

MANAGEMENT REPORT

2016



SOPHARMA AD

27 March 2017

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I. General information about Sopharma AD

1. Registration and main activities

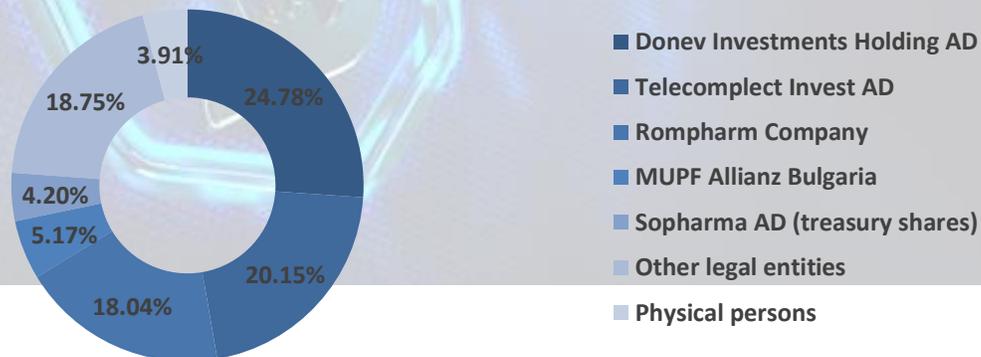
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16Iliensko shose str.

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

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

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

2. Shareholder structure as at 31 December 2016



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.

II. Recent developments

1. Industrial activity

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.

The Company carries out and develops production in the following areas:

- ✚ Substances and preparations based on vegetable raw materials (phytochemical production);

- ✚ Finished dosage forms including

- ✓ Solid tablets, sugar coated tablets, film coated tablets, capsules;
- ✓ Galenical - suppositories, drops, syrups, unguents;
- ✓ Parenteral - injectable, lyophilic powders for injections

2. Products

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

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

The most important pharmaceutical products in terms of their contribution to revenues are:

- Carsil - original product plant-based, used to treat gastroenterological disorders (liver disease);
- Tempalgin - original analgesic (painkiller);
- Tabex – original plant-based drug used for smoking secession;
- Tribestan – original plant-based product, used for stimulation of the reproductive system;
- Broncholytin - original plant-based product used to suppress cough;
- Analgin - generic analgesic (painkiller);

- Nivalin – original phyto-based product, used in the treatment of the peripheral nervous system;
- Methylprednisolone - generic drug for treatment of severe allergies and certain life-threatening conditions;

III. Information compliant with art. 39 of the Accounting Law

1. 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	1-12/2016	1-12/2015	change
	BGN '000	BGN '000	%
Sales revenues	163 827	173 803	-5,7%
EBITDA	40 253	39 686	1,4%
Operating profit	26 334	25 137	4,8%
Net profit	37 770	25 354	49%
CAPEX	9 609	16 143	-40,5%
	31.12.2016	31.12.2015	
	BGN '000	BGN '000	
Non-current assets	407 099	398 781	2,1%
Current assets	162 009	171 828	-5,7%
Owners' equity	462 875	431 626	7,2%
Non-current liabilities	38 062	44 316	-14,1%
Current liabilities	68 171	94 667	-28,0%
	2016	2015	
Ratios			
EBITDA / Sales revenues	24,6%	22,8%	
Operating profit/ Sales revenues	16,1%	14,5%	
Net profit/ Sales revenues	23,1%	14,6%	
Borrowed capital/Owners' equity	0,23	0,32	
Net debt/ EBITDA	1,86x	2,61x	

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. Analysis of the main financial and non-financial indicators related to the activities of Sopharma AD (art. 39, item 2 of the Accounting Law)

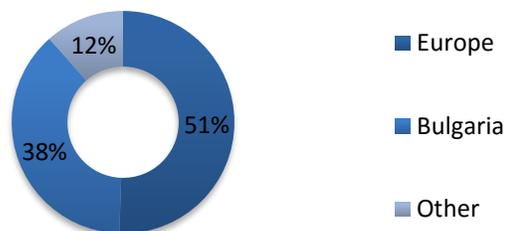
Sales revenues of production decrease by BGN 10 million or 6%, reaching BGN 163.8 million at the end of 2016, compared to BGN 173.8 million at the end of 2015.



Revenues by market	2016	2015	Change
	BGN '000	BGN '000	
Europe	82 790	91 608	-

Sopharma AD

			10 %
Bulgaria	62 172	63 806	-3%
Other	18 865	18 389	3%
Total	163 827	173 803	-6%



Europe

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

Bulgaria

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

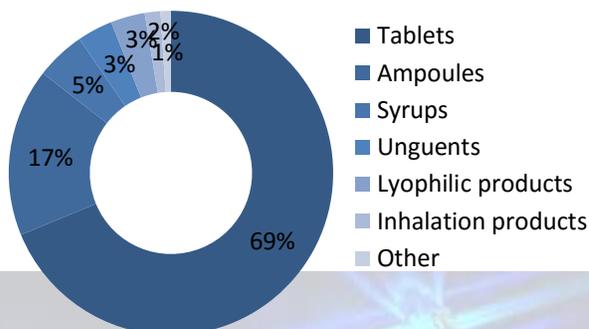
Other markets

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

Sales by type of formulation

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

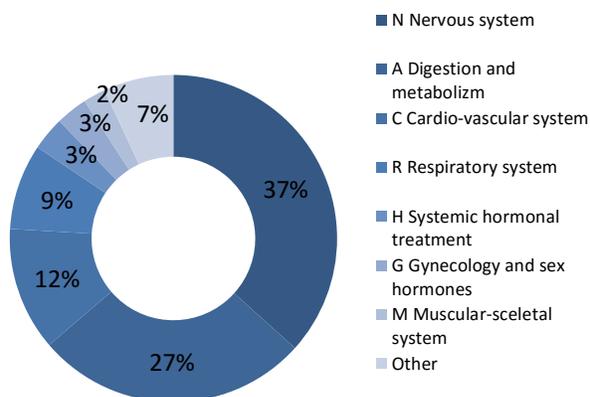
Revenues by type of formulation	2016 BGN '000	2015 BGN '000	Change %
Tablets	112 668	115 033	-2%
Ampoules	27 460	32 579	-16%
Syrups	8 061	7 282	11%
Unguents	5 794	7 673	-24%
Lyophilic products	5 586	5 846	-4%
Inhalation products	2 572	3 433	-25%
Other	1 686	1 957	-14%
Total	163 827	173 803	-6%



Revenues by therapeutic group	2016 BGN '000	2015 BGN '000	Change %
N Nervous system	60 095	64	-7%
A Digestion and metabolism	44 289	44	0%
C Cardio-vascular system	20 019	24	-18%
R Respiratory system	13 889	14	-5%
H Systemic hormonal treatment	5 435	5 882	-8%
G Gynecology and sex hormones	5 149	5 257	-2%
M Muscular-skeletal system	3 613	4 189	-14%
Other	11 338	10 697	6%
Total	163 827	173 803	-6%

827

803



Other operating revenues

Other operating revenues	2016 BGN '000	2015 BGN '000	Change %	Share 2016 %
Income from services rendered	3 494	3 364	4%	83%
Income from financing under European programs	497	397	25%	12%
Income from sale of goods	174	263	-34%	4%
Income from sale of LTA	122	(138)	-188%	3%
Income from sale of materials	109	117	-7%	3%
Losses from revaluation of investment properties to fair value	(233)	(79)	195%	-6%
Net loss from exchange rate differences from CR, CP, BA	(258)	(800)	-68%	-6%
Other (see Notes to the FS)	288	527	-45%	7%
Total	4 193	3 651	15%	100%

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

Operating expenses

Operating expenses	2016 BGN '000	2015 BGN '000	Change %	Share 2016 %
Changes in the finished goods and work-in-progress inventory	(360)	(6 667)	-95%	0%
Materials	55 172	61 619	-10%	39%
External services	33 297	41 275	-19%	23%
Personnel	34 414	35 331	-3%	24%
Amortization	13 919	14 549	-4%	10%
Other operating expenses	5 244	6 210	16%	4%
Total	141 686	152 317	-7%	100%

The operating expenses decreased by BGN 10.6 million or 7% from BGN 152.3 million in 2015 to BGN 141.7 million in 2016, which is due to a decrease of the expenses directly related to the decrease in sales and due to the optimization of the external services expenses and personnel expenses.

Cost of materials (39% share) decreased by BGN 6.4 million or 10% from BGN 61.6 million in 2015 to BGN 55.2 million in 2016.

Hired services have a 23% share of operating expenses and decreased by BGN 8 million or 19%, to BGN 33.3 million in 2016 compared to BGN 41.3 million in 2015. The most significant impact has the decrease in marketing and advertising services by BGN 3.3 million, as well as manufacturing of medicines with BGN 1.5 million, the consultancy expenses with BGN 1.1 million and services related to clinical trials with BGN 1.4 million.

Personnel costs (with a share of 24% of operating expenses) decreased by BGN 0.9 million, or 3% from BGN 35.3 million in 2015 to BGN 34.43 million in 2016 due to optimization in the number of employees in the Company.

Other operating expenses (with a relative share of 4% of operating expenses) decreased by 1 million from BGN 6.2 million in 2015 to BGN 5.2 million in 2016, which is mostly due to recovered impairment of finished products and unfinished products.

Costs of amortization (with a relative share of 10% of operating expenses) decreased by BGN 0.6 million or 4% from BGN 14.5 million in 2015 to BGN 13,9 million in 2016.

Changes in the finished goods and work-in-progress inventory decrease with BGN 6 million. This change is due to the improved inventory turnover which followed the optimized logistics, production and realization schedule.

Financial income and expenses

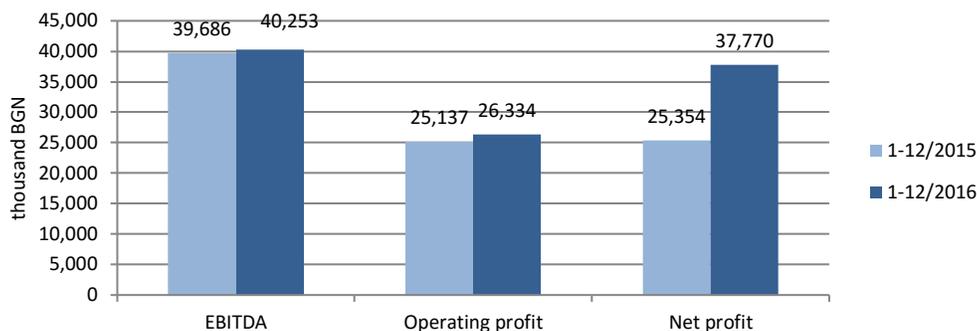
Financial income	2016 BGN '000	2015 BGN '000	Change %	Share 2016 %
Net gain from operations with securities and shares (including gain from sale of a subsidiary)	12 740	6 908	84%	53%
Income from share participations	9 161	7 881	16%	38%
Income from interest on loans granted	2 126	3 120	-32%	9%
Net gain from exchange rate differences on a receivable from a subsidiary	131			0%
Net gain from exchange rate differences on loans		13	-100%	0%
Total	24 158	17 922	35%	100%
Financial expenses				
Expenses for interest on loans received	2 062	3 510	-41%	65%
Impairment of receivables on provided commercial loans	688	1 955	-65%	22%
Bank fees for loans and guarantees	302	270	12%	10%
Hedging of monetary funds effects	109			3%
Impairment of cash	8	165	-95%	0%
Impairment of available-for-sale investments	4	398	-99%	0%
Financial leasing expenses	3	14	-79%	0%
Total	3 176	6 312	-50%	100%

Financial income increased by BGN 6.2 million, or 35%, to BGN 24.1 million in 2016 compared to BGN 17.9 million in 2015.

Financial expenses increased by BGN 3.1 million or 50% to BGN 3.2 million in 2015 compared to BGN 6.3 million in 2015.

Net financial income (expense) increased by BGN 9.4 million reaching BGN 21 million in 2016, compared to BGN 11.6 million in 2015.

Financial result



Profit before interest, taxes, depreciation and amortization (EBITDA) increased by BGN 0.6 million or 1.4%, amounting to BGN 40.3 million as in 2016, compared to BGN 39.7 million as at in 2015.

The operating profit increased by BGN 1.2 million or 4.8%, reaching BGN 26.3 million as at in 2016, compared to BGN 25.1 million as at in 2015.

Net profit increased by BGN 12.4 million or 49% to BGN 37.8 million in 2016 compared to BGN 25.4 million in 2015. The main reasons for the increase is the increase in operations with securities net BGN 5.8 million, to a large extent as a result of the sales by the Company of the shares in Ivanchich and sons DOO, the increase of income from securities and due to the decrease of the interest expenses on bank loans and the improved conditions related to bank loans and the significantly decreased bank exposure.

Assets

	31.12.2016	31.12.2015	Change	Share 2016
	BGN '000	BGN '000	%	%
Non-current assets				
Property, plant and equipment	209 326	211 943	-1%	51%
Intangible assets	2 177	2 507	-13%	1%
Investment property	22 840	22 160	3%	6%
Investments in subsidiaries	147 583	132 899	11%	36%
Investments in associated companies	5 219			1%
Available-for-sale investments	5 229	5 510	-5%	1%
Long-term receivables from related parties	11 011	20 505	-46%	3%
Other long-term receivables	3 714	3 257	14%	1%
	407 099	398 781	2%	72%

Current assets				
Inventories	56 807	61 701	-8%	35%
Receivables from related parties	71 076	78 035	-9%	44%
Commercial receivables	22 479	21 466	5%	14%
Other receivables and prepaid expenses	7 304	6 881	6%	4%
Cash and cash equivalents	4 343	3 745	16%	3%
	162 009	171 828	-6%	28%
TOTAL ASSETS	569 108	570 609	-0,3%	100%

Total assets decreased by BGN 1,5 million or 0,3% to BGN 569,1 million compared to BGN 570,6 million as at 31 December 2015.

Non-current assets increased by BGN 8.3 million, or 2%, mainly due to an increase in investments in subsidiaries by BGN 14.7 million and investments in associates by BGN 5.2 million. The investments in subsidiaries increase by BGN 14.7 million mainly due to the increase of the investment in Medica AD and Veta Pharma AD. The investments in associates are related to the acquisition of a share in the capital of Doverie Obedinen Holding AD. There is a decrease in long-term loans to related parties with BGN 9.5 million.

Current assets decreased by BGN 9.8 million or 6% to BGN 162 million as at 31 December 2016 compared to BGN 171.8 million as at 31 December 2015.

Material inventories decrease by BGN 4.9 million or 8% compared to 31 December 2015 mainly due to decrease in the finished goods inventory with BGN 6.9 million. Receivables from related parties decrease with BGN 7 million as a result of the decrease in the commercial loans granted with BGN 9.2 million and an increase in the receivables from sales of products and materials with BGN 2.2 million.

Liabilities and owners' equity

	31.12.2016	31.12.2015	Change	Share
	BGN '000	BGN '000	%	2016
OWNERS' EQUITY				
Share capital	134 798	134 798	0%	29%
Treasury stock	(18 809)	(17 597)	7%	-4%
Reserves	304 403	284 227	7%	66%
Retained earnings	42 483	30 198	41%	9%
TOTAL OWNERS' EQUITY	462 875	431 626	7%	100%
	31.12.2016	31.12.2015	Change	Share
	BGN '000	BGN '000	%	2016
LIABILITIES				
Non-current liabilities				
Long-term bank loans	23 844	30 819	-23%	22%
Liabilities on deferred taxes	5 703	4 697	21%	5%
Government financing	5 866	6 371	-8%	6%
Long-term liabilities to the personnel	2 649	2 426	9%	3%
Financial leasing liabilities	0	3	-100%	0%
	38 062	44 316	-14%	36%
Current liabilities				
Short-term bank loans	48 291	68 961	-30%	46%
Short-term part of long-term bank loans	7 185	7 380	-3%	7%
Commercial liabilities	4 712	8 014	-41%	4%
Liabilities to related parties	497	3 070	-84%	0%
Liabilities for taxes	609	965	-37%	1%
Liabilities to the personnel and for social insurance	5 363	4 769	12%	5%
Other current liabilities	1 514	1 508	0%	1%
	68 171	94 667	-28%	64%
TOTAL LIABILITIES	106 233	138 983	-24%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	569 108	570 609	-0,3%	

Equity increased by BGN 31.3 million or 7%, reaching BGN 462.9 million as at 31 December 2016 compared to BGN 431.6 million as at 31 December 2015 mainly as a result of an increase in reserves by BGN 20.2 million and undistributed profit by BGN 12.3 million.

Sopharma AD

Non-current liabilities decreased by BGN 6,2 million or 14% to BGN 38.1 million at the end of 2016 compared to BGN 44,3 million as at the end of 2015 mainly due to a decrease of long-term bank loans by BGN 7 million due to maturity of installments for an investment loan.

Current liabilities decreased by BGN 26.5 million or 28% to BGN 68.2 million at the end of 2016 compared to BGN 94.7 million as at the end of 2015. This is mainly due to a decrease in commercial liabilities BGN 3.3 million, short-term bank loans by BGN 20.7 million and liabilities to related parties by BGN 2.6 million. The total exposure to banks of the Company as at 31 December 2016 decreased by about BGN 27.8 million compared to 31 December 2015.

Ratios

	31.12.2016	31.12.2015	Change
ROE	8,3%	6,0%	2,3%
ROA	6,6%	4,4%	2,2%
Asset turnover	0,29	0,30	-0,01
Current liquidity	2,38	1,82	0,56
Quick ratio	1,54	1,16	0,38
Cash/current liabilities	0,06	0,04	0,02
Owners' equity/liabilities	4,36	3,11	1,25

Cash flow

	31.12.2016 BGN '000	31.12.2015 BGN '000
Net cash flow from/(used in) operations	26 636	28 398
Net cash flow used in investment activities	12 891	(410)
Net cash flow (used in)/from financial operations	(38929)	(27 721)
Net increase/(decrease) of cash and cash equivalents	598	267
Cash and cash equivalents on 1 January	3 745	3 478
Cash and cash equivalents on 31 December	4 343	3 745

Net cash flows in 2016 generated from operating activities amounted to BGN 26.6 million, incoming cash flow from investing activities BGN 12.9 million incoming cash flow and financing

activities BGN 38.9 million outgoing cash flow. As a result of these activities cash and cash equivalents mark a net increase of BGN 0,6 million and as at 31 December 2016 amount to BGN 4.3 million compared to 3.7 million as at 1 January 2016.

Ecology and Environmental Protection

Sopharma upholds and respects its commitments in accordance with national legislation on environmental protection. The company implement measures to:

- separate collection of waste, minimization, recovery and recycling of industrial and household waste;
- ensuring proper training of personnel on issues related to environmental protection and pollution prevention;
- responsibly fulfills the mandatory requirements of Decree 137 of Council of Ministers and Ordinance on packaging and packaging waste;
- annually measures the emission of waste gases into the air from factory Phytochemistry and the Plant for solid dosage forms;
- monthly Sofiyska Voda measures the emissions in wastewater from production sites A and B.

In 2016 the separately collected waste decreased by 2% compared to previous years. Production waste is transferred to licensed companies for recycling. The measured annual emission of waste gases in the air and emissions from wastewater are within the required norms. The conditions of the Permit for discharge are strictly kept. The Company prepares a monthly report on the imported and / or marketed packaging by type of material for which a monthly installment is payed to Ecobulpack under the contract for the recovery of packaging waste which Sofarma AD has.

Employees

The average number of employees of Sopharma AD is 1873 (2015: 2 010). The table below shows the detailed information on the staff of the Company.

	31.12.2016	Share %
Number of employees 31.12.2015	1834	100%
Higher education	799	43%
Special education	41	2%
High school education	965	53%
Primary school education	29	2%
Up to 30 years of age	189	10%
Between 31 - 40 years of age	390	21%
Between 41 - 50 years of age	617	34%
Between 51 - 60 years of age	530	29%
Over 60 years of age	108	6%
Women	1138	62%
Men	696	38%

Training programs offered to employees of the Company, aim at increasing their competence levels. The training policy is specifically designed to provide high levels of professional knowledge and improving awareness related to health and safety issues.

Employees are entitled to higher remuneration, required by applicable law for overtime, night shifts and working weekends and during holidays. Employees who work in specific, harmful or dangerous conditions receive personal protective equipment and allowances.

3. Important events after the date of the annual financial statements (art. 39, item 3 of the Accounting Law)

- On 5 January 2017, in the US Achieve Life Science Inc. and OncoGenex Pharmaceuticals Inc. announced a merger agreement under which OncoGenex Pharmaceuticals Inc. will acquire Achieve Life Science Inc. through of all-stock. Upon completion of the proposed merger it is expected that the shareholders of Achieve Life Science Inc. will own 75% of the outstanding shares of the combined company, while current shareholders of OncoGenex Pharmaceuticals Inc. will own the remaining 25% of the outstanding shares. The agreement is submitted for approval by the Securities and Exchange Commission (SEC). After its approval the combined company will be renamed Achieve Life Sciences Inc. and will be recorded in the NASDAQ. As a result of the above - mentioned actions Sopharma will own 423 000 shares (3.525%) of the capital of Achieve Life Science Inc..
- On 1 February 2017, pursuant to Art. 151, para. 3 of POSA, Sopharma AD submitted a revised offer under Art. 149, para. 6 of POSA to purchase shares of the remaining shareholders of Unipharm price of 4.35 lev per share. Sopharma AD as a tender offeror states that it does not 1 342 234 shares, representing 22.37% of total ordinary shares

ISIN code BG1100154076 from the shares with voting rights in the General Meeting of Shareholders of Unipharm AD and makes this offer to the remaining shareholders for their acquisition. At the date of issue of this report the Financial Supervision Commission (FSC) has not taken a position on the tender offer.

- On 31 January 2017 the Contract for merger, as well as reports of the management bodies of the companies involved in the transformation of the company under art. 262i of the CA and the report of the examiner under art. 262m of the CA for transformation through merger between Sopharma AD, Sofia, UIC 831902088 and Medica AD, Sofia, UIC 000000993 were filed with the FSC for approval pursuant to art. 124, par. 1 of the Public Offering of Securities Act (POSA). As a result of the merger, all assets of Medica AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Medica AD shall be terminated without liquidation. On 20 March 2017 Sopharma AD, Sofia, UIC 831902088 and Medica AD, Sofia, UIC 000000993 signed an annex to the Contract for transformation through merger reflecting the comments by the FSC. All documents will be filed with the FSC for approval pursuant to art. 124, par. 1 of the Public Offering of Securities Act (POSA) after an independent certified evaluator prepares a report. As a result of the merger, all shareholders of the transferring company Medica AD, with the exception of the receiving company Sopharma AD, which is also a shareholder of the transferring company, will receive shares of Sopharma AD and become shareholders of it. Against one share of Medica AD each shareholder pursuant to art. 261b, app. 1 of the CA shall receive 0.8831 treasury shares of the capital of Sopharma AD. All other conditions concerning the merger procedure are included in the Contract.
- The Board of Directors, pursuant to art. 223 of the Commercial Act /CA/ and art. 115 of the Public Offering of Securities Act /POSA/, convenes an Extraordinary Meeting of Shareholders of Sopharma AD, which shall be held on 24 April 2017 at 11:00 at the Company's headquarters in Sofia, at: 5 Lachezar Stanchev Str., Building B and in the absence of quorum on 8 May 2017 at the same place, the same time and with the same agenda:

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.

8. Miscellaneous.

4. Planned development of Sopharma AD (art. 39, item 4 from the Accounting Law/ planned economic policy for the next year (art. 247, para 3 from the Commercial Code)

- ✚ On the local market the Company aims to make treatment more accessible to patients through the faster development and registration of generic products.
- ✚ With regard to foreign markets, the efforts are focused on retaining and increasing the share of the Company on the main markets (Russia, Ukraine and Poland) as well as establishing and extending presence in other countries (USA, Central and East European countries, and the Caucasian region).
- ✚ The Company continues the policy of active partnership with recognized international pharmaceutical companies, with new companies as well as broadening the product range of already established collaborations.
- ✚ The planned investment program of the Company for 2017 includes investments amounting to BGN 9 million for acquisition of buildings, machines, equipment and software. These assets will be used for renovation of the current production facilities.

5. Research and development (art. 39, item 5 of the Accounting Law)

Sopharma AD focuses its R&D mainly on generics. The R&D projects are focused on finding and developing new formulas and compositions or physical properties (such as formulation or tablets) of the products in order to adapt them to current market needs. Strategic goal of Sopharma AD in the future is to achieve a stable result in developing eight to ten new products annually.

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

Intellectual property

Although oriented towards generic pharmaceuticals, Sopharma AD is known for many years with its traditional production of several unique products based on plant extracts obtained by in-house-developed extraction technologies. In addition to trademark these products are protected with patent or corporate know-how.

For the distinguishing of the manufactured generic products Sopharma AD relies on brand names, all of which are registered trademarks of the Company.

In all the years of its existence, Sopharma AD generates and protects its intellectual property. As a result, the Company owns a large number of intellectual property assets, the majority being registered rights (trademarks, patents, designs) and few of which are unregistered items - mainly technologies.

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

New developments and products

+ New products with marketing authorizations in the period January – December 2016:

Authorizations were received for the bringing to 6 destination for marketing of the new products for the Company – Desloratadin film tablets, Ibandron film tablets and Amlodipin tablest and Videral drops, Deavit drops and Tuspan syrup have been implemented.

+ Expected in 2017

Three to five new products are expected to be introduced by the end of 2017.

+ Developments

Around 15 production processes and technologies are in the process of transfer, validation and optimization. Pharmaceutical development is carried out of over 10 new products for the Company.

6. Information for treasury shares required under art. 187e of the Commercial Code (art. 39, item 6 of the Accounting Law)

In 2017 the Company bought back 443 418 shares (2015: 105 166 shares) and sold 300 shares (2015: none). The shares bought back during the year represent 0.33% of the capital of the Company and the average purchase price is 2.72 BGN.

	Shares	Capital, net from treasury shares
	<i>amount</i>	<i>BGN '000</i>
Outstanding shares on 1 January 2016	129 578 603	117 201
Sold treasury shares	300	1
Treasury shares acquired	(443 418)	(1 207)
Acquisition expense		(6)
Outstanding shares on 31 December 2016	129 135 485	115 989

The Board of directors is authorized under certain conditions in accordance with decisions of the General Meeting of Shareholders as of 23 June 2010, 30 November 2011, 1 November 2012 and 28 February 2013.

Number and nominal value of the treasury shares and the % of capital they represent

Sopharma AD owns 5 662 414 treasury shares representing 4.2% of the capital of the Company.

7. Branches of the Company (art. 39, item 7 of the Accounting Law)

Sopharma AD does not have branches.

8. Used financial instruments (art. 39, item 8 of the Accounting Law)

The general risk management is focused on the difficulty of forecasting the financial markets and aims at minimizing the potential negative effects that could affect the financial results and position of the company. The financial risks are identified, measured and monitored through various control mechanisms in order to establish adequate prices for the products and services of the company and the borrowed thereby capital and to assess adequately the market circumstance of its investments and forms for maintenance of free liquid funds through preventing undue concentration of a risk.

Risk management is carried out by the management of the Company under the policies adopted by the Board of Directors. The latter has approved the basic principles of general financial risk management, based on which are developed specific procedures for the management of

individual specific risks such as currency, interest rate, credit and liquidity risk and the use of derivative instruments.

Credit risk

Credit risk is the risk that any of the Company's clients will fail to discharge in full and within the normally envisaged terms the amounts due under commercial receivables. The latter are presented in the statement of financial position at net value after deducting the impairment related to doubtful and bad debts. Such impairment is made where and when events have existed identifying loss due to uncollectability as per previous experience.

In the years of its trade experience, the Company has implemented different schemes of distribution to reach its efficient approach of today, in conformity with the market conditions, using various ways of payment as well as relevant trade discounts. The Company works on its main markets with counterparts with history of their relations on main markets, which include over 70 licensed Bulgarian and foreign traders of pharmaceuticals.

The cooperation with the National Health Insurance Fund and the state hospitals also require the implementation of deferred payments policy. In this sense, regardless of credit risk concentration, it is controlled through the choice of trade counterparts, current monitoring of their liquidity and financial stability as well as direct communication with them and search of prompt measures on first indications for existing problems.

Liquidity risk

Liquidity risk is the adverse situation when the Company encounters difficulty in meeting unconditionally its obligations within their maturity.

The Company generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Company is its main economic activity generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding. To isolate any possible liquidity risk, the Company implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

Risk of interest-bearing cash flows

The assets structure represents the interest bearing assets as cash, negotiated with a floating interest rate and loans granted, with fixed interest rate. On the other hand, Company's borrowings in the form of long-term and short-term loans are usually with a floating interest rate. This circumstance makes the cash flows of the Company partially dependent on interest risk. This risk is covered in two ways:

- a) optimization of the sources of credit resources for achieving relatively lower price of attracted funds;
- b) the combined structure of interest rates on loans, which consists of two components – a permanent one and a variable one, the correlation between them, as well as their absolute value, can be achieved and maintained in a proportion favorable for the Company. The permanent component has a relatively low absolute value and sufficiently high relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rate levels in case of variable component updating. Thus the probability for an unfavorable change of cash flows is reduced to a minimum.

The Company's management currently monitors and analyses its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or percentage, on the financial result and equity is calculated. For each simulation, the same assumption for interest rate shift is used for all major currencies. The calculations are made for major interest-bearing positions.

IV. Information according to art. 247 and art. 240b of the Commercial Code

1. Information under art. 247 of the Commercial Code

Information concerning the activity and the condition of the Company and explanations on the financial report

In Chapter II, item 2 the Board of Directors has included information concerning the activities of the Company and has provided explanations and clarifications related to the financial report.

Remuneration received in total throughout the year from the Members of the Board

The remuneration and other short-term income of the Board of Directors for 2016 amounts to 1,138 thousand BGN (2015: 1,154 thousand BGN) and are as follows:

- Current – 884 thousand BGN (2015: 889 thousand BGN)
- Tantiems – 254 thousand BGN (2015: 265 thousand BGN)

Acquired, owned and transferred shares and bonds of the Company by the Board of Directors

The acquired, owned and transferred shares by the Board of Directors are as follows:

Members of the	31.12.2016	31.12.2015
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Board of Directors	Number of shares	% of capital	Number of shares	% of capital	Acquired in 2016	Transferred in 2016	Change
Ognian Ivanov Donev	246 600	0,18%	0	0%	246 600	-	246 600
Vesela Lyubenova Stoeva	0	0%	0	0%	-	-	0
Andrey Lyudmilov Breshkov	0	0%	0	0%	-	-	0
Ognian Kirilov Palaveev	120 430	0,09%	102 585	0,08%	17 845	-	17 845
Alexander Victorov Tchaushev	59 462	0,04%	97 976	0,07%	-	38 514	-38 514

The company has not issued any bonds.

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

The Articles of incorporation of Sopharma AD do not envisage limitations for the right of the members of the Board to acquire shares and bonds of the Company.

Participation of board members in companies as partners, ownership of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives as procurators, managers or board members

Share in the capital of other companies amounting to more than 25% owned by the members of the Board of Directors:

Ognian Ivanov Donev controls or owns directly a significant share (more than 25%) of the capital of the following companies:

1. "Donev Investments Holding" AD, UIC 831915121, with headquarters in Sofia, 12 "Pozitano" Str.;
2. "Telecomplect invest" AD, UIC 201653294, with headquarters in Sofia, 9 "Slaveikov" Str.
3. "Telecomplect" AD, UIC 831643753, with headquarters in Sofia, 5 "Lachezar Stanchev" Str.
4. "Sopharma Buildings" REIT, UIC 175346309, with headquarters in Sofia, 5 "Lachezar Stanchev" Str.;
5. "Sopharma Properties" REIT, UIC 175059266, with headquarters in Sofia, 5 "Lachezar Stanchev" Str., Building A;
6. "Sofprint Group" AD, UIC 175413277 with seat and headquarters: Sofia, 12 "Pozitano" Str.;

7. "Sofconsult Group" AD, UIC 175413245, with seat and headquarters: Sofia, 12 "Pozitano" Str.;
8. "Sofia Inform" AD, UIC 121303553, with headquarters in Sofia, 12 "Pozitano" Str.;
9. "Elpharma" AD, UIC 130299513, with seat and headquarters: Sofia, 16 „Iliensko shose“ Str.;
10. "Sopharma Trading" AD, UIC 103267194, with seat and headquarters: Sofia, 5 "Lachezar Stanchev" Str. ;
11. "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:

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

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

1. "Sofservice" OOD, UIC 131407109, with headquarters in Sofia, 339, "Tsar Boris III" Blvd.;
2. "Alpha In" EOOD, UIC 131156322, with headquarters in Sofia, 1B "Dimcho Debelianov" Str.

Andrey Lyudmilov Breshkov controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

1. "Breshkov and Sons" OOD, UIC 115114555, with headquarters in Plovdiv, 36 "Gladstone" Str.
2. "CFM" OOD, UIC 131304899, with headquarters in Sofia, 2 "Nikolay Haitov" Str.

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

1. "Mill Stefanovo Village" EOOD, UIC 201045146, with headquarters in Stefanovo Village, Lovech District.
2. "Sirius" OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 "Apriltsi" Str.
3. OKP Investments OOD, UIC 204361991, with headwarters 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. "Unipharm" AD, UIC 831537465, with headquarters in Sofia, 3 "Trajko Stanoev" Str. – Chairman of the Supervisory Board.
4. "Kaliman - RT" AD, UIC 121120513, with headquarters in Sofia, 5 "Lachezar Stanchev" Str. – Chairman of the Board of Directors.
5. "Telecomplect" AD, UIC 831643753, with address management in Sofia, 5 "Lachezar Stanchev" Str., Building A – Chairman of the Supervisory Board.
6. "Doverie United Holding" AD, UIC 121575489, with headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board, Vice-President.
7. "Doverie Capital" AD, UIC 130362127, with headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Supervisory Board.
8. "Medica" AD, UIC 000000993, with headquarters in Sofia, 82 "Knyaz Dondukov" Blvd – Member of the Board of Directors.
9. "Riton P" AD, UIC 822106398, with headquarters in Panagyurishte, 30 "Krastio Geshanov" Str. – Member of the Board of Directors.
10. "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 Chaushev 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.

