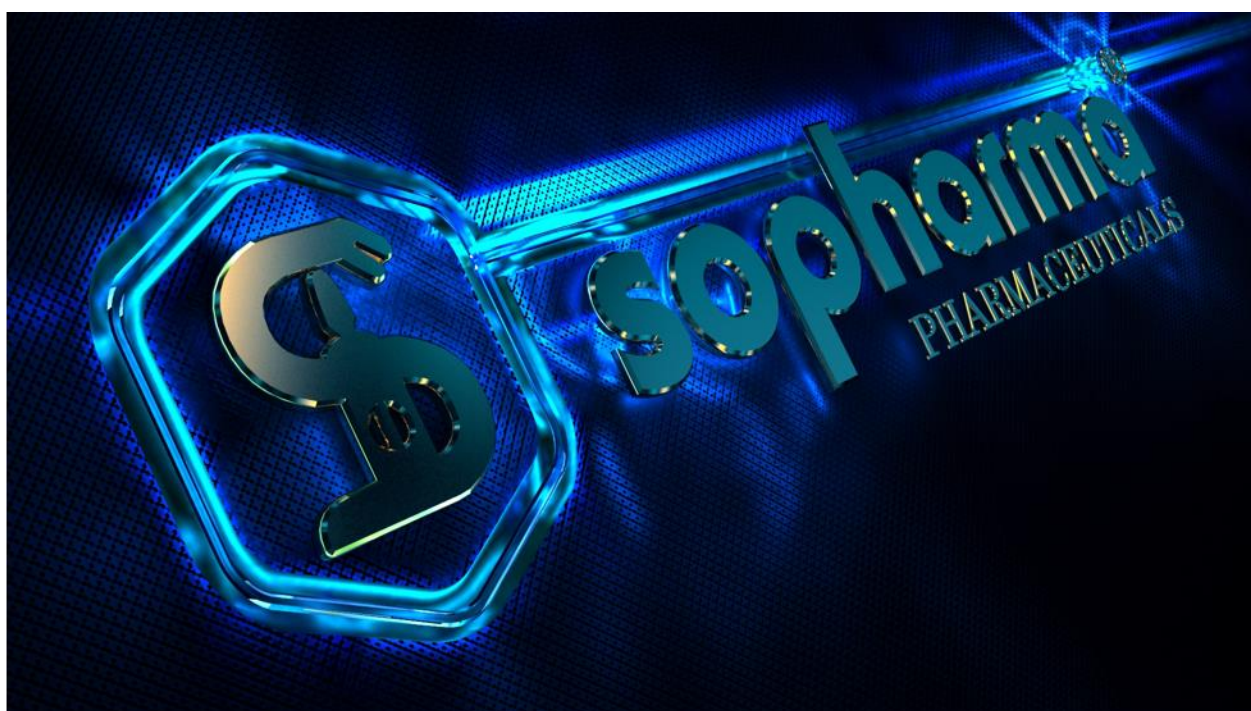


# MANAGEMENT REPORT

2016



**SOPHARMA GROUP**

27 April 2017

## General information about Sopharma Group

### 1. Main activities

Sopharma Group (the Group) is a leading Bulgarian producer, exporter and local distributor of pharmaceutical products with a strong presence in Eastern and South-eastern Europe, offering a wide range of prescription medicines and OTC products.

The Group operates in the following areas:

- production of pharmaceutical products including medicines, primarily generics, herbal-based substances and food supplements, which is primarily done by Sopharma Group (the Group) and to a lesser extent by its production subsidiaries including Unipharm AD and Medika AD in Bulgaria, and PAT Vitamins in Ukraine;
- distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements and cosmetics, which is mainly performed by Sopharma Trading in Bulgaria, Briz SIA in the Baltic region, and Brittrade SOOO in Belarus;
- production and distribution of non-pharmaceutical products, primarily medical supplies such as syringes and other disposables used in medicine, which is mainly performed by Momina Krepost AD, and other complementary activities to the production of pharmaceutical products and distribution of pharmaceutical products.

### 2. Registration of the Group

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

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

The Group 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 Group provides services related to production, as well as to ancillary and supporting activities.

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

## 3. Controlled companies

Sopharma Group consists of Sopharma Group and 48 legal entities, including 39 subsidiaries, directly or indirectly controlled by the Group, 7 joint ventures, and 2 associated companies.

Group	Interest as at 31.12.2016 in %
Sopharma Trading AD, Sofia, Bulgaria	72.58
Biopharm Engineering AD, Sliven, Bulgaria	97.15
Pharmalogistica AD, Sofia, Bulgaria	84.93
Elektroncommerce EOOD, Sofia, Bulgaria	100.00
Sopharma Buildings REIT, Sofia, Bulgaria	40.39
Momina Krepost AD, Veliko Tarnovo, Bulgaria*	93.54
Unipharm AD, Sofia, Bulgaria	77.89
Phyto Palauzovo AD, Kazanluk, Bulgaria**	95.00
Sopharmacy EOOD, Sofia, Bulgaria**	72.58
Sopharmacy 2 EOOD, Sofia, Bulgaria**	72.58
Sopharmacy 3 EOOD, Sofia, Bulgaria**	72.58
Sopharmacy 4 EOOD, Sofia, Bulgaria**	72.58
Sopharmacy 5 EOOD, Sofia, Bulgaria**	72.58
Sopharmacy 6, EOOD, Sofia, Bulgaria**	72.58
Medica AD, Sofia, Bulgaria	97.96
Medica-Zdrave EOOD, Sofia, Bulgaria** (in process of liquidation)	97.96
Veta Pharma AD, Veliko Tarnovo, Bulgaria	68.05
PAO Vitamini, Uman, Ukraine	99.56
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Sopharma Warsaw Sp. z o. o, Warsaw, Poland	100.00
Sopharma Trading d.o.o. Belgrade	72.58
BRIZ ZAO, Riga, Latvia	66.13
Brititrade SOOO, Minsk, Belarus**	52.90
Tabina SOOO, Minsk, Belarus **	62.82
Brizpharm SOOO, Minsk, Belarus**	46.26
Alean ODO, Minsk, Belarus**	62.96
Sopharma Ukraine, Kiev, Ukraine	100.00
Vivaton OOO, Grodno, Belarus***	50.00
OOO Med-dent, Bobruisk, Belarus***	50.00
OOO Pharmacist Plus, Minsk, Belarus**	42.98
Vestpharm ODO, Grodno, Belarus **	62.96
NPK Biotest OOO, Grodno, Belarus **	-
BelAgroMed ODO, Grodno, Belarus **	62.96
BOOO SpetzApharmacia, Bobruisk, Belarus***	50.00
ZAO TBS Pharma, Vilnius, Lithuania**	33.73

Group	Interest as at 31.12.2016 in %
OOO Bellerofon, Minsk, Belarus***	50.00
TOO Sopharma Kazakhstan, Almaty, Kazakhstan	100.00
ZAO Interpharm, Vitebsk, Belarus***	50.00
OOO Ivem and K, Minsk, Belarus***	50.00
OOO Ariens, Polotzk, Belarus***	50.00
OOO Danapharm, Brest, Belarus**	48.94
OOO Galenapharm, Pinsk, Belarus**	48.94
ODO Medjel, Minsk, Belarus**	48.94
ODO Alenpharm-Plus, Belarus**	48.94
OOO Pharmateia, Minsk, Belarus***	22.39
OOO Mobil Line, Borisov, Belarus**	48.94
<b>ODO Salius Line, Grodno, Belarus**</b>	<b>48.74</b>

\*effective interest in percent

\*\*indirect interest

\*\*\*joint venture

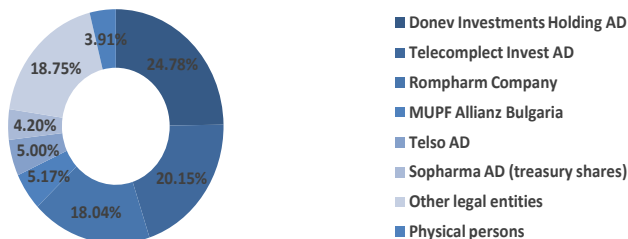
#### 4. Management board

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

Members of the key management personnel of the Group include the disclosed in Note №1 Executive Director and members of the Board of Directors of the Group. Additionally, it includes the executive directors, the board of directors and the managers of subsidiaries of the Group.



## 5. Shareholder structure as at 31 December 2016



## II. Recent developments

### 1. Industrial activity

Sopharma Group has twelve manufacturing facilities, which are compliant with EU regulations and are located in Bulgaria and one facility in the Ukraine certified and acknowledged by the local authorities and all countries from the CIS. With the exception of the facility in the Ukraine all other facilities have been examined and certified according to the EU GMP.

The production activities of the Group are carried out and developed in the following areas:

- Production of pharmaceutical products;
- Substances and preparations based on vegetable raw materials (phytochemical production);
- Veterinary vaccines;
- Infusion solutions;
- Concentrates for hemodialysis;
- Medical disposable products for human and veterinary medicine;
- Injection molded products for the industry, agriculture and households.

### 2. Products

#### Sopharma AD

The Company has a portfolio of more than 210 products: mainly generics and 15 original products, of which 12 products are phyto-based. The original products of the Group (and in particular Carsil and

Tempalgin) are key contributors to its revenue from export markets, while for the domestic sales the most important products are generics, of which the leading drug is Analgin.

The product portfolio of the company 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 revenue are:

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

### Unipharm

Unipharm is an established manufacturer of medicinal products meeting the highest standards of Good Manufacturing Practice. The mission of Unipharm is the production of medicines with care for people. The core operations of Unipharm AD are production of pharmaceuticals, research and experimentation in the production of pharmaceuticals, establishing quality of manufactured medicines, wholesale trading activities at home and abroad. The company strives to meet the requirements of the market and concentrates on finding new market niches to meet the growing needs of consumers. The company invests in production and scientific implementation mainly in the field of generic products.

### Products

- **Solid dosage forms**
- **Concentrates for hemodialysis**
- **Liquid dosage forms**

The company's products are sold mainly on the Bulgarian market, but also in countries such as Russia, Ukraine, Georgia and other CIS nations, Tunisia, Lithuania, Latvia, Poland and others.

### Biofarm engineering

Biopharm Engineering AD is a rapidly growing company. It has modern production units and constantly expand and modernize production facilities. The strategy of Biopharm Engineering AD is built on the market and technological advantages of the company. The company holds a certificate of good manufacturing practice (GMP). The company develops successfully in the following areas:

- production of infusion solutions;
- production of injection solutions;
- production of veterinary medicinal products and immunological preparations

#### Products

- infusion and injection solutions;
- veterinary medicinal products – vaccines and diagnostic kits.

#### Main markets

The manufactured infusion solutions are marketed through the parent company Sopharma AD both on the Bulgarian and the international market.

### Medica

Medica AD is a Bulgarian manufacturer of high quality medical supplies and generic pharmaceutical products, with over 40 years of history. The manufacturing facilities of Medica meet all European standards of production and meet the requirements of good manufacturing practice (GMP). The company is ISO-certified and has implemented a system of quality management and employs 230 highly qualified employees.

#### Products

- **Medical supplies**
- **Pharmaceutical products**
- **Food supplements**
- **Cosmetic products**

Main foreign markets for Medica are **Ukraine, Moldova, Russia, Macedonia** and others, which comprise 26% of the company's revenues.

## **PAT Vitaminy**

PJSC "Vitamini" is producing and selling medicines in the form - tablets, powders, oily solutions, syrups and tinctures. Drugs production of PJSC "Vitamini" is highly efficient, with excellent quality, accessibility successfully sold not only in Ukraine and CIS countries.

Currently, the production is carried out in the following production sites:

- liquid dosage forms;
- two production sites for solid dosage forms;
- extracts production site;
- tinctures production site;
- solutions production site;
- powder production site.

### **3. Distribution**

#### **Sopharma Trading**

The company is a leading distributor of pharmaceutical products and cosmetics in Bulgaria with a market share of pharmaceutical products of 21% (according to IMS). Sopharma Trading is the only distributor on the Bulgarian market of particular pharmaceutical products for several leading international pharmaceutical and other companies the field of healthcare such as Amgen, Astra Zeneca, GE Healthcare, Johnson and Johnson, Abbot Diagnostics, Hartmann, Novartis and Novo Nordisk.

The Group offers more than 10 000 products (particularly pharmaceutical products, medical equipment and devices, accessories, cosmetics, vitamins and food supplements) in its portfolio, including the brands of Sopharma, and holds exclusive rights for Bulgaria over brands of strategic partners such as Aboca, Colief, Jamieson, Planter's, Premax, Skincode, SVR Laboratories, US Pharmacia and Wyeth, specialized services (such as software solutions for pharmacies and advice and consulting services) and national logistics services. Sopharma Trading cooperates with more than 400 partners and over 3 000 clients.

## **BRIZ**

The main directions of economic activity are:

1. Distribution of medicines and dietary supplements in the wholesale and retail segment;
2. Distribution of cosmetics and perfumery products in the wholesale and retail segment;
3. Registration of medicines in Latvia, Lithuania, Estonia, Belarus, Bulgaria
4. Launch of the medicines produced in third countries to the European Union;
5. Marketing support of the products on the mentioned markets.
6. Production.



The company is constantly evolving, having certificates of GMP, GDP, the license to import medicines produced in third countries into the EU, as well as psychotropic license. In 2015, the company successfully passed the next commission on the re-certification of GMP and GDP. The company's mission is to meet the needs of customers in the natural, effective and modern medicines and cosmetics, dietary supplements, that improve health and quality of life. Using the resources and capabilities, we will promptly provide our customers with quality medicines and essential goods. The main objective of the company is to increase the portfolio of SIA "BRIZ" products and Sopharma AD products on the markets of Latvia, Lithuania, Estonia and Belarus. Besides representative, sales and marketing services.

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

#### 1. Revision of the activities of the Group and the main risks it faces (art. 39, item 1 of the Accounting Law)

##### Key financial indicators

Indicators	1-12/2016 BGN '000	1-12/2015 BGN '000	change %
Sales revenues	877 085	874 984	0,2%
EBITDA	73 656	62 766	17,4%
Operating profit	44 951	36 440	23,6%
Net profit	54 902	22 600	142,9%
CAPEX	26 418	33 284	-20,6%
	<b>31.12.2016 BGN '000</b>	<b>31.12.2015 BGN '000</b>	
Non-current assets	416 599	401 484	3,8%
Current assets	442 622	434 143	2,0%
Owners' equity	491 223	457 640	7,3%
Non-current liabilities	53 842	62 492	-13,8%
Current liabilities	314 156	315 495	-0,4%
<b>Ratios</b>	<b>2016</b>	<b>2015</b>	
EBITDA / Sales revenues	8,4%	7,2%	
Operating profit/ Sales revenues	5,1%	4,2%	
Net profit/ Sales revenues	6,3%	2,6%	
Borrowed capital/Owners' equity	0,75	0,83	
Net debt/ EBITDA	2,82x	3,57x	

## Risks relating to the Group's business and the industry the Group operates in

- + The Group faces significant competition.
- + Reputation of the Group may be adversely affected by untrue or misleading information available on websites containing the name "Sopharma", including [www.sopharma.com](http://www.sopharma.com), which have not been authorized by the Group.
- + The Group is dependent on regulatory approvals.
- + Government regulations affecting the Group's business may change, thus possibly increasing compliance costs or otherwise affecting its operations.
- + Part of the Group's revenues, in particular in Bulgaria, depend on the inclusion of the Group's medicines on reimbursement lists.
- + The Group's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Group's operations.
- + The Group's ability to pay dividends depends on a number of factors and there can be no assurance that the Group will be able to pay dividends in accordance with its dividend policy or at all in any given year.
- + The Group is subject to operational risk, which is inherent to its business activities.
- + The Group 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 Group'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.

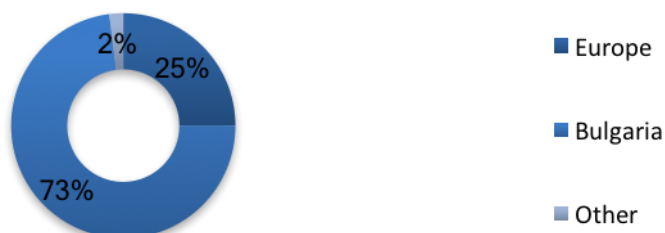
### Currency risk

The Group 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 Group 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 Group operations are usually denominated in BGN and/or EUR. The Group 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 Group 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 Group has introduced a system for planning import supplies, sales in foreign currency as well as procedures for daily monitoring of US dollar exchange rate movements and control on pending payments.

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

Revenue from sales of the Group increase by BGN 2.1 million or 0.2%, reaching BGN 877.1 million in 2016 compared to BGN 875 million in the first half of 2015. Sales of goods increased by BGN 17.3 million or 3%, reaching BGN 654.4 million in 2016 compared to BGN 628.1 million in the first half of 2015. Sales of finished products decreased by 15.2 million BGN, or 8%, to BGN 231.7 million in 2016 compared to BGN 246.9 million in 2015.

## Distribution of sales revenues by geographic region



The contribution of sales in Bulgaria to the consolidated sales revenue in 2016 amounted to 73%, increasing by 3% compared to the same period of 2015. Sopharma has a 4% share of the Bulgarian pharmaceutical market in terms of value and a 14% share in terms of sold quantity (units). 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).

The Group's income from sales in Europe amounts to 25% of the total consolidated sales in 2016 and marks a decrease of 2% compared to the first half of 2015.

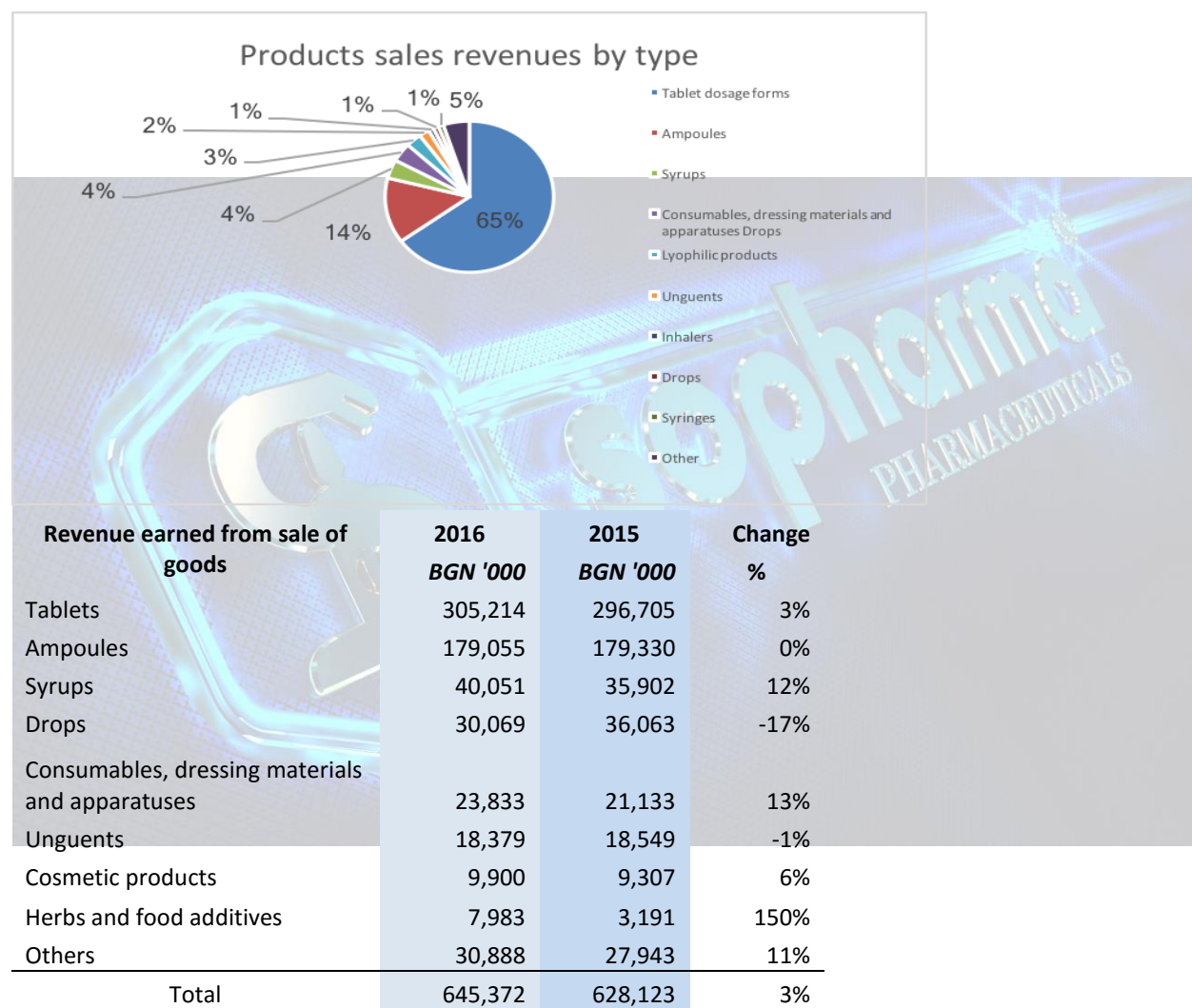
## Sales by type of formulation

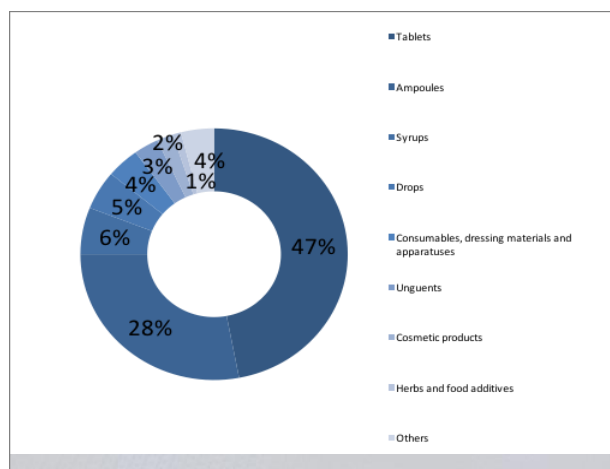
The types of formulation with the highest share in the volume of sales are tablet forms, followed by ampoules, syrups, unguents, lyophilic products and others.

Revenue earned from sale of finished products	1-12/2016 BGN '000	1-12/2015 BGN '000	change %
Tablet dosage forms	150 105	166 200	-10%
Ampoules	32 291	33 364	-3%
Syrups	9 734	11 097	-12%
Consumables, dressing materials and apparatuses Drops	8 949	-	
Lyophilic products	7 316	9 579	-24%
Unguents	6 220	8 015	-22%
Inhalers	2 546	3 433	-26%



Drops	1 496	1 185	26%
Syringes	1 128	2 242	-50%
Other	11 928	11 746	2%
<b>Total</b>	<b>231 713</b>	<b>246 861</b>	<b>-6%</b>





## Other operating revenues

Other revenues	1-12/2016 BGN '000	1-12/2015 BGN '000	change %	Relative %
Services rendered	4 823	7 160	-33%	51%
Financing from public institutions	1 187	1 037	14%	13%
Net profits(losses) from exchange rate differences under	297	(14 257)	-107%	11%
Services related to social activities and events	837	795	5%	9%
Rentals	792	942	-16%	8%
Income from sales of LTA	372	36	933%	4%
Written-off payables	222	11		2%
Other (see Notes to the financial statements)	953	1 598	-88%	2%
<b>Total other operating income</b>	<b>9 483</b>	<b>(2 678)</b>	<b>454%</b>	<b>100%</b>

Other operating income increase by BGN 12.2 million, reaching BGN 9.5 million in 2016, compared to BGN (2.7) million in the first half of 2015 due to a decrease in net losses from exchange rate differences under trade receivables and payables and current accounts by BGN 14.6 million and an increase in revenues from sales of LTA by BGN 0.3 million.

## Operating expenses

Operating expenses	1-12/2016 BGN '000	1-12/2015 BGN '000	change %	relative share of expenses in 2016 %
Changes in inventories of finished goods and work in	994	(4 207)	124%	0%
Materials	82 906	86 396	-4%	10%

Hired services	56 408	65 661	-14%	7%
Personnel	87 159	81 501	7%	10%
Depreciation and amortization	28 705	26 326	9%	3%
Carrying amount of goods sold	571 132	568 590	0%	68%
Other operating expenses	14 313	11 599	23%	2%
<b>Total</b>	<b>841 617</b>	<b>835 866</b>	<b>1%</b>	<b>100%</b>

Operating expenses in 2016 increased by BGN 5.8 million or by 1% from BGN 835.9 million in 2015 to BGN 841.6 million in 2016. The change is a consequence of growth of sales and, respectively, of the carrying amount of goods sold by the group, an increase in personnel costs, depreciation and other costs.

The cost of materials (with a 10% share) is reduced by BGN 3.5 million or 4% to BGN 82.9 million in 2016 compared to BGN 86.4 million in 2015. The cost of basic materials Decreased by BGN 4.4 million or by 7%, the most significant impact being reported for the costs of substances, packaging materials, liquid and solid chemicals, which decrease by BGN 1 million, BGN 2.5 million ., BGN 1.3 million. The increase is reported for the costs of electricity and auxiliary materials, while the decrease is related to the costs of heating, fuels and lubricants and others.

Expenditures for external services account for 7% relative share of operating expenses and decrease by BGN 9.2 million or by 14% to BGN 56.4 million in 2016 compared to BGN 65.6 million in 2015. Mainly as a result of reduced advertising costs by BGN 6.1 million and consultancy services by BGN 1.5 million. Decrease is recorded in the costs of maintenance of buildings and equipment, forwarding, transport and logistics services, local taxes And fees, marketing services, and more. Increases include medication, rent and other costs.

Personnel costs (with a 10% share) increased by BGN 5.7 million or by 7% to BGN 87.2 million in 2016 compared to BGN 81.5 million in 2015. The overall growth of these Costs are due both to the increase in the remuneration of hired personnel and the increased staff in the Group as a result of the consolidation of new companies.

Other operating expenses (with a 2% share) increased by 2.7 million or 23% from BGN 11.6 million in 2015 to BGN 14.3 million in 2016. Increased impairment Of current assets net of BGN 1.4 million, marriage and lack of goods by BGN 1.4 million. Decrease of mission expenses, tax and tax payments, training, donations, etc.

Depreciation costs (with a 3% share) increased by BGN 2.4 million or 9% from BGN 26.3 million in 2015 to BGN 28.7 million in 2016.

### Financial income and expenses

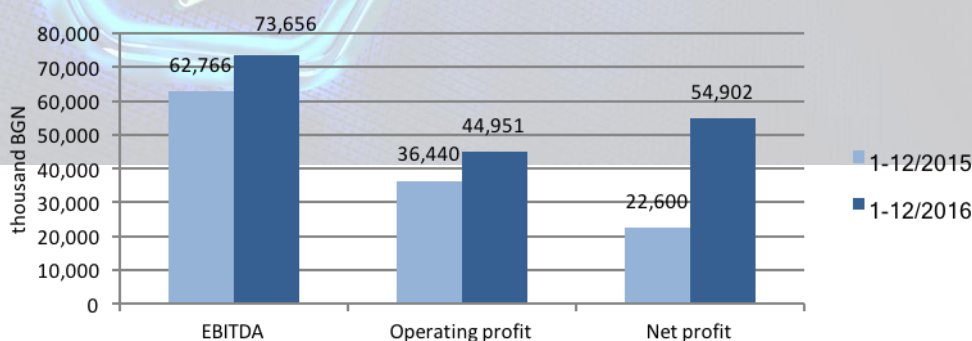
Finance income	1-12/2016 BGN '000	1-12/2015 BGN '000	change %	relative %
Interest income on overdue commercial receivables	4 702	3 801	24%	67%
Interest income on granted loans	1 792	2 766	-35%	26%

Net gain from operations with investments in securities	322	161	100%	5%
Dividends	178	6	2867%	3%
Interest income on bank deposits	20	94	-79%	0%
<b>Total</b>	<b>7 014</b>	<b>6 828</b>	<b>3%</b>	<b>100%</b>
<b>Finance costs</b>			<b>change</b>	<b>relative</b>
Interest expenses on loans	8 831	8 868	0%	69%
Bank fees on loans and guarantees	859	834	3%	7%
Net loss on exchange rate differences on loans in foreign	1 074	4 637	-77%	8%
Impairment on commercial loans granted	542	-	-	4%
Interest expense on finance lease	341	409	-17%	3%
Factoring interest costs	953	-	-	7%
Derivatives effects	109	-	-	1%
Impairment of cash in banks under special supervision	8	6 438	-100%	0%
Impairment of available and for sale investments	4	454	-99%	0%
<b>Total</b>	<b>12 721</b>	<b>21 640</b>	<b>-41%</b>	<b>100%</b>

Financial revenues increased by BGN 0.2 million to BGN 7 million in 2016 compared to BGN 6.8 million in 2015. There was an increase of interest receivable on arrears of trade receivables by 0.9 million BGN. The decrease recorded interest income on loans granted by BGN 1 million. Financial expenses decreased by BGN 8.9 million from BGN 21.6 million in 2015 to BGN 12.7 million in 2016. The most significant decrease is recorded in the impairment of cash in banks under a special Oversight by BGN 6.4 million and a decrease in net foreign exchange losses on foreign currency loans of BGN 3.6 million.

Net financial revenues (expenditures) decreased by BGN 9.1 million to BGN (5.7) million as of 31.12.2016 compared to BGN (14.8) million at 31 December 2015

## Financial result



Profit before interest, taxes and depreciation (EBITDA) increased by BGN 10.9 million or by 17%, reaching BGN 73.7 million in 2016 compared to BGN 62.8 million, In 2015

Profit from operating activities increased by BGN 8.5 million or 23% to BGN 44.9 million in 2016 compared to BGN 36.4 million in 2015.

Net profit increased by BGN 32.3 million or by 143% to BGN 54.9 million in 2016 compared to BGN 22.6 million in 2015.



## Assets

	31.12.2016	31.12.2015	change	2016
	BGN '000	BGN '000	%	%
<b>Non-current assets</b>				
Property, plant and equipment	321 215	315 005	2%	77%
Intangible assets	34 601	24 127	43%	8%
Goodwill	9 885	11 375	-13%	2%
Investment property	9 483	10 562	-10%	2%
Investments in associated companies and joint ventures	18 715	5 224	258%	5%
Available-for-sale investments	5 721	7 424	-23%	1%
Long-term receivables from related parties	10 028	20 505	-51%	2%
Other long-term receivables	4 149	3 546	17%	1%
Deferred taxes	2 802	3 716	-25%	1%
	<b>416 599</b>	<b>401 484</b>	4%	49%
<b>Current assets</b>				
Inventories	171 791	163 129	5%	39%
Trade receivables	215 583	205 589	5%	49%
Receivables from related parties	14 982	27 434	-45%	3%
Other receivables and prepayments	17 727	14 505	22%	4%
Cash and cash equivalents	22 539	23 486	-4%	5%
	<b>442 622</b>	<b>434 143</b>	2.0%	51%
<b>TOTAL ASSETS</b>	<b>859 221</b>	<b>835 627</b>	3%	100%

The total assets increased by BGN 23.6 million or by 3% to BGN 859.2 million as of 31.12.2016 compared to BGN 835.6 million as of 31.12.2015. This is a consequence of an increase of both non-current and current assets.

Non-current assets increased by BGN 15.1 million or by 4%, mainly due to an increase in intangible assets and investments in associates and joint ventures. Assets in property, plant and equipment increased by BGN 6.2 million. Assets in land and

buildings increased by BGN 8.5 million and machinery, equipment and equipment by BGN 9.7 million. Acquisition decreased by BGN 11.7 million.

Intangible assets increased by BGN 10.5 million, in the part of intellectual property rights by BGN 9.2 million and software products by BGN 4 million and decreased mainly in the part of intangible assets in the process of acquisition with BGN 2.1 million.

Investments in associates and joint ventures increased by BGN 13.5 million compared to 31.12.2015. Available-for-sale investments decreased by BGN 1.7 million.

Long-term receivables from related enterprises decreased by BGN 10.5 million, or by 51%, to BGN 10 million.

Other long-term receivables increased by BGN 0.6 million.

Current assets increased by BGN 8.5 million or 2% to BGN 442.6 million as of 31.12.2016 compared to BGN 434.1 million as of 31.12.2015.

Inventories accounted for 39% of current assets and increased by BGN 8.7 million compared to 31.12.2015, in the part of goods by 16.3 million BGN and semi-finished products by 5.1 million BGN, while Decreases in the part of finished goods stocks by BGN 10.7 million and stock of materials by BGN 2.2 million.

Trade receivables have a relative share of 49% of current assets and increased by BGN 10 million in the part of advances provided, net of BGN 1.9 million and receivables from customers, net of BGN 8.1 million.

Receivables from affiliated companies accounted for 3% of the current assets and decreased by BGN 12.5 million, mainly in claims on sales of production and materials by BGN 2.8 million and commercial loans granted by 9.7 million BGN.

Other short-term receivables and prepaid expenses accounted for 4% of current assets and increased by BGN 3.2 million as a result of tax refunds by BGN 1.5 million, other short-term receivables by BGN 1.5 million and Court and receivables, net of BGN 1.1 million. Cash and cash equivalents decreased by BGN 0.9 million as compared to 31 December 2015 and deposits of BGN 4 million were available at the end of the period.

## Liabilities and owners' equity

<b>EQUITY</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>change</b>	<b>From owners</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
<b>Equity attributable to owners of the parent</b>				
Share capital	134 798	134 798	0%	27%
Reserves	62 708	48 855	28%	13%
Retained earnings	259 984	222 238	17%	53%
	<b>457 490</b>	<b>405 891</b>	13%	93%
<b>NON-CONTROLLING INTEREST</b>	33 733	51 749	-35%	7%
<b>TOTAL EQUITY</b>	<b>491 223</b>	<b>457 640</b>	7%	100%
<b>LIABILITIES</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>change</b>	<b>% total</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	
<b>Non-current liabilities</b>				
Long-term bank loans	25 924	38 876	-33%	7%
Deferred tax liabilities	11 752	7 952	48%	3%
Long-term liabilities to personnel	4 539	4 199	8%	1%
Finance lease liabilities	2 582	1 957	32%	1%
Government grants	8 373	9 343	-10%	2%
Other non-current liabilities	672	165	307%	0%
	<b>53 842</b>	<b>62 492</b>	-14%	15%
<b>Current liabilities</b>				
Short-term bank loans	170 842	190 785	-10%	46%
Current portion of long-term bank loans	20 033			5%
Trade payables	9 478	14 784	-36%	3%
Payables to related parties	92 053	87 440	5%	25%
Payables on contract for factoring	566	2 366	-76%	0%
Payables to the personnel and for social security	10 093	8 894	13%	3%
Tax payables	5 949	6 368	-7%	2%
Other current liabilities	5 142	4 858	6%	1%
	<b>314 156</b>	<b>315 495</b>	-0.4%	85%
<b>TOTAL LIABILITIES</b>	<b>367 998</b>	<b>377 987</b>	-3%	100%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>859 221</b>	<b>835 627</b>	2.9%	

The equity of Sopharma Group increased by BGN 33.6 million compared to 31.12.2015 mainly due to an increase in retained earnings. The non-controlling interest is decreased by BGN 18 million. The equity related to the equity holders of the Company holds 53% of total equity and liabilities, and there is some improvement in the financial autonomy of the Group. The same increased by 51.6 million. Lev mainly through retained earnings.

Non-current liabilities decreased by BGN 8.7 million or 14%, from BGN 62.5 million at the end of 2015 to BGN 53.8 million at the end of 2016 mainly due to a decrease in long-term bank loans 13 million. lev increase recorded deferred tax liabilities by BGN 3.8 million.

Current liabilities decreased by BGN 1.3 million or by 1% compared to the end of 2015, mainly due to a decrease in short-term loans by banks by BGN 20 million, short-term part of long-term bank loans by BGN 5.3 million , As well as liabilities to related enterprises by BGN 1.8 million. Increase in liabilities under factoring contract by BGN 20 million, trade payables by BGN 4.6 million and payables to staff and social security 1,2 BGN million. Total liabilities on bank loans, leasing and factoring of the Group decreased by BGN 17.5 million compared to the end of 2015, with the net debt after deducting cash and cash equivalents decreased by BGN 16.6 million.

### Ratios

	31.12.2016	31.12.2015	Change
ROE	11,9%	5,3%	
ROA	6,0%	2,5%	
Asset turnover	1,05	1,04	
Current liquidity	1,41	1,38	
Quick ratio	0,86	0,86	
Cash/current liabilities	0,07	0,07	
Owners' equity/liabilities	1,33	1,21	

1 Net profit on an annual basis attributable to equity holders of the Company / arithmetic mean of non-minority interest for the last five quarters

2 Net profit on an annual basis attributable to equity holders of the Company / arithmetic mean of total assets for the last five quarters

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

4 Current assets / current liabilities

5 Receivables + Cash / Current liabilities

6 Cash / Current liabilities

7 Own capital / Liabilities



## Cash flow

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>BGN '000</b>	<b>BGN '000</b>
Net cash flow from/(used in) operations	(60 158)	67 310
Net cash flow used in investment activities	(6 862)	(32 899)
Net cash flow (used in)/from financial operations	66 245	(36 596)
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(775)</b>	<b>(2 185)</b>
Cash and cash equivalents on 1 January	23 114	25 299
Cash and cash equivalents on 31 December	22 339	23 114

The net cash flows generated by operating activities in the year 2016 amounted to BGN 60.2 million outflow, from investment activity amounted to BGN 6.9 million outflow and from financial activity amounted to BGN 66.3 million inward flow. As a result of these activities, the cash and cash equivalents decreased net by BGN 0.8 million and by 31.12.2016 amounted to BGN 22.3 million compared to BGN 23.1 million at 01.01.2016

In 2016, companies from the Group have entered into factoring contracts, with the factoring receipts amounting to BGN 132.4 million being reported as cash flows from financial activities. As a consequence, there is a significant decrease compared to the previous year of the net cash flows from operating activities at the expense of an increase in net cash flows from financing activities.

### Ecology and Environmental Protection

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

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

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

monthly installment is paid to Ecobulpack under the contract for the recovery of packaging waste which Sofarma AD has.

### Employees

By 31.12.2016, the average staffing of the Sopharma Group was 4 543 (compared to 4 258 in 2015). The average number of employees of Sopharma AD as at 31.12.2016 is 1873 (at 2 010 in 2015) and Sopharma Trading AD is 728 (compared to 730 in 2015)

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.

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

- On 5 January 2017, in the US Achieve Life Science Inc. and OncoGenex Pharmaceuticals Inc. announced a merger agreement under which OncoGenex Pharmaceuticals Inc. will acquire Achieve Life Science Inc. through of all-stock. Upon completion of the proposed merger it is expected that the shareholders of Achieve Life Science Inc. will own 75% of the outstanding shares of the combined Group, while current shareholders of OncoGenex Pharmaceuticals Inc. will own the remaining 25% of the outstanding shares. The agreement is submitted for approval by the Securities and Exchange Commission (SEC). After its approval the combined Group will be renamed Achieve Life Sciences Inc. and will be recorded in the NASDAQ. As a result of the above - mentioned actions Sopharma will own 423 000 shares (3.525%) of the capital of Achieve Life Science Inc..
- On 31 January 2017 the Contract for merger, as well as reports of the management bodies of the companies involved in the transformation of the Group under art. 262i of the CA and the report of the examiner under art. 262m of the CA for transformation through merger between Sopharma Group, Sofia, UIC 831902088 and Medica AD, Sofia, UIC 000000993 were filed with the FSC for approval pursuant to art. 124, par. 1 of the Public Offering of Securities Act (POSA). As a result of the merger, all assets of Medica AD shall be transferred to Sopharma Group and the latter shall become its legal successor. Medica AD shall be terminated without liquidation. On 20 March 2017 Sopharma Group, Sofia, UIC 831902088 and Medica AD, Sofia, UIC 000000993 signed an annex to the Contract for transformation through merger reflecting the comments by the FSC. All documents will be filed with the FSC for approval pursuant to art. 124, par. 1 of the Public Offering of Securities Act (POSA) after an independent certified evaluator prepares a report. As a result of the merger, all shareholders of the transferring Group

Medica AD, with the exception of the receiving Group Sopharma Group, which is also a shareholder of the transferring Group, will receive shares of Sopharma Group and become shareholders of it. Against one share of Medica AD each shareholder pursuant to art. 261b, app. 1 of the CA shall receive 0.8831 treasury shares of the capital of Sopharma Group. All other conditions concerning the merger procedure are included in the Contract.

- On February 22, 2017, the deletion of Medica - Health Ltd in the Commercial Register of the Registry Agency
- On March 15, 2017 Sopharma Trading AD entered in the Commercial Register a subsidiary under the name of Sofarmacy 7 EOOD, with headquarters in Sofia, Izgrev District, 5 Lachezar Stanchev Str., Sopharma Business Towers Building A, 12th floor. The company will operate under UIC 204501313 and its manager is Valeria Vidulova-Kaneva.
- 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 14, 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
- The Board of Directors, pursuant to art. 223 of the Commercial Act /CA/ and art. 115 of the Public Offering of Securities ACT /POSA/, convenes an Extraordinary Meeting of Shareholders of Sopharma Group, which shall be held on 24 April 2017 at 11:00 at the Group's headquarters in Sofia, at: 5 Lachezar Stanchev Str., Building B and in the absence of quorum on 8 May 2017 at the same place, the same time and with the same agenda:

1. Approval of Substantiated report by the Board of Directors for transactions under art. 114, par. 1 of POSA; Draft decision: EGM approves the Substantiated report, prepared by the Board of Directors, for transactions under art. 114, par. 1 of POSA, with the participation of the public Group SOPHARMA GROUP.

2. Authorization of the Board of Directors of the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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.

- Sopharma Trading AD has reached agreement and agreement to acquire PharmaStor pharmacies with the intention of their subsequent joining Sopharmacy's family. The merger of SOpharmacy and PharmaStor will provide a stronger market position for the two chains so that they can meet the increasing needs of Bulgarian patients for quality health services. The merger will also bring a larger scale for the operations of Sopharma Trading AD in the retail segment of the pharmacy market. The acquisition is subject to prior approval by the Commission for the Protection of Competition.
- On April 24, 2017, an Extraordinary General Meeting of Shareholders of Sopharma Trading AD took place, where decisions were taken to empower the Board of Directors of the Company to conclude the transaction from the scope of Art. 114, para. 1, item 2 of the Public Offering of Securities Act, under the conditions and within the terms, according to Section I, II and III of the Motivated Report, prepared by the Board of Directors, as well as approval of the Motivated Report of the Board of Directors under Art. 114a, para. 1 of the Public Offering of Securities Act regarding the expediency and conditions of transactions from the scope of Art. 114, para. 1 of POSA.
- The Group acquires an additional 50% of the shares in ZAO Interfarm, acquiring control of these companies.
- The Group sold its share in OOO Vivaton Plus.
- Pursuant to Art. 100k., Para. 1 of the Public Offering of Securities Act, please be informed that on 25.04.2017 Sopharma AD received approval of the Financial Supervision Commission of the Contract for transformation by merger and an additional agreement with it from 20.03.2017, signed on 31.01.2017 between "SOPHARMA" AD, hereinafter referred to as "Receiving Company" and "MEDICA" AD, hereinafter referred to as "Transforming Company", in accordance with the requirements of Art. 262e and ff of the Commercial Law as a result of which all the assets of Medica JSC will be

transferred to Sopharma AD and the latter will become its successor. Medica AD will cease without liquidation. The Financial Supervision Commission also approved the reports of the management bodies of the two companies prepared in accordance with the provisions of Art. 262 and of the Commerce Act and the record of the appointed examiners of the participants in the transformation under Art. 262m of the Commercial Law. As a result of the merger, all shareholders of the transforming Medica AD, with the exception of the receiving company Sopharma AD, which is also a shareholder in the transforming company, will acquire shares in the capital of Sopharma AD and become shareholders in it. Against each of its shares by Medica AD each shareholder of the company on the grounds of Art. 261b, ap. 1 of the Commercial Code will acquire 0.8831 of the repurchased shares of the capital of Sopharma AD. A vote on the transformation of the GMS of the two companies is forthcoming. Please, on the grounds of Art. 100k, para. 1 of the Public Offering of Securities Act to make the above information public.

- On 25 April 2017 Sopharma AD presented an adjusted tender offer under Art. 149, para. 6 of the Public Offering of Securities Act for the purchase of the shares of the remaining shareholders of Unipharm AD at a price of BGN 4,350 per share. . The Financial Supervision Commission (FSC) has not taken any interest in the submitted draft tender offer.

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

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

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

## Sopharma Group

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Sopharma Group 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 Group in the future is to achieve a stable result in developing eight to ten new products annually.

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

### Intellectual property

Although oriented towards generic pharmaceuticals, Sopharma Group 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 Group relies on brand names, all of which are registered trademarks of the Group.

In all the years of its existence, Sopharma Group generates and protects its intellectual property. As a result, the Group 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 Group towards product and technological improvement, and innovation in particular.

### New developments and products

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

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

✚ Expected in 2017

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

✚ Developments

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



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

In 2016 the Group bought back 554 158 shares (2015: 153 342 shares) and sold 221 723 shares (2015: 1 350 shares). The shares bought back during the year represent 0.25% of the capital of the Group and the average purchase price is 2.72 BGN.

	Shares	Capital, net from treasury shares
	<i>amount</i>	<i>BGN '000</i>
Outstanding shares on 1 January 2016	129 316 754	116 185
Sold treasury shares	221 723	324
Treasury shares acquired	(554 158)	(1 212)
Outstanding shares on 31 December 2016	128 984 319	115 297

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

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

Sopharma Group owns 5 813 582 treasury shares representing 4.31% of the capital of the Group.

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

Sopharma Group does not have branches.

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

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



Risk management is carried out by the management of the Group under the policies adopted by the Board of Directors. The latter has approved the basic principles of general financial risk management, based on which are developed specific procedures for the management of individual specific risks such as currency, interest rate, credit and liquidity risk and the use of derivative instruments.

### *Credit risk*

Credit risk is the risk that any of the Group'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.

The Group has developed policies and procedures for assessing the creditworthiness of its counterparties and setting credit rating and credit limits by group of clients.

The Group's cash and payments operations are concentrated in various premium banks. In the distribution of cash flows between them, the management of the Company and the subsidiaries take into account a number of factors, including the capital, security, liquidity, credit potential and rating of the bank, etc.

### *Liquidity risk*

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

The Group generates and maintains a sufficient volume of liquid funds. An internal source of liquid funds for the Group 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 Group implements a system of alternative mechanisms of acts and prognoses, the final aim being to maintain good liquidity and, respectively, ability to finance its economic activities. This is complemented by the monitoring of due dates and maturity of assets and liabilities as well as control of cash outflows.

### *Risk of interest-bearing cash flows*

The assets structure represents the interest bearing assets as cash, negotiated with a floating interest rate and loans granted, with fixed interest rate. On the other hand, Group'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 Group 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 Group. 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 Group'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 under Annex 10 to Article 32, paragraph 1, point 2 of Ordinance 2 to the Public Offering of Securities Act**

- 1. The information given in terms of value and quantity regarding the main categories of goods, products and / or services provided, indicating their share in the Group's sales revenue as a whole and the changes occurring during the accounting financial year**

The information is included in Section III, point 2 of this Statement. The Group does not publish information in quantitative terms due to the specificity of the production produced.

- 2. Information on revenue broken down by category of activity, internal and external markets as well as information on the sources of supply of materials necessary for the production of goods or the provision of services reflecting the degree of dependence on each individual seller or buyer / User, in case the relative share of one of them exceeds 10 per cent of the costs or revenues from sales, information is provided for each person individually about his share in the sales or purchases and the links With the issuer**

Information on revenue broken down by category of activity, internal and external markets is set out in Section III.2 of this Report.

For 2016 there are no clients whose relative share exceeds 10% of the total costs of services and materials provided.

The raw materials used exceed 3,500 nomenclature numbers, which have a dynamic structure and a variety of origins (synthetic, plant), aggregate (liquid, solid, gaseous).

The bulk of raw materials and materials are secured by imports. Sources of supply are validated manufacturers, which is in line with regulatory requirements and aims to maintain quality persistence and traceability. The respective contractors operate according to GMP, GDP and other industry standards. Sopharma JSC works with a number of Bulgarian and foreign suppliers and their selection is carried out according to an elaborated in-house procedure and aims to provide both alternative provisioning in the supply process and competitive flexibility in the trade relations.

The starting conditions of Sopharma AD in the negotiation process are: quality consistency, competitive prices, attractive payment terms, rhythmic and timely deliveries, preventing the accumulation of inventories on the one hand and at the same time ensuring the regularity of the production process.

For 2016, there are no suppliers whose relative share exceeds 10% of total costs of services and materials.

### **3. Information on significant transactions concluded**

The Group has adopted that significant transactions are those that result or may be reasonably assumed that will lead to favorable or unfavorable change in the amounts of 5 or more percent of sales revenues or net profit.

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

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

### **4. Information regarding transactions between the issuer and related parties during the reporting period, proposals for concluding such transactions as well as transactions that are outside its usual activity or substantially deviate from market conditions when, the issuer or its subsidiary is party, indicating the value of the transactions, the nature of relatedness and any information necessary to assess the impact on the financial position of the issuer**

Information regarding the transactions between Sopharma Group and related parties during the period is specified in Notes to the Financial Statements "Related Party Transactions". Sopharma Group has not entered into transactions that are outside its usual activity or substantially deviate from market conditions.

### **5. Information about events and indicators unusual for the issuer that have a significant impact on its activity and realized income and expenses; assessment of their impact on the current year results**



In 2016 no events and indicators of unusual nature.

**6. Information on off-balance sheet transactions - nature and business purpose, the financial impact of transactions on the activity, if the risks and benefits of these transactions are material to the issuer and the disclosure of this information is essential for assessing the financial position of the issuer**

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

**7. Information on shares of the issuer, its major investments in the country and abroad (in securities, financial instruments, intangible assets and real estate), as well as investments in equity securities outside its group of companies under Accounting Law and the sources / methods of financing**

Information on shareholdings and major investments, domestic and foreign, of Sopharma Group are listed in the Notes to the annual financial statements - "Investments in subsidiaries", "Investments available for sale" and "Investments in associates". Information regarding investments in intangible assets and real estate is presented in the Notes "Intangible assets", "Property, plant and equipment" and "Investment property".

**8. Information about the concluded by the issuer, its subsidiary or parent Group in their capacity as borrowers, loan contracts specifying the terms and conditions, including the deadlines for repayment as well as information about guarantees and commitments**

Information on concluded by Sopharma loan agreements are listed in the annual report in a Notes to the annual financial report "Long-term bank loans" and "Short-term bank loans." Information on the loans of subsidiaries will be available in the consolidated financial statements.

**9. Information about the concluded by the issuer, its subsidiary or parent Group in their capacity of lenders, loan agreements, including the provision of guarantees of any kind, including related parties, and the specific terms, including the deadlines for payment and the purpose for which they were granted**



Long-term loans granted to related parties are given to companies related to key management personnel:

- Contractual amount 16 177 thousand EUR; interest rate - 5%; maturity – 1 December 2018; balance at 31 December 2016 - 9797 thousand BGN

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

Provided current loans by Sopharma Group to related companies:

Companies related through key management:

- Contract amount EUR 8 133 thousand; Interest rate - 4.10%; Maturity - 31.12.2017; Balance as at 31 December 2016 - BGN 6 292 thousand;
- Contract amount 6 000 thousand BGN; Interest rate - 3.50%; Maturity - 31.12.2017; Balance as at 31 December 2016 - BGN 4 472 thousand;
- Contract amount 12 731 thousand euro .; Interest rate - 3.05%; Maturity - 31.12.2017; Balance at 31.12.2016 - BGN 560 thousand;
- Contractual amount of BGN 190 thousand; Interest rate - 3.50%; Maturity - 31.12.2017; Balance at 31.12.2016 - BGN 96 thousand;
- Contractual amount of BGN 1 300 thousand; Interest rate - 5.50%; Maturity - 31.12.2017; Balance at 31.12.2016 - 0.

Companies under common indirect control:

- Agreed amount 186 thousand euro; Interest rate - 27.50%; Maturity - 30.06.2017; Balance at 31 December 2016 - BGN 157 thousand;
- Agreed amount 122 thousand Belgian rubles; Interest rate - 27.50%; Maturity - 28.01.2018; Balance at 31 December 2016 - BGN 109 thousand;
- Agreed amount 70 thousand euro; Interest rate - 20.00%; Maturity - 24.03.2017; Balance at 31 December 2016 - BGN 67 thousand;
- Agreed amount 126 thousand euro; Interest rate - 27.50%; Maturity - 30.06.2017; Balance at 31 December 2016 - BGN 63 thousand;
- Contractual amount 23 thousand euro; Interest rate - 20.00%; Maturity - 28.02.2017; Balance at 31 December 2016 - BGN 23 thousand;

## 10. Information on the use of funds from the issuance of new securities during the reporting period

During the reporting period, the Group did not issue securities.

### **11. Analysis of the relationship between the financial results reflected in the financial statements for the financial year and earlier published forecasts for these results**

There are no published forecasts of financial results.

### **12. Analysis and evaluation of the policy on the management of financial resources, including the ability to meet its obligations, possible threats and measures that the issuer has taken or will take to resolve them**

The Group's management currently controls the collection of receivables, the implementation of financial ratios of bank contracts concluded and regularly services its obligations. Financial risk management is fully disclosed in the "Financial Risk Management" as part of the individual financial statements of the Group.

### **13. Assessment of the feasibility of investment intentions, indicating the amount of available funds and possible changes in the financing structure of this activity**

The planned investment program for 2017 includes investments of EUR 9 million BGN for the acquisition of buildings, machinery, equipment and software. Sources of funding are its own funds from regular business. The Group is not experiencing difficulties in carrying out its investment intentions and payments for operating activity thanks to the generated positive thanks to cash flow and good liquidity.

### **14. Information about changes in the reporting period in the basic principles of management of the issuer and its group of companies under accounting the Law**

During the reporting period there were no changes in the basic management principles of Sopharma AD and its economic group.

### **15. Information about the main characteristics applied by the issuer in the process of preparing the financial statements, internal control system and risk management**

The information is provided in item 3 of the Corporate Governance Declaration pursuant to Art. 100m para. 8 of POSA published together with the management report.

### **16. Information about changes in management and supervisory boards during the accounting year**

In 2016 there is no change in the governing bodies of Sopharma Group.

## 17. Information on the amount of remuneration, rewards and / or benefits of each of the members of the management and supervisory bodies for the financial year, paid by the issuer and its subsidiaries, regardless of whether they have been included in the expenses of the issuer, or arising from profit distribution, including:

The amount of accrued and paid by the Group remuneration of the Board of Directors and the Procurator

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

Remuneration and other income of key management personnel amounted to BGN 1,138 thousand. (2015: BGN 1,154 thousand) and are:

- Current remunerations - 884 thousand BGN (2015: BGN 889 thousand);
- Premiums - BGN 254 thousand (2015: 265 thousand BGN).

Remuneration and other income of key management personnel of all companies in the Group amounted to BGN 5,021 thousand. (2015: BGN 4,771 thousand) and are:

- Current remunerations - 4,512 thousand BGN (2015: BGN 4,300 thousand);
- Premiums - BGN 509 thousand (2015: 471 thousand BGN).

Contingent or deferred wages arising during the year, even if the remuneration is due at a later date

On the grounds of Art. 24 para. 3, part B of the Articles of Incorporation of the Group to the CEO of the Group is entitled to an additional remuneration of 1% of the profit realized in 2015 according to the adopted Annual Financial Report by the General Meeting of Shareholders. According to Article 7.2, para. 3 of the Remuneration policy, 40% of the additional remuneration to the CEO amounting to 101 415.43 BGN matures in 2019.

The amount of accrued and paid remunerations to the members of the Audit Committee

Members of the Audit Committee	Remuneration BGN
Tzvetanka Zlateva	12 000
Vasil Naidenov	12 000
Vasil Piralkov	12 000

**18. Information on held by members of management and supervisory bodies, the procurators and the senior management of the issuer shares, including the shares held by each of them individually and as a percentage of shares of each class and provided by the issuer options on its securities - type and amount of securities on which options have been set, exercise price of the options, purchase price, if any, and the term of the options.**

The acquired, held and transferred by the members of the Board of Directors in 2016 shares of the company are as follows:

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



The company has no issued bonds.

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

### 19. Arrangements (including after the end of the financial year) as a result of which future changes may occur in the holding of shares or bonds by current shareholders or bondholders

No such arrangements.

### 20. Information about pending legal, administrative or arbitration proceedings relating to liabilities or receivables of the issuer of at least 10 percent of its equity; if total liabilities or receivables of the issuer in all proceedings exceeds 10 per cent of its equity, provide information about each case separately

There are no pending legal, administrative or arbitration proceedings relating to liabilities or receivables.

### 21. Information about the Investor Relations Director, including telephone number and mailing address

Director of Investor Relations is Pelagiya Viyacheva, tel. +359 2 8134 523, correspondence address - Sofia, 5 Lachezar Stanchev str., Building A, et. 11.

### Information about the shares of Sopharma AD

The total number of shares issued by Sopharma, issued on 31.12.2016, is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, according to the Articles of Association of the Company. All issued shares are of one class. Each share gives equal rights to its holder in proportion to the nominal value of the share. The shares of Sopharma AD are traded on the official market of BSE - Sofia AD 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 the Raiffeisen

## Sopharma Group

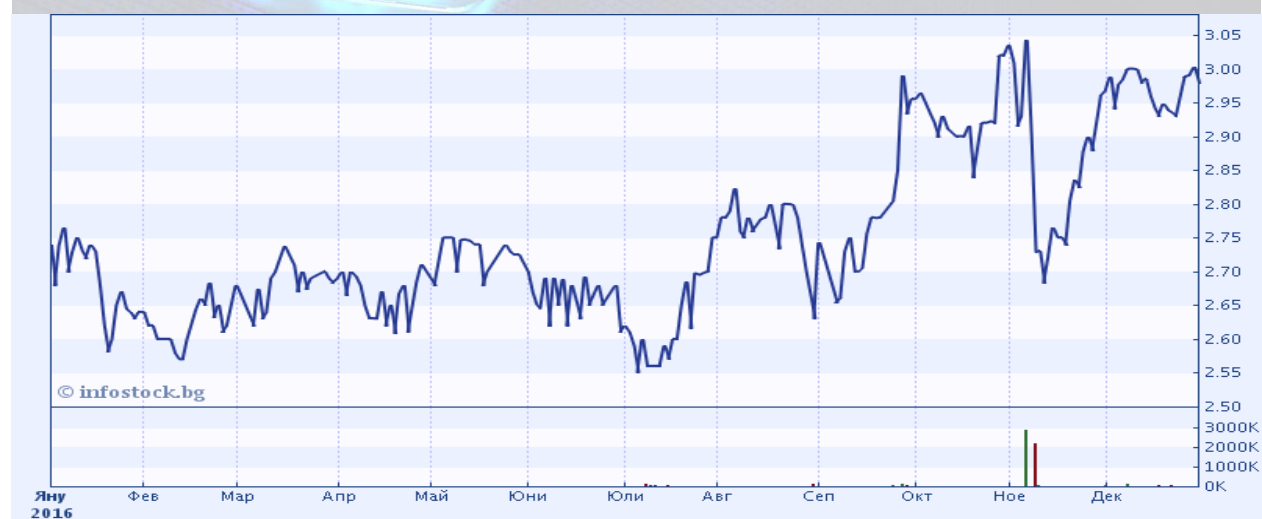
Bank's Raiffeisen Osteuropa Fonds certificate as well as in the new Dow blue-chip index Jones STOXX Balkan 50 Equal Weighted Index.

Sopharma AD is one of the three Bulgarian companies included in the Central and Eastern Europe (CEE) Index, which the Warsaw Stock Exchange began to calculate as of May 30, 2012. 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 Group

	31.12.2016	31.12.2015
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	129 081 505	129 155 015
Number of shares outstanding at the end of the period	128 984 319	129 316 754
Earnings per share in BGN	0,39	0,17
Price per share at the end of the period in BGN	2,992	2,72
Price/Earnings ratio (P/E)	7,67	16,00
Book value per share in BGN	3,55	3,14
Price/Book value ratio (P/B)	0,84	0,87
Sales per share in BGN	6,80	6,77
Price per share / Sales per share(P/S)	0,44	0,40
Market capitalization in BGN	403 315 314	366 650 285

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



### ***Information under Article 247 and Art. 240b of the Commercial Code***

***Restrictions on transfer of securities, such as restrictions for possession of securities or the need to obtain approval of the Group or another shareholder:***

#### ***Information under Art. 247 of the Commercial Code***

*Information on the Company's operations and status and explanations regarding the annual financial statements*

Section II, item 2 describes the activity and the state of the Company and clarifies the annual financial statement

There is no restriction on the ownership of shares or need to obtain approval from Sopharma Group or another shareholder. No information has been received by the Group, which gives reason to believe that there are any restrictions on the transfer of shares.

#### ***Remuneration received during the year by the members of the boards***

In Section IV, item 17, the remuneration and other earnings of key management personnel are stated.

***Acquired, held and transferred by the members of the boards during the year shares and bonds of the company***

The Articles of Association of Sopharma AD do not provide for restrictions on the right of the members of the Board of Directors to acquire shares and bonds of the company.

***Participation of board members in commercial companies as unlimited liability partners, the holding of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or co-operatives, such as procurators, managers or board members***

Participation of the members of the Board of Directors by more than 25 per cent of the capital of other companies:

Ognyan Ivanov Donev controls or holds directly / indirectly a significant share (over 25%) of the capital of the following companies:



- Donev Investments Holding AD, UIC 831915121, with registered office in Sofia, 12 Pozitano Str.
- Telecomplect Invest AD, UIC 201653294, Sofia, 9, Slaveykov Square.
- Telekomplect AD, UIC 831643753, with address of management in Sofia, 5 Lachezar Stanchev str., Building A
- Sopharma Buildings REIT, UIC 175346309, with address of management in Sofia, 5, Lachezar Stanchev Str.
- Sopharma Real Estate REIT, UIC 175059266, with address of management in Sofia, 5 Lachezar Stanchev Str., Building A.
- SOFPRINT GROUP AD, UIC 175413277, with headquarters and address of management: Sofia, 12 Pozitano Str.
- Sofconsult group AD, UIC 175413245, with headquarters and address of management: Sofia, 12 Pozitano Str.
- Sofia Inform AD, UIC 121303553, with address of management in Sofia, 12 Pozitano str.
- Elfarma AD, UIC 130299513, with headquarters and address of management: Sofia, 16, Iliensko shose Str.
- Sopharma Trading AD, UIC 103267194, with headquarters and address of management: Sofia, 5, Lachezar Stanchev Str. Sopharma AD, UIC: 831902088, with registered office in Sofia, 16, Iliensko shose Str

Vessela Lyubenova Stoeva controls or holds directly / indirectly a significant proportion (over 25%) of the capital of the following companies:

- VES Elektroinvest Systems EOOD, UIC 201712700, with headquarters and address of management: Sofia, 9, PR Slaveykov Square.

- Eco Solar Invest Ltd., UIC 201634905, with headquarters and address of management: 48, Alabin str., Sofia.
- Aquitatics Ltd., UIC: 203934379, with headquarters and address of management: Sofia, 9 PRSlaveikov Square.

Alexander Viktorov Tchaushev controls or holds directly / indirectly a significant share (over 25%) of the capital of the following companies:

- Sofservis Ltd., UIC 131407109, with registered office in Sofia, Tsar Boris III-th Blvd No 339
- Alfa In EOOD, UIC: 131156322, with management address: Sofia, Dimcho Debelyanov 1B.

Andrey Ludmilov Breshkov controls or holds directly / indirectly a significant share (over 25%) of the capital of the following companies:

- Breshkov & Sons Ltd., UIC 115114555, with headquarters in Plovdiv, 36 Gladstone Street
- SIF Ltd, UIC 131304899, with registered address in Sofia, Nikolay Haytov Str.

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

- Melnitsa village of Stefanovo Ltd., UIC 201045146, with management address in the village of Stefanovo, Lovech region.
- Sirius Ltd., UIC 110543305, with management address in the village of Stefanovo, Lovech region, Apriltsi Str.

- OKP Investments Ltd., UIC: 204361991, with registered address at 15 Krushova gradina Str., Sofia.

Participation of the members of the Board of Directors in the management of other companies or co-operatives, such as procurators, managers or councilors:

Ognian Ivanov Donev participates in a management / controlling body in the following companies:

- Elpharma AD, UIC 130299513, with address of management in Sofia, 16, Iliensko shose Str. - Member of the Board of Directors and Executive Director.

- Sopharma Trading AD, UIC 103267194 with headquarters in Sofia, 5 Lachezar Stanchev Str. - Chairman of the Board of Directors.
- Donev Investments Holding AD, UIC 831915121, with registered office in Sofia, 12 Positano Str. - Chairman of the National Assembly.
- Unipharm AD, UIC 831537465, with headquarters in Sofia, 3 Trayko Stanoev Str. - Chairman of the National Assembly.
- Kaliman - PT, UIC 121120513, with address of management in Sofia, 5 Lachezar Stanchev Str. - Chairman of the Board of Directors.
- Telecomplex AD, UIC 831643753, with address of management in Sofia, 5 Lachezar Stanchev str., Building A- Chairman of the National Assembly.
- Doverie United Holding AD, UIC 121575489, with registered office in Sofia, 82 Knyaz Dondukov Blvd. - Member of the National Assembly, Deputy Chairperson.
- Doverie Capital AD, UIC 130362127, with registered office in Sofia, 82 Knyaz Dondukov Blvd. - Member of the National Assembly.
- Medica AD, UIC: 000000993, with head office in Sofia, 82 Knyaz Dondukov Blvd. - member of the Board of Directors.
- Riton P AD, UIC: 822106398, with address of management in Panagyurishte, 30 Krastyo Geshanov Str. - member of the Board of Directors.
- Sopharma AD, UIC: 831902088, with address of management in Sofia, 16, Iliensko Shose Str. - Member of the Board of Directors and Executive Director.

Vessela Lyubenova Stoeva participates in a management / controlling body in the following companies:

- Elfarma AD, UIC 130299513, with address of management in Sofia, 16 Iliensko shose Str. - Member of the Board of Directors.
- VLS AD, UIC 175082980, with headquarters in Sofia, 9 PRSlaveykov Square - Member of the Board of Directors.
- VES Elektroinvest Systems EOOD, UIC 201712700, with headquarters and address of management: Sofia, 9 Slaveikov Square - Manager.



- Sopharma AD, UIC: 831902088, with address of management in Sofia, 16, Iliensko Shose Str. Chairman of the Board of Directors.

Alexandar Viktorov Tchaushev participates in a management / controlling body in the following companies:

- Monbat AD, UIC 111028849 with registered office in Sofia, Lozenets, 4, Golo Bardo Str. - Member of the Board of Directors.
- DK-Domostroene AD, UIC 102148397 with registered office in the town of Bourgas, PC 8000, Pobeda - Member of the Board of Directors.
- Agency for Management and Advertising in Sport EAD, UIC 130969084 with headquarters in Sofia, Vazrazhdane district, 42, Todor Alexandrov Blvd. - Member of the Board of Directors.
- Sopharma AD, UIC: 831902088, with headquarters in Sofia, 16, Iliensko Shose Str. - Member of the Board of Directors.

Andrey Lyudmilov Breshkov participates in a management / controlling body in the following companies:

- Simol EAD, UIC 101795403, with headquarters and address of management in Blagoevgrad, 3, Georgi Izmirliiev Sq. - Chairman of the Board of Directors.
- Visaton Ltd, UIC 202235166, with headquarters and address of management: Sofia, Sredets, Tsar Boris III Blvd №225A - President of the Board of Directors.
- ZAD Energia, UIC 831040933, with headquarters and address of management: Sofia, 33, Knyaz Dondukov Blvd. - Member of the Board of Directors.
- Sopharma AD, UIC: 831902088, with headquarters and registered office in Sofia, 16, Iliensko shose Str. - Member of the Board of Directors.
- Expat Beta REIT, UIC: 200059488, with headquarters and management address in Sofia, GS Blvd. Rakovski №96A - Member of the Board of Directors.

Ognian Kirilov Palaveev participates in a management / controlling body in the following companies:

- Sirius Ltd., UIC 110543305, with headquarters and business address in Lovech Municipality, Stefanovo, 7, Apriltsi Str. - Member of the Management Board.
- Sopharma AD, UIC: 831902088, with headquarters in Sofia, 16, Iliensko Shose Str. - Member of the Board of Directors.
- Unipharm AD UIC: 831537465, with headquarters in Sofia, 3, Trayko Stanoev Str. - Member of the Board of Directors.
- Melnitsa village of Stefanovo Ltd., UIC 201045146, with management address in the village of Stefanovo, Lovech region.
- OKP Investments Ltd., UIC: 204361991, with management address in Sofia, 15, Krushova gradina Str. – Manager

*Planned economic policy in the next year (Article 247 (3) of the Commercial Code)*

The information is reflected in Section III, Item 4 of this Report - Future Development of the Enterprise (Art. 39, Item 4 of the Accountancy Act).

**Information under Article 240b of the CA on the obligation of board members to notify in writing the board of directors or the board of directors when they or their affiliates conclude contracts with the company that go beyond its normal business or materially deviate from the market conditions**

In 2016, there are no contracts that go beyond the company's usual business or substantially deviate from market conditions.

Ognian Donev, PhD  
/Executive Director/