

MANAGEMENT REPORT

Q3 2017



SOPHARMA AD

30 October 2017

Content

I.	General information about Sopharma AD.....	2
1.	Registration and main activities.....	2
2.	Shareholder structure as at 30 September 2017	2
3.	Board of Directors	2
4.	Personnel	3
5.	Production activity	3
6.	Products.....	4
II.	Development of the activity	5
1.	Review the main risks faced by the Company	5
2.	Overview of the activities	7
3.	New developments and products	16
4.	Significant events in the nine months of 2017 and the publication of the interim activity report. 16	
5.	Related party information.....	24
III.	Information about the shares of Sopharma AD.....	24

I. General information about Sopharma AD

1. Registration and main activities

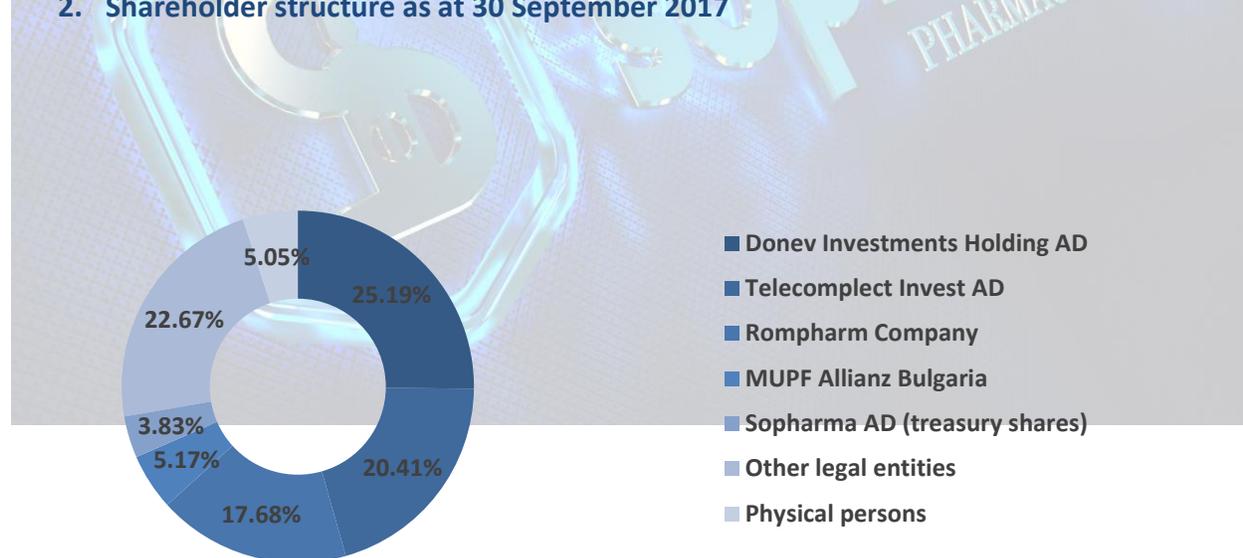
Sopharma AD (the Company) is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16, Iliensko shose str.

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

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

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

2. Shareholder structure as at 30 September 2017



3. Board of Directors

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

Executive Director Ognian Donev, PhD.

4. Personnel

The average number of employees in 2017 in Sopharma AD is 1,915 workers and employees (2,076 in 2016). The table below provides more detailed information about the company's staff.

	30.09.2017	Ref. Share %
Number of employees as at 30.09.2017	1896	100%
Higher education	817	43%
A college education	43	2%
Secondary education	1001	53%
Primary education	35	2%
Employees under 30	185	10%
Employees 31 - 40 years	391	21%
Employees 41 - 50 years	619	33%
Employees 51 - 60 years.	555	29%
Employees over 60	146	7%
Women	1188	63%
Men	708	37%

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

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

5. Production activity

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

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

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

- ✓ Solid tablets, coated tablets, film-coated tablets, capsules;
- ✓ Galls - suppositories, drops, syrups, ointments;
- ✓ Parenteral - injection solutions, lyophilisate powder for injection;
- ✚ Medical devices and cosmetics, incl.:
 - ✓ Plasters;
 - ✓ Bandages;
 - ✓ Sanitary-hygiene products;
 - ✓ Medicinal cosmetics.

6. Products

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

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

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

- ✚ Carsil - an original plant-based product used to treat gastro-enterological diseases (liver diseases);
- ✚ Tempalgin - an original analgesic (painkiller);
- ✚ Tabex - an original plant-based drug against tobacco smoke;
- ✚ Tribestan - an original plant-based product that stimulates the functions of the sexual system;
- ✚ Broncholitin - an original plant-based product used to suppress cough;
- ✚ Analgin - generic analgesic (pain reliever);
- ✚ Nivalin - an original plant-based product used for diseases of the peripheral nervous system;

- ✦ Methylprednisolone - a generic medicine for cases of severe allergies and certain life-threatening conditions.

II. Development of the activity

1. Review the main risks faced by the Company

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

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

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

- ✦ The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Group's operations and position.
- ✦ The political environment in Bulgaria has a significant effect on the Group's operations and financial condition.
- ✦ The political environment in the Group's export markets, especially in Russia and Ukraine, has a significant effect on the Group's operations and financial condition.
- ✦ Risks related to the Bulgarian legal system.

- ✦ Developing legal frameworks in some countries in which the Group sells its products, in particular Russia and Ukraine, may negatively impact the Group's operations in such countries.
- ✦ Risks relating to exchange rates and the Bulgarian Currency Board.
- ✦ Interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change.

