

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SOPHARMA AD

Report on the Audit of the Separate Financial Statements

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements of the Independent



Financial Audit Act (IFAA) that are relevant to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2.2 to the separate financial statements disclosing that at the date their issuance, the consolidated financial statements of the Company for the same period have not yet been issued. The management plans to issue the consolidated financial statements not later than 30 April 2017. Our opinion is not qualified in respect of this matter.

Key Audit Matters

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

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p><i>1. Measurement of investments and receivables from subsidiaries.</i></p> <p>The Company has investments in subsidiaries, as well as receivables from them, with a carrying amount of the exposure totalling BGN 25,861 thousand (31 December 2015: BGN 97,192 thousand) – included in the disclosures in Notes 18, 21 and 24 to the separate financial statements. The following specific features are observed with regard to these companies: specific and problematic economic environment in the countries where some of these companies operate; and/or very active investment policy related to fast expansion in difficult markets; and/or under-</p>	<p><i>In this area, our audit procedures comprised:</i></p> <ul style="list-style-type: none"> • Consideration and evaluation of Company's analyses on its overall exposure to each of these subsidiaries and its potential of return by applying the discounted future cash flows method; • Analyses of the achievement of the budgeted and projected indicators from the prior year, including also comparison with the actual performance in the current year; • Analysis and assessment of the relevance of Company's budgets and projections as at 31

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p>utilised capacity and reporting of losses; and/or need for the Company to provide more favourable conditions for the liabilities of these companies thereto. These circumstances presume that certain risk exists for overstating the investments in these subsidiaries.</p> <p>The review of the indicators and the tests of the management for the necessity in impairment of the exposures to these subsidiaries is a complex process, performed through the prism of its projections and intents as to the future economic benefits and profitability expected from them. The calculations require from the management to apply significant assumptions, various judgments and estimates with regard to the future return on the investments while for the purposes of measuring the recoverable amount it uses the method of discounted future cash flows. The latter are determined specifically for each subsidiary, which is treated as a separate cash generating unit, and taking into account a number of factors, such as: specific activities and location, business environment, past experience with the company, expected growth in the volume of sales for subsequent reporting periods, appropriate discount rate, other risks, etc. Therefore, there is inherent uncertainty in these assessments of the management.</p> <p>The calculations have been performed by the management with the assistance of independent certified appraisers – external experts.</p>	<p>December 2016;</p> <ul style="list-style-type: none"> • Analytical procedures on the figures for receivables from these companies in the previous and current years as well as after the end of the reporting period; • Inspection of documents for facts and circumstances related to the collectability of receivables – the financial position of the companies, their counterparts and ability to generate cash flows, collateral for receivables; • Inspection of documents referring to the cash proceeds from these subsidiaries in 2017 up to the approval date of these separate financial statements; • Examination of the calculations and the results of the management's test for impairment made with the assistance of an independent external appraiser; • Analyses and assessment of the appropriateness of the key judgments and assumptions, used by Company's management, including the discount rate used in the application of the discounted cash flows model, as well as comparison with historical data; • Comparison of the components used to determine the discount rate with data about the market levels of similar items; • Recalculation of the material amounts,



<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p>On this basis and at the discretion of the management, some of the investments in these subsidiaries have been partially impaired.</p> <p>Due to the circumstances that: (a) the process of estimating and testing of possible impairment losses on the exposures to subsidiaries assumes a number of judgments, higher degree of subjectivity and uncertainty in the projection assumptions, including revenue projections, cash flow projections and growth rate, the level of uncertainty including due to the fact that part of the subsidiaries are abroad and operate under specific economic conditions; and (b) the significance of the reporting item itself, as disclosed above, we have determined this matter as a key audit matter.</p>	<p>recognised as impairment, on the basis of the model adopted by Company's management;</p> <ul style="list-style-type: none"> • Examination with increased level of criticism and sensitivity testing of the results obtained in more conservative projections and assumptions; • Consultation with an independent expert-appraiser, external for the Company, as to the adequacy of the applied methodology and approach as well as the key assumptions used in the test for impairment; • Testing and assessment of the completeness, appropriateness and adequacy of the disclosures in Company's separate financial statements with regard to the measurement of investments and receivables from subsidiaries.
<p><i>2. Periodical revaluation of property, plant and equipment</i></p> <p>The Company has adopted the revaluation model for subsequent measurement of property, plant and equipment. Revaluation of all these assets was performed at the date of the separate financial statements as far as this was the last year of the adopted five-year period. The valuation was performed by independent certified appraisers, experts external for the Company (Note 15).</p> <p>The revaluation of tangible fixed assets at their fair</p>	<p><i>In this area, our audit procedures comprised:</i></p> <ul style="list-style-type: none"> • Consideration and assessment of the tangible fixed assets valuation process and the rules, policies and procedures applied by the Company; • Appraisal of the objectivity, competence and independence of the external independent appraisers; • Involving independent experts-appraisers, hired by us, to help us in our assessment of the used methods, inputs and key assumptions

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p>value is a complex process related to calculation of estimate while using a number of assumptions and specific methods and models. Therefore, there is inherent uncertainty in these valuations in relation to the use of various projections and assumptions with higher subjectivity. Moreover, there is no developed market for part of these assets and they are relatively illiquid.</p> <p>In addition, for the main part of Company's machinery, equipment and other tangible assets, the management did research with the assistance of the independent appraisers and concluded that the prices of those types of assets had not changed significantly in the period and that differences in value could arise as a result of applied different useful life.</p> <p>Due to the specifics of the valuation process, the type of the assets and significant use of Level 3 fair value and the materiality of this group of assets, we have determined this matter as a key audit matter.</p>	<p>(such as offer selling prices, adjustments to specific indicators, capitalisation rate, etc.);</p> <ul style="list-style-type: none"> • Comparison of key inputs, used by the external independent appraisers, with publicly accessible data and/or historical available data; • Consideration and testing, on a sample basis, of particular calculations of the external independent appraisers; • Analyses of the performed sensitivity tests; • Consideration of the methodology of accounting for the gains and losses on the revaluation and testing, on a sample basis, its application; • Testing and assessment of the completeness, appropriateness and adequacy of the disclosures in Company's separate financial statements with regard to the revaluation performed.

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.



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

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

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

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



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

Report on Other Legal and Regulatory Requirements

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

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

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

Based on the procedures performed, our opinion is that:

- a) The information included in the management report referring to the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.
- b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.



- c) The corporate governance statement referring to the financial year for which the separate financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.

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

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

Additional Reporting on the Audit of the Separate Financial Statements in connection with Art. 100(m), paragraph 4(3) of the Public Offering of Securities Act

Statement in connection with Art. 100(m), paragraph 4(3)(b) of the Public Offering of Securities Act

The information about related-party transactions is disclosed in Note 43 to the separate financial statements. Based on the audit procedures performed by us on related party transactions as part of our audit of the separate financial statements as a whole, no facts, circumstances or other information have come to our attention based on which to conclude that the related party transactions have not been disclosed in the accompanying separate financial statements for the year ended 31 December 2016, in all material respects, in accordance with the requirements of IAS 24 *Related Party Disclosures*. The results of our audit procedures on related party transactions were addressed by us in the context of forming our opinion on the separate financial statements as a whole and not for the purpose of expressing a separate opinion on related party transactions.

Statement in connection with Art. 100(m), paragraph 4(3)(c) of the Public Offering of Securities Act

Our responsibilities for the audit of the separate financial statements as a whole, described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report



include an evaluation as to whether the separate financial statements present the significant transactions and events in a manner that achieves fair presentation. Based on the audit procedures performed by us on the significant transactions underlying the separate financial statements for the year ended 31 December 2016, no facts, circumstances or other information have come to our attention based on which to conclude that there are material unfair presentations and disclosures in accordance with the relevant requirements of IFRSs as adopted by the European Union. The results of our audit procedures on Company's transactions and events significant for the separate financial statements were addressed by us in the context of forming our opinion on the separate financial statements as a whole and not for the purpose of expressing a separate opinion on those significant transactions.



AFA OOD

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Registered auditor in charge of the audit

27 March 2017

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This is a translation from Bulgarian of the Independent Auditors' Report on the Separate Financial Statements of Sopharma AD for the year ended 31 December 2016.