

MANAGEMENT REPORT

for Q4 of 2016



SOPHARMA GROUP

1 March 2017

General information

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 AD (the Company) 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 Brititrade 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.

Sopharma AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, Iliensko Shose Street No 16.

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

The Company performs the production and marketing of medicinal substances and finished dosage forms; research and development, engineering and implementation activities in the field of phytochemistry, chemistry and pharmacy. Sopharma AD performs services as a production function and related ancillary and service activity.

Controlled companies

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

Company	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

Company	Interest as at 31.12.2016 in %
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
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

Company	Interest as at 31.12.2016 in %
OOO Mobil Line, Borisov, Belarus**	48.94
ODO Salius Line, Grodno, Belarus**	48.74

*effective interest in percent

**indirect interest

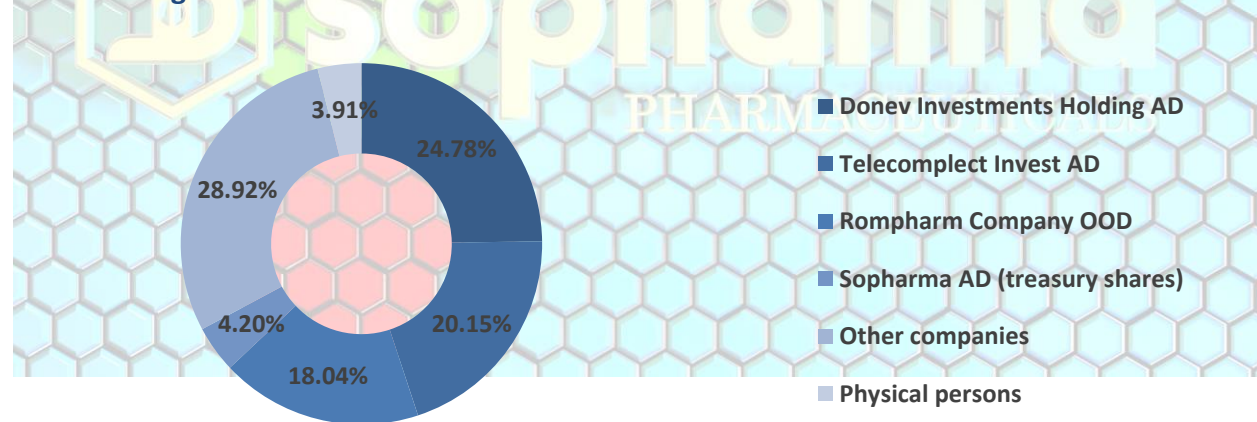
***joint venture

Management Board

Sopharma AD has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD - Chairman and members Vessela Stoeva, Alexander Tchaushev, Andrey Breshkov and Ognian Palaveev. The Company 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 Company. Additionally, it includes the executive directors, the board of directors and the managers of subsidiaries of the Group.

Shareholding structure as at 31 December 2016



Industrial activity

Sopharma AD and its production subsidiaries have 12 pharmaceutical plants in Bulgaria, compliant with EU requirements - GMP, one plant in Ukraine, certified by the local authorities with a certificate recognized in all CIS Member States, and two in Serbia. With the exception of the plant in Ukraine, all production facilities have undergone procedures for certification to the European 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.

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

The most important pharmaceutical products in terms of their contribution to 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;

Distribution

Sopharma Trading 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 company 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.

Intellectual property

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

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

For all the years of its existence, Sopharma AD has been generating and protecting its intellectual property. As a result, the Company owns a large number of intellectual property, most of which - registered rights (trademarks, patents, designs) and unregistered items - mainly technology.

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

Research and development

Sopharma AD focuses its R & D mainly on generics. R & D projects are concentrated on finding and developing new formulas and composition or physical properties (such as formulation or tablets) of products in order to adapt them to current market needs. A strategic goal of Sopharma AD in the future is to achieve a stable result in the development of eight to ten new products per year.

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

Employees

As at 31 December 2016 the average number of employees in the Sopharma Group is 4,543 (4,258 in 2015). The average number of employees in Sopharma AD as at 31 December 2016 is 1 883 (1 889 in 2015), and in Sopharma Trading AD it is 728 (730 in 2015).

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

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

Significant events in 2016 and as of the moment of publication of the consolidated financial statements

On 15 January 2016 Sopharma AD made a tender offering to acquire all shares of the remaining shareholders in Medica AD until 12 February 2016. The period of the offering started on 18 January, after the offering was published in two daily newspapers. The Company currently owns 6 717 544 shares, representing 66.72% of the capital and voting rights in the General Meeting of Shareholders of Medica AD. Sopharma AD offers a price of 3.50 BGN per share to the shareholders of Medica AD, which is the highest price, paid by the offeror, their related parties or by parties under art. 149, par. 2 of POSA in the last six months. The investment firm that serves the tender offer is ELANA Trading. Shareholders of Medica AD may submit a written statement of acceptance of the tender offer to any investment intermediary until 15 February. The offeror shall pay the price of the shares within 7 working days after the date of acceptance of the tender offer.

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

On 16 February 2015 the Group through its subsidiary SOOO Brititrade has increased its participation in the capital of the associated company OOO Mobil Line to 80%, as a result of which the latter has acquired the status of a subsidiary.

On 18 February 2016 the Company acquired 3,099,701 shares of Medika AD, as a result of which the share of Sopharma in the capital of Medika AD increased by 30.78% to 97.57%.

On 19 February 2016 Sopharma AD *informs* of the results of conducted tender offer:

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

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

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

Offered price per share: **3.50 BGN** (three leva and fifty stotinki). Number of shareholders, who accepted the tender offer: **68** shareholders with a total amount of shares: **3 099 701** representing **30.79%** of the capital of Medika AD. As a result of the conducted tender offer and after completion of the transactions with the shareholders who have accepted it, **Sopharma AD will hold directly 97.50%** of the shares with voting rights of Medika AD. **Sopharma AD has the right** within three months from the closing date of the tender offer, after receiving an approval by the FSC to make an offer to buy the shares of the remaining shareholders of Medika AD on the basis of art. 157a of POSA. Furthermore, according to art 157b of POSA **every shareholder has the right** to make a request to Sopharma to sell their shares with voting rights until 16 May 2016. The request must be submitted in writing and must contain information about the shareholder and their shares. The request must be submitted to the authorized investment intermediary Elana Trading AD. The price for one share of Medika AD under the offer under art. 157a and upon executing of the rights of the shareholders under art. 157b in accordance with the regulations of art. 157a, par. 3 is equal to the share price of the conducted tender offer of **3.50 BGN** per share. The results of the tender offer have been published by the tender offeror in the daily newspapers Capital Daily and Sega on 18 February 2016.

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

On 29 February 2016 Sopharmacy 4 EOOD becomes a daughter company through Sopharma Trading AD and as of March 1 Sopharmacy 5 EOOD also becomes daughter company through Sopharma Trading AD.

With resolution №60638 /23.03.2016 of the Ministry of Justice of Romania Medika Balkans EOOD, a subsidiary of Medika AD, has been removed from the commercial register in Romania as of 24 March 2016.

The management board of Medika AD convenes a General Meeting of Shareholders on 8 June 2016 at 11:00 am in Sofia, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, floor 9.

The board of Directors of Momina Krepost AD convenes a regular General Meeting of Shareholders, which shall take place on 15 June 2016 at 11:00 at the headquarters of the company in Veliko Tarnovo, 3 Magistralna Str..

The management board of Unipharm AD convenes an Annual General Meeting of Shareholders on 16 June 2016 at 11:00, which shall take place at the headquarters of the company in Sofia, 3 Traiko Stanoev Str..

The board of directors of Sopharma Buildings AD convenes an Annual General Meeting of Shareholders on 16 June 2016 at 15:00 in Sofia, 5 Lachezar Stanchev Str., Sopharma Business Towers, Building A, level 3.

