

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sopharma AD

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sopharma AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion

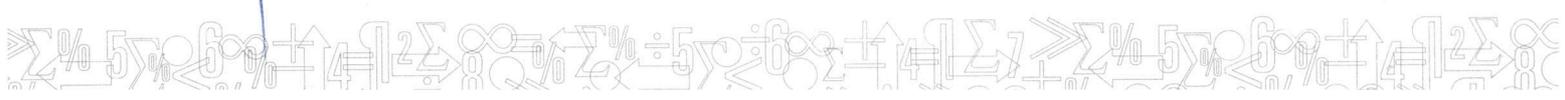
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p data-bbox="223 392 813 481"><i>1) Recoverable amount of goodwill and specific intangible assets recognised in business combinations</i></p> <p data-bbox="223 492 821 907">As at 31 December 2016 the Group reports in the consolidated statement of financial position intangible assets, including goodwill, for the amount of BGN 44,486 thousand (31 December 2015 : BGN 35,502 thousand) (Note 17). The total amount includes intangible assets and goodwill of subsidiaries amounting to BGN 11,967 and BGN 9,885 thousand, respectively (31 December 2015: BGN 7,345 thousand and BGN 11,375 thousand, respectively).</p> <p data-bbox="223 929 813 1433">The following characteristics are observed with regard to these subsidiaries: specific and problematic economic environment in the countries, where the subsidiaries operate; and/or very active investment policy, related to rapid expansion on difficult markets; and/or unutilised capacity and incurred losses. These circumstances presume that certain risk exists as to the correct valuation of goodwill and specific intangible assets recognised in business combinations of these subsidiaries as at the end of the reporting period.</p> <p data-bbox="223 1444 821 1814">The review and the tests of the Group's management for indicators of and necessity in impairment of the goodwill and the specific intangible assets of these subsidiaries is a complex procedure performed through the prism of its projections and intents as to the future economic benefits and profitability that were expected to be received for the Group. In its calculations the Group management needs to apply significant</p>	<p data-bbox="853 392 1396 425"><i>In this area, our audit procedures comprised:</i></p> <ul data-bbox="853 492 1452 1814" style="list-style-type: none"> • Consideration and assessment of Group's analyses on its overall exposure to and the net assets of each of these subsidiaries as well as their potential of return by applying the discounted future cash flows method; • Analyses of the achievement of the budgeted and projected target indicators from the prior year of the respective subsidiaries, including comparison with factual information on the current year; • Analyses and assessment of the relevance of Group's budget and projections as at 31 December 2016 and for three-five year period forward; • Examination of the calculations and the results from the test for impairment of the respective goodwill and specific intangible assets made by the Group's management with the assistance of independent external appraisers; • Analyses and assessment of the appropriateness of the key judgments, the existing conditions and the assumptions, used by Group's management, on the continuing capability of the recognised specific intangible assets to generate future cash flows; • Analyses and assessment of the appropriateness of the key judgments and assumptions, used by the Group's management, including the discount rate used

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<p>assumptions, various judgments and estimates, while with regard to measuring their recoverable amount it uses the method of discounted future cash flows. The latter are determined specifically for each subsidiary, which is treated as a separate cash-generating unit (CGU), and taking into account a number of factors, such as: specific activities and location, business environment, past experience with that counterpart company, expected growth in the volume of sales for subsequent reporting periods, appropriate discount rate, other risks, etc. Therefore, there is inherent uncertainty in these evaluations of the Group's management.</p> <p>The calculations have been performed by the management with the assistance of independent certified appraisers – experts external for the Group.</p> <p>Based on these calculations and at Group's management discretion, part of the goodwill in these subsidiaries was partially or fully impaired in prior and current periods.</p> <p>Due to the circumstances that: (a) the process of estimating and testing of possible impairment losses of the goodwill and the specific intangible assets of these subsidiaries assumes a number of judgments, higher degree of subjectivity and uncertainty related to the projection assumptions, including revenue projections, cash flow projections and growth rate, the level of uncertainty, including due to the fact that part of the subsidiaries are abroad and operate in specific</p>	<p>in the application of the discounted cash flows model, as well as comparison with historical data, useful life of the specific intangible assets and necessity for changes therein;</p> <ul style="list-style-type: none"> • Recalculation of the material amounts, recognised as impairment, on the basis of the applied method by the Group's management; • Examination with a higher degree of criticism and testing of the results sensitivity applying more conservative projections and assumptions; • Consultation with an independent expert-appraiser, external for the Group, regarding the appropriateness of the applied methodology and approach and the key assumptions used in the test for impairment; • Assessment and testing the completeness, appropriateness and adequacy of the disclosures in Group's consolidated financial statements with regard to the measurement of goodwill and the specific intangible assets in subsidiaries.



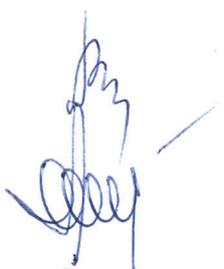
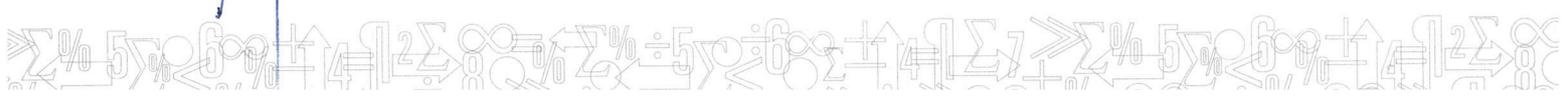
<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p>economic conditions; and (b) the significance of the reporting item itself for the consolidated financial statements, as disclosed above, we have determined this matter as a key audit matter.</p>	
<p><i>2) Periodical revaluation of property, plant and equipment</i></p> <p>As at 31 December 2016 the Group reports in the consolidated statement of financial position property, plant and equipment for the amount of BGN 321,215 thousand (31 December 2015: 315,005 thousand). The Group has adopted the revaluation model for subsequent measurement of this type of assets. Revaluation of these assets was performed at the date of the consolidated financial statements as far as this was the last year of the adopted five-year period. The valuation was performed by independent certified appraisers, experts external for the Group (Note 16).</p> <p>The revaluation of tangible fixed assets at their fair value is a complex process related to calculation of estimates while using a number of assumptions and specific methods and models. Therefore, there is inherent uncertainty in these valuations in relation to the use of various projections and assumptions with higher subjectivity. Moreover, there is no developed market for part of these Group's assets and they are relatively illiquid.</p> <p>In addition, for the main part of the machinery, equipment and other tangible assets, the Group's management performed a research with the assistance of the independent appraisers and concluded that the prices of those classes of assets had not changed significantly in the period and that</p>	<p><i>In this area, our audit procedures comprised:</i></p> <ul style="list-style-type: none"> • Consideration and assessment of the tangible fixed assets valuation process and the rules, policies and procedures applied by the Group; • Appraisal of the objectivity, competence and independence of the external independent appraisers; • Involvement of independent experts-appraisers, hired by us, to help us in our assessment of the used methods, inputs and key assumptions (such as offer selling prices, adjustments to specific indicators, capitalisation rate, etc.); • Comparison of key inputs, used by the external independent appraisers, with publicly accessible data and/or historical available data; • Examination and testing, on a sample basis, of particular calculations of the external independent appraisers; • Analyses of the performed sensitivity tests; • Inspection of the accounting technique for the gains and losses on the revaluation and testing, on a sample basis, its application; • Assessment and testing the completeness, appropriateness and adequacy of the