Andrey Lyudmilov Breshkov participate in the management/supervisory body for the following companies:

1. "Simol" EAD, UIC 101795403, with headquarters in Blagoevgrad, 3 "Georgy Izmirliiev" Square – Chairman of the Board of Directors
2. "Vizaton" OOD, UIC 202235166, with seat and headquarters: Sofia, Sredets, 225A "Tsar Boris III" Blvd – Chairman of the Board;
3. ZAD "Energy", UIC 831040933, with seat and headquarters: Sofia, 33 "Knyaz Dondukov" Blvd - 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.
5. "Expat Beta" REIT, UIC 200059488, with seat and headquarters: Sofia, 96A Rakovski 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. "Unipharm" AD, UIC 831537465, with headquarters in Sofia, Darvenitsa district, 3 Traiko Stanoev Str. – member of the Board of Directors.
4. "Melnitsa Stefanovo Village" EOOD, UIC 201045146, with headquarters: Stafanovo village, Lovech district.
5. OKP Investments OOD, UIC 204361991, with headwarters in Sofia, 15 "Krushova gradina" Str.

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 2016, there are no contracts that go beyond the ordinary business of the company or significantly deviate from market conditions.

V. Information from 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 2016 are Sopharma Trading AD with 38% share, Delta Sales Ltd. with 35% share.

- 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 the "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.

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 - 52%, followed by packaging materials - 17%, liquid and solid chemicals - 16%, ampoules - 5% and others.

The main share of raw materials are 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. Respective companies contractors operate according to the requirements of GMP, GDP and other industry standards. Sopharma 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.

2016 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.

On May 9, 2016 in Belgrade, Serbia a transaction for the sale of the shareholding of Sopharma AD in the capital of Ivanchich and Sons doo, Serbia was concluded.

The value of the transaction is subject to a confidentiality clause. The net profit of the transaction for the Company reflected in the financial statements amounted to BGN 12.7 million.

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". Sopharma AD has not entered into transactions that are outside its usual activity or substantially deviate from market conditions.

On an EGM which will take place on 24 April 2017 the Board of Directors has proposed for voting the following transactions:

- Rental contract under which Sopharma AD will rent property from Sopharma properties REIT owned by the latter, representing an Office-1B-B18, on floor 18 +in building B, of the administrative-commercial centre with garages „Sopharma Business Towers“, based on 5, Lachezar Stanchev, Str. Office-1B-B18 with gross area of 189.91 sq.m., 165.14 sq.m. rental area 24.77 sq.m. common area.

- Sales transaction with medicinal products between Sopharma AD as a producer and seller of the products and TOO Sopharma Kazakhstan as a buyer, under which the Company will incur a receivable from a subsidiary totalling 20,269 thousand EUR. The transaction will be concluded for a term of 5 years.

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 2016 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 off-balance transactions as at December 31, 2016 are listed in the annual report in the "Contingent liabilities and commitments" section.

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

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

Information on concluded by Sopharma loan agreements are listed in the annual report in an Notes to the annual financial report "Long-term bank loans" and "Short-term bank loans." 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 16 177 thousand EUR; interest rate - 3.5%; maturity – 1 December 2018; balance at 31 December 2016 - 9797 thousand BGN

Long-term loans to subsidiaries:

- Contractual amount 500 thousand EUR; interest rate - 6.6%; maturity – March 1 2019; Balance at 31 December 2016 - 983 thousand BGN

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

Provided current loans by Sopharma AD to related companies:

Companies related through key management:

- Contractual amount 12 731 thousand EUR; interest rate - 3.05%; maturity – 12 December 2017; balance at 31 December 2016 - 560 thousand BGN;
- Contractual amount 8 133 thousand EUR; interest rate - 4.10%; maturity - 31.12.2017; Balance at 31.12.2016 - 6292 BGN;
- Contractual amount 6 000 BGN; interest rate - 3.50%; maturity - 31.12.2017; balance at 31.12.2016 – 4 472 thousand BGN
- Contractual amount 1 300 BGN; interest rate - 5.50%; maturity - 31.12.2017; balance at 31.12.2016 - 0.
- Contractual amount 190 BGN; interest rate - 3.50%; maturity - 31.12.2017; balance at 31.12.2016 - 0.

Subsidiaries:

- Contractual amount 2 770 thousand EUR; interest rate - 4.70%; maturity - 31.12.2017; balance at 31.12.2016 – 4 957 BGN;
- Contractual amount 7667 BGN; interest rate - 4.10%; maturity - 31.12.2017; balance at 31.12.2016 - 2670 BGN;
- Contractual amount 600 BGN; interest rate - 3.50%; maturity - 31.12.2017; balance at 31.12.2016 - 1 thousand BGN

Other related parties:

- Contractual amount 190 BGN; interest rate - 3.50%; maturity - 31.12.2017; balance at 31.12.2016 - 96 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.

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 1 873 thousand; interest rate – 4,30%; maturity – 31.12.2017; balance as at 31.12.2016– BGN 1 769 thousand;
- ✚ Contractual amount BGN 949 thousand; interest rate – 4,70%; maturity – 31.12.2017; balance as at 31.12.2016 – BGN 546 thousand;
- ✚ Contractual amount BGN 412 thousand; interest rate – 4,50%; maturity – 31.12.2017; balance as at 31.12.2016 – BGN 130 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 2017 includes investments of EUR 9 million BGN for the acquisition of 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

In 2016 there is no change in the governing bodies 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:

the amount of accrued and paid by the Company remuneration of the Board of Directors and the Procurator

	Remuneration BGN	Tantiems BGN	Total
Ognian Ivanov Donev	360 200	253 539	613 739
Vesela Lyubenova Stoeva	120 000	-	120 000
Andrey Lyudmilov Breshkov	125 847	-	125 847
Ognian Kirilov Palaveev	120 200	-	120 200
Alexander Victorov Tchaushev	120 200	-	120 200
Ivan Venetzkov Badinski - Procurator	38 400	-	38 400

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 Code, 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 Incorporation of the Company to the CEO of the company is entitled to an additional remuneration of 1% of the profit realized in 2015 according to the adopted Annual Financial Report by the General Meeting of

Shareholders. According to Article 7.2, para. 3 of the Remuneration policy, 40% of the additional remuneration to the CEO amounting to 101 415.43 BGN matures in 2019.

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
Vasil Piralkov	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 Code.

Members of the Audit Committee	31.12.2016		31.12.2015		change
	Number of shares	% of the capital	Number of shares	% of the capital	
Tzvetanka Zlateva	0	0%	0	0%	0
Vasil Naidenov	100	0,00007%	100	0,00007%	0
Vasil Piralkov	0	0%	0	0%	0

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

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, et. 11.

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

Information regarding the public company – Sopharma AD

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 31 December 2016:

Physical persons	5 038	-	5 276 199 shares	-	3,91%
Legal persons	166	-	129 521 700 shares	-	96,09%

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

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:

Sopharma AD

- 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.

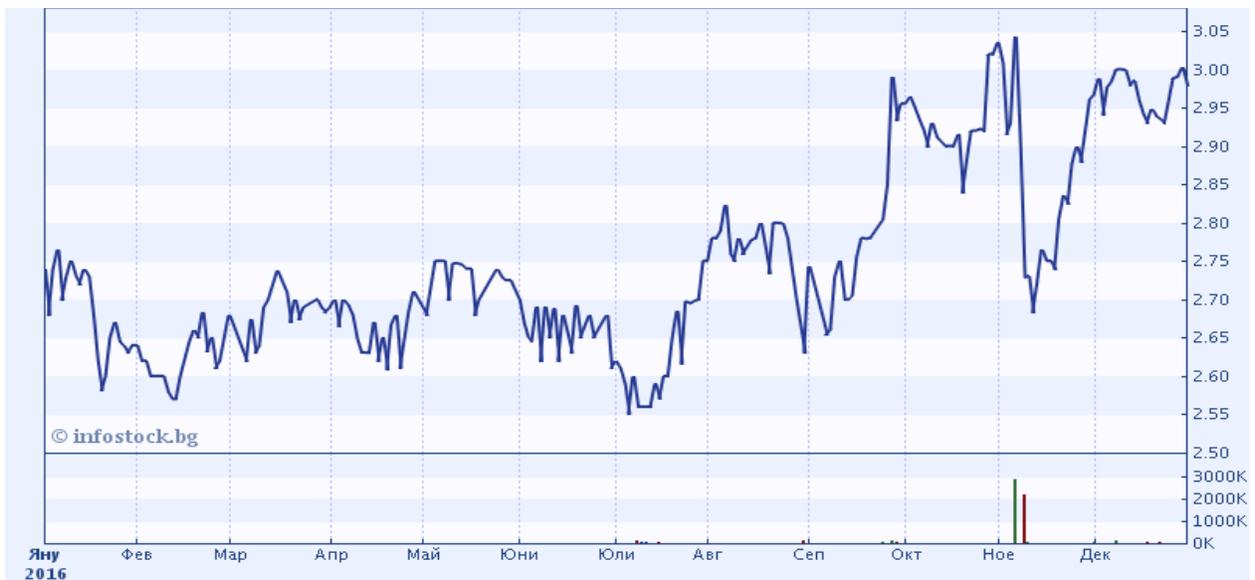
The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds and the certificate ABN AMRO SOFIX - Open-end-certificate and the new blue-chip 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

	31.12.2016	31.12.2015
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	129 393 992	129 379 961
Number of shares outstanding at the end of the period	129 135 485	129 578 603
Earnings per share in BGN	0,288	0,196
Price per share at the end of the period in BGN	2,992	2,72
Price/Earnings ratio (P/E)	10,39	13,88
Book value per share in BGN	3,58	3,331
Price/Book value ratio (P/B)	0,84	0,82
Sales per share in BGN	1,269	1,341
Price per share / Sales per share(P/S)	2,36	2,03
Market capitalization in BGN	403 315 314	366 650 285

Trade with shares of Sopharma AD on Bulgarian Stock Exchange – Sofia AD for the period 01 January 2016 – 31 December 2016



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 2016 are as follows:

	31.12.2016	31.12.2015
„Donev Investment Holding” AD,		
UIC 0831915121, Sofia, 12 Positano Str.	33 404 466 / 24,78% /	33 368 498 / 24,75% /
“Telecomplect invest” AD,		
UIC 201653294, Sofia, 9 Slaveikov Square		
Shareholding – direct	27 156 752 / 20,15% /	27 156 752 / 20,15% /
„Rompharm Company” OOD		
UIC 200732874, Sofia, Mladost, 7 Boian Damianov Str.	24 313 355 / 18,04% /	24 313 355 / 18,04% /
ZUPF “Aliantz Bulgaria”		
UIC 130477720, Sofia, 42 Damian Gruev Str.	6 970 395 / 5,17% /	6 726 310 / 4,99% /

4. No information about shareholders with special control rights.

5. No designated 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. No 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.

7. No agreements between Shareholders which are known to the Company and which may lead to restrictions on the transfer of shares or voting right.

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 Code 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 / and / 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 CA.

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; a 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 Incorporation 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 incorporation was registered in the Commercial Register under number № 20160714152939.

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

The powers of the Board of Directors is regulated by the Articles of Incorporation. 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 buy back shares under certain conditions, according to the decisions of the General Meeting held on 23.06.2010, EGM of 30.11.2011 on the EGM of 01.11.2012 and EGM of 28.02.2013.

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.



Ognian Donev, PhD
/Executive Director/