

REPORT

of the Management Board of Unipharm AD, Sofia
under Art. 262 and of the Commercial Law on the Transformation of
of Unipharm AD, Sofia, by means of its merger into
Sopharma AD, Sofia

1. INTRODUCTORY NOTES

This Report has been prepared by the Management Board of Unipharm AD in accordance with the provisions of Art. 262 and of the Commercial Law of the Republic of Bulgaria in connection with the planned merger of UNIPHARM AD with SOPHARMA AD.

The report was adopted by a decision of the Management Board of Unipharm AD at a meeting held on September 14, 2017 and amended and supplemented by decision of the Management Board of the company under a protocol dated 06.11.2017

On September 14, 2017 between Sopharma AD and Unipharm AD was signed a contract for merger ("the contract for merger") in compliance with the requirements of Art. 262e et seq. Of the Commerce Act. The purpose of this report is to provide a detailed legal and economic justification of the merger treaty.

2. LEGAL STATUS OF THE CONTRACT FOR TRANSFORMATION

2.1. Parties:

2.1.1. Sopharma AD:

- a) legal form - joint stock company;
- b) headquarters and address of management - Sofia, Nadezhda district, 16, Iliensko shose Blvd .;
- c) commercial registration - entered in the Commercial Register at the Registry Agency, UIC 831902088;
- c) capital - 134 797 899 (one hundred and thirty four million seven hundred and ninety seven thousand eight hundred and ninety nine), fully paid in, distributed in 134 797 899 (one hundred and thirty four million seven hundred ninety seven thousand eight hundred and ninety nine) ordinary registered dematerialized voting shares with a nominal value of BGN 1 (one) each. Sopharma AD is a public company within the meaning of Art. 110 and later of the Public Offering of Securities Act and is entered in the register under Art. 30, para. 1, item 3 of FSCA;
- d) business activity - production of medicaments and chemical-pharmaceutical preparations, trade in the country and abroad, research in the field of phytochemistry, chemistry and pharmacy;

e) Management system - one-tier through the Board of Directors, consisting of: Ognian Ivanov Donev, Vesela Lyubenova Stoeva, Andrey Ludmilov Breshkov, Alexander Viktorov Chaushev, Ognian Kirilov Palaveev;

f) Representative - Ognian Ivanov Donev, Executive Director.

2.1.2. Unipharm AD:

a) legal form - joint stock company;

b) headquarters and address of management - Sofia 1797, Studentski district, zh.k. Dryanovitsa, 3, Traiko Stanoev Str.

c) commercial registration - entered in the Commercial Register at the Registry Agency, UIC 831537465;

c) capital - BGN 6,000,000 (six million), fully paid-in, divided into 6,000,000 (six million) ordinary registered dematerialized voting shares with a par value of BGN 1 each. Unipharm AD is a public company within the meaning of Art. 110 and later of the Public Offering of Securities Act and is entered in the register under Art. 30, para. 1, item 3 of FSCA;

d) business activity - production of pharmaceuticals, research and experimental activity in the field of pharmaceutical production, establishment of the quality of manufactured medicines, sales and supply activities in the country and abroad;

e) Management system - two-tier through the Board of Directors, consisting of: Ognian Kirilov Palaveev, Dimitar Dimitrov Chipanov, Vladimir Lyubomirov Iliev and Supervisory Board in Stoyan Vulchinov Garov, Ventsislav Simeonov Stoev, Ognian Ivanov Donev

f) Representative - Ognian Kirilov Palaveev, Executive Director.

2.2. Form of transformation

The chosen form of transformation is a merger within the meaning of Art. 262, para. 1 of the Commercial Law, as a result of which the whole property of Unipharm AD will move to Sopharma AD and the latter will become its successor. Unipharm AD will cease without liquidation.

2.3. Merger contract

The merger contract was signed between Sopharma AD and Unipharm AD on September 14, 2017, subject to the requirements regarding its content under Art. 262g, para. 2 of the Commerce Act and Art. 123, para. 1 of the Public Offering of Securities Act and the requirements regarding the form of the contract according to Art. 262e, para. 1 of the Commerce Act. The merger agreement was amended and supplemented by Additional Agreement No 1 of 08.11.2017. On the grounds of Art. 124, para. 1 of the Public Offering of Securities Act, the Contract for merger as well as the reports of the management bodies of the companies involved in the transformation under Art. 262 and of the Commercial Act and the reports of the examinations under Art. 262m of the Commercial Act are subject to the approval of the Deputy Chairperson of the Financial Supervision Commission in charge of the Investment Activity Supervision Division.

2.4. Acquired as a result of the merger by the shareholders of Unipharm AD shares from the capital of Sopharma AD.

As a result of the merger, all shareholders of the transforming company Unipharm AD, with the exception of the receiving company Sopharma AD, which is also a shareholder in the transforming company, will acquire shares from the capital of Sopharma AD and become shareholders in it . The capital of the Beneficiary Company will not be increased in order to effect the merger and the shareholders of the Transforming Company will acquire already issued shares in the capital of the Accepting Company. Against each of its shares of Unipharm AD, each shareholder of the company on the grounds of Art. 261b, app. 1 of the Commerce Act will acquire 0.891512 shares of the capital of Sopharma AD.

2.4.1. Additional cash payments under Art. 261b, para. 2 of the Commerce Act.

Due to the mathematical impossibility of replacing the shares of each individual shareholder in the transforming company by shares in the receiving company with a totally equivalent value, the difference to that amount would be offset by additional cash payments in the corresponding amount. The amount of the cash payment to each shareholder is determined by multiplying the number of shares held by him in the transforming company by the accepted replacement ratio (paragraph 3.1 of this Report). The resulting integer is the number of shares in the receiving company that the respective shareholder receives. The difference above this integer is multiplied by the fair value of one share of the capital of the receiving company, the result being the amount of the due levy in BGN. This result is a cash claim of the shareholder to the receiving company and is paid as provided in paragraph 2.4.3 below.

2.4.2. Shareholders holding one share in the capital of the transforming company.

The shareholders of the transforming company, which as a result of the calculations should receive less than one share in the receiving company, are entitled to receive one share in the receiving company by bringing the difference to the full amount of the fair value of one share in the receiving company. The difference is calculated by multiplying the number of shares held by the respective shareholder in the transforming company by the estimated fair price per share of the transforming company. The resulting figure is deducted from the fair value of one share of the capital of the receiving company.

In term of 5 (five) business days as of the later of (1) the date of holding of the General Meeting of the Shareholders of the transforming company which has been approved for the approval of the merger and (2) the date of the General Meeting of Shareholders of the shareholders of the receiving company to which a decision has been taken to approve the merger, a shareholder meeting the conditions described in the preceding paragraph shall expressly make a written statement to the transforming company or to the receiving company that it wishes to acquire one share of the capital la the receiving company and pay the difference to the fair value of that share. The shareholder shall submit a written request to the management address of the transforming company in Sofia, "Studentski" district, ж.к. 3, Trailko Stanoev Str., Or at the address of management of the receiving company in Sofia, Nadezhda district, 16 Iliensko Shose Blvd. The written application should be received at the indicated addresses by the end of the working day in which the period under sentence one expires. The application should contain at least the details of the shareholder (name / company, UIN / UIC) and the amount of the payment due. The payment should be made in cash at the management address of the transforming company in Sofia, "Studentski" district, 3, Trayko Stanoev Str. or at the address of management of the receiving company in Sofia, Nadezhda

district, 16, Iliensko Shose Blvd., Within 30 (thirty) days from (2) the date of holding of the General Meeting of the Shareholders of the receiving company, which is decided on the date of the General Meeting of the Shareholders of the Converting Company, which has been decided on the approval of the merger; approval of the merger.

If, within the five business days mentioned above, a shareholder who is to receive less than one share of the capital of the receiving company does not expressly make a written statement (written request) to acquire that share and pay the difference up to its fair value, it will be considered that the shareholder refuses to acquire this share. In this case, the shareholder is entitled to a cash payment, which will be made in accordance with paragraph 2.4.3 below. The amount of the cash payment is established by multiplying the number of shares held by the shareholder in the transforming company by the fair value of one share of the capital of the company being transformed.