The Board of Directors of Sopharma authorized the Executive Director of the Company to negotiate the sale of the shareholding of Sopharma AD in the capital of Ivanchich and Sons, Serbia, guided by the legal regulations and the interest of the company. The deal for the sale was concluded on 9 May 2016 in Belgrade, Serbia. The parameters of the transaction are subject to confidentiality clauses in the interest of all parties. Sopharma AD will continue to be present on the market in the Republic of Serbia through its subsidiary Sopharma Trading AD.

On 16 May 2016, pursuant to art. 100t., par. 3 of POSA expired the three-month period under art. 157b of the POSA after the completion of the tender offer, in which each shareholder who did not participate in the tender offer may request from Sopharma to redeem their shares with voting rights. The price per share of Medica AD on the offer under art. 157a and through the exercising of the rights of the shareholders under art. 157b under the provisions of art. 157a par. 3 was equal to the price in a tender offer of 3.50 BGN per share.

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

On 08.06.2016 Medica AD held its Annual General Meeting of Shareholders, which adopted the following decisions: AGM approves the annual reports of the Board of the company for 2015; AGM approves the auditors report for the annual financial statements for 2015; AGM approves the report of the Audit Committee of Medica AD for its activities in 2015; AGM approves the report of the Investor Relations Director of Medica AD for 2015; AGM discharges the members of the Management and Supervisory Board from responsibility for their activities in 2015; AGM decides to distribute dividend from the net profit for 2015 amounting to 0.14 BGN per share with a nominal value of 1 BGN with starting date for payment of 11 July 2016; AGM changes the monthly remuneration of each member of the supervisory board to 3000 BGN; AGM votes according to Article 48, paragraph 5 of the Articles of incorporation of the company that the Executive Director is paid additional remuneration in the amount of 1% of the net profit for 2015, payment of 40% of this remuneration is deferred for a period of three years and shall be proportionally paid in equal monthly installments; AGM appoints the specialized audit firm "AFA" OOD registered auditor to audit the annual financial statements of the Company for 2016; AGM authorizes the Board of Medica AD to carry out a transaction under Article 114, paragraph 1 of POSA with Sopharma Properties REIT.

The Annual General Meeting of Shareholders Momina krepost AD held on 06.15.2016 adopted the following decisions: AGM approves the Annual Report of the Board of Directors of the Company for its activities in 2015; AGM approves the report of the Investor Relations Director

for 2015; AGM approves the audit report for the audit of the Annual Financial Statements of the Company for 2015; AGM approves the audited annual financial statements and audited annual consolidated financial statements for 2015; AGM approves the report of the Audit Committee for its work in 2015; Approves the proposal the Board of Directors to cover the loss for 2015 of BGN 161 thousand from retained earnings and to not distribute dividends; AGM discharges the Board of Directors from responsibility for their activities in 2015; AGM selects audit firm "AFA" OOD, based in Sofia, 38, "Oborishte" str., as a registered auditor to audit and certification of the annual financial statements for 2016, as proposed by the Audit Committee; AGM adopts the report on the implementation of the remuneration policy for the members of the Board of Directors of Momina krepост AD; AGM maintains the current fixed remuneration of the members of the Board of Directors in 2016 .; AGM dismissed as members of the Board of Directors Rumyan Tsonev and Ognyan Donev and elects Emmanuel Tsvetkov and Stoyan Garov as members of the Board of Directors.

On 16/06/2016 the General Meeting of Shareholders of Sopharma Buildings REIT adopted the following decisions: AGM approves the Annual Report of the Board of Directors of the Company for 2015, the audited annual financial statements of the Company for 2015, the annual report of the investor relation director for 2015, the audit report for the audit of the annual financial statements for 2015 and the report of the Board of Directors on the implementation of the remuneration policy of the members of the Board of Directors; AGM decided not to distribute dividends for 2015; AGM chose Ajour TDM Ltd. registered auditor to verify and certify the annual financial statements for 2016; AGM decided not to change the current remuneration of the Board of Directors of the Company in 2016; AGM discharges the members of the Board of Directors from responsibility for their activities in 2015.