Currency risk

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

2. Overview of the activities

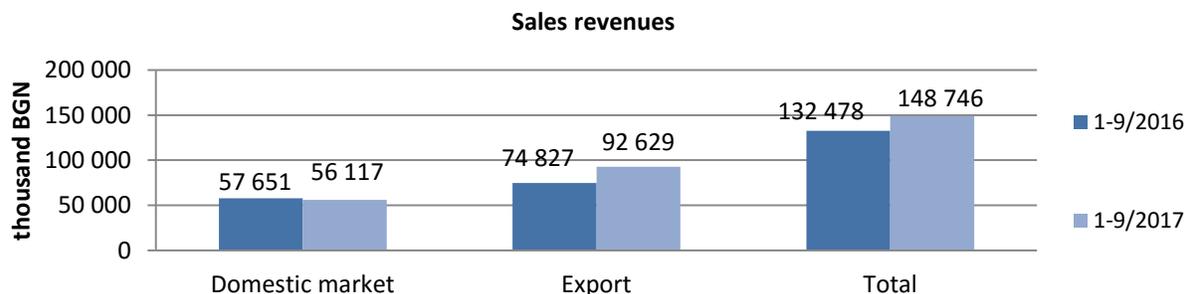
Key financial indicators

Indicators	1-9/2017	1-9/2016*	change %
	BGN '000	BGN '000	
Sales revenues	148 746	132 478	12,3%
EBITDA	45 243	33 173	36,4%
Operating profit	33 316	21 817	52,7%
Net profit	39 119	37 495	4,3%
CAPEX	6 971	8 749	-20,3%
	30.09.2017	31.12.2016*	
	BGN '000	BGN '000	
Non-current assets	397 411	392 141	1,3%
Current assets	196 838	177 774	10,7%
Owners' equity	490 266	460 626	6,4%
Non-current liabilities	33 810	39 239	-13,8%
Current liabilities	70 173	70 050	0,2%
Ratios	1-9/2017	1-9/2016*	
EBITDA / Sales revenues	30,4%	25,0%	
Operating profit/ Sales revenues	22,4%	16,5%	
Net profit/ Sales revenues	26,3%	28,3%	
Borrowed capital/Owners' equity	0,21	0,23**	
Net debt/ EBITDA	1,1x	2,1x**	

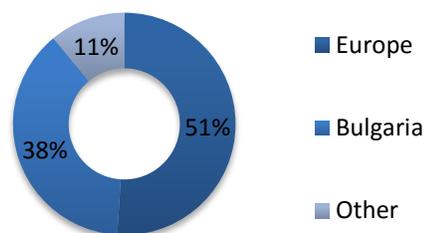
* Recalculated data as a result of the merger of Medica AD, based on consolidation of the financial statements of Sopharma AD and Medica AD

** Tangible and intangible fixed assets acquired

Sales revenues of production increase by BGN 16.3 million or 12%, reaching BGN 148.7 million at the end of the nine months of 2017, compared to BGN 132.4 million at the end of the nine months of 2016.



Revenues by market	1-9/2017 BGN '000	1-9/2016 BGN '000	Change %
Europe	76 342	62 041	23%
Bulgaria	56 117	57 651	-3%
Other	16 287	12 786	27%
Total	148 746	132 478	12%



🇪🇺 Europe

Revenues from sales to European countries increased by 23% compared to 2016 due to the increase of sales in Russia with 24% and Ukraine with 41%. The result is also due to the increase of sales in Poland, Moldova, Belarus and Serbia. The sales on the Russian market for the nine months are an indicator for the improved economic situation in the country. The expectations of the management are that the sales on this main export market will develop a positive trend till the end of the year.

🇬🇧 Bulgaria

The sales of Sopharma AD on the domestic market decrease by BGN 1.5 million, or 3% and reached BGN 56.1 million for the nine months of 2017 compared to BGN 57.6 million (according to recalculated data after merger of Medica AD for the nine months of 2016). The products with largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C and Nivalin. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 14% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0,3% in units), Actavis – 6% (11% in units), GlaxoSmithKline – 4% (2% in units), Abbvie – 4% (0.3% in units) Sanofi-Aventis – 4% (3% in units), Astra Zeneca – 3% (1% in units), Bayer – 3% (2% in units).

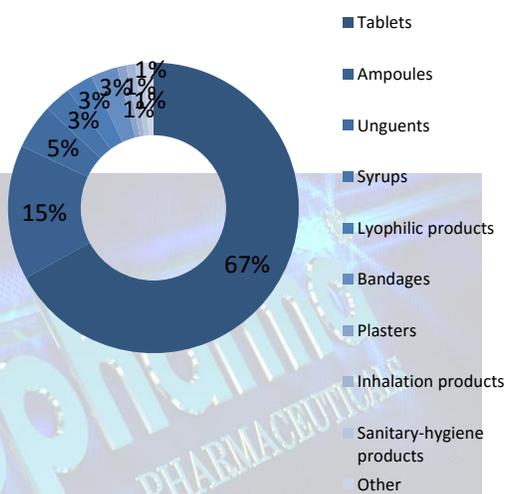
🌐 Other markets

Revenues from other markets increase with 27% compared to the nine months of 2016. These mainly include revenues from sales in the Caucasus and Central Asia, which increase with 13% compared to the nine months of 2016. Sales revenue in Vietnam increase with 112%.

Sales by type of formulation

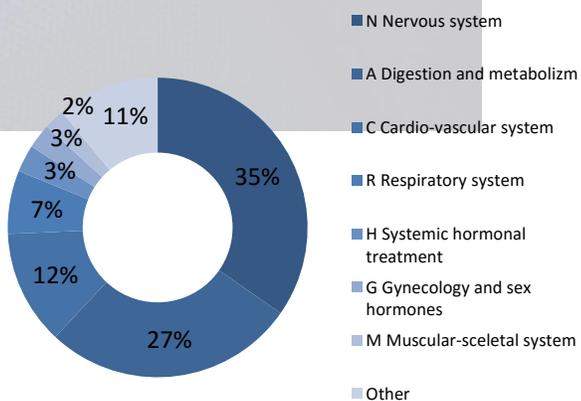
The types of formulation with the highest share in the volume of sales are tablet forms, followed by ampoules, unguents, syrups, lyophilic products and others.

Revenues by type of formulation	1-9/2017 BGN '000	1-9/2016 BGN '000	Change %
Tablets	99 701	86 791	15%
Ampoules	21 810	19 497	12%
Unguent	6 710	5 015	34%
Syrups	5 133	4 878	5%
Lyophilic products	4 101	4 168	-2%
Bandages	3 812	4 750	-20%
Plasters	2 344	2 315	1%
Inhalation products	1 945	2 036	-4%
Sanitary-hygiene products	1 147	903	27%
Other	2 043	2 125	-4%
Total	148 746	132 478	12%



Sales by therapeutic group

Revenues by therapeutic group	1-9/2017 BGN '000	1-9/2016 BGN '000	Change %
N Nervous system	51 603	45 236	14%
A Digestion and metabolism	40 556	32 751	24%
C Cardio-vascular system	18 371	16 746	10%
R Respiratory system	10 171	9 720	5%
G Gynecology and sex hormones	4 382	4 616	-5%
H Systemic hormonal treatment	3 940	4 052	-3%
M Muscular-skeletal system	3 301	2 537	30%
Other	16 422	16 820	-2%
Total	148 746	132 478	12%



Other operating revenues

Other operating revenues	1-9/2017 BGN '000	1-9/2016 BGN '000	Change %	Share 2017 %
Income from services rendered	2 585	2 558	1%	78%
Income from financing under European programs	381	385	-1%	12%
Income from sale of materials	128	81	58%	4%
Income from sale of goods	80	107	-25%	2%
Income from sale of LTA	10	(131)	-108%	0%
Net loss from exchange rate differences from CR, CP, BA	(185)	(205)	-10%	-6%
Other (see Notes to the FS)	311	135	130%	9%
Total	3 310	2 930	13%	100%

Other operating income increased by BGN 0.4 million in the nine months of 2017 mainly in the portion of the gains from sales of long-term assets.

Operating expenses

Operating expenses	1-9/2017 BGN '000	1-9/2016 BGN '000	Change %	Share 2017 %
Changes in the finished goods and work-in-progress inventory	(5 911)	2 890	-305%	-5%
Materials	51 694	43 244	20%	44%
External services	27 284	25 308	8%	23%
Personnel	31 829	28 841	10%	27%
Amortization	11 927	11 356	5%	10%
Other operating expenses	1 917	1 952	-2%	2%
Total	118 740	113 591	5%	100%

Operating expenses increased by BGN 5.1 million or 5% from BGN 113.6 million in the nine months of 2016 to BGN 118.7 million in the nine months of 2017, which is linked to an increase in sales since the beginning of 2017 and an increase of external services expenses.

Cost of materials (44% share) decreased by BGN 8.5 million or 19% from BGN 43.2 million in the nine months of 2016 to BGN 51.7 million in the nine months of 2017 and the biggest impact has the increase in main materials with BGN 6.9 million and in particular the liquid and solid chemicals, vials, ampoules, herbs and packaging materials.

Expenditure on external services accounted for 23% relative share of operating expenses and increased by BGN 2 million or 8% to BGN 27.3 million in the nine months of 2017 compared to BGN 25.3 million in the first half quarter 2016. The most significant impact is the increase in the cost of manufacturing of medicaments by BGN 0.8 million, the cost of buildings and machines

maintenance expenses by BGN 0.6 million, consultancy expenses with BGN 0.3 million and the transport costs by 0.5 million leva.

Personnel costs (with a relative share of 27% of operating costs) increased by BGN 3 million or by 10% from BGN 28.8 million in the nine months of 2016 to BGN 31.8 million. In the nine months of 2017 due to an increase in current wages with BGN 2.1 million.

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

Depreciation costs (with a relative share of 10% of operating expenses) registered an increase of BGN 0.6 million or by 5% from BGN 11.3 million in the nine months of 2016 to BGN 11.9 million in the nine months of 2017.

Changes in inventories of finished goods and work in progress have an impact on the decrease in operating expenses by BGN 8.8 million.

Financial income and expenses

Financial income	1-9/2017	1-9/2016	Change	Share 2016
	BGN '000	BGN '000	%	%
Income from equity	7 539	7 838	-4%	68%
Net gains on securities transactions	1 539	12 645	-88%	14%
Interest income on loans granted	1 291	1 699	-24%	12%
<i>Impairment of receivables on commercial loans granted</i>	-935	(1 293)		
<i>Reversal of impairment of commercial loans</i>	1 661			
Net change of impairment on receivables on commercial loans	726	(1 293)	-156%	6%
Income from liquidation of subsidiaries	7			0%
Total	11 102	20 889	-47%	100%
Financial expenses				
Expenses for interest on loans received	993	1 564	-37%	85%
Net loss from exchange rate differences for receivables from sale of a subsidiary	398	-	-	0%
Effects from merger of an available and for sale investment	289	-	-	0%
Bank fees for loans and guarantees	161	248	-35%	13%
Derivatives effects	70	29	141%	2%
Impairment on receivables on commercial loans	-	4	-100%	0%
Financial leasing expenses	-	3	-100%	0%
Total	1 911	1 848	3%	100%

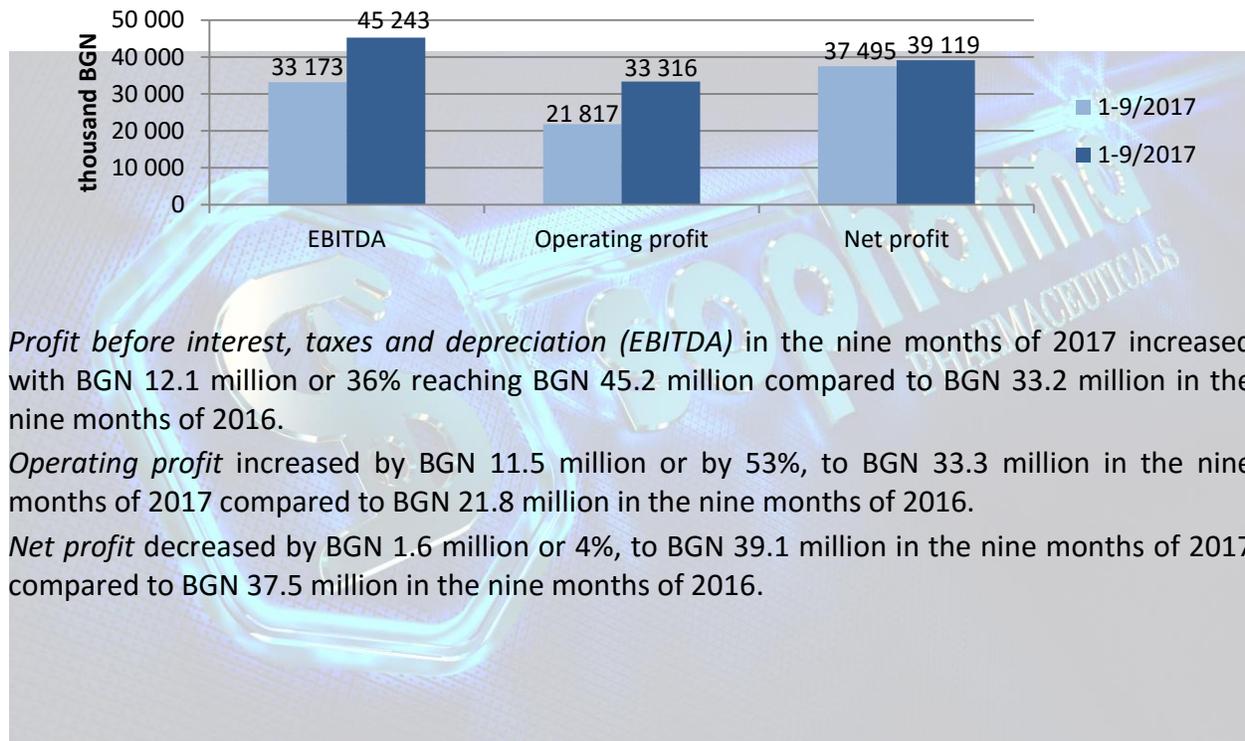
Financial revenues decrease by BGN 9.8 million or 47%, to BGN 11.1 million in the nine months of 2017 compared to BGN 20.9 million in the nine months of 2016. The reason is the decrease

of the net gain from operations with securities with BGN 11.1 million, as a result of the reported in 2016 sale of the subsidiary Ivanchich and sinovi.

Financial expenses increase by BGN 0.1 million or by 3% to BGN 1.9 million in the nine months of 2017 compared to 1.8 million BGN in the nine months of 2016. This is mainly due to net loss from exchange rate differences for receivables from sale of a subsidiary by and effects from merger of an available and for sale investment.

Net financial revenues decrease by BGN 9,8 million reaching BGN 9.2 million for the nine months of 2017 compared to BGN 19 million for the nine months of 2016.

Financial result



Profit before interest, taxes and depreciation (EBITDA) in the nine months of 2017 increased with BGN 12.1 million or 36% reaching BGN 45.2 million compared to BGN 33.2 million in the nine months of 2016.

Operating profit increased by BGN 11.5 million or by 53%, to BGN 33.3 million in the nine months of 2017 compared to BGN 21.8 million in the nine months of 2016.

Net profit decreased by BGN 1.6 million or 4%, to BGN 39.1 million in the nine months of 2017 compared to BGN 37.5 million in the nine months of 2016.

Assets

	30.09.2017	31.12.2016	Change	Share 2016
	BGN '000	BGN '000	%	%
Non-current assets				
Property, plant and equipment	219 798	225 470	-3%	55%
Intangible assets	3 659	3 180	15%	1%
Investment property	23 351	22 840	2%	6%
Investments in subsidiaries	122 194	115 442	6%	31%
Investments in associated companies	4 750	5 219	-9%	1%
Available-for-sale investments	7 122	5 229	36%	2%
Long-term receivables from related parties	13 221	11 047	20%	3%
Other long-term receivables	3 316	3 714	-11%	1%
	397 411	392 141	1.3%	67%
Current assets				
Inventories	66 385	61 711	8%	34%
Receivables from related parties	87 299	73 596	19%	44%
Commercial receivables	24 727	25 411	-3%	13%
Loans granted to related parties	3 455	2 445	41%	2%
Other receivables and prepaid expenses	6 903	5 336	29%	4%
Cash and cash equivalents	8 069	9 275	-13%	4%
	196 838	177 774	11%	33%
TOTAL ASSETS	594 249	569 915	4%	100%

Total assets increased by BGN 24.3 million or by 4% to BGN 594.2 million, compared to BGN 569.9 million as at 31.12.2016.

Non-current assets increased by BGN 5.3 million, or 1%, mainly due to an increase in investments in subsidiaries related mainly due to the acquisition of RAP Pharma International, Aromania OOD and the tender offering to the shareholders of Unipharm. The property, plant and equipment decrease by BGN 5.7 million, mainly in the part of machinery and equipment by BGN 4.2 million, as well as in the part of land and buildings by BGN 1.5 million. The increase by BGN 1 million is recorded for the assets in acquisition process.

Intangible assets increased by BGN 0.5 million, mainly in the area of intellectual property rights and intangible assets in process of acquisition.

Current assets increased by BGN 19 million or 11% to BGN 196.8 million as at 30.09.2017 compared to 177.8 million on 31.12.2016. Inventories increase by BGN 4.7 million or 8% compared to 31.12.2016 mainly due to an increase in stocks of finished goods BGN 7 million and inventory of semi-finished products with BGN 0.7 million and inventories with BGN 1.2 million. Receivables from related parties increased by BGN 13.7 million in the part of receivables from sales of products and materials by BGN 7.2 million and by BGN 6.5 million in the part concerning commercial loans. Cash and cash equivalents decrease with BGN 1.2 million and as at 30.09.2017 amount to BGN 8.1 million compared to BGN 9.3 million as at 31.12.2016.

Liabilities and owners' equity

	30.09.2017	31.12.2016	Change	Share 2016
	BGN '000	BGN '000	%	%
OWNERS' EQUITY				
Share capital	134 798	134 798	0%	27%
Treasury stock	(17 247)	(18 809)	-8%	-4%
Reserves	331 729	304 403	9%	68%
Retained earnings	40 986	40 234	2%	8%
TOTAL OWNERS' EQUITY	490 266	460 626	6%	100%
	30.09.2017	31.12.2016	Change	Share 2016
	BGN '000	BGN '000	%	%
LIABILITIES				
Non-current liabilities				
Long-term bank loans	18 501	24 064	-23%	18%
Liabilities on deferred taxes	6 499	6 259	4%	6%
Government financing	5 605	5 986	-6%	5%
Long-term liabilities to the personnel	3 205	2 930	9%	3%
	33 810	39 239	-14%	33%
Current liabilities				
Short-term bank loans	45 312	48 291	-6%	44%
Short-term part of long-term bank loans	7 429	7 461	0%	7%
Commercial liabilities	5 806	5 767	1%	6%
Liabilities to related parties	1 678	375	347%	2%
Liabilities for taxes	1 498	833	80%	1%
Liabilities to the personnel and for social insurance	7 150	5 771	24%	7%
Other current liabilities	1 300	1 552	-16%	1%
	70 173	70 050	0%	67%
TOTAL LIABILITIES	103 983	109 289	-5%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	594 249	569 915	4%	

The share capital increased by BGN 29.6 million or by 6% to BGN 490.3 million as of 30.09.2017 compared to BGN 460.6 million as of 31.12.2016, mainly as a result of an increase in reserves with BGN 27.3 million.

Non-current liabilities decreased by BGN 5.4 million or 14% to BGN 33.8 million at the end of the nine months of 2017 compared to BGN 39.2 million at the end of 2016 mainly due to a decrease of long-term bank loans by BGN 5.6 million.

Current liabilities increased by BGN 0,1 million to BGN 70.2 million at the end of September 2017 compared to BGN 70.1 million at the end of 2016. This is mainly due to increase of liabilities to related parties with BGN 1.3 million and liabilities to personnel and for social insurance with BGN 1.4 million. Short-term bank loans decrease with BGN 3 million and other current liabilities with BGN 0.3 million.

Sopharma AD

Total exposure under bank loans to the Company as at 30 September 2017 decrease with BGN 8.6 million compared to 31.12.2016.

Cash flow

	1-9/2017 BGN '000	1-9/2016 BGN '000
Net cash flow from/(used in) operations	29 904	8 991
Net cash flow used in investment activities	(10 417)	18 221
Net cash flow (used in)/from financial operations	(20 693)	(28 759))
Net increase/(decrease) of cash and cash equivalents	(1 206)	(1 547)
Cash and cash equivalents on 1 January	9 275	5 954
Cash and cash equivalents on 30 September	8 069	4 407

Net cash flows in the nine months of 2017 generated from operations are BGN 29.9 million inflow, from investment activities are BGN 10.4 million outflow and from financial operations BGN 20.7 million outflow. As a result of these activities the cash and cash equivalents decrease net with BGN 1.2 million as at 30.09.2017 and amount to BGN 8.1 million compared to BGN 9.3 million as at 01.01.2017.

Ratios

	30.09.2017	31.12.2016	Change
ROE ¹	8,5%	7,8%	0.7%
ROA ²	6,8%	5,9%	0,9%
Asset turnover ³	0,34	0,29	0,05
Current liquidity ⁴	2,81	2,37	0,44
Quick ratio ⁵	1,86	1,60	0,26
Cash/current liabilities ⁶	0,11	0,02	0,09
Owners' equity/liabilities ⁷	4,71	3,95	0,76

¹ Net profit per annum / average equity for the last five quarters

² Net profit on an annual basis / average value of total assets for the last five quarters

³ Revenues from sales on an annual basis / arithmetic mean of total assets for the last five quarters

⁴ Current assets / current liabilities

⁵ Receivables + Cash / Current liabilities

⁶ Cash / Current liabilities

⁷ Owners' Equity / Liabilities

3. New developments and products

+ New Products during the nine months of 2017

Authorizations for three new products have been received – Amlodipin 5 mg tablets, Amlodipin 10 mg tablets and Doporison ointment.

+ Implemented new products in the production cycle

For the period January – September 2017 the following products were introduced for production – Analgin drops for kids, Sophtenzif 1.5 mg filmed tablets with prolonged release, Desloratadin solution, Otofix drops and Dekspanthene ointment.

Expected 2017

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

+ New registrations

Permissions for use for new destinations of 12 medicinal products have been received - Zondarone ampoules, Vitamin C ampoules, Silden 50 mg. movie. tablets, Silden 100mg. Movie. Tablets, Thallet Syrup, Thallet Film. tablets, Methylprednisolone 40 mg, Phenobarbital ampoules, Indomethacin tablets, Digoxin ampoules, Allergozan ointment, Templagin trio tablets.

Submitted to agencies of new destinations registration dossier for 13 medicinal products
Re-registrations / changes

Agency submissions for re-registrations / changes to 92 medicinal products.

+ Developments

Development of 8 new pharmaceutical products and 1 active ingredient.

Transfer and validation/optimization of 21 manufacturing processes and technologies.

4. Significant events in the nine months of 2017 and the publication of the interim activity report

- ✦ On 05.01.2017 a merger agreement has been announced in the United States between Achieve Life Science Inc., a company in which Sopharma holds 4.7 percent of the capital and OncoGenex Pharmaceuticals Inc., according to which OncoGenex Pharmaceuticals Inc. will acquire Achieve Life Science Inc. through an all- Stock transaction). Upon completion of the proposed merger, unit-holders of Achieve Live Science Inc. will be expected to have 75% of the unincorporated shares of the combined entity, and current shareholders of OncoGenex Pharmaceuticals Inc. will hold the remaining 25% of the outstanding shares. The agreement has been submitted to the Securities and Exchange Commission (SEC). Following its approval, the combined company will be renamed Achieve Life Sciences Inc. and will be listed on the NASDAQ. As a result of the aforementioned actions, Sopharma AD will own 423,000 shares (3,525%) of the share capital of Achieve Life Sciences Inc.
- ✦ On 05.04.2017 Sopharma AD received a decision of the CPC that the acquisition by Sopharma AD of shares of the capital of Doverie United Holding AD at this stage is not subject to prior notification under Art. 24, para. 2 of the LPC. Sopharma AD will take appropriate action in reaching the established thresholds requiring a tender offer to the other shareholders of Doverie United Holding AD.
- ✦ On April 18, 2016, Sopharma AD announced that the Company acquired 51% of the capital of the Moldovan distributor of medicinal products RAP Pharma International after obtaining permission from the Moldovan Competition Commission to realize the acquisition.
- ✦ On 24.04.2017 an Extraordinary General Meeting of Shareholders of Sopharma AD took place and took the following decisions:
 1. Approval of Substantiated report by the Board of Directors for transactions under art. 114, par. 1 of POSA; Draft decision: EGM approves the Substantiated report, prepared by the Board of Directors, for transactions under art. 114, par. 1 of POSA, with the participation of the public company SOPHARMA AD.
 2. Authorization of the Board of Directors of the Company to conclude a contract for provisioning of collateral in the form of a corporate guarantee in the form of a mortgage on a real estate owned by Sopharma AD and a special pledge on machines and equipment, as a collateral under a contract with a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD – a transaction within the scope of art. 114, par. 1 of POSA, according to Chapter One of the Substantiated report; Draft decision: EGM authorizes the Board of Directors of the Company to conclude a contract for provisioning of collateral in the form of a corporate guarantee according to the terms and conditions, listed in Chapter One of the

Substantiated report, i.e. conclude a contract for provisioning of collateral in the form of a corporate guarantee in the form of a mortgage on a real estate owned by Sopharma AD and a special pledge on machines and equipment, as a collateral under a contract with a Financial Institution (Raiffeisenbank Bulgaria) for an investment credit provided to the subsidiary Sopharma Trading AD.

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

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

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

6. Authorization of the Board of Directors of the Company to conclude a contract for rent of real estate as a tenant with Sopharam Properties REIT as a renter – a transaction

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

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

✚ On 25 April 2017 the Financial Supervision Commission approved the Contract for transformation through merger and the additional annex to it, signed on 31 January 2017 between Sopharma AD, hereinafter referred to as "Acquirer" and Medika AD, hereinafter referred to as "Acquiree" in accordance with the requirements of art. 262d and following of the Commercial Act (CA). As a result the assets of Medika AD shall be transferred to Sopharma AD and the latter shall become its legal successor. Medika AD will be terminated without liquidation. The Financial Supervision Commission also approved the reports of the management of the two companies, prepared in accordance with the regulations of art.262i of the CA and the reports of the appointed examiners of the participants in the transformation under art. 262M of the CA from 13 October 2014. As a result of the merger, all shareholders of the Acquiree Medika AD, with the exception of the Acquirer Sopharma AD, which is also a shareholder of the Acquiree, will receive shares of Sopharma AD and become shareholders of it. Against one share of Medika AD each shareholder pursuant to art. 261b, art. 1 of the CA shall receive 0.8813 shares of the capital of Sopharma AD.

✚ The AGM of Sopharma AD held of 02.06.2017 took decisions on the following items:

1. Approval of the Annual report of the Board of Directors of the Company for 2016; Draft decision: AGM approves the Annual report of the Board of Directors of the Company for 2016;
2. Approval of the Annual report of the Investor Relations Director for 2016; Draft decision: AGM approves the Annual report of the Investor Relations Director for 2016;
3. Approval of the Audit report on the audit of the annual financial statements of the Company for 2016; Draft decision: AGM approves the Audit report on the audit of the annual financial statements of the Company for 2016;
4. Approval of the audited annual financial statements of the Company for 2016; Draft decision: AGM approves the audited annual financial statements of the Company for 2016;

5. Approval of the audited annual consolidated financial statements of the Company for 2016; Draft decision: AGM approves the audited annual consolidated financial statements of the Company for 2016;

6. Approval of the report of the Audit Committee for 2016; Draft decision: AGM approves the report of the Audit Committee for 2016;

7. Approval of a decision on the distribution of the Company's net profit for 2016 and undistributed profit from past periods; Draft decision: AGM accepts the proposal of the Board of Directors for the distribution of the profit of the company realized in 2016 and retained earnings from previous periods as follows: The total amount of the profit to be distributed amounts to BGN 38,249,890.71 / thirty-eight million two hundred forty-nine thousand eight hundred and ninety BGN and seventy one st. / of which BGN 37,769,879.20 / thirty-seven million seven hundred and sixty nine thousand eight hundred seventy-nine BGN and 20 st. / profit realized in 2016 and BGN 480,011.51 / four hundred and eighty thousand BGN and eleven levs and 51 st. / unallocated profit from past periods. After allocating 10% to a mandatory reserve, a dividend of BGN 0.10 (ten stotinki) per share shall be distributed. The amount left over after the allocation should be taken as an additional reserve of the company. The right to receive dividends shall be by the book of shareholders in the registers of the Central Depository as at the 14th day following the day of the General Meeting at which the Annual Financial Statement was adopted and a decision for the distribution of the profit was taken. The Company shall ensure the payment of the dividend voted to the shareholders at the General Assembly is distributed within three months of the date of decision for distribution. The cost for distributing the dividend is at the company's expense.

The payment of the dividend is done with the assistance of the Central Depository. The shareholders with accounts with an investment intermediary will receive their dividend through the respective intermediary, and those shareholders who do not use the services of an investment intermediary will receive their dividends from the branches of Eurobank Bulgaria AD / Postbank / in the country.

8. Approval of decision to discharge from liability the members of the Board of Directors for their activities in 2016; Draft decision: AGM discharges from liability the members of the Board of Directors for their activities in 2016;

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

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

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

12. Approval of a Report of the Board of Directors on the implementation of the Remuneration Policy of the Members of the Board of Directors of the Company for 2016; Draft decision: The General Meeting approves the Report of the Board of Directors on the Application of the Remuneration Policy of the Members of the Board of Directors of the Company for 2016.

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

14. Approval of decision under art. 24, par. 3, letter B of the Company's Articles of Association; Draft decision: Pursuant to art. 24, par. 3, letter B of the Articles of Association an additional fee of 1% /one percent/ of the net profit for 2016 according to the approved annual financial statements, shall be paid to the Executive Director of the Company;

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

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

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

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

19. Approval of Contract for transformation through merger of Medika AD, UID 000000993 in Sopharma AD, UIC: 831902088 signed on 31 January 2017, as well as

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

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

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

21. Miscellaneous.

✚ On the 15 June 2017 the American Financial and Exchanges Commission approved the process of merging Achieve Life Science Inc. and OncoGenex Inc. OncoGenex will hold a special shareholder meeting on 1 August 2017 to vote the merger. Shortly after the newly formed entity will trade on NASDAQ stock exchange under the ticker symbol ACHV.

✚ On the grounds of Art. 157 of POSA in connection with Art. 154 of the Public Offering of Securities Act and in connection with the expired deadline for acceptance of the tender offer submitted by Sopharma AD to the shareholders of Unipharm AD, we inform you about the results of the tender offering submitted by Sopharma AD for the purchase of the shares of the other shareholders of Unipharm AD.

- Company, object of the offer: Unipharm AD, with management address Sofia 1797, Studentski grad, zh.k. Darvenitsa, Trayko Stanoev Str.
- Tender offeror: Sopharma AD, with address: Sofia, Nadezhda district, 16, Iliensko shose Str.
- Authorized investment intermediary: Elana Trading AD, with management address: Sofia, Sredets, 4, Kuzman Shapkarev Str., and license issued by FSC for carrying out activity as an investment intermediary on the basis of Decision No. 171 -IP / 08.03.2006
- Price offered per share: BGN 4.35 (four leva thirty-five stotinki) Number of persons accepted the tender offer: 65 Shareholder with total number of shares: 1 125 021, representing 18.75% of the capital of Unipharm AD.
- As a result of the tender offer and after the conclusion of the transactions with the shareholders that have accepted it, Sopharma AD will directly own 96.63% of the shares of Unipharm AD. Sopharma AD has the right, within three months from the closing date of the tender offer, to submit, after obtaining the approval of the FSC, an offer for the purchase of the shares of the remaining shareholders of Unipharm AD on the grounds of Art. 157a of POSA. In addition, according to the provisions of Art. 157b of the POSA, each shareholder is entitled to require from Sopharma AD to redeem his/her shares until 19 September 2017. The request must be in writing and contain information about the shareholder and

the shares he owns. The request should be addressed to the authorized investment intermediary Elana Trading AD. The price per share of Unipharm AD for the proposal under Art. 157a and in exercising the rights of the shareholders under Art. 157b, in accordance with the provisions of Art. 157a, para. 3 is equal to the price of the tender offering of BGN 4.35 per share. The results of the tender offering were published by the tender offeror in the newspapers "Capital Daily" and "Sega" as of 21.06.2017.

- ✚ On 17.07.2017 in interest of its shareholders Sopharma AD announced that it will initiate dividend payment of the voted on the AGM held on 2 June 2017 dividend of 0.10 BGN earlier than planned on 24 July 2017.
 - The persons eligible for dividend are those present in the register of the Central Depository 14 days after the date of the AGM, i.e. 16 June 2017.
 - In accordance with the Regulations of the Central Depository, the dividend shall be paid out as follows: for shareholders with client accounts at an investment intermediary – through the investment intermediary, for shareholders without accounts at an investment intermediary - through the branches of Eurobank EFG - Bulgaria AD /Postbank/ in the country.
- ✚ On 21.07.2017 Sopharma AD acquired 75% from the capital of the successful start-up for development and registration of food additives Aromania OOD (www.arolife.bg).
 - For the nearly two years since its establishment Aromania OOD has more than 20 registered products and for 12 of them the company either has or has filed a different form of patent protection - trade mark, industrial design or useful model. Two of the products are leaders in their categories. For 2016 the revenues from sales of the company are 1,279 thousand BGN.
 - Sopharma will use this platform for a wider presence on the food additives market and to proudly enter the society of the “Bulgarian business angels”.
- ✚ On 08.08.2017 the transformation by merger of Medika AD into Sopharma AD was entered in the Commercial Register under No. 20170808155501.
- ✚ On 12.09.2017 the Board of Directors of Sopharma AD decided to initiate the procedure for transformation of Sopharma AD under the conditions and by the order of Chapter XVI of the Commerce Act and Art. 122 and following of the Public Offering of Securities Act, to be implemented by merger into Sopharma AD of Unipharm AD, UIC 831537465, with headquarters and address of management City of Sofia, Studentski Grad, 3, Trayko Stanoev Str., and elected the investment intermediary ELANA TRADING AD, UIC 831470130, with headquarters and address of management in Sofia, 5, Lachezar Stanchev Str., as a consultant in connection with the implementation of the procedure transformation.
- ✚ On 14.09.2017, on the grounds of Art.262d and the following of the Commercial Code Unipharm AD, transforming company, and Sopharma AD, a receiving company, have entered into a Transformation Agreement through a merger. The merger transformation agreement governs the way in which the transformation will take effect by merging Unipharm AD into Sopharma AD and the consequences for the transforming and the

receiving company. The fair value of the shares of the companies involved in the transformation is determined on the basis of generally accepted valuation methods. On the basis of the fair value of the shares of the companies involved in the transformation, a replacement ratio of 0.891512 is formed, which means that one share of the transforming company Unipharm AD should be replaced by 0.891512 shares of the receiving company Sopharma AD. The companies have appointed auditors, whose conclusion is necessary before submitting the documents for transformation to FSC. At present, the Deputy Chairperson of the Financial Supervision Commission in charge of the Investment Activity Supervision Division has not granted approval under Art. 124 of the Public Offering of Securities Act of the transformation contract, of the reports of the management bodies under Art. 262i of the Commercial Law and the report of the examiner under Art. 262m of the Commercial Law.

- ✦ On 27.09.2017, Sopharma AD announced that in connection with the tender offer made on the grounds of Art. 149 para. 6 of the Public Offering of Securities Act and the right of the shareholders under Art. 157b Sopharma AD fulfilled its obligation under this Article: 1. The offeror has bought a total of 125 530 shares with voting rights in the General Meeting of Unipharm AD; 2. 17 shareholders have applied for redemption under the right given to them by Art. 157b of POSA.
- ✦ On 03.11.2017, Sopharma AD organized an Annual Investor Relations Meeting, at which Sopharma AD and Sopharma Trading AD will present the goals achieved and the new challenges. The meeting will be held in the conference center of Sopharma Business Towers, Sofia.

5. Related party information

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

III. Information about the shares of Sopharma AD

The total number of shares issued by Sopharma, issued on 30.09.2017, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, in accordance with the Articles of Association of the Company. All issued shares are of one class. Each share entitles one vote to the General Meeting of Shareholders, a right to dividend and a liquidation share proportional to the nominal value of the share.

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

Key indicators of the shares of Sopharma AD

	30.09.2017	30.09.2016
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	129 242 371	129 505 376
Number of shares outstanding at the end of the period	129 637 138	129 192 813
Earnings per share in BGN	0,312	0,265
Price per share at the end of the period in BGN	4,368	2,954
Price/Earnings ratio (P/E)	14,00	11,15
Book value per share in BGN	3,782	3,549
Price/Book value ratio (P/B)	1,15	0,83
Sales per share in BGN	1,532	1,318
Price per share / Sales per share(P/S)	2,85	2,24
Market capitalization in BGN	588 797 223	398 192 994

¹ Net profit for the last four quarters /average-weighted number of outstanding shares for the last four quarters

² Owners` equity/ number of outstanding shares at the end of the period

³ Sales revenue on an annual basis/number of shares outstanding at the end of the period

Sopharma AD

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