Upon expiry of the time limit for filing a written request, the board of directors of the receiving company will determine the exact number of shares of the receiving company that will be required to effect the merger, respecting the exchange ratio and the exact amount of cash payments to the converters' being a company.

2.4.3. Time limits for payment of cash payments.

The receivables of the shareholders described in items 2.4.1 and 2.4.2. above, become due from the date of entry into force of the merger (entry of the merger into the Commercial Register). The repayment will be made in cash to the cashier of the receiving company at 16, Iliensko Shose Blvd., Sofia, Nadezhda district. The receivables will be paid to the shareholders of the transforming company within 5 (five) years from the date on which they became due.

2.5. Conditions regarding the allocation and transfer of the shares by the receiving company. Right to leave

The shareholders of Unipharm AD acquire existing shares of the capital of Sopharma AD against the shares held by them as agreed in the merger agreement. There are no other conditions for the distribution and the transfer of the shares of the receiving company Sopharma AD to the existing shareholders of Unipharm AD, except those provided for by the current Bulgarian law.

The shareholders of the transforming company have the right to acquire shares from the acquiring company at the date of the general meeting of the shareholders of the transforming company at which the decision under Art. 262o of the Commercial Act for approval of the merger.

"Central Depository" AD, in its capacity as depository under Art. 264h, par. 5 of the Commerce Act, transfers the already issued shares from the receiving company to shareholders' accounts. Pursuant to Art. 127 of the Public Offering of Securities Act, the transfer takes effect from the moment of its registration with "Central Depository" AD. Pursuant to Art. 136, para. 2 of the Public Offering of Securities Act "Central Depository" AD keeps the book of the shareholders of the receiving company.

Within seven days from the entry of the Entry in the Commercial Register, the Board of Directors of the Beneficiary Company shall file with the Central Depository AD an application for the transfer of the already issued shares (own shares) to the Accepting Company on the accounts of the Shareholders of the

Transforming Company to which applies the decisions of the General Meetings of the Shareholders of the Transforming Company and of the Receiving Company for approval of the merger, a copy of the entry of the Entry into the Commercial Register, a list of the shareholders of the Transforming o company receiving shares of the Beneficiary Company as a result of the merger, indicating the number of shares for each individual shareholder as well as other documents required under the Central Depository AD Regulations.

Central Depository AD, on the basis of the submitted application and a list of the shareholders of the Converting Company, distribute the own shares of the Accepting Company in favor of the shareholders of the Converting Company, who receive shares from the Accepting Company as a result of the merger. The shares are distributed on personal accounts of the shareholders of the transforming company. Central Depository AD issues an act of registration of the transfers made.

The shares of the receiving company are dematerialized and therefore physical shares will not be transferred. Central Depository AD issues an act of registration of the transfers of own shares to the Accepting Company in favor of the shareholders of the Converting Company receiving shares of the Accepting Company as a result of the merger and therefore the Recipient Company does not intend to request the issuance of certification documents for individual transfers. Each shareholder may request to obtain a certificate for the shares held by him through an investment intermediary - member of the Central Depository AD.

According to Art. 263c of the Commercial Act, any shareholder whose legal status changes after the transformation and who has voted against the decision to convert through a merger may leave the accepting company under the terms and conditions set out below. The parties agree that a change in the legal situation will occur when the percentage shareholding of the individual shareholder in the capital of the Accepting Company reduces the ability of the shareholder to exercise his non-pecuniary rights, if it reduces the ability of the individual shareholder to influence decision-making by the general meeting.

The termination of the participation shall be effected by notary certified notification to the Beneficiary within three months from the date of entry of the Entry in the Commercial Register. The shareholder left has the right to obtain the equivalence of the shares held by him before the conversion of the price specified in this Agreement. Within 30 days from the date of notification of termination of participation under Art. 263c of the Commercial Law The receiving company is obliged to buy the shares of the abandoned shareholders. The left a shareholder may bring a claim for monetary clearance within three months of the notification under Art. 263c, para. 1 of the Commerce Act. The shares of the abandoned shareholder shall be assumed by the Accepting Company and the rules for acquiring own shares shall apply to them except Art. 187a, para. 4 of the Commerce Act.

2.6. The moment at which the participation in the receiving company gives entitlement to a share of the profits, as well as all the particulars relating to this right.

Pursuant to the provisions of Article 263g, paragraph 1 of the Commercial Code, the shareholders of Unipharm AD shall exercise their rights as shareholders in Sopharma AD, including the right to participate in the distribution of profits as from the date of the entry of the merger into the Trade register kept by the Registry Agency.

2.7. The moment at which the actions of the transforming company are deemed to be carried out at the expense of the receiving company for the purposes of accounting.

According to Art. 262g, para. 2, point 7 and Art. 263g, para. 2 of the Commercial Act, the companies involved in the transformation have agreed that the date from which the actions of the transforming company are considered to be carried out for the account of the receiving company for accounting purposes will be 01.01.2018.

2.8. Rights that the acquiring company grants to shareholders with special rights and to holders of non-equity securities.

Sopharma AD and Unipharm AD do not have shareholders with special rights, as well as holders of securities, which are not shares and therefore no special rights are granted to the shareholders of any of the companies involved in the transformation.

2.9. Advantages granted to the members of the management and supervisory bodies of the companies involved in the transformation or the verifiers under Art. 262l of TZ.

The members of the management and supervisory bodies of the companies involved in the transformation, as well as the verifiers under Art. 262l of the Commercial Law have not been granted any advantages.

2.10. Details of the Appointed Examiner

The Management Board of Unipharm AD has appointed Ivan Petkov with Diploma № 0676, issued by the Institute of Certified Public Accountants, as an examiner within the meaning of Article 262l of the Commerce Act, to verify the merger and to prepare an inspection report.

2.11. Data for the authorized depository

Depository within the meaning of Art. 262h of the Commercial Code is "Central Depository" AD, entered in the Commercial Register at the Registry Agency, UIC 121142712, with headquarters and address of management in Sofia, Triaditza District, 6 Tri Ushi Str., Fl. 4.

All shares of the receiving company "Sopharma" JSC are dematerialized, therefore physical transfer of existing shares for the purposes of the merger will not take place. Each shareholder may request to receive a depository receipt for the shares held by him through an investment intermediary - a member of the Central Depository.

2.12. Regulatory Authorizations

The merger agreement, this report, as well as the reports of the auditors under Art. 262m of the Commercial Law are approved by the Deputy Chairperson of the Financial Supervision Commission in charge of the Investment Activity Supervision Division.

2.13. Statement of the merger for entry in the Commercial Register

In the event that the General Meetings of Sopharma AD and Unipharm AD take a decision approving the merger agreement, the Board of Directors of Sopharma AD shall declare the merger to be entered in the Commercial Register at the Registry Agency.

3. ECONOMIC SUMMARY OF THE INFLUENCE

3.1. REPLACEMENT RATIO

Under the so-called conversion method, namely through the merger, the receiving company (Sopharma AD) becomes a universal successor of the transforming company (Unipharm AD), which is terminated without liquidation. The shareholders of the transforming company become shareholders in the acquiring company according to the exchange ratio described below.

According to the requirement of Art. 261b of the Commercial Code, in forming the exchange ratio of shares of "Unipharm" AD for shares of "Sopharma" AD, after the merger observe the principle of equivalence that the acquired shares after conversion is equivalent to the fair value of shares held before the transformation shares the transforming company.

A. According to the prepared justification for the fair price per share of Unipharm AD as at 08.09.2017. (Appendix №2, an integral part of the merger contract signed between "Unipharm" AD and "Sopharma" AD), the fair value of "Unipharm" AD to 08.09.2017g. is in the amount of BGN 26,280,000. In this regard, the fair price per share of UNIPHARM AD as of 08.09.2017. is in the amount of BGN 4,380.

B. According to the prepared justification for the fair price per share of Sopharma AD as of 08.09.2017. (Appendix 1, an integral part of the merger contract signed between Unipharm AD and Sopharma AD), the fair price of Sopharma AD as of 08.09.2017. is in the amount of BGN 634 508 958. In this respect, the fair price per share of Sopharma AD as of 08.09.2017. is BGN 4.913.

C. The exchange ratio is calculated as the fair price per share of Unipharm AD divided by the fair price per share of Sopharma AD. Thus, the replacement ratio is equal to 0.891512.

D. At the date of the transformation contract, Sopharma AD owns 5,913,302 (five million nine hundred thirteen thousand three hundred and two) shares of the capital of Unipharm AD. Considering the total number of shares of Unipharm AD, namely 6 000 000 (six million), we also receive the number of shares in the capital of the transforming company owned by shareholders other than Sopharma AD. That number is 86,698 (eighty six thousand six hundred and ninety-eight). The fair value of Sopharma AD after the merger will be obtained by taking it to its fair value before the merger added the shares of the capital of Unipharm AD, which are not owned by Sopharma AD, multiplied by the fair price per share of Unipharm AD. Thus, after the merger, Sopharma AD should acquire a fair value of BGN 634 888 696.

Table 1:

№	Company	Price, according to the evaluation
1	Unipharm AD (before the merger)	6 000 000 shares
2	Owned by Sopharma AD shares of Unipharm AD	5 913 302 shares
3	Owned by other shareholders shares of Unipharm AD	86 698 shares
4	The fair price per share of Unipharm AD	4.380 BGN
5	Fair value of the property transferred to Sopharma AD (3x4)	379,737.24 BGN
6	Sopharma AD (before the merger)	634 508 958.39 BGN
7	Sopharma AD (after the merger) (5 + 6)	634 888 695.63 BGN

E. The number of own shares of Sopharma AD to be transferred to the remaining shareholders in Unipharm AD will be obtained by multiplying the shares of Unipharm AD owned by these shareholders, namely 86,698 (eighty six thousand six hundred and ninety-eight) shares, based on the calculated exchange ratio.

- **Shares of Unipharm AD held by other shareholders, namely 86,698 (eighty six thousand six hundred and ninety-eight) shares;**
- **Replacement ratio - 0.891512;**
- **Number of own shares of Sopharma AD needed for the remaining shareholders in Unipharm AD: up to 77 292 shares;**

F. On the basis of the calculated replacement ratio, the distribution is made between the individual shareholders in Unipharm AD, depending on their percentage participation in the company prior to the merger.

Applying the exchange ratio to the shareholder structure gives the exact number of shares that each individual shareholder of Unipharm AD will receive from the own shares of Sopharma AD. Each individual shareholder of Unipharm AD will receive as shares in Sopharma AD only the whole number obtained from the application of the exchange rate. As provided for in the Transformation Agreement, shareholders who own an insufficient number of shares in Unipharm's capital will receive one share of the capital of Sopharma AD.

Due to the mathematical impossibility of replacing the shares of each individual shareholder in the Converting Company with own shares of Sopharma AD with the equivalent value, the difference to this value will be compensated by additional cash payments in the respective amount. In view of the absolute value of the sum of all additional cash payments, the requirement of Art. 261b, para. 2 of the Commerce Act is observed.

According to the calculations made, the sum of shares received as a whole from the application of the exchange ratio to the shareholder structure of Unipharm AD gives the number of shares owned by Sopharma AD to be distributed to the remaining shareholders in Unipharm AD. The balance, if any, for each individual shareholder of Unipharm AD will be paid as a cash payment to the appropriate amount. This amount for each individual shareholder will be obtained by multiplying the difference over the whole number received for the respective shareholder after the application of the exchange ratio by the fair value of one share of Sopharma AD (prior to the merger).

Pursuant to Section 5, paragraphs 5.3-5.7 of the merger agreement, the shareholders who hold an insufficient number of shares in the capital of Unipharm AD are provided with the possibility to receive one share of the capital of Sopharma AD, pay the difference to the fair value of one share of the capital of the receiving company under the conditions, respectively, to obtain a monetary equation and not to receive shares from the receiving company (see also 2.4 of this Report).

On the basis of the Shareholders' Book of the Converting Company as of 08.09.2017, the expectations of the parties to this Contract are that the total amount of the cash payments to the shareholders will be in the amount of BGN 145 (one hundred forty five).

The Management Board of the Converting Company intends to request from the Board of Directors of Bulgarian Stock Exchange - Sofia AD temporary suspension of trading in the shares of the Converting Company until the completion of the merger proceedings or the failure to approve the merger by the general meeting of the shareholders of any from the Parties. On the basis of the shareholders' book of the Converting Company as of September 23, 2015, the expectations of the Parties to the transformation contract are the number of the shares of the receiving company to be distributed to the remaining shareholders of the transforming company, 77,263 (seventy-seven thousand two hundred and sixty-three) existing shares.

3.2. ECONOMICAL ANALYSIS

The main activity of Sopharma AD is the production of medicines and chemico-pharmaceutical preparations, trade in the country and abroad, research in the field of phytochemistry, chemistry and pharmacy.

The Group's production activities are carried out and developed in the following main directions:

- **manufacture of medicines;**
- **substances and preparations based on plant raw materials (phytochemical production);**
- **veterinary vaccines;**
- **infusion solutions;**
- **concentrate for hemodialysis;**
- **medical devices and consumables for human and veterinary medicine;**
- **blast and injection molding for industry, agriculture and households;**
- **food additives.**

The company has more than 210 products in its portfolio: mainly generics and 15 original products, 12 of which are plant-based. The Company's original products (in particular, Carsil and Templgin) make a

major contribution to its revenues from the export markets, while for the local market sales the generic products of the Company are of the greatest importance, including analgine. The production is mainly performed by Sopharma AD and to a lesser extent by its production subsidiaries, including Unipharm AD in Bulgaria and OAO Vitamins in Ukraine.

On the other hand, Unipharm's activity is: development, implementation and production of medical devices for human and veterinary medicine, blast and injection molding for industry, agriculture and households; foreign trade and domestic trade activity; transport activities in the country and abroad; representation, mediation and agency of Bulgarian and foreign companies; other activity not prohibited by law.

The main fields of activity of Unipharm AD are:

- **Solid dosage forms: The main place in the production of the company is tablet forms, used in diseases of the cardiovascular, digestive, nervous and respiratory systems.**
- **Concentrates for hemodialysis: The company is a major solution manufacturer in Bulgaria.**
- **Liquid dosage forms: The company produces its own products under a contract. Both medicines and medical products are produced in the form of nasal, oral and ointment solutions, creams and gels.**

The Law on Medicinal Products in Human Medicine contains provisions governing procedures for changing authorizations issued under this Act in the event of different circumstances, one of which is the change of the commercial registration. Upon successful the procedure for reorganization through merger of the corporation "Unipharm" AD "Sopharma" AD and registration of the change in the Commercial Register "Sopharma" AD as a successor, including the rights issued in the name of the merging companies permits in accordance with the provisions of LMPHM, shall conduct a procedure under Art. 156, para 1, item 7 of this law for changing the holder of the issued permits due to a change in the commercial registration. The procedure is conducted before the regulatory body - BDA, subject to the provisions of LMPHM.

Economic Benefits of Transformation

As a result of the merger of Unipharm AD into Sopharma AD, synergies and economies of scale will be realized, consisting of:

- **Optimization of production processes;**
- **Reduced administrative costs;**
- **Reducing the cost of borrowed funds;**
- **Optimization of the structure of Sopharma Group;**
- **Improvement of the coordination and efficiency of procurement and supply within the Group;**
- **Improving the management of inventories.**

In addition to the above economic benefits, the Management Board of Unipharm PLC considers that the transformation will lead to additional synergies in the field of marketing and sales as the transforming company will be able to take advantage of the extremely well developed distribution network and the

access to foreign markets of the host company. In the face of its majority owner, the Management Board of Unipharm AD sees opportunities for development and growth along with the leadership positions of Sopharma AD in the local market. In this regard, the Management Board assessed the material and resource security of the receiving company during the long years of cooperation of the two companies at the level necessary to ensure a smooth and unimpeded transformation. The Management Board of Unipharm AD does not envisage that the transformation process will lead to a negative effect on the employees of the company beyond the usual changes in the labor structure related to the reaching of some employees to the retirement age.

The following table presents information about the structure of revenues and expenses of Unipharm AD and Sopharma AD according to the companies' financial statements as well as the effects resulting from the transformation of the two companies:

Table 2:

Consolidated indicators in thousands of BGN		30.6.2017 before transformation	30.6.2017 after transformation
1	Sales revenue	470,300	470,300
2	Other operating income / (loss), net	2,656	2,656
3	Changes in stocks of production and work in progress	6,123	6,123
4	Material costs	-45,694	-45,694
5	Costs for external services	-28,472	-28,472
6	Staff costs	-48,058	-48,058
7	Depreciation costs	-15,059	-15,059
8	Carrying amount of sold goods	-304,602	-304,602
9	Other operating expenses	-3,451	-3,451
10	Operating profit / loss	33,743	33,743
11	Financial income	5,666	5,666
12	Financial costs	-6,484	-6,484
13	Profit / loss before tax expense	34,269	34,269
14	Tax costs	-4,276	-4,276
15	Net profit / loss	29,993	29,993
16	Dividend	0	0
17	Cash and cash equivalents	17,289	17,289
18	Inventories	181,263	181,263
19	Short-term assets	489,514	489,514
20	Total amount of assets	904,672	904,672

21	Short-term liabilities	352,799	352,799
22	Debt	232,212	232,212
23	Liabilities (borrowed funds)	402,266	402,266
24	Equity	502,406	502,406
25	Turnover capital	136,715	136,715
26	Weighted average number of shares (thousand)	129,149	129,226
Profitability ratios			
27	Profit Rate of Operating Activity (10/1)	0.07	0.07
28	Net Profit Rate (15/1)	0.06	0.06
29	Return on assets (15/20)	0.03	0.03
30	Return on Equity (15/24)	0.06	0.06
Coefficients for assets and liquidity			
31	Turnover of assets (1/20)	0.52	0.52
32	Turnover of working capital (1/25)	3.44	3.44
33	Current Liquidity (19/21)	1.39	1.39
34	Rapid liquidity ((19-18) / 21)	0.87	0.87
35	Absolute (immediate) liquidity (17/21)	0.05	0.05
Odds per share			
36	Sales ratio per share (1/26)	3.64	3.64
37	Earnings per share (15/26)	0.23	0.23
38	Net book value of one share (24/26)	3.89	3.88
Dividend odds			
39	Dividend payout ratio (16/15)	0.000	0.000
40	Retained earnings ratio	1.000	1.000
41	Dividend per share (16/26)	0	0
Development factors			
42	Growth rate of sales	10.99%	10.99%
43	Growth rate of gross profit	NA	NA
44	Growth rate of assets	9.62%	9.62%
Leverage ratios			
45	Debt / Total assets ratio (22/20)	0.26	0.26
46	Debt / Capital ratio (22 / (22 + 24))	0.32	0.32
47	Debt / Equity ratio (22/24)	0.46	0.46
48	Total Assets / Equity (20/24)	1.80	1.80

Market factors			
49	Coefficient Price / Sales (52/36)		
		NA	NA
50	Odds Price / Profit (52/37)		
		NA	NA
51	Coefficient Price / Book Value (52/38)		
		NA	NA
52	Market price of the shares	4.52	4.52

Table 3:

Individual indices in thousands of BGN		30.6.2015 before transformation	30.6.2015 after transformation
1	Sales revenue		
		93,307	103,330
2	Other operating income / (loss), net		
		2,227	2,596
3	Changes in stocks of production and work in progress		
		6,097	5,573
4	Raw materials expenses		
		-31,634	-35,550
5	Costs for external services		
		-17,272	-18,219
6	Staff costs		
		-19,787	-22,515
7	Depreciation costs		
		-7,350	-8,428
8	Other operating expenses		
		-890	-1,047
9	Operating profit / loss		
		24,698	24,698
10	Financial income		
		10,322	10,322
11	Financial costs		
		-815	-818
12	Profit / loss before tax expense		
		34,205	35,244
13	Tax costs		
		-2,563	-2,563
14	Net profit / loss		
		31,642	32,681
15	Dividend		
		0	0
16	Cash and cash equivalents		
		1,498	3,549
17	Inventories		
		63,300	66,138
18	Short-term assets		
		222,521	232,109
19	Total amount of assets		
		632,274	653,268
20	Short-term liabilities		
		115,109	117,171
21	Debt		
		106,602	106,827
22	Liabilities (borrowed funds)		
		149,736	152,572
23	Equity		
		482,538	500,696
24	Turnover capital		
		107,412	114,938

25	Weighted average number of shares (thousand)	129,149	129,226
Profitability ratios			
26	Profit Rate of Operating Activities (9/1)	0.26	0.24
27	Net Profit Rate (14/1)	0.34	0.32
28	Return on Assets (14/19)	0.05	0.05
29	Return on equity (14/23)	0.07	0.07
Coefficients for assets and liquidity			
30	Turnover of assets (1/19)	0.15	0.16
31	Turnover of working capital (1/24)	0.87	0.90
32	Current liquidity (18/20)	1.93	1.98
33	Rapid liquidity ((18-17) / 20)	1.38	1.42
34	Absolute (immediate) liquidity (16/20)	0.01	0.03
Odds per share			
35	Sales ratio per share (1/25)	0.72	0.80
36	Earnings per share (14/25)	0.25	0.25
37	Book Value Coefficient for one share (23/25)	3.74	3.87
Dividend odds			
38	Dividend payout ratio (15/14)	0.000	0.000
39	Retained earnings ratio	1.000	1.000
40	Dividend per share (15/25)	0	0
Development factors			
41	Growth rate of sales	N/A	N/A
42	Growth rate of gross profit	N/A	N/A
43	Growth rate of assets	N/A	N/A
Leverage ratios			
44	Debt / Total assets ratio (21/19)	0.17	0.16
45	Debt / Capital ratio (21 / (21 + 23))	0.18	0.18
46	Debt / Equity ratio (21/23)	0.22	0.21
47	Total assets / Equity ratio (19/23)	1.31	1.30
Market factors			
48	Coefficient Price / Sales (X / 35)	N/A	N/A
49	Odds Price / Profit (X / 36)	N/A	N/A
50	Coefficient Price / Book Value (X / 37)	N/A	N/A
51	Market price of the shares	4.52	4.52

3.3. RISKS FOR THE SHAREHOLDERS OF UNIPHARM AD

The risks described below may be identified as material to the shareholders of the transforming entity in connection with the merger.

In the so-called transformation process, namely by merger, the receiving company (Sopharma AD) becomes a universal successor of the transforming company (Unipharm AD), which is terminated without liquidation. The shareholders of the transforming company become shareholders in the acquiring company according to the exchange ratio described below. In the present case, the shareholders of the subsidiary (Unipharm AD) become direct shareholders in the controlling company (parent company) Sopharma AD.

As a potential risk for the shareholders of Unipharm AD in the event of non-implementation of the merger, it can be pointed out that they will not carry out the above-described transformation of their share participation respectively and the possibility of direct participation in the work of the general meeting of the shareholders of the controlling company Sopharma AD.

On the other hand, as a result of the transformation, the current proportion of existing shareholders will change.

Moreover, in view of the provisions of the Transformation Agreement (in particular Articles 5.3 to 5.7 thereof) concerning Unipharm's shareholders, who should acquire less than one share of the acquiring company, it is possible that certain shareholders of Unipharm AD may not at all acquire shares in the receiving company Sopharma AD as a result of the merger. These consequences will occur if the shareholders concerned do not act to exercise their rights as provided for in the Transformation Agreement (see Section 5 of the Treaty) and in this Report (see paragraph 2.4 above).

These consequences should be identified as a potential risk to Unipharm's shareholders in the implementation of the merger.

3.4 Details of difficulties encountered in the assessment

In the preparation of the justification of the fair value of the shares of Unipharm AD no significant difficulties have arisen.

Management Board of Unipharm AD:

- 1. Ognian Kirilov Palaveev.....**
- 2. Dimitar Dimitrov Chipanov.....**

3. Vladimir Lyubomirov Iliev.....

REPORT

Of the Board of Directors of Sopharma AD, Sofia

under Art. 262 and of the Commercial Law on the Transformation of

Sopharma AD, Sofia, by means of the merger of Unipharm AD, Sofia

into Sopharma AD, Sofia

1. INTRODUCTORY NOTES

This Report has been prepared by the Board of Directors of Sopharma AD in accordance with the provisions of Art. 262 and of the Commercial Law of the Republic of Bulgaria in relation to the planned merger of Unipharm AD into Sopharma AD.

The report was adopted by a decision of the Board of Directors of Sopharma AD at a meeting held on 14.09.2017 and was amended and supplemented by decision of the Board of Directors of the company under a protocol dated 07.11.2017

On September 14, 2017 between Sopharma AD and Unipharm AD was signed a contract for merger ("the contract for merger") in compliance with the requirements of Art. 262e et seq. Of the Commerce Act. The merger agreement was amended and supplemented by Additional Agreement No. 1 of 08.11.2017. The purpose of this report is to provide a detailed legal and economic justification of the merger treaty.

2. LEGAL STATUS OF THE CONTRACT FOR TRANSFORMATION

2.1. Parties:

2.1.1. Sopharma AD:

- a) legal form - joint stock company;
- b) headquarters and address of management - Sofia, Nadezhda district, 16, Iliensko shose Blvd.;
- c) commercial registration - entered in the Commercial Register at the Registry Agency, UIC 831902088;

c) capital - 134 797 899 (one hundred and thirty four million seven hundred and ninety seven thousand eight hundred and ninety nine), fully paid in, distributed in 134 797 899 (one hundred and thirty four million seven hundred ninety seven thousand eight hundred and ninety nine) ordinary registered dematerialized voting shares with a nominal value of BGN 1 (one) each. Sopharma AD is a public company within the meaning of Art. 110 and later of the Public Offering of Securities Act and is entered in the register under Art. 30, para. 1, item 3 of FSCA;

d) business activity - production of medicaments and chemical-pharmaceutical preparations, trade in the country and abroad, research in the field of phytochemistry, chemistry and pharmacy;

e) Management system - one-tier through the Board of Directors, consisting of: Ognian Ivanov Donev, Vesela Lyubenova Stoeva, Andrey Ludmilov Breshkov, Alexander Viktorov Chaushev, Ognian Kirilov Palaveev;

f) Representative - Ognian Ivanov Donev, Executive Director.

2.1.2. Unipharm AD:

a) legal form - joint stock company;

b) headquarters and address of management - Sofia 1797, Studentski district, zh.k. Dryanovitsa, 3, Traiko Stanoev Str.

c) commercial registration - entered in the Commercial Register at the Registry Agency, UIC 831537465;

c) capital - BGN 6,000,000 (six million), fully paid-in, divided into 6,000,000 (six million) ordinary registered dematerialized voting shares with a par value of BGN 1 each. Unipharm AD is a public company within the meaning of Art. 110 and later of the Public Offering of Securities Act and is entered in the register under Art. 30, para. 1, item 3 of FSCA;

d) business activity - production of pharmaceuticals, research and experimental activity in the field of pharmaceutical production, establishment of the quality of manufactured medicines, sales and supply activities in the country and abroad;

e) Management system - two-tier through Board of Directors in composition: Ognian Kirilov Palaveev, Dimitar Dimitrov Chipanov and Vladimir Lyubomirov Iliev and Supervisory Board in composition - Stoyan Vulchinov Garov, Ventsislav Simeonov Stoev, Ognian Ivanov Donev;

f) Representative - Ognian Kirilov Palaveev, Executive Director.

2.2. Form of transformation

The chosen form of transformation is a merger within the meaning of Art. 262, para. 1 of the Commercial Law, as a result of which the entire property of Unipharm AD will move to Sopharma AD and the latter will become its successor. Unipharm AD will cease without liquidation.

2.3. Merger contract

The merger contract was signed between Sopharma AD and Unipharm AD on September 14, 2017, subject to the requirements regarding its content under Art. 262g, para. 2 of the Commerce Act and Art. 123, para. 1 of the Public Offering of Securities Act and the requirements regarding the form of the contract according to Art. 262e, para. 1 of the Commerce Act. The merger agreement was amended and supplemented by Additional Agreement No 1 of 08.11.2017. On the grounds of Art. 124, para. 1 of the Public Offering of Securities Act, the Contract for merger as well as the reports of the management bodies of the companies involved in the transformation under Art. 262 and of the Commercial Act and the reports of the examinations under Art. 262m of the Commercial Act are subject to the approval of the Deputy Chairperson of the Financial Supervision Commission in charge of the Investment Activity Supervision Division.

2.4. Acquired as a result of the merger by the shareholders of Unipharm AD shares from the capital of Sopharma AD.

As a result of the merger, all shareholders of the transforming company Unipharm AD, with the exception of the receiving company Sopharma AD, which is also a shareholder in the transforming company, will acquire shares from the capital of Sopharma AD and become shareholders in it. The capital of the receiving company will not be increased for the purposes of the merger, and the shareholders of the transforming company will acquire already issued shares in the capital of the receiving company. Against each of its shares of Unipharm AD, each shareholder of the company on the grounds of Art. 261b, para. 1 of the Commerce Act will acquire 0.891512 shares of the capital of Sopharma AD.

2.4.1. Additional cash payments under Art. 261b, para. 2 of the Commerce Act.

Due to the mathematical impossibility of replacing the shares of each individual shareholder in the transforming company by shares in the receiving company with a totally equivalent value, the difference to that amount would be offset by additional cash payments in the corresponding amount. The amount of the cash payment to each shareholder is determined by multiplying the number of shares held by him in the transforming company by the accepted replacement ratio (paragraph 3.1 of this Report). The resulting integer is the number of shares in the receiving company that the respective shareholder receives. The difference above this integer is multiplied by the fair value of one share of the capital of the receiving company, the result being the amount of the due levy in BGN. This result is a cash claim of the shareholder to the receiving company and is paid as provided in paragraph 2.4.3 below.

2.4.2. Shareholders holding one share in the capital of the transforming company.

The shareholders of the transforming company, which as a result of the calculations should receive less than one share in the receiving company, are entitled to receive one share in the receiving company by bringing the difference to the full amount of the fair value of one share in the receiving company. The difference is calculated by multiplying the number of shares held by the respective shareholder in the transforming company by the estimated fair price per share of the transforming company. The resulting figure is deducted from the fair value of one share of the capital of the receiving company.

Within 5 (five) business days as of the later of (1) the date of holding of the General Meeting of Shareholders of the transforming company, which has been approved for the approval of the merger

and (2) the date of the General Meeting of the shareholders of the receiving company to which a decision to approve the merger has been taken, a shareholder meeting the conditions described in the preceding paragraph shall expressly make a written statement to the transforming company or to the receiving company that it wishes to acquire one share of caps tiles of the receiving company and pay the difference to the fair value of that share. The shareholder shall submit a written request to the management address of the transforming company in Sofia, "Studentski" district, ж.к. 3, Trayko Stanoev Str. Or at the address of management of the receiving company in Sofia, Nadezhda district, 16 Iliensko Shose Blvd. The written application should be received at the indicated addresses until the end on the working day in which the period under sentence one expires. The application should contain at least the details of the shareholder (name / company, UIN / UIC) and the amount of the payment due. The payment should be made in cash at the management address of the transforming company in Sofia, "Studentski" district, 3, Trayko Stanoev Str. Or at the address of management of the receiving company in Sofia, Nadezhda district, 16, Iliensko Shose Blvd., Within 30 (thirty) days from (2) the date of holding of the General Meeting of the Shareholders of the receiving company, which is decided on the date of the General Meeting of the Shareholders of the Converting Company, which has been decided on the approval of the merger; approval of the merger.

If, within the five business days mentioned above, a shareholder who is to receive less than one share of the capital of the receiving company does not expressly make a written statement (written request) to acquire that share and pay the difference up to its fair value, it will be considered that the shareholder refuses to acquire this share. In this case, the shareholder is entitled to a cash payment, which will be made in accordance with paragraph 2.4.3 below. The amount of the cash payment is established by multiplying the number of shares held by the shareholder in the transforming company by the fair value of one share of the capital of the company being transformed.

Upon expiry of the time limit for filing a written request, the board of directors of the receiving company will determine the exact number of shares of the receiving company that will be required to effect the merger, respecting the exchange ratio and the exact amount of cash payments to the converters' being a company.

2.4.3. Time limits for payment of cash payments.

The receivables of the shareholders described in items 2.4.1 and 2.4.2. above, become due from the date of entry into force of the merger (entry of the merger into the Commercial Register). The repayment will be made in cash to the cashier of the receiving company at 16, Iliensko Shose Blvd., Sofia, Nadezhda district. The receivables will be paid to the shareholders of the transforming company within 5 (five) years from the date on which they became due.

2.5. Conditions regarding the allocation and transfer of the shares by the receiving company. Right to leave

The shareholders of Unipharm AD acquire existing shares in the capital of Sopharma AD against the shares held by them as agreed in the merger agreement. There are no other conditions for the distribution and the transfer of the shares of the receiving company Sopharma AD to the existing shareholders of Unipharm AD, except those provided for by the current Bulgarian law.

The shareholders of the transforming company have the right to acquire shares from the acquiring company at the date of the general meeting of the shareholders of the transforming company at which the decision under Art. 262o of the Commercial Act for approval of the merger.

Central Depository AD, in its capacity as depository under Art. 264h, par. 5 of the Commerce Act, transfers the already issued shares from the receiving company to shareholders' accounts.

Pursuant to Art. 127 of the Public Offering of Securities Act, the transfer takes effect from the moment of its registration with Central Depository AD. Pursuant to Art. 136, para. 2 of the Public Offering of Securities Act "Central Depository" AD keeps the book of the shareholders of the receiving company.

Within seven days from the entry of the merger in the Commercial Register, the Board of Directors of the Beneficiary Company shall file with the Central Depository AD an application for the transfer of the already issued shares (own shares) to the Accepting Company on the accounts of the Shareholders of the Transforming Company to which applies the decisions of the General Meetings of the Shareholders of the Transforming Company and of the Receiving Company for approval of the merger, a copy of the entry of the Entry into the Commercial Register, a list of the shareholders of the Transforming company receiving shares of the Beneficiary Company as a result of the merger, indicating the number of shares for each individual shareholder as well as other documents required under the Central Depository AD Regulations.

Central Depository AD, based on the submitted application and a list of the shareholders of the Converting Company, makes a distribution of own shares to the Accepting Company in favor of the shareholders of the Converting Company who receive shares from the Accepting Company as a result of the merger. The shares are distributed on personal accounts of the shareholders of the transforming company. Central Depository AD issues an act of registration of the transfers made.

The shares of the receiving company are dematerialized and therefore physical shares will not be transferred. Central Depository AD issues an act of registration of the transfers of own shares to the Accepting Company in favor of the shareholders of the Converting Company receiving shares of the Accepting Company as a result of the merger and therefore the Recipient Company does not intend to request the issuance of certification documents for individual transfers. Each shareholder may request to obtain a certificate for the shares held by him through an investment intermediary - member of the Central Depository AD.

According to Art. 263c of the Commercial Act, any shareholder whose legal status changes after the transformation and who has voted against the decision to convert through a merger may leave the accepting company under the terms and conditions set out below. The parties agree that a change in the legal situation will occur when the percentage shareholding of the individual shareholder in the capital of the Accepting Company reduces the ability of the shareholder to exercise his non-pecuniary rights, if it reduces the ability of the individual shareholder to influence decision-making by the general meeting.

The termination of the participation shall be effected by notary certified notification to the Beneficiary within three months from the date of entry of the Entry in the Commercial Register. The shareholder left has the right to obtain the equivalence of the shares held by him before the conversion of the price specified in this Agreement. Within 30 days from the date of notification of termination of participation under Art. 263c of the Commercial Law The receiving company is obliged to buy the shares of the abandoned shareholders. The Leased Shareholder may file a claim for monetary clearance within three months of the notification under Art. 263c, para. 1 of the Commerce Act. The shares of the abandoned shareholder shall be assumed by the Accepting Company and the rules for acquiring own shares shall apply to them except Art. 187a, para. 4 of the Commerce Act.

2.6. The moment at which the participation in the receiving company gives entitlement to a share of the profits, as well as all the particulars relating to this right.

Pursuant to the provisions of Article 263g, paragraph 1 of the Commercial Code, the shareholders of Unipharm AD shall exercise their rights as shareholders in Sopharma AD, including the right to participate in the distribution of profits as from the date of the entry of the merger into the Trade register kept by the Registry Agency.

2.7. The moment at which the actions of the transforming company are deemed to be carried out at the expense of the receiving company for the purposes of accounting.

According to Art. 262g, para. 2, point 7 and Art. 263g, para. 2 of the Commercial Law, the companies involved in the transformation have agreed that the date from which the actions of the transforming company are deemed to have been carried out for the account of the receiving company for accounting purposes will be 01.01.2018.

2.8. Rights that the acquiring company grants to shareholders with special rights and to holders of non-equity securities.

Sopharma AD and Unipharm AD do not have shareholders with special rights, as well as holders of securities, which are not shares and therefore no special rights are granted to the shareholders of any of the companies involved in the transformation.

2.9. Advantages granted to the members of the management and supervisory bodies of the companies involved in the transformation or the verifiers under Art. 262l of the Commercial Law.

The members of the management and supervisory bodies of the companies involved in the transformation, as well as the verifiers under Art. 262l of the Commercial Law have not been granted any advantages.

2.10. Details of the Appointed Examiner

The Board of Directors of Sopharma AD has appointed Nikolay Polinchev with Diploma № 0684, issued by the Institute of Certified Public Accountants, as an examiner within the meaning of Article 262l of the Commerce Act, to verify the merger and prepare a report for the inspection.

2.11. Details of the authorized depositary

Depositary within the meaning of Art. 262h of the Commercial Code is "Central Depository" AD, entered in the Commercial Register at the Registry Agency, UIC 121142712, with headquarters and address of management in Sofia, Triaditza District, 6 Tri Ushi Str., Fl. 4.

2.12. Regulatory Authorizations

The merger agreement, this report, as well as the reports of the auditors under Art. 262m of the Commercial Law are approved by the Deputy Chairperson of the Financial Supervision Commission in charge of the Investment Activity Supervision Division.

2.13. Statement of the merger for entry in the Commercial Register

In the event that the General Meetings of Sopharma AD and Unipharm AD take a decision approving the merger agreement, the Board of Directors of Sopharma AD shall declare the merger to be entered in the Commercial Register at the Registry Agency.

3. ECONOMIC SUMMARY OF THE INFLUENCE

3.1. REPLACEMENT RATIO

Under the so-called conversion method, namely through the merger, the receiving company (Sopharma AD) becomes a universal successor of the transforming company (Unipharm AD), which is terminated without liquidation. As a result of the transformation, the current proportion of existing shareholders will change.

In view of the requirement of Art. 261b of the Commercial Code, in forming the exchange ratio of shares of "Unipharm" AD for shares of "Sopharma" AD, after the merger observe the principle of equivalence that the acquired shares after conversion is equivalent to the fair value of shares held before the transformation shares the transforming company.

A. According to the prepared justification for the fair price per share of Unipharm AD as of 08.09.2017 (Annex 2, an integral part of the merger contract signed between Unipharm AD and Sopharma AD), the fair price of " Unipharm AD as of 08.09.2017 amounts to BGN 26,280,000. In this regard, the fair price per share of Unipharm AD as of 08.09.2017 amounts to BGN 4,380.

B. According to the prepared justification for the fair price per share of Sopharma AD as of 08.09.2017 (Annex 1, integral part of the merger contract signed between Unipharm AD and Sopharma AD), the fair price of " Sopharma AD as of September 08, 2017 amounts to BGN 634 508 958. In this regard, the fair price per share of Sopharma AD as of 08.09.2017 amounts to BGN 4.913.

C. The replacement ratio is calculated as the fair price per share of Unipharm AD divided by the fair price per share of Sopharma AD. Thus, the replacement ratio is equal to 0.891512.

D. At the date of the transformation contract, Sopharma AD owns 5,913,302 (five million nine hundred thirteen thousand three hundred and two) shares of the capital of Unipharm AD. Considering the total number of shares of Unipharm AD, namely 6 000 000 (six million), we also receive the number of shares in the capital of the transforming company owned by shareholders other than Sopharma AD. That number is 86,698 (eighty six thousand six hundred and ninety-eight). The fair value of Sopharma AD after the merger will be obtained by adding to its fair value before the merger the share of the shares of Unipharm AD, which are not owned by Sopharma AD, multiplied by the fair price per share of Unipharm AD. Thus, after the merger, Sopharma AD should acquire a fair value of BGN 634 888 696.

Table 1:

№	Company	Price, according to the evaluation
1	Unipharm AD (before the merger)	6 000 000 shares
2	Owned by Sopharma AD shares of Unipharm AD	5 913 302 shares
3	Owned by other shareholders shares of Unipharm AD	86 698 shares
4	The fair price per share of Unipharm AD	4.380 BGN
5	Fair value of the property transferred to Sopharma AD (3x4)	379,737.24 BGN
6	Sopharma AD (before the merger)	634 508 958.39 BGN
7	Sopharma AD (after the merger) (5 + 6)	634 888 695.63 BGN

E. The number of own shares of Sopharma AD to be transferred to the remaining shareholders in Unipharm AD will be obtained by multiplying the shares of Unipharm AD owned by these shareholders, namely 86,698 (eighty six thousand six hundred and ninety-eight) shares, based on the calculated exchange ratio.

- Shares of Unipharm AD held by other shareholders, namely 86,698 (eighty six thousand six hundred and ninety-eight) shares;
- Replacement ratio - 0.891512;
- Number of own shares of Sopharma AD required for the remaining shareholders in Unipharm AD: up to 77 292 shares;

F. On the basis of the calculated replacement ratio, the distribution is made between the individual shareholders in Unipharm AD, depending on their percentage participation in the company prior to the merger.

Applying the exchange ratio to the shareholder structure gives the exact number of shares that each individual shareholder of Unipharm AD will receive from the own shares of Sopharma AD. Each individual shareholder of Unipharm AD will receive as shares in Sopharma AD only the whole number obtained from the application of the exchange rate.

Due to the mathematical impossibility of replacing the shares of each shareholder in the transforming company with Saharma's own shares with the equivalent value, the difference to this value will be compensated by additional cash payments in the respective amount. In view of the absolute value of the sum of all additional cash payments, the requirement of Art. 261b, para. 2 of the Commerce Act is observed.

According to the calculations made, the sum of shares received as a whole from the application of the exchange ratio to the shareholder structure of Unipharm AD gives the number of shares owned by Sopharma AD to be distributed to the remaining shareholders in Unipharm AD. The balance, if any, for each individual shareholder of Unipharm AD will be paid as a cash payment to the appropriate amount. This amount for each individual shareholder will be obtained by multiplying the difference over the whole number received for the respective shareholder after the application of the exchange ratio by the fair value of one share of Sopharma AD (prior to the merger).

Pursuant to Section 5, paragraphs 5.3-5.7 of the merger agreement, the shareholders who hold an insufficient number of shares in the capital of Unipharm AD are provided with the possibility to receive one share of the capital of Sopharma AD, pay the difference to the fair value of one share of the capital of the receiving company under the conditions, respectively, to obtain a monetary equation and not to receive shares from the receiving company (see also 2.4 of this Report).

On the basis of the Shareholders' Book of the Converting Company as of 08.09.2017, the expectations of the parties to this Contract are that the total amount of the cash payments to the shareholders will be in the amount of BGN 145 (one hundred forty five)

The Board of Directors of the Transforming Company intends to request from the Board of Directors of Bulgarian Stock Exchange - Sofia AD temporary suspension of the trading of the shares of the Converting Company until the completion of the merger proceedings or the non-approval of the merger by the General Meeting of Shareholders of one of the countries. Based on the Shareholders' Book of the Converting Company as of 08.09.2017, the expectations of the Parties to the

Transformation Agreement are the number of Shareholders' own shares to be distributed to the remaining shareholders of the Converting Company to be approximately 77,263 (seventy-seven thousand two hundred and sixty-three) existing shares.

3.2. ECONOMICAL ANALYSIS

The main activity of Sopharma AD is the production of medicines and chemico-pharmaceutical preparations, trade in the country and abroad, research in the field of phytochemistry, chemistry and pharmacy.

The Group's production activities are carried out and developed in the following main directions:

- manufacture of medicines;
- substances and preparations based on plant raw materials (phytochemical production);
- veterinary vaccines;
- infusion solutions;
- concentrate for hemodialysis;
- medical devices and consumables for human and veterinary medicine;
- blast and injection molding for industry, agriculture and households;
- food additives.

The company has more than 210 products in its portfolio: mainly generics and 15 original products, 12 of which are plant-based. The Company's original products (in particular, Carsil and Tempglin) make a major contribution to its revenues from the export markets, while for the local market sales the generic products of the Company are of the greatest importance, including analgine. The production is mainly performed by Sopharma AD and to a lesser extent by its production subsidiaries, including Unipharm AD in Bulgaria and OAO Vitamins in Ukraine.

On the other hand, the object of activity of Unipharm AD is: production of pharmaceuticals, research and experimental activity in the field of drug production, establishment of the quality of manufactured pharmaceuticals, supply-supply and trade activities in the country and abroad.

The main fields of activity of Unipharm AD are:

- Solid dosage forms: The main place in the production of the company is tablet forms, used in diseases of the cardiovascular, digestive, nervous and respiratory systems.
- Concentrates for hemodialysis: The company is a major solution manufacturer in Bulgaria.
- Liquid dosage forms: The company produces its own products under a contract. Both medicines and medical products are produced in the form of nasal, oral and ointment solutions, creams and gels.

The Law on Medicinal Products in Human Medicine contains provisions governing procedures for changing authorizations issued under this Act in the event of different circumstances, one of which is the change of the commercial registration. Upon successful the procedure for reorganization through merger of the corporation "Unipharm" AD "Sopharma" AD and registration of the change in the Commercial Register "Sopharma" AD as a successor, including the rights issued in the name of the merging companies permits in accordance with the provisions of LMPHM, shall conduct a procedure under Art. 156, para 1, item 7 of this law for changing the

holder of the issued permits due to a change in the commercial registration. The procedure is conducted before the regulatory body - BDA, subject to the provisions of LMPHM.

Economic Benefits of Transformation

As a result of the merger of Unipharm AD into Sopharma AD, synergies and economies of scale will be realized, consisting of:

- Optimization of production processes;
- Reduced administrative costs;
- Reducing the cost of borrowed funds;
- Optimization of the structure of Sopharma Group;
- Improving coordination and efficiency in procurement and supply within the Group;
- Improving the management of inventories.

The expectation of the Board of Directors of Sopharma AD is that the transformation does not have a significant effect on the receiving company. Sopharma AD has full resource availability and readiness to take over the business of the transforming company. This security is delivered through the use of one of the leading electronic systems of pharmacovigilance - Argus Safety - in financial security thanks to financial health, the positive results achieved and favorable relations with credit institutions, and in the provision of employment personnel where possible changes in the labor structure are mainly related to the retirement of some employees and the resulting need to fill vacancies.

The Board of Directors of Sopharma AD does not identify the necessity of changing the labor structure of Unipharm AD as well as of the receiving company itself, which is dictated by the transformation process. The training programs, which will continue to be offered to employees of the Sopharma Group, aim to develop the competencies of the employees. Training policy is specifically geared to providing high professional knowledge in different areas of business, as well as in relation to health and safety requirements.

The following table presents information about the structure of revenues and expenses of Unipharm AD and Sopharma AD according to the companies' financial statements as well as the effects resulting from the transformation of the two companies:

Table 2:

Consolidated indicators in thousands of BGN	30.6.2017 before transformation	30.6.2017 after transformation
1 Sales revenue	470,300	470,300
2 Other operating income / (loss), net	2,656	2,656
3 Changes in stocks of production and work in progress	6,123	6,123
4 Material costs	-45,694	-45,694
5 Costs for external services	-28,472	-28,472
6 Staff costs	-48,058	-48,058
7 Depreciation costs	-15,059	-15,059
8 Carrying amount of sold goods	-304,602	-304,602
9 Other operating expenses	-3,451	-3,451
10 Operating profit / loss	33,743	33,743

11	Financial income	5,666	5,666
12	Financial costs	-6,484	-6,484
13	Profit / loss before tax expense	34,269	34,269
14	Tax costs	-4,276	-4,276
15	Net profit / loss	29,993	29,993
16	Dividend	0	0
17	Cash and cash equivalents	17,289	17,289
18	Inventories	181,263	181,263
19	Short-term assets	489,514	489,514
20	Total amount of assets	904,672	904,672
21	Short-term liabilities	352,799	352,799
22	Debt	232,212	232,212
23	Liabilities (borrowed funds)	402,266	402,266
24	Equity	502,406	502,406
25	Turnover capital	136,715	136,715
26	Weighted average number of shares (thousand)	129,149	129,226
Profitability ratios			
27	Profit Rate of Operating Activity (10/1)	0.07	0.07
28	Net Profit Rate (15/1)	0.06	0.06
29	Return on assets (15/20)	0.03	0.03
30	Return on Equity (15/24)	0.06	0.06
Coefficients for assets and liquidity			
31	Turnover of assets (1/20)	0.52	0.52
32	Turnover of working capital (1/25)	3.44	3.44
33	Current Liquidity (19/21)	1.39	1.39
34	Rapid liquidity ((19-18) / 21)	0.87	0.87
35	Absolute (immediate) liquidity (17/21)	0.05	0.05
Odds per share			
36	Sales ratio per share (1/26)	3.64	3.64
37	Earnings per share (15/26)	0.23	0.23
38	Net book value of one share (24/26)	3.89	3.88
Dividend odds			
39	Dividend payout ratio (16/15)	0.000	0.000
40	Retained earnings ratio	1.000	1.000
41	Dividend per share (16/26)	0	0
Development factors			
42	Growth rate of sales	10.99%	10.99%
43	Growth rate of gross profit	NA	NA
44	Growth rate of assets	9.62%	9.62%
Leverage ratios			
45	Debt / Total assets ratio (22/20)	0.26	0.26
46	Debt / Capital ratio (22 / (22 + 24))	0.32	0.32
47	Debt / Equity ratio (22/24)	0.46	0.46
48	Total Assets / Equity (20/24)	1.80	1.80
Market factors			
49	Coefficient Price / Sales (52/36)	NA	NA
50	Odds Price / Profit (52/37)	NA	NA
51	Coefficient Price / Book Value (52/38)	NA	NA
52	Market price of the shares	4.52	4.52

Table 3:

Individual indices in thousands of BGN	30.6.2015 before transformation	30.6.2015 after transformation
1 Sales revenue	93,307	103,330
2 Other operating income / (loss), net	2,227	2,596
3 Changes in stocks of production and work in progress	6,097	5,573
4 Raw materials expenses	-31,634	-35,550
5 Costs for external services	-17,272	-18,219
6 Staff costs	-19,787	-22,515
7 Depreciation costs	-7,350	-8,428
8 Other operating expenses	-890	-1,047
9 Operating profit / loss	24,698	24,698
10 Financial income	10,322	10,322
11 Financial costs	-815	-818
12 Profit / loss before tax expense	34,205	35,244
13 Tax costs	-2,563	-2,563
14 Net profit / loss	31,642	32,681
15 Dividend	0	0
16 Cash and cash equivalents	1,498	3,549
17 Inventories	63,300	66,138
18 Short-term assets	222,521	232,109
19 Total amount of assets	632,274	653,268
20 Short-term liabilities	115,109	117,171
21 Debt	106,602	106,827
22 Liabilities (borrowed funds)	149,736	152,572
23 Equity	482,538	500,696
24 Turnover capital	107,412	114,938
25 Weighted average number of shares (thousand)	129,149	129,226
Profitability ratios		
26 Profit Rate of Operating Activities (9/1)	0.26	0.24
27 Net Profit Rate (14/1)	0.34	0.32
28 Return on Assets (14/19)	0.05	0.05
29 Return on equity (14/23)	0.07	0.07
Coefficients for assets and liquidity		
30 turnover of assets (1/19)	0.15	0.16
31 Turnover of working capital (1/24)	0.87	0.90
32 Current liquidity (18/20)	1.93	1.98
33 Rapid liquidity ((18-17) / 20)	1.38	1.42
34 Absolute (immediate) liquidity (16/20)	0.01	0.03
Odds per share		
35 Sales ratio per share (1/25)	0.72	0.80
36 Earnings per share (14/25)	0.25	0.25
37 Book Value Coefficient for one share (23/25)	3.74	3.87
Dividend odds		
38 Dividend payout ratio (15/14)	0.000	0.000
39 Retained earnings ratio	1.000	1.000
40 Dividend per share (15/25)	0	0
Development factors		
41 Growth rate of sales	N/A	N/A
42 Growth rate of gross profit	N/A	N/A
43 Growth rate of assets	N/A	N/A
Leverage ratios		
44 Debt / Total assets ratio (21/19)	0.17	0.16
45 Debt / Capital ratio (21 / (21 + 23))	0.18	0.18
46 Debt / Equity ratio (21/23)	0.22	0.21
47 Total assets / Equity ratio (19/23)	1.31	1.30
Market factors		
48 Coefficient Price / Sales (X / 35)	N/A	N/A

49	Odds Price / Profit (X / 36)	N/A	N/A
50	Coefficient Price / Book Value (X / 37)	N/A	N/A
51	Market price of the shares	4.52	4.52

3.3. RISKS FOR THE SHAREHOLDERS OF SOPHARMA AD

In the so-called transformation process, namely by merger, the receiving company (Sopharma AD) becomes a universal successor of the transforming company (Unipharm AD), which is terminated without liquidation. The shareholders of the transforming company become shareholders in the acquiring company according to the defined exchange ratio.

Insofar as no increase in the capital of the receiving company will be made for the purposes of the merger, and the shareholders of the transforming company will receive already issued shares of Sopharma AD, therefore no dilution of the shareholding of the shareholders of Sopharma AD. The Board of Directors is of the opinion that there are no material risks to the shareholders of the acquiring company either during the implementation or the failure to carry out the planned merger.

3.4. DETAILS OF DIFFICULTIES ENCOUNTERED IN THE ASSESSMENT

In the preparation of the justification of the fair price of the shares of Sopharma AD there were no significant difficulties.

Board of Directors of Sopharma AD:

1. Ognian Ivanov Donev:

2. Vssela Lyubenova Stoeva:

3. Alexandar Viktorov Tchaouchev:

4. Ognian Kirilov Palaveev:

5. Andrey Lyudmilov Breshkov: