

MANAGEMENT REPORT

Q4 2016



SOPHARMA AD

General information about Sopharma AD

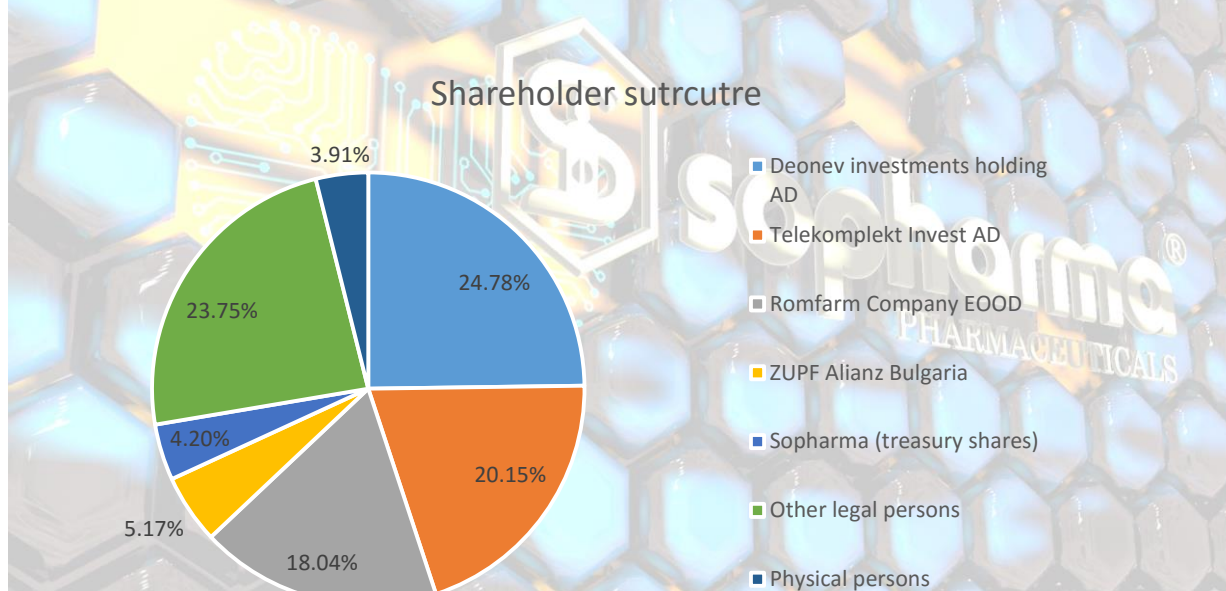
Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16 Iliensko shose str.

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 phytochemistry, chemistry and pharmacy. Sopharma AD provides services related to production, as well as to ancillary and service activities.

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

Shareholder structure as at 31 December 2016



Management Board

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 Chaushev, Andrey Breshkov. The Company is represented and managed by the Executive Director Ognian Donev, PhD.

Industrial activity

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

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

- + Substances and preparations based on vegetable raw materials (phytochemical production);
- + Finished dosage forms including
 - ✓ Solid tablets, coated tablets, capsules;
 - ✓ Galenical - suppositories, drops, syrups, unguents;
 - ✓ Parenteral - injectables, powders for injections lyophilic

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

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

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

- + Carsil - original product plant-based, used to treat gastroenterological disorders (liver disease);
- + Tempalgin - original analgesic (painkiller);
- + Tabex – original plant-based drug used for smoking secession
- + Tribestan – original plant-based product, used for stimulation of the reproductive system
- + Broncholytin - original plant-based product used to suppress cough;
- + Analgin - generic analgesic (painkiller);
- + Nivalin – original phyto-based product, used in the treatment of the peripheral nervous system;
- + Methylprednisolone - generic drugs for cases of severe allergies and certain life-threatening conditions;

Intellectual property

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

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

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

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

Research and development

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

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

Employees

As at 31 December 2016 the average number of employees of Sopharma AD is 1 833 (2015: 2 010). The table below shows the detailed information on the staff of the Company.

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

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

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

Significant events in 2016

At the start of the financial year Sopharma's Commercial Director has left the management of the Company. The Executive Director of the company will temporarily be responsible for the export markets.

On 15 January 2016 Sopharma AD made a tender offering to acquire all shares of the remaining shareholders in Medica AD until 12 February 2016. The period of the offering

started on 18 January, after the offering was published in two daily newspapers. The Company currently owns 6 717 544 shares, representing 66.72% of the capital and voting rights in the General Meeting of Shareholders of Medica AD. Sopharma AD offers a price of 3.50 BGN per share to the shareholders of Medica AD, which is the highest price, paid by the offeror, their related parties or by parties under art. 149, par. 2 of POSA in the last six months. The investment firm that serves the tender offer is ELANA Trading. Shareholders of Medica AD may submit a written statement of acceptance of the tender offer to any investment intermediary until 15 February. The offeror shall pay the price of the shares within 7 working days after the date of acceptance of the tender offer.

On 21 January 2016 Sopharma AD submitted to the Financial Supervision Commission an agreement for termination by mutual agreement of the contract for transformation through merger between Sopharma AD and Momina Krepost AD. The decision to end the procedure was taken in the interest of both companies in order to safeguard their good market positions.

On 19 February 2016, on the basis of art. 100t, par. 3 of POSA and in relation to the expiration of the deadline for acceptance of a tender offer, made by Sopharma AD to the shareholders of Medika AD, and on the basis of art. 157 of POSA in relation to art. 37, par. 1 of Ordinance 13, Sopharma AD announced the results of the conducted tender offer:

Company, subject to the offer: Medica AD, with management address in Sofia 1504, Oborishte district, 82 Knyaz Alexander Dondukov Blvd;

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

Authorized investment intermediary: Elana Trading AD, with management address: Sofia, Sredetz district, 4 Kuzman Shapkarov Str. and FSC-issued licence for investment intermediary operation based on Decision № 171-IP/08.03.2006.

Offered price per share: 3.50 BGN (three leva and fifty stotinki). Number of shareholders, who accepted the tender offer: 68 shareholders with a total amount of shares: 3 099 701 representing 30.79% of the capital of Medika AD. As a result of the conducted tender offer and after completion of the transactions with the shareholders who have accepted it, Sopharma AD will hold directly 97.50% of the shares with voting rights of Medika AD.

Sopharma AD has the right within three months from the closing date of the tender offer, after receiving an approval by the FSC to make an offer to buy the shares of the remaining shareholders of Medika AD on the basis of art. 157a of POSA. Furthermore, according to art 157b of POSA every shareholder has the right to make a request to Sopharma to sell their shares with voting rights until 16 May 2016. The request must be submitted in writing and must contain information about the shareholder and their shares. The request must be submitted to the authorized investment intermediary Elana Trading AD. The price for one share of Medika AD under the offer under art. 157a and upon executing of the rights of the shareholders under art. 157b in accordance with the regulations of art. 157a, par. 3 is equal to the share price of the conducted tender offer of 3.50 BGN per share. The results of the tender offer have been published by the tender offeror in the daily newspapers Capital Daily and Sega on 18 February 2016.

On 21 April 2016 the Board of Directors of Sopharma decided to convene a General Meeting of Shareholders to be held on 17 June 2016 at 11:00 AM in Sofia, 5 Lachezar Stanchev Str., Sopharma Business Towers, Tower B, floor 3.

Sopharma AD notifies that the Board of Directors of Sopharma AD authorized the executive director of the company to enter into a contract for the sale of the shareholding of Sopharma AD in the capital of Ivanchich and Sons, Serbia. The transaction was concluded on May 9th, 2016 in Belgrade, Serbia. The parameters of the transaction are subject to confidentiality clauses in the interest of the all parties. Sopharma AD will continue its activities on the Serbian market through its daughter company Sopharma Trading AD.

On 16 May 2016 expired the three-month period under art. 157b of the POSA after the completion of the tender offer, in which each shareholder who did not participate in the tender offer may request from Sopharma AD to buy their shares with voting rights. The price per share of Medica AD in the proposal under art. 157a and upon the execution of the shareholder rights under art. 157b under the provisions of art. 157a par. 3 was equal to the price in the conducted tender offer of 3.50 BGN per share.

As a result of the conducted tender offer and after the completion of the transactions with shareholders in the period under art. 157b, Sopharma AD has bought a total of 3,135,006 shares and directly owns 97.94% of the shares with voting rights of Medica AD.

Sopharma AD (the "Company") notifies that on the regular General Meeting of Shareholders of Sopharma AD, conducted on 17 June 2016 in Sofia, 5 Lachezar Stanchev Str., were taken the following decisions:

AGM approved the Annual report of the Board of Directors of the Company for 2015.

AGM approved the Annual report of the Investor Relations Director for 2015;

AGM approved the Audit report on the audit of the annual financial statements of the Company for 2015;

AGM approved the audited annual financial statements of the Company for 2015;

AGM approved the audited annual consolidated financial statements of the Company for 2015;

AGM approved the report of the Audit Committee for 2015;

AGM approved the proposal by the Board of Directors for the distribution of the profit generated in 2015 and the undistributed profit from past periods as follows: the total amount of the profit, subject to distribution, is 25 846 056.41 BGN /twenty-five million, eight hundred and forty-six thousand, fifty-six leva and forty-one stotinki/, of which the profit for 2015 amounts to 25 353 856.99 BGN /twenty-five million, three hundred and fifty-three thousand, eight hundred and fifty-six leva and ninety-nine stotinki/ and undistributed profit from past periods amounts to 492 199.42 BGN /four hundred and ninety-two thousand, one hundred and ninety-nine leva and forty-two stotinki/. After the allocation of 10% to the statutory reserve, a dividend shall be distributed to shareholders at the amount of 0.07 BGN /seven stotinki/ per share with dividend right. The remaining sum after the allocation of the divided shall be allocated to the additional reserves of the Company.

AGM discharged from liability the members of the Board of Directors for their activities in 2015;

AGM elected a registered auditor to audit and certify the annual financial statements of the Company for 2016 according to the proposal of the Audit Committee, included in the agenda materials.

AGM approved the Report of the Board of Directors about the application of the Remuneration policy for the members of the Board of Directors of the Company in 2015.

On the basis of art. 24, par. 3, letter A of the Company's Articles of Association AGM decided: the regular monthly remuneration of the members of the Board of Directors, as well as the regular monthly remuneration of the Executive Director in 2016 shall remain the same.

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 2015 according to the approved annual financial statements, shall be paid to the Executive Director of the Company;

AGM approved the decision for the distribution of 2% /two percent/ of the net profit for 2015 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.

AGM approved the continuation of the mandate of the Board of Directors in its current composition for a new five-year term from the date of expiration of the current mandate until 29 June 2021.

AGM approved the changes in the Articles of Association of the Company according to the proposal of the Board of Directors.

AGM approved the Substantiated report, prepared by the Board of Directors, for transactions under art. 114, par. 1 of POSA.

AGM authorized the Board of Directors of the Company to conclude a contract for manufacturing according to the terms and conditions, listed in Chapter 1 of the Substantiated report.

AGM authorized 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 2 of the Substantiated report.

AGM authorized 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 3 of the Substantiated report.

AGM authorized the Board of Directors of the Company to conclude a contract for manufacturing according to the terms and conditions, listed in Chapter 4 of the Substantiated report.

On 27 July 2016 Sopharma AD informed that the Company will commence the paying of dividends for 2015 on 3 August 2016 in accordance with a List of Entitled Persons as at 1 July 2016, prepared by the Central Depository. Pursuant to the Regulations of the Central Depository AD the dividend will be paid out as follows: to shareholders with client accounts at an investment intermediary – through the investment intermediary, to shareholders without accounts at an investment intermediary – through the branches of Eurobank EFG - Bulgaria AD /Postbank/ in the country. The gross dividend, voted on the AGM, amounts to 0.07 BGN (seven stotinki) per share. The net amount of the dividend (only for physical persons) is 0.0665 BGN per share.

On 12 September 2016 Sopharma AD (the "Company") announces that on 12 September 2016 the Company received a notification for the acquisition of 81 401 shares, representing

0.06 % of its capital, by ZUPF Allianz Bulgaria. After the transaction the share of ZUPF Allianz Bulgaria in the capital of Sopharma AD reached 5.05%.

On 5 October 2016 Sopharma AD notified that the Board of directors of Sopharma AD discussed a proposal filed by Homogen AD on 4 October 2016 for the sale of shares from the capital of Veta Farma AD. The Board of directors of Sopharma AD authorizes the Executive director to negotiate with representatives of the seller.

On 7 October 2016 Sopharma AD informed that as a result of its intention to express interest in acquiring a commercial company operating on the territory of the Republic of Moldova, as a first step Sopharma AD filed a request for approval of concentration with the competent authorities in the Republic of Moldova.

On 7 October 2016 Sopharma AD held its annual meeting with investors on which the company presented its new website www.sopharmagroup.eu.

On 10 November 2016 Sopharma AD acquired 68.05% from the capital of Veta Pharma AD as a result of which the latter is a subsidiary for the Group.

On 18 November 2016 Sopharma AD received a notification for disclosure of shareholdings under art. 145 of POSA from pension fund ZUPF Alianz Bulgaria for the purchase of 505 364 shares representing 0.37% of the capital of Sopharma AD after which the shareholdings of ZUPF Alianz Bulgaria in Sopharma reached 5%.

On 5 December 2016 Sopharma AD purchased 532 114 shares from the capital of Unipharm AD and its shareholdings in the capital reached 77.43%.

On 14 December 2016 Sopharma AD filed with the FSC a tender offering under art. 149 from POSA for the purchase of the shares of the remaining shareholders in Unipharm AD.

New developments and products

New products with marketing authorizations in 2016:

The Company received authorizations for use in 6 destinations for the new product Desloratidin film tablets, Ibandron filmed tablets and Amlodilin tablest and implemented Videral drops, Deavit Neo drops and Tuspan syrup.

Expected in 2016

Three to five new products are expected to be introduced by the end of 2016.

Developments

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

Key financial indicators

Indicators	1-12/2016 BGN '000	1-12/2015 BGN '000	change %
Sales revenues	163 827	173 803	-5,7%
EBITDA	39 603	39 686	-0,2%
Operating profit	25 684	25 137	2,2%
Net profit	37 252	25 354	46,9%
CAPEX	10 522	16 143	-34,8%
	31.12.2016 BGN '000	31.12.2015 BGN '000	
Non-current assets	407 092	398 781	2,1%
Current assets	161 891	171 828	-5,8%
Owners' equity	462 351	431 626	7,1%
Non-current liabilities	38 065	44 316	-14,1%
Current liabilities	68 567	94 667	-27,6%

Indicators	1-12/2016	1-12/2015
EBITDA/Sales revenues	24,1%	22,8%
Operating profit/ Sales revenues	15,7%	14,5%
Net profit/ Sales revenues	22,7%	14,6%
Borrowed capital/Owners' equity	0,23	0,32
Net debt/EBITDA annual	1,89x	2,61x

Review of risk factors

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.

Credit risk

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

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

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

Liquidity risk

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

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

Risk of interest-bearing cash flows

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

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

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

Information about the main characteristics of the internal control system applied by the Company in the process of financial statements preparation

According to the Bulgarian legislation, the management is required to prepare a report on the activities as well as financial statements for each financial year, which should give a true and fair view of the Company's financial position and performance as at end of the period, and for the cash flows in accordance with the applicable accounting framework. The responsibility of the Management also includes the application of internal control system for preventing, revealing and elimination of errors and misstatement resultant from the operation of the accounting system. In this respect, the Management observes the following main principles in its activities:

- ✦ adherence to a specific management and accounting policy disclosed in the financial statements;
- ✦ execution of all operations in accordance with the legal and regulatory provisions;
- ✦ reflection of all events and operations in a timely manner, at their accurate amount in the appropriate accounts and for the corresponding reporting period so as to allow the preparation of financial statements in line with the relevant accounting framework;
- ✦ adherence to the principle of prudence in the valuation of assets, liabilities, income and expenses;
- ✦ identification and elimination of fraud and errors;
- ✦ completeness and accuracy of accounting information;
- ✦ preparation of reliable financial information; compliance with international financial reporting standards and adherence to the going concern principle.

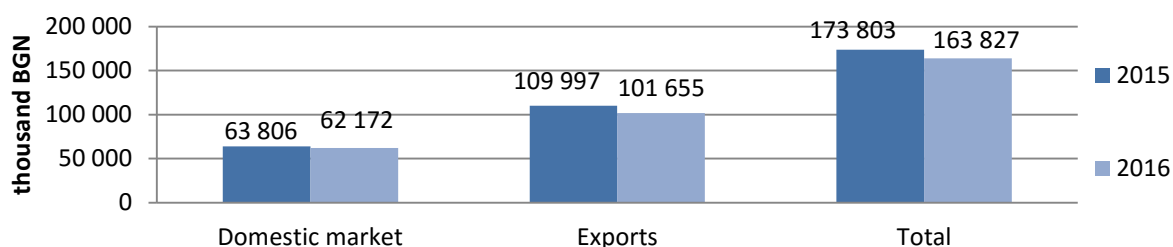
No changes occurred in the main principles of governance of Sopharma AD and its economic group during the reporting period.

Operating results for Q4 2016

Income from operations

Sales revenues for 2016 decrease with 9.9 million BGN or 6% to 163.9 million BGN compared to 173.8 million BGN..

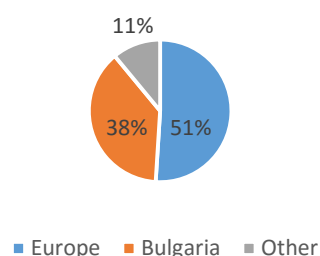
Sales revenues



Revenues by market	1-9/2016 BGN '000	1-9/2015 BGN '000	changes %
Europe	82 790	91 608	-10%

Manag

Share in total sales



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

Europe

Revenues from sales to European countries decrease by 10% compared to the same period of 2015 mainly due to the decrease of sales in Russia, Poland, Belarus and Serbia as a result of the relative stabilization of the political and economic situation. There is an increase in sales in Latvia, Ukraine, Romania, Croatia, Kosovo and Bosnia and Herzegovina.

Bulgaria

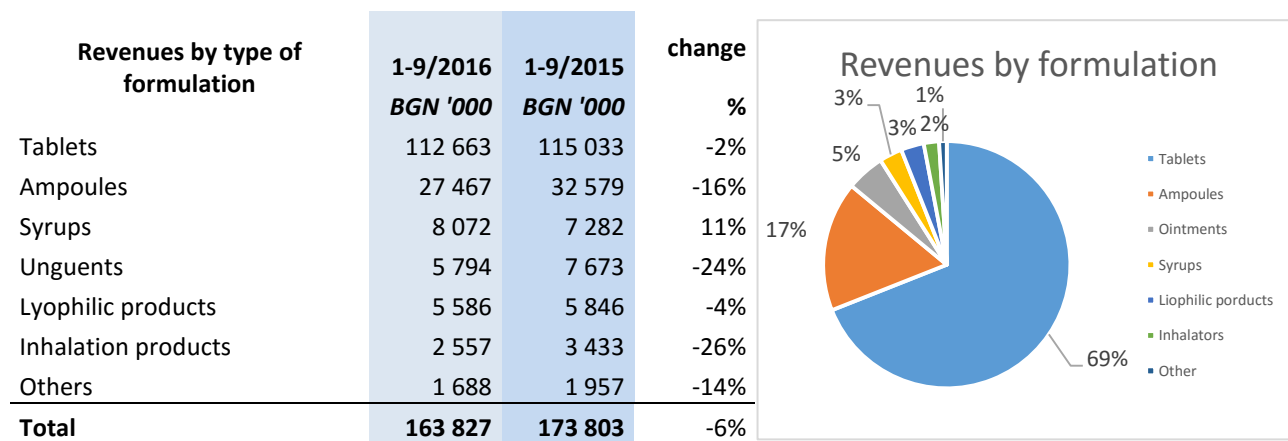
The sales of Sopharma AD on the domestic market decrease by BGN 1.6 million, or 3% and reached BGN 62.2 million in the fourth quarter of 2016 compared to BGN 63.8 million in the fourth quarter of 2015. The products with largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C, and Nivalin. Sopharma AD has a 4% share of the total Bulgarian pharmaceutical market in value and 14% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0,3% in units), Actavis – 5% (11% in units), GlaxoSmithKline – 4% (2% in units), Sanofi-Aventis – 4% (3% in units), Astra Zeneca – 3% (1% in units), Bayer – 3% (2% in units).

Other markets

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

Sales by type of formulation

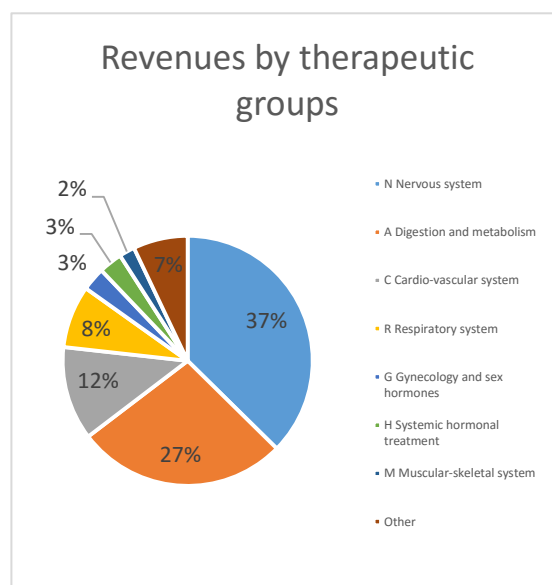
The highest share in the volume of sales are tablet forms, followed by ampoules, unguents, syrups, ointments, lyophilic products, and others.





Sales by therapeutic group

Revenues by therapeutic group	1-9/2016 BGN '000	1-9/2015 BGN '000	change %
N Nervous system	60 095	64 609	-7%
A Digestion and metabolism	44 289	44 102	0%
C Cardio-vascular system	20 019	24 370	-18%
R Respiratory system	13 889	14 697	-5%
H Systemic hormonal treatment	5 435	5 882	-8%
G Gynecology and sex hormones	5 149	5 257	-2%
M Muscular-skeletal system	3 613	4 189	-14%
Other	11 339	10 698	7%
Total	163 827	173 803	-6%



Other operating revenues

Other operating revenues	1-9/2016 BGN '000	1-9/2015 BGN '000	change %	Share 2016 %
Income from services rendered	3 494	3 364	4%	83%
Income from financing under European programs	503	397	27%	12%
Income from sale of products	174	263	-34%	4%
Income from sale of materials	109	117	-7%	3%
Gain from sale of long-term assets	122	(138)	-188%	3%
Net loss from exchange rate differences	(258)	(800)	-68%	-6%
Loss from revaluation of investment properties to fair value	(233)	(79)	195%	-6%
Other	279	527	-47%	7%
Total	4 190	3 651	15%	100%

Other operating income increased by BGN 0.5 million or 15% from BGN 3.7 million in the fourth quarter of 2015 to BGN 4.2 million in the second quarter of 2016. The main contributors are the decrease in the net loss from exchange rate differences on commercial receivables, commercial liabilities, and current accounts, which increased by BGN 0.5 million. Income from services and government financing increase.

Operating expenses

Operating expenses	1-9/2016 BGN '000	1-9/2015 BGN '000	change %	Share 2016 %
Changes in the finished goods and work-in-progress inventory	(361)	(6 667)	95%	0%
Materials	55 182	61 619	-10%	39%
External services	33 653	41 275	-18%	24%
Personnel	34 414	35 331	-3%	24%
Amortization	13 919	14 549	-4%	10%
Other operating expenses	5 526	6 210	11%	4%
Total	142 333	152 317	-7%	100%

The operating expenses decreased by BGN 10 million or 7% from BGN 152.3 million in the fourth quarter of 2015 to BGN 142.3 million in the fourth quarter of 2016, which is due to a decrease in hired services expenses, amortization, personnel and other expenses.

Materials expenses	1-9/2016 BGN '000	1-9/2015 BGN '000	change %	Share 2016 %
Main materials	40 556	47 075	-14%	73%
Electricity	4 183	3 934	6%	8%
Heat	2 506	3 227	-22%	5%
Laboratory items	2 146	1 498	43%	4%
Auxiliary items	1 236	1 253	-1%	2%
Spare parts	874	1 211	-28%	2%
Technical materials	739	1 028	-28%	1%
Working clothes and special protection	636	654	-3%	1%
Fuels and lubricants	520	672	-23%	1%
Water	515	494	4%	1%
Impairment of materials	1 044	401	160%	2%
Rejects of materials	227	172	32%	0%
Total	55 182	61 619	-10%	100%

Cost of materials (39% share) decreased by BGN 6.4 million or 10% from BGN 61.6 million in the fourth quarter of 2015 to BGN 55.2 million in the fourth quarter of 2016. The largest effect has the decrease of main materials by BGN 6.5 million in the segments of packaging materials, active ingredients, liquid and solid chemicals, vials and herbs. The cost of herbs, aluminum and PVC foil increase.

External services expenses

	1-9/2016	1-9/2015	change	share 2016
	BGN '000	BGN '000	%	%
Manufacturing of medicines	7 495	8 967	-16%	22%
Advertising	3 091	7 902	-61%	9%
Logistics services on export and domestic market	3 429	2 662	29%	10%
Transportation	2 915	2 623	11%	9%
Maintenance of buildings and equipment	2 352	3 030	-22%	7%
Consulting services	1 884	2 963	-36%	6%
Rents	1 830	2 233	-18%	5%
Local taxes and fees	1 247	1 142	9%	4%
State and regulatory taxes and local taxes	1 112	646	72%	3%
Security	1 056	976	8%	3%
Registration services and clinical trials	709	2 082	-66%	2%
Subscriptions	798	756	6%	2%
Medical services	747	789	-5%	2%
Civil contracts	672	699	-4%	2%
Insurance	520	595	-13%	2%
Car repairs	435	345	26%	1%
Other (see the Notes to the Financial Report)	3 361	2 865	17%	10%
Total	33 653	41 275	-18%	100%

Hired services have a 22% share of operating expenses and decreased by BGN 7.6 million or 18%, to BGN 33.7 million in the fourth quarter of 2016 compared to BGN 41.3 million in the second quarter of 2015. The most significant impact have the decrease in costs for advertising by BGN 4.8 million, as well as manufacturing of medicines by BGN 1.5 million and consulting services by BGN 1.1 million.

	1-9/2016	1-9/2015	change	share 2016
	BGN '000	BGN '000	%	%
Personnel expenses				
Salaries	25 547	26 557	-4%	74%
Social insurance	4 782	4 960	-4%	14%
Social benefits and payments	2 258	2 123	6%	7%
Tantiems	768	792	-3%	2%
Other	1 059	899	18%	3%
Total	34 414	35 331	-3%	100%

Personnel costs (with a share of 24% of operating expenses) decreased by BGN 0.9 million, or 3% from BGN 35.3 million in the fourth quarter of 2015 to BGN 34.4 million in the fourth quarter of 2016. Current salaries decreased by BGN 1.3 million and social insurance payments – by BGN 0.2 million.

	1-9/2016	1-9/2015	change	share 2016
	BGN '000	BGN '000	%	%
Other expenses				
Entertainment expenses	1 970	2 073	-5%	36%
Impairment of finished and unfinished products	1 805	2 421	-25%	33%
Business trips	581	697	-17%	11%
Donations	365	373	-2%	7%
Training	197	205	-4%	4%
Accrued (recovered) impairment of receivables, net	(41)	(234)	82%	-1%
Other (see FS notes)	649	675	-4%	12%
Total	5 526	6 210	-11%	100%

Other operating expenses (with a relative share of 4% of operating expenses) decrease by 0.7 million from BGN 6.2 million in the fourth quarter of 2015 to BGN 5.5 million in the fourth quarter of 2016, which is mostly due to the decrease of recovered impairment of receivables, net and the impairment of finished and unfinished products.

Costs of amortization (with a relative share of 10% of operating expenses) decreased by BGN 0.7 millions of 4% from BGN 14.5 million in the fourth quarter of 2015 to BGN 13.9 million in the fourth quarter of 2016.

Operating expenses are increased by BGN 6 million due to changes in finished and unfinished product inventories.

Financial income and expenses

	1-9/2016	1-9/2015	change	share 2016
	BGN '000	BGN '000	%	%
Financial income				
Net gain from operations with securities	12 872	6 908	86%	53%
Income from equity	9 161	7 881	16%	38%
Income from interest on loans granted	2 126	3 120	-32%	9%
Net loss from exchange rate differences on loans	0	13	-100%	0%
Total	24 159	17 922	35%	53%

			change	share 2016
			%	%
Financial expenses				
Expenses for interest on loans received	2 061	3 510	-41%	56%
Impairment of receivables from granted commercial loans	688	1 955	-65%	31%
Bank fees for loans and guarantees	302	270	12%	4%
Net loss from exchange rate differences in financial	109	0		0%

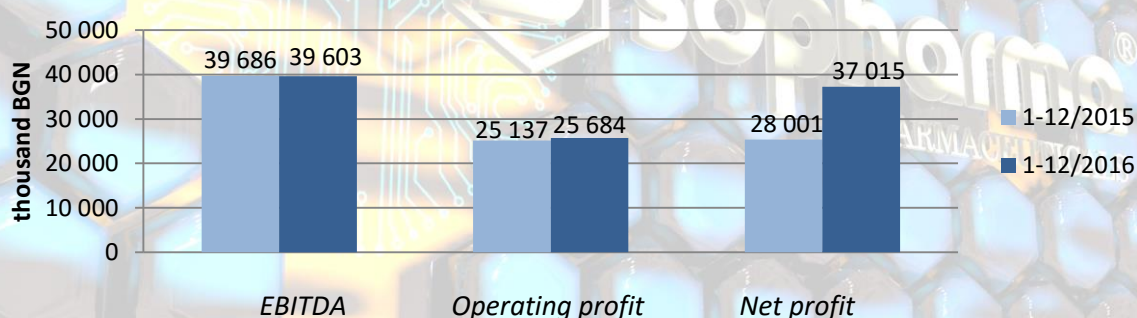
operations				
Impairment of cash on hand	8	165	-95%	3%
Impairment of available and for sale investments	5	398	-99%	6%
Financial leasing expenses	3	14	-79%	0%
Total	3 176	6 312	-50%	91%

Financial income increased by BGN 6.2 million, or 35%, to BGN 24.1 million in the fourth quarter of 2016 compared to BGN 17.9 million in the fourth quarter of 2015. This is a result of the increase in the net gain from operations with securities with BGN 5.9 million and income from share interest with BGN 1.2 million. There is a decrease in income from interest on granted loans by BGN 1 million.

Financial expenses decrease by BGN 3 million or 50% to BGN 3.2 million in the fourth quarter of 2016 compared to BGN 6.3 million in the fourth quarter of 2015. This is a result mainly of the impairment on loans granted which increase with BGN 1.3 million. There is a decrease in expenses for interest on loans received by BGN 1.4 million.

Net financial income (expense) increase by BGN 9.4 million reaching BGN 21 million in the fourth quarter of 2016, compared to BGN 11.6 million in the fourth quarter of 2015.

Financial result



Profit before interest, taxes, depreciation and amortization (EBITDA) decreased by BGN 0.1 million or 0.2%, amounting to BGN 39.6 million as at 31 December 2016, compared to BGN 39.7 million as at 31 December 2015.

The operating profit increased by BGN 0.5 million or 2%, reaching BGN 25.7 million as at 31 December 2016, compared to BGN 25.1 million as at 31 December 2015.

Net profit increased by BGN 11.9 million or 47% to BGN 37.3 million as at 31 December 2016 compared to BGN 25.4 million as at 31 December 2015.

Assets

	31.12.2016	31.12.2015	change	share 2016
	BGN '000	BGN '000	%	%
Non-current assets				
Property, plant and equipment	209 707	211 943	-1%	52%
Intangible assets	2 177	2 507	-13%	1%
Investment property	22 452	22 160	1%	6%
Investments in subsidiaries	147 583	132 899	11%	36%
Investments in associates	5 219	0		1%
Available-for-sale investments	5 229	5 510	-5%	1%
Long-term receivables from related parties	11 011	20 505	-46%	3%
Other long-term receivables	3 714	3 257	14%	1%
	407 092	398 781	2.1%	72%
Current assets				
Inventories	56 816	61 701	-8%	35%
Receivables from related parties	71 066	78 035	-9%	44%
Commercial receivables	22 381	21 466	4%	14%
Other receivables and prepaid expenses	7 285	6 881	6%	4%
Cash and cash equivalents	4 343	3 745	16%	3%
	161 891	171 828	-6%	28%
TOTAL ASSETS	568 983	570 609	-0.3%	100%

Total assets decreased by BGN 1.6 million or 0.3% to BGN 569 million compared to BGN 570.6 million as at 31 December 2015.

Non-current assets increased by BGN 8.3 million, or 2%, mainly due to a increase in investments in subsidiaries with 14.7 million BGN and investments in associates with 5.2 million BGN. There is a decrease in property, plant and equipment and long-term receivables from related parties.

	31.12.2016	31.12.2015	change	share 2016
	BGN '000	BGN '000	%	%
Property, plant and equipment				
Land and buildings	120 030	113 865	5%	57%
Machines and equipment	81 340	78 808	3%	39%
Other	5 712	5 868	-3%	3%
In process of acquisition	2 625	13 402	-80%	1%
Total	209 707	211 943	-1%	100%

Property, plant and equipment decreased by BGN 2.2 million mainly in the portion of assets in process of acquisition by BGN 10.8 million and in the portion of land and buildings by BGN 6.2 million and in the portion of plant and equipment by BGN 2.5 million.

Intangible assets decreased by BGN 0.3 million mainly in the part of intellectual property rights by BGN 0.1 million and software products by BGN 0.1 million.

Investments in subsidiaries increased by BGN 14.7 million mainly due to an acquisition of shares in Veta Pharma AD. Investments in associates are related with a purchase of shares in the capital of Doverie Obedinen Holding AD. The available-for-sale investments decrease by BGN 0.3 million reaching BGN 5.2 million. Long-term loans to related parties decreases by BGN 9.5 million.

Receivables from transactions with securities amount to BGN 3.3 million.

Current assets decreased by BGN 9.9 million or 6% to BGN 161.9 million as at 31 December 2016 compared to BGN 171,8 million as at 31 December 2015.

	31.12.2016	31.12.2015	change	share
	BGN '000	BGN '000	%	2016
Inventories				
Materials	24 879	27 868	-11%	44%
Finished products	17 282	22 841	-24%	30%
Semi-finished products	10 659	5 262	103%	19%
Work in progress	3 724	5 255	-29%	7%
Goods	272	475	-43%	0%
Total	56 816	61 701	-8%	100%

Material inventories decrease by BGN 4.9 million or 8% compared to 31 December 2015. There is a decrease in finished products by BGN 5.6 million and a decrease in materials by BGN 3 million and unfinished products by 1.5 million BGN and goods – by BGN 0.2 million.

Receivables from related parties decreased by BGN 7 million as a result of a decrease in commercial loans granter and increase in the part of receivables for sale of products and materials with 2.3 million BGN.

Commercial receivables increased by BGN 0.9 million, in the portion of receivables from customers by BGN 0.6 million and advance payments by 0.3 million BGN.

Other receivables and advance payments increased by BGN 0.4 million mainly in the portion of refundable taxes with BGN 0.5 million.

Cash and cash equivalents increase by BGN 0.6 million and as at 31 December 2016 amount to BGN 4.3 million, compared to BGN 3.7 million as at 31 December 2015.