The Annual General Meeting of Shareholders of Unipharm AD, which was held on 16.06.2016 adopted the following decisions: AGM approves the Annual Report of the Board of Directors of the Company for its activities in 2015; AGM approves the report of the Investor Relations Director for 2015; AGM approves the audit report for the audit of the Annual Financial Statements of the Company for 2015; AGM approves the audited annual financial statements and audited annual consolidated financial statements for 2015; AGM approves the report of the Audit Committee for its work in 2015; AGM adopts the proposal of the Board for distribution of the company's profit realized in 2015 namely: profit for 2015 amounted to 1 139 036.79 BGN after allocating 10% statutory reserve - 113 904 BGN, the remaining amount to be distributed as follows: 900 000 BGN for dividend to shareholders amounting to 0.15 BGN for per share; the remainder of the profit amounted to 125 132,79 BGN be referred for additional reserves; AGM discharges the members of the Management and Supervisory Board from responsibility for their activities in 2015; AGM does not change the monthly remuneration of the members of the Supervisory Board; AGM elects "Company of audit and consulting" Ltd. for audit of the Annual Financial Statements of Unipharm AD for 2016; AGM adopts the report on implementation of the remuneration policy of the members of the Board in 2015; AGM approves the report to the Board on the feasibility and conditions of the transactions from the scope of Article 114, paragraph 1 of POSA and authorizes the Management Board of the Company for transactions

between Sopharma AD and Unipharm AD.

The Annual General Meeting of Shareholders of Sopharma Trading AD, held on 17.06.2016 adopted the following decisions: AGM approves the annual report of the Board of Directors of the Company for 2015, the annual report Director of Investor Relations Director for 2015, the audited annual financial statements of the Company for 2015, the audit report for the audit of the Annual Financial Statements of the Company for 2015, the audit report for the audit of the consolidated financial statements of the Company for 2015, the Report of the Audit Committee for its work in 2015, approves the proposal of the Board of Directors for distribution of profit realized in 2015: The net profit amounts to 12 164 535.71 BGN is divided as follows: 1 216 453.57 BGN to the mandatory reserve fund, 9 871 502.70 BGN distribution of cash dividend to shareholders, 1 076 579.44 BGN to additional reserve of the company, approved a gross dividend per share of 0.30 BGN, discharges from responsibility the members of the Board of Directors for their activities in 2015; dismisses the member of the Board of Directors of Sopharma Trading AD Alexander Kaloferov Raichev and elects in his place with a two-year mandate Angel Yordanov Yordanov; determines the remuneration for 2016 of each member of the Board of Directors of 2000 BGN; AGM decides that the Executive Director of the Company will be paid a cash bonus of 1% of the net profit of the company for 2015 in accordance with the approved Annual Financial Statements for 2015; elects "AFA" Ltd. registered auditor to audit and certify the Annual Financial Report of the Company for 2016 and the consolidated annual financial statement for 2016, as proposed by the Audit Committee; AGM approves amendments to the Statutes of Sopharma Trading AD, according to the proposal of the Board of Directors; approves the report of the Board of Directors on the feasibility and conditions of transactions falling within the scope of article 114, paragraph 1 of POSA and authorizes the Board of Directors to enter into transactions from the scope of Article 114, Paragraph 1, 2 of ZPPTS under the terms and conditions under Sections I, II, III, IV, v, VI, VII, VIII, IX, and X of the report prepared the Board of Directors.

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

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

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

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

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

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

AGM approved the report of the Audit Committee for 2015;

AGM approved the proposal by the Board of Directors for the distribution of the profit generated in 2015 and the undistributed profit from past periods as follows: the total amount of the profit, subject to distribution, is 25 846 056.41 BGN /twenty-five million, eight hundred and forty-six thousand, fifty-six leva and forty-one stotinki/, of which the profit for 2015 amounts to 25 353

856.99 BGN /twenty-five million, three hundred and fifty-three thousand, eight hundred and fifty-six leva and ninety-nine stotinki/ and undistributed profit from past periods amounts to 492 199.42 BGN /four hundred and ninety-two thousand, one hundred and ninety-nine leva and forty-two stotinki/. After the allocation of 10% to the statutory reserve, a dividend shall be distributed to shareholders at the amount of 0.07 BGN /seven stotinki/ per share with dividend right. The remaining sