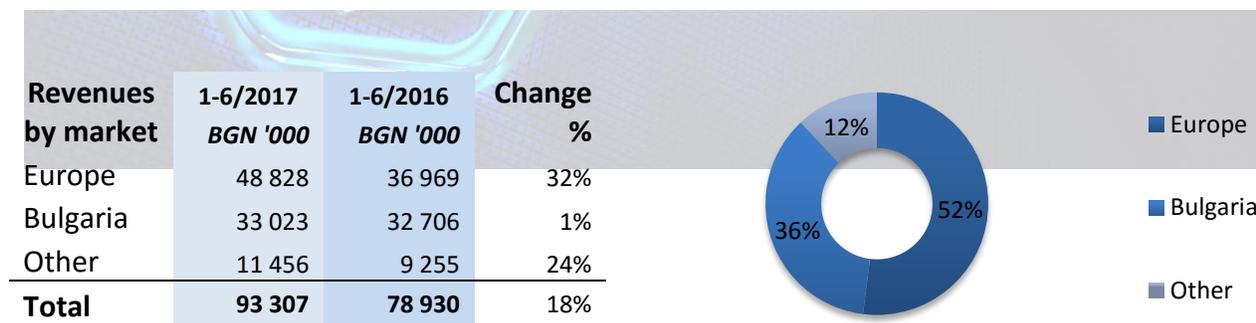
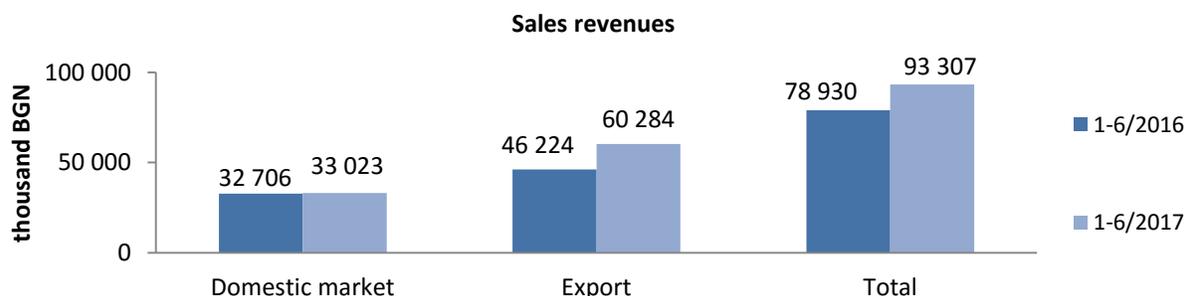
2. Revision of the activities of the company and the main risks it faces (art. 39, item 1 of the Accounting Law)

Key financial indicators

Indicators	1-6/2017	1-6/2016	change
	BGN '000	BGN '000	%
Sales revenues	93 307	78 930	18,2%
EBITDA	32 048	21 318	50,3%
Operating profit	24 698	14 310	72,6%
Net profit	31 642	33 758	-6,3%
CAPEX	4 348	5 141	-15,4%
	30.06.2017	31.12.2016	

	BGN '000	BGN '000	
Non-current assets	409 753	407 099	0,7%
Current assets	222 521	162 009	37,4%
Owners' equity	482 538	462 875	4,2%
Non-current liabilities	34 627	38 062	-9,0%
Current liabilities	115 109	68 171	68,9%
Ratios	1-6/2017	1-6/2016	
EBITDA / Sales revenues	34,3%	27,0%	
Operating profit/ Sales revenues	26,5%	18,1%	
Net profit/ Sales revenues	33,9%	42,8%	
Borrowed capital/Owners' equity	0,31	0,23	
Net debt/ EBITDA	2,1x	2,1x	

Sales revenues of production increase by BGN 14.4 million or 18%, reaching BGN 93.3 million at the end of the first six months of 2017, compared to BGN 78.9 million at the end of the first six months of 2016.



🇪🇺 Europe

Revenues from sales to European countries increased by 32% compared to 2016 due to the increase of sales in Russia with 32% and Ukraine with 34%. The result is also due to the increase of sales in Poland, Moldova, Belarus and Serbia. The sales on the Russian market are an indicator for the improved economic situation in the country. The expectations of the

Sopharma AD

management are that the sales on this main export market will develop a positive trend till the end of the year.

🇧🇬 Bulgaria

The sales of Sopharma AD on the domestic market increase by BGN 0.3 million, or 1% and reached BGN 33 million for the first half of 2017 compared to BGN 32.7 million for the first half of 2016. The products with largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C and Nivalin. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 14% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0,3% in units), Actavis – 6% (11% in units), GlaxoSmithKline – 4% (2% in units), Abbvie – 4% (0.3% in units) Sanofi-Aventis – 4% (3% in units), Astra Zeneca – 3% (1% in units), Bayer – 3% (2% in units).

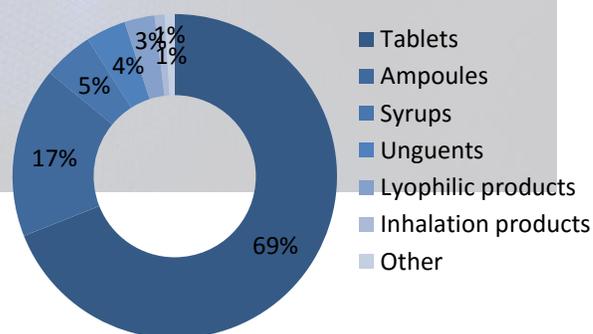
🌐 Other markets

Revenues from other markets increase with 24% compared to the first half of 2016. These mainly include revenues from sales in the Caucasus and Central Asia, which increase with 13% compared to the first half of 2016. Sales revenue in Vietnam increase with 89%.

Sales by type of formulation

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

Revenues by type of formulation	1-6/2017 BGN '000	1-6/2016 BGN '000	Change %
Tablets	64 041	52 847	21%
Ampoules	15 666	14 218	10%
Unguents	5 108	3 771	35%
Syrups	3 360	2 940	14%
Lyophilic products	2 813	3 091	-9%
Inhalation products	1 395	1 285	9%
Other	924	778	19%
Total	93 307	78 930	18%

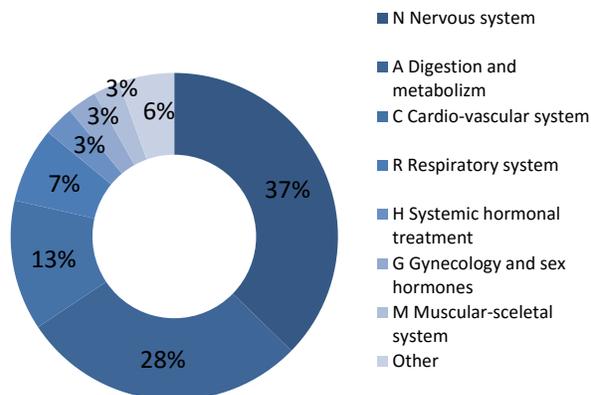


Sales by therapeutic group

Revenues by therapeutic	1-6/2017 BGN	1-6/2016 BGN	Change %

Sopharma AD

group	'000	'000	
N Nervous system	34 818	27 166	28%
A Digestion and metabolism	26 440	22 081	20%
C Cardio-vascular system	12 025	10 276	17%
R Respiratory system	6 957	6 586	6%
G Gynecology and sex hormones	2 779	2 629	6%
H Systemic hormonal treatment	2 737	2 958	-7%
M Muscular-skeletal system	2 439	1 716	42%
Other	5 112	5 519	-7%
Total	93 307	78 930	18%



Other operating revenues

Other operating revenues	1-6/2017 BGN '000	1-6/2016 BGN '000	Change %	Share 2017 %
Income from services rendered	1 715	1 738	-1%	77%
Income from financing under European programs	250	253	-1%	11%
Income from sale of goods	164	143	15%	7%
Income from sale of LTA	2	2	0%	0%
Income from sale of materials	86	42	105%	4%
Net loss from exchange rate differences from CR, CP, BA	(117)	(163)	-28%	-5%
Other (see Notes to the FS)	127	94	35%	6%
Total	2 227	2 109	6%	100%

Other operating income increased by BGN 0,1 million or 15% from BGN 3.7 million in the first half of 2017 mainly in the portion of the gains from sales of goods and materials and increase of the net losses from commercial receivables and payables current bank accounts.

Operating expenses

Operating expenses	1-6/2017 BGN '000	1-6/2016 BGN '000	Change %	Share 2017 %
Changes in the finished goods and work-in-progress inventory	(6 097)	(4 281)	42%	-9%
Materials	31 634	29 749	6%	45%
External services	17 272	14 863	16%	24%
Personnel	19 787	18 246	8%	28%
Amortization	7 350	7 008	5%	10%
Other operating expenses	890	1 144	-22%	1%
Total	70 836	66 729	6%	100%

Operating expenses increased by BGN 4.1 million or 6% from BGN 66.7 million in the first half of 2016 to BGN 70.8 million in the first half of 2017, which is linked to an increase in sales since the beginning of 2017 and an increase of external services expenses.

Cost of materials (45% share) decreased by BGN 1.9 million or 6% from BGN 29.7 million in the first half of 2016 to BGN 31 million in the first half of 2017 and the biggest impact has the increase in main materials with BGN 0.7 million and in particular the liquid and solid chemicals, vials, ampoules, herbs and packaging materials. The APIs expenses decrease.

Expenditure on external services accounted for 24% relative share of operating expenses and increased by BGN 2.4 million or 16% to BGN 17.3 million in the first half of 2017 compared to BGN 14.9 million in the first half quarter 2016. The most significant impact is the increase in the cost of manufacturing of medicaments by BGN 1.1 million, the cost of buildings and machines maintenance expenses by BGN 0.3 million, consultancy expenses with BGN 0.3 million and the transport costs by 0.4 million leva.

Personnel costs (with a relative share of 28% of operating costs) increased by BGN 1.5 million or by 8% from BGN 18.2 million in the first half of 2016 to BGN 19.8 million. In the first half of 2017 due to an increase in current wages with BGN 1.1 million.

Other operating costs (with a relative share of 1% of operating costs) decrease with BGN 0.3 million in first half of 2017 compared to the first half of 2016.

Depreciation costs (with a relative share of 10% of operating expenses) registered an increase of BGN 0.3 million or by 5% from BGN 7 million in the first half of 2016 to BGN 7.3 million in the first half of 2017.

Changes in inventories of finished goods and work in progress have an impact on the decrease in operating expenses by BGN 1.8 million.

Financial income and expenses

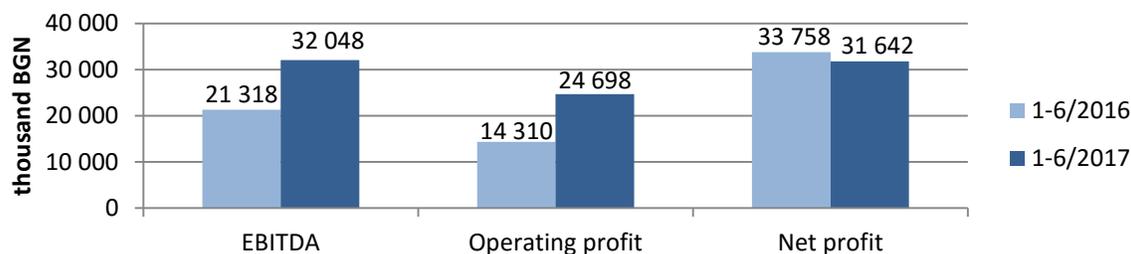
Financial income	1-6/2017 BGN '000	1-6/2016 BGN '000	Change %	Share 2016 %
Income from equity	7 495	8 941	-16%	73%
Interest income on loans granted	793	1 140	-30%	8%
<i>Impairment of receivables on commercial loans granted</i>	-881	-		
<i>Reversal of impairment of commercial loans</i>	1 661	-		
Net change of impairment on receivables on commercial loans	780	-	-	8%
Net gains on securities transactions	1 254	12 726	-90%	12%
Total	10 322	22 807	-55%	100%
Financial expenses				
Expenses for interest on loans received	611	1 146	-47%	61%
Derivatives effects	80	57	40%	3%
Bank fees for loans and guarantees	124	187	-34%	10%
Impairment on receivables on commercial loans	-	492	-100%	26%
Financial leasing expenses	-	2	-100%	0%
Total	815	1 884	-57%	100%

Financial revenues decrease by BGN 12.5 million or 55%, to BGN 10.3 million in the first half of 2017 compared to BGN 22.8 million in the first half of 2016. The reason is the decrease of the net gain from operations with securities with BGN 11.5 million.

Financial expenses are reduced by BGN 1.1 million or by 57% to BGN 0.8 million in the first half of 2017 compared to 1.9 million BGN in the first half of 2016. This is mainly due to decrease of the interest on loans received by BGN 0.5 million and impairment of receivables on commercial loans with BGN 0.5 million.

Net financial revenues decrease by BGN 11,4. million reaching BGN 9.5 million for the first half of 2017 compared to BGN 20.9 million for the first half of 2016.

Financial result



Profit before interest, taxes and depreciation (EBITDA) in the first half of 2017 increased with BGN 10.7 million or 50% reaching BGN 32 million compared to BGN 21.3 million in the first half of 2016.

Operating profit increased by BGN 10.4 million or by 72.6%, to BGN 24.7 million in the first half of 2017 compared to BGN 14.3 million in the first half of 2016.