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<p>differences in value could arise as a result of applied different useful life.</p> <p>Due to: (a) the specifics both of the valuation process and the assets, as well assignificant use of Level 3 fair value, and (b) the materiality of the carrying amount of this group of assets, we have determined this matter as a key audit matter.</p>	<p>disclosures in Group's consolidated financial statements with regard to the revaluation performed.</p>
<p><i>3) Trade receivables measurement</i></p> <p>As at 31 December 2016 the Group reports in the consolidated statement of financial position trade receivables at the amount of BGN 215,583 thousand (31 December 2015: BGN 205,589 thousand) (Note 24). The total amount of trade receivables includes past due trade receivables from a particular type of clients, totalling BGN 77,457 thousand (31 December 2015: BGN 82,545 thousand), with indicators for problems with their timely and full collection.</p> <p>When calculating the impairment of receivables from these clients, significant judgments are used with regard to the future collectability of the amounts by analysing and assessing the return on respective subsidiary and Group's overall exposure to respective client. For the purposes of calculation the impairment amount, the Group uses the method of discounted future cash flows. The latter are determined by the management of the Group by taking into account a number of factors, specific for the particular counterpart: past experience with this counterpart, client's historical behaviour, concluded settlement agreements, initiated court proceedings, payment of penalties and interest for</p>	<p><i>In this area, our audit procedures comprised:</i></p> <ul style="list-style-type: none"> • Inquiries and inspection of documents and accounting ledgers with data about the agreements and historical turnovers and payments with the respective client; • Analyses of the age structure of trade receivables and the reasons for delays and difficulties with payments; • Analytical procedures on key figures for receivables ratios of these clients in the previous and current years as well as after the end of the reporting period; • Analyses of actually received cash flows juxtaposed to the expected and/or projected payments, including interest and penalties for delay, accrued and paid in the previous and current years as well as in the first months of 2017; • Inspection of documents for facts and circumstances related to the collectability of receivables and the counterpart's abilities for generating cash flows; • Analyses of the fulfilment of out-of-court



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<p>delay, expected purchases and future arrangements, appropriate discount rate, etc.</p> <p>Due to the circumstances that: (a) the process of estimating the impairment losses on trade receivables assumes a number of judgments, high degree of subjectivity in the projection assumptions and specific calculations of the impairment amount by the respective subsidiary and Group's management; and (b) the significance of the reporting item itself for the Group's consolidated financial statement, as noted above, we have determined this matter as a key audit matter.</p>	<p>arrangements concluded between the respective subsidiary from the Group and its clients;</p> <ul style="list-style-type: none"> • Obtaining and analysis of the letter from the lawyers of the respective subsidiary from the Group' regarding the status of court and awarded receivables and the clients' capacities for their settlement; • Analyses and assessment of appropriateness of the key judgments and assumptions, used by management of the respective subsidiary from the Group, including the discount rate used in the application of the discounted cash flows model, and also, comparison with historical data, identified trends and documents for future arrangements and plans; • Comparison of the used discount rate with data about the market levels of similar items; • Examination with a higher degree of criticism of the calculations made and our recalculation of the material amounts, recognised as impairment, on the basis of the model adopted by the respective subsidiary and Group's management - in order to assess the impact on the determined impairment and the carrying amount of Group's exposure to these clients; • Assessment and testing the completeness, appropriateness and adequacy of the disclosures in Group's consolidated financial statements with regard to the trade receivables measurement.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management of the Group is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the consolidated management report and the corporate governance statement, prepared by management of the Group in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management of the Group is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management of the Group is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

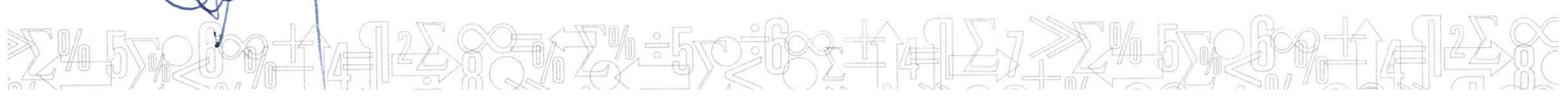
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report



that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Group management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We are solely responsible for our auditor's opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon* section, in relation to the consolidated management report, the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued on 29 November 2016/approved by its Management Board on 29 November 2016. These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- a) The information included in the consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.



- b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.
- c) The corporate governance statement referring to the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.

Opinion in connection with Art. 100(m), paragraph 10 in conjunction with Art. 100(m), paragraph 8(3) and (4) of the Public Offering of Securities Act

Based on the procedures performed and the knowledge and understanding obtained about Group's activities and the environment in which it operates, in our opinion, the description of the main characteristics of Group's internal control and risk management systems relevant to the financial reporting process, which is part of the corporate governance statement and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, do not contain any material misrepresentations.


AFA OOD
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27 April 2017

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This is a translation from Bulgarian of the Independent Auditor's Report on the Consolidated Financial Statements of Sopharma Group for the year ended 31 December 2016.