Liabilities and owners' equity

	31.12.2016	31.12.2015	share 2016	
	BGN '000	BGN '000	change	%
OWNERS' EQUITY				
Share capital	134 798	134 798	0%	29%
Treasury stock	(18 809)	(17 597)	7%	-4%
Reserves	304 397	284 227	7%	66%
Retained earnings	41 965	30 198	39%	9%
TOTAL OWNERS' EQUITY	462 351	431 626	7%	100%
	31.12.2016	31.12.2015	share 2016	
	BGN '000	BGN '000	change	%
LIABILITIES				
Non-current liabilities				
Long-term bank loans	23 844	30 819	-23%	22%
Liabilities on deferred taxes	5 706	4 697	21%	5%
Government financing	5 866	6 371	-8%	6%
Long-term liabilities to the personnel	2 649	2 426	9%	2%
Financial leasing liabilities	0	3	-100%	0%
	38 065	44 316	-14%	36%
Current liabilities				
Short-term bank loans	48 293	68 961	-30%	45%
Short-term part of long-term bank loans	7 185	7 380	-3%	7%
Commercial liabilities	5 115	8 014	-36%	5%
Liabilities to related parties	489	3 070	-84%	0%
Liabilities for taxes	608	965	-37%	1%
Liabilities to the personnel and for social insurance	5 363	4 769	12%	5%
Other current liabilities	1 514	1 508	0%	1%
	68 567	94 667	-28%	64%
TOTAL LIABILITIES	106 632	138 983	-23%	100%
TOTAL OWNERS' EQUITY AND LIABILITIES	568 983	570 609	0%	

Equity increased by BGN 30.7 million 7%, reaching BGN 462.3 million as at 31 December 2016 compared to BGN 431,6 million as at 31 December 2015 mainly as a result of an increase of the reserves by BGN 20.2 million and in the undistributed profit BGN 11.8 million.

Non-current liabilities decreased by BGN 6.2 million or 14% to BGN 38.1 million at the end of the fourth quarter of 2016 compared to BGN 44,3 million as at the end of 2015 mainly due to a decrease of long-term bank loans by BGN 7 million.

Current liabilities decreased by BGN 26.1 million or 27% to BGN 68.6 million at the end of the second quarter of 2016 compared to BGN 94,7 million as at the end of 2015. This is mainly due to a decrease in commercial liabilities by BGN 2.9 million and liabilities for short-term bank loans by BGN 20.7 million and liabilities to related parties by BGN 2.6 million. The total exposition to bank loans of the Company as at 31 December 2016 decreased by around BGN 27.8 million compared to 31 December 2015.

Liabilities to personnel and for social securities increased by BGN 0.6 million and other current liabilities which increase with BGN 4.3 million for dividends.

Cash flow

	31.12.2016 BGN '000	31.12.2015 BGN '000
Net cash flow from/(used in) operations	26 636	28 398
Net cash flow used in investment activities	12 998	(410)
Net cash flow (used in)/from financial operations	(39 036)	(27 721)
Net increase/(decrease) of cash and cash equivalents	598	267
Cash and cash equivalents on 1 January	3 745	3 478
Cash and cash equivalents on 31 December	4 343	3 745

Net cash flows as at 31 December 2016 generated from operating activities amounted to BGN 26.6 million, net cash from investing activities BGN 13 million and financing activities BGN (39) million. As a result of these activities cash and cash equivalents mark a net decrease of BGN 0.6 million and as at 31 December 2016 amount to BGN 4.3 million compared to 3,7 million as at 1 January 2016.

Ratios

	31.12.2016	31.12.2015	change
ROE	8,3%	6,0%	2,3%
ROA	6,5%	4,4%	2,1%
Asset turnover	0,29	0,30	-0,01
Current liquidity	2,36	1,82	0,54
Quick ratio	1,53	1,16	0,37
Cash/current liabilities	0,06	0,04	0,02
Owners' equity/liabilities	4,34	3,11	1,23

Information about the shares of Sopharma AD

The total number of issued shares at 31 December 2016 of Sopharma AD is 134 797 899 with a nominal value of 1 BGN per share. All issued shares are registered, dematerialized, registered and indivisible. All issued shares are of one class. Each share gives equal rights to its owner,

proportionate to the nominal share value. Shares of Sopharma AD are listed on the official market of the Bulgarian Stock Exchange - Sofia and the official market of the Warsaw Stock Exchange. Shares participate in the formation of the indices SOFIX, BGBX40 and BGTR30 of the Bulgarian Stock Exchange - Sofia.

The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds and the certificate ABN AMRO SOFIX - Open-end-certificate and in the new blue-chip index Dow Jones STOXX Balkan 50 Equal Weighted Index.

Sopharma AD is one of the three Bulgarian companies included in an index for Central and Eastern Europe (CEE), which the Warsaw Stock Exchange started to calculate on 30 May 2012. The name of the index is WIG-CEE and it is the third one after WIG-Poland and WIG-Ukraine, which is based on the origin of companies by country. WIG-CEE is calculated based on total return and includes income from dividends and subscription rights.

Key indicators of the shares of Sopharma AD

	31.12.2016	31.09.2015
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	129 393 991.59	129 379 961
Number of shares outstanding at the end of the period	129 135 485	129 578 603
Earnings per share in BGN	0,288	0,196
Price per share at the end of the period in BGN	2,992	2,72
Price/Earnings ratio (P/E)	10,39	13,88
Book value per share in BGN	3,58	3,331
Price/Book value ratio (P/B)	0,84	0,82
Sales per share in BGN	1,269	1,341
Price per share / Sales per share(P/S)	2,36	2,03
Market capitalization in BGN	403 315 314	366 650 285

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