Net profit decreased by BGN 2.1 million or 6.3%, to BGN 31.6 million in the first half of 2017 compared to BGN 33.7 million in the first half of 2016.

Assets

	30.06.2017	31.12.2016	Change	Share 2016
	BGN '000	BGN '000	%	%
Non-current assets				
Property, plant and equipment	205 876	209 326	-2%	50%
Intangible assets	2 494	2 177	15%	1%
Investment property	23 325	22 840	2%	6%
Investments in subsidiaries	152 935	147 583	4%	37%
Investments in associated companies	4 741	5 219	-9%	1%
Available-for-sale investments	5 436	5 229	4%	1%
Long-term receivables from related parties	11 515	11 011	5%	3%
Other long-term receivables	3 431	3 714	-8%	1%
	409 753	407 099	0.7%	65%

Current assets				
Inventories	63 300	56 807	11%	28%
Receivables from related parties	122 519	71 076	72%	55%
Commercial receivables	26 580	22 479	18%	12%
Loans granted to related parties	3 643	2 445	49%	2%
Other receivables and prepaid expenses	4 981	4 859	3%	2%
Cash and cash equivalents	1 498	4 343	-66%	1%
	222 521	162 009	37%	35%
TOTAL ASSETS	632 274	569 108	11%	100%

Total assets increased by BGN 63.8 million or by 11% to BGN 632.3 million, compared to BGN 569.1 million as at 31.12.2016.

Non-current assets increased by BGN 2.6 million, or 0.6%, mainly due to an increase in investments in subsidiaries related mainly due to the acquisition of RAP Pharma International and the tender offering to the shareholders of Unipharm. The property, plant and equipment decrease by BGN 3.4 million, mainly in the part of machinery and equipment by BGN 2.7 million, as well as in the part of land and buildings by BGN 0.5 million. The increase by BGN 0.3 million is recorded for the assets in acquisition process.

Intangible assets increased by BGN 0.3 million, mainly in the area of intellectual property rights and intangible assets in process of acquisition.

Current assets increased by BGN 60.5 million or 37% to BGN 222.5 million as at 30.06.2017 compared to 162 million on 31.12.2017. Inventories increase by BGN 6.5 million or 11% compared to 31.12.2016 mainly due to an increase in stocks of finished goods BGN 6.6 million and inventory of semi-finished products with BGN 1.5 million, receivables from related parties increased by BGN 51.4 million in the part of receivables from sales of products and materials by BGN 9 million and by BGN 1.5 million in the part concerning commercial loans, the short-term loans to related parties increase with BGN 35 million and in the part concerning dividends with BGN 7.4 million. The short-term loans to related parties were necessary for financing their activity in areas of common strategic interest. These loans have been guaranteed with a collateral of shares and equity pledges. As at the date of this management report BGN 29.7 million of the short-term have been paid back to the company.

Cash and cash equivalents decrease with BGN 2.4 million and as at 30.06.2017 amount to BGN 1.5 million compared to BGN 4.3 million as at 31.12.2017.

Liabilities and owners' equity

	30.06.2017	31.12.2016	Change	Share
	BGN '000	BGN '000	%	2016
OWNERS' EQUITY				
Share capital	134 798	134 798	0%	28%
Treasury stock	(18 262)	(18 809)	-3%	-4%
Reserves	329 955	304 403	8%	68%
Retained earnings	36 047	42 483	-15%	7%
TOTAL OWNERS' EQUITY	482 538	462 875	4%	100%
	30.06.2017	31.12.2016	Change	Share
	BGN '000	BGN '000	%	2016
LIABILITIES				
Non-current liabilities				
Long-term bank loans	20 284	23 844	-15%	14%
Liabilities on deferred taxes	5 906	5 703	4%	4%
Government financing	5 616	5 866	-4%	4%
Long-term liabilities to the personnel	2 821	2 649	6%	2%
	34 627	38 062	-9%	23%
Current liabilities				
Short-term bank loans	79 165	48 291	64%	53%
Short-term part of long-term bank loans	7 153	7 185	0%	5%
Commercial liabilities	5 498	4 712	17%	4%
Liabilities to related parties	7 463	497	1402%	5%
Liabilities for taxes	1 264	609	108%	1%
Liabilities to the personnel and for social insurance	7 028	5 363	31%	5%
Other current liabilities	7 538	1 514	398%	5%
	115 109	68 171	69%	77%
TOTAL LIABILITIES	149 736	106 233	41%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	632 274	569 108	11%	

The share capital increased by BGN 19.6 million or by 4% to BGN 482.5 million as of 30.06.2017 compared to BGN 462.9 million as of 31.12.2016, mainly as a result of an increase in reserves with BGN 25.5 million.

Non-current liabilities decreased by BGN 3.4 million or 9% to BGN 34.6 million at the end of the first half of 2017 compared to BGN 38 million at the end of 2016 mainly due to a decrease of long-term bank loans by BGN 3.6 million.

Current liabilities increased by BGN 46.9 million or 69%, to BGN 115.1 million at the end of March 2017 compared to BGN 68.2 million at the end of 2016. This is mainly due to increase of short-term bank loans by BGN 30.9 million and liabilities to related parties with BGN 7 million. Commercial liabilities increase by BGN 0.7 million, liabilities to personnel and social security by 1.7 million and other current liabilities with BGN 6 million, due to the dividend payment liability. Total exposure to bank loans to the Company as at 30 June 2017 increased with BGN 27 million compared to 31.12.2016.

Cash flow

	1-6/2017 BGN '000	1-6/2016 BGN '000
Net cash flow from/(used in) operations	11 449	10 798
Net cash flow used in investment activities	(42 045)	8 499
Net cash flow (used in)/from financial operations	27 751	(18 301)
Net increase/(decrease) of cash and cash equivalents	(2 845)	996
Cash and cash equivalents on 1 January	4 343	3 745
Cash and cash equivalents on 31 December	1 498	4 741

Net cash flows in the first half of 2017 generated from operations are BGN 11.4 million inflow, from investment activities are BGN 42 million outflow and from financial operations BGN 27.8 million inflow. As a result of these activities the cash and cash equivalents decrease net with BGN 2.8 million as at 30.06.2017 and amount to BGN 1.5 million compared to BGN 4.3 million as at 01.01.2017.

Ratios

	30.06.2017	31.12.2016	Change
ROE	7,6%	7,6%	-
ROA	6,1%	5,7%	0,4%
Asset turnover	0,30	0,28	0,02
Current liquidity	1,93	2,23	-0,30
Quick ratio	1,38	1,48	-0,10
Cash/current liabilities	0,01	0,06	-0,05
Owners' equity/liabilities	3,22	3,64	-0,42

3. New developments and products

+ New Products during the first half of 2017

Authorizations for new product destinations Amlodipine tablets, Zondaron ampoules, Vitamin C ampoules, Doporizon ointment, Dilden coated tablets, Talert syrup and Talert coated tablets, Methylprednizolon, Phenobarbital ampoules, Indometacin tablets. The Analgin drops for children and Softenzif 1.5 mg coated tablets with prolonged release have been implemented together with Desloratadin and Dekspanthen ointment.

Expected 2017

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

+ Developments

More than 15 production processes and technologies are in process of transfer, validation and optimization. Documentation has been submitted for new registrations of more than 25 products.

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

- On 5 January 2017 a merger agreement has been announced in the United States between Acta Life Lives Inc., a company in which Sopharma holds 4.7 percent of the capital and Onco Gennes Pharmaceuticals Inc., according to which Onco Gennes Pharmaceuticals Inc. will acquire Achieve Life Securities Inc. through an all- Stock transaction). Upon completion of the proposed merger, unit-holders of Achieve Livescence Inc will be expected to have 75% of the unincorporated shares of the combined entity, and current shareholders of Onco Gennes Pharmaceuticals Inc. will hold the remaining 25% of the outstanding shares. The agreement has been submitted to the Securities and Exchange Commission (SEC). Following its approval, the combined company will be renamed Achieve Life Inc. and will be listed on the NASDAQ. As a result of the aforementioned actions, Sopharma AD will own 423,000 shares (3,525%) of the share capital of Achieve Life Seans Inc.,
- Pursuant to Art. 100k., Para. 1 of the Public Offering of Securities Act shall be announced that on 31.01.2017, on the grounds of art. 222e and later of the Commercial Law Medica JSC, transforming company, and Sopharma AD, receiving company, have entered into a Transformation Conversion Contract. The merger transformation agreement regulates the way in which the transformation will be carried out through the merger of Medica AD into Sopharma AD and the consequent consequences for the transforming and the

receiving company. The fair value of the shares of the companies involved in the transformation has been determined on the basis of generally accepted valuation methods. Based on the fair price of the shares of the companies involved in the transformation, a replacement ratio of 0.9486 is formed, which means that one share of the transforming Medica AD should be replaced by 0.9486 shares of the receiving company Sopharma AD. On March 24, 2017, an additional agreement between Sopharma AD (acquiring company) and Medika AD (transforming company) was submitted for review to the Financial Supervision Commission (FSC) and updated justifications of the fair prices of the two companies in accordance with the instructions of the FSC. Against each of its shares by Medika AD each shareholder of the company on the grounds of Art. 261b, ap. 1 of the Commerce Act will acquire 0.8831 shares of the capital of Sopharma AD. All other transformation terms are defined in the Transformation Agreement. As of the date of issue of this report, the FSC has not granted approval under Article 104 of the POSA to the transformation contract.

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

and makes a proposal to the other holders of ordinary shares Of Unipharm AD for the purpose of their acquisition. On 12.04.2017 the Financial Supervision Commission (FSC) issued a temporary ban on the publication of a tender offer by Sopharma AD for the purchase of shares of Unipharm AD from the other shareholders of the company.

- On 05.04.2017 Sopharma AD received a decision of the CPC that the acquisition by Sopharma AD of shares of the capital of Doverie United Holding AD at this stage is not subject to prior notification under Art. 24, para. 2 of the LPC. Sopharma AD will take appropriate action in reaching the established thresholds requiring a tender offer to the other shareholders of Doverie United Holding AD.
- On April 18, 2016, Sopharma AD announced that the Company acquired 51% of the capital of the Moldovan distributor of medicinal products RAP Pharma International after obtaining permission from the Moldovan Competition Commission to realize the acquisition
- On 24.04.2017 an Extraordinary General Meeting of Shareholders of Sopharma AD took place and took the following decisions:

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

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

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

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

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

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

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

trade of medicinal products with the subsidiary Sopharma Kazakhstan AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter Six of the Substantiated report.

- On 25 April 2017 the Financial Supervision Commission approved the Contract for transformation through merger and the additional annex to it, signed on 31 January 2017 between Sopharma AD, hereinafter referred to as "Acquirer" and Medica AD, hereinafter referred to as "Acquiree" in accordance with the requirements of art. 262d and following of the Commercial Act (CA). As a result the assets of Medica AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Medica AD will be terminated without liquidation. The Financial Supervision Commission also approved the reports of the management of the two companies, prepared in accordance with the regulations of art.262i of the CA and the reports of the appointed examiners of the participants in the transformation under art. 262M of the CA from 13 October 2014.

- As a result of the merger, all shareholders of the Acquiree Medica AD, with the exception of the Acquirer Sopharma AD, which is also a shareholder of the Acquiree, will receive shares of Sopharma AD and become shareholders of it. Against one share of Medica AD each shareholder pursuant to art. 261b, art. 1 of the CA shall receive 0.8813 shares of the capital of Sopharma AD.
- The AGM of Sopharma AD held of 02.06.2017 took decisions on the following items:
 - “1. Approval of the Annual report of the Board of Directors of the Company for 2016; Draft decision: AGM approves the Annual report of the Board of Directors of the Company for 2016;
 - 2. Approval of the Annual report of the Investor Relations Director for 2016; Draft decision: AGM approves the Annual report of the Investor Relations Director for 2016;
 - 3. Approval of the Audit report on the audit of the annual financial statements of the Company for 2016; Draft decision: AGM approves the Audit report on the audit of the annual financial statements of the Company for 2016;
 - 4. Approval of the audited annual financial statements of the Company for 2016; Draft decision: AGM approves the audited annual financial statements of the Company for 2016;
 - 5. Approval of the audited annual consolidated financial statements of the Company for 2016; Draft decision: AGM approves the audited annual consolidated financial statements of the Company for 2016;
 - 6. Approval of the report of the Audit Committee for 2016; Draft decision: AGM approves the report of the Audit Committee for 2016;
 - 7. Approval of a decision on the distribution of the Company’s net profit for 2016 and undistributed profit from past periods; Draft decision: AGM accepts the proposal of the Board of Directors for the distribution of the profit of the company realized in 2016 and retained earnings from previous periods as follows: The total amount of the profit to be distributed amounts to BGN 38,249,890.71 / thirty-eight million two hundred forty-nine thousand eight hundred and ninety BGN and seventy one st. / of which BGN

37,769,879.20 / thirty-seven million seven hundred and sixty nine thousand eight hundred seventy-nine BGN and 20 st. / profit realized in 2016 and BGN 480,011.51 / four hundred and eighty thousand BGN and eleven levs and 51 st. / unallocated profit from past periods. After allocating 10% to a mandatory reserve, a dividend of BGN 0.10 (ten stotinki) per share shall be distributed. The amount left over after the allocation should be taken as an additional reserve of the company. The right to receive dividends shall be by the book of shareholders in the registers of the Central Depository as at the 14th day following the day of the General Meeting at which the Annual Financial Statement was adopted and a decision for the distribution of the profit was taken. The Company shall ensure the payment of the dividend voted to the shareholders at the General Assembly is distributed within three months of the date of decision for distribution. The cost for distributing the dividend is at the company's expense.

The payment of the dividend is done with the assistance of the Central Depository. The shareholders with 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. Approval of decision to discharge from liability the members of the Board of Directors for their activities in 2016; Draft decision: AGM discharges from liability the members of the Board of Directors for their activities in 2016;

9. Election of a registered auditor of the Company for 2017; Draft decision: AGM elects a registered auditor to audit and certify the annual financial statements of the Company for 2017 according to the proposal of the Audit Committee, included in the agenda materials.

10. Election of an Audit Committee. Draft decision: The GMS elects an Audit Committee in a composition as proposed by the Board of Directors.

11. Approval of rules for the activity of the Audit Committee according to the requirements of Part Four of the Independent Financial Audit Act; . Draft decision: The GMS adopts Rules of Procedure of the Audit Committee according to the requirements of Part Four of the Independent Financial Audit Act.

12. Approval of a 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 2016; Draft decision: The General Meeting approves 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 2016.

13. Determination of the remuneration of the members of the Board of Directors for 2017; Draft decision: On the basis of Article 24, paragraph 3, letter "A" of the Articles of Association of the company, the AGM decided: the permanent remuneration of the members of the Board of Directors and the permanent remuneration of the Executive Director in 2017 unchanged.

14. Approval of decision under art. 24, par. 3, letter B of the Company's Articles of Association; Draft decision: Pursuant to art. 24, par. 3, letter B of the Articles of

Association an additional fee of 1% /one percent/ of the net profit for 2016 according to the approved annual financial statements, shall be paid to the Executive Director of the Company;

15. Approval of decision determining the percent of the net profit for 2016 to be distributed among the members of the senior management of the Company in compliance with the requirements of art. 26a, item 12 of the Articles of Association of the Company; Draft decision: AGM approves the decision for the distribution of 1% /two percent/ of the net profit for 2016 among the members of the senior management of the Company in compliance with the requirements of art. 26a, item 12 of the Articles of Association of the Company.

16. Approval of a Substantiated Report, prepared by the Board of Directors, on the terms and the conditions of a transaction from the scope of Art. 114, para 1, item 2 of the Public Offering of Securities Act; Draft decision: The General Assembly adopts a Substantiated report on the terms and conditions of a transaction from the scope of Art. 114, para 1, item 2 of POSA.

17. Empowering the Board of Directors to conclude a transaction from the scope of Art. 114, para 1, item 2 of the Public Offering of Securities Act according to the Substantiated Report, for the incorporation of SOPHARMA AD as a co-debtor under the conditions of solidarity under a contract for a overdraft between the subsidiary Sopharma Trading AD and a financial institution - ING Bank NV - Sofia Branch; Draft decision: The General Meeting empowers the Board of Directors of the company to conclude a transaction for the inception of SOPHARMA AD as a co-debtor under the conditions of solidarity under a contract for a working loan between the subsidiary Sopharma Trading AD and a financial institution - ING Bank H .IN. - Sofia Branch according to the approved Substantiated Report.

18. Approval of decision for transformation through merger of Medica AD, 000000993 in Sopharma AD. Draft decision: The GMS approves the transformation through merger of Medica AD, 000000993 in Sopharma AD, UIC:831902088.

19. Approval of Contract for transformation through merger of Medica AD, UID 000000993 in Sopharma AD, UIC:831902088 signed on 31 January 2017, as well as Annex №1 from 1 March 2017 Draft decision: The GMS approves the Contract for transformation through merger of Medica AD, UID 000000993 in Sopharma AD, UIC:831902088 signed on 31 January 2017, as well as Annex №1 from 1 March 2017.

20. Approval of the Report by the Board of Directors of Sopharma AD under art. 262f of the CA. Draft decision: The GMS approves the Report by the Board of Directors of Sopharma AD under art. 262f of the CA.

21. Approval of the Report of the common examiner under art. 262m of the CA regarding the transformation through merger of Medica AD in Sopharma AD. Draft decision: The GMS approves the Report of the common examiner under art. 262m of CA regarding the transformation through merger of Medica AD in Sopharma AD.

22. Miscellaneous.”

- On the 15 June 2017 the American Financial and Exchanges Commission approved the process of merging Achieve Life Sciences and Oncogenex. OncoGenex will hold a special shareholder meeting on 1 August 2017 to vote the merger. Shortly after the newly formed entity will trade on NASDAQ stock exchange under the ticker symbol ACHV.
- On the grounds of Art. 157 of POSA in connection with Art. 154 of the Public Offering of Securities Act and in connection with the expired deadline for acceptance of the tender offer submitted by Sopharma AD to the shareholders of Unipharm AD, we inform you about the results of the tender offering submitted by Sopharma AD for the purchase of the shares of the other shareholders of Unipharm AD.

Company, object of the offer: Unipharm AD, with management address Sofia 1797, Studentski grad, zh.k. Darvenitsa, Trayko Stanoev Str.

Tender offeror: Sopharma AD, with address: Sofia, Nadezhda district, 16, Iliensko shose Str.

Authorized investment intermediary: Elana Trading AD, with management address: Sofia, Sredets, 4, Kuzman Shapkarev Str., and license issued by FSC for carrying out activity as an investment intermediary on the basis of Decision No. 171 -IP / 08.03.2006

Price offered per share: BGN 4.35 (four leva thirty-five stotinki) Number of persons accepted the tender offer: 65 Shareholder with total number of shares: 1 125 021, representing 18.75% of the capital of Unipharm AD.

As a result of the tender offer and after the conclusion of the transactions with the shareholders that have accepted it, Sopharma AD will directly own 96.63% of the shares of Unipharm AD. Sopharma AD has the right, within three months from the closing date of the tender offer, to submit, after obtaining the approval of the FSC, an offer for the purchase of the shares of the remaining shareholders of Unipharm AD on the grounds of Art. 157a of POSA. In addition, according to the provisions of Art. 157b of the POSA, each shareholder is entitled to require from Sopharma AD to redeem his/her shares until 19 September 2017. The request must be in writing and contain information about the shareholder and the shares he owns. The request should be addressed to the authorized investment intermediary Elana Trading AD. The price per share of Unipharm AD for the proposal under Art. 157a and in exercising the rights of the shareholders under Art. 157b, in accordance with the provisions of Art. 157a, para. 3 is equal to the price of the tender offering of BGN 4.35 per share. The results of the tender offering were published by the tender offeror in the newspapers "Capital Daily" and "Sega" as of 21.06.2017.

- On 17 July 2017 in interest of its shareholders Sopharma AD announced that it will initiate dividend payment of the voted on the AGM held on 2 June 2017 dividend of 0.10 BGN earlier than planned on 24 July 2017.

The persons eligible for dividend are those present in the register of the Central Depository 14 days after the date of the AGM, i.e. 16 June 2017.

In accordance with the Regulations of the Central Depository, the dividend shall be paid out as follows: for shareholders with client accounts at an investment intermediary –

through the investment intermediary, for shareholders without accounts at an investment intermediary - through the branches of Eurobank EFG - Bulgaria AD /Postbank/ in the country.

- On 21 July 2017 “Sopharma” AD acquired 75% from the capital of the successful start-up for development and registration of food additives “Aromania” (www.arolife.bg).

For the nearly two years since its establishment “Aromania” has more than 20 registered products and for 12 of them the company either has or has filed a different form of patent protection - trade mark, industrial design or useful model. Two of the products are leaders in their categories. For 2016 the revenues from sales of the company are 1,279 thousand BGN.

Sopharma will use this platform for a wider presence on the food additives market and to proudly enter the society of the “Bulgarian business angels”.

5. Related party information

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

III. Information about the shares of Sopharma AD

The total number of shares issued by Sopharma, issued on 30.06.2017, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, in accordance with the Articles of Association of the Company. All issued shares are of one class. Each share entitles one vote to the General Meeting of Shareholders, a right to dividend and a liquidation share proportional to the nominal value of the share.

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

Key indicators of the shares of Sopharma AD

	30.06.2017	31.03.2016
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	129 186 283	129 585 119
Number of shares outstanding at the end of the period	129 276 474	129 576 603
Earnings per share in BGN	0,276	0,256
Price per share at the end of the period in BGN	4,501	2,588
Price/Earnings ratio (P/E)	16,31	10,11
Book value per share in BGN	3,73	3,522
Price/Book value ratio (P/B)	1,21	0,73
Sales per share in BGN	1,378	1,271
Price per share / Sales per share(P/S)	3,27	2,04
Market capitalization in BGN	606 725 343	348 856 963

Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2017 – 30 June 2017



Ognian Donev, PhD

/Executive Director/

Management report – Sopharma AD H1 2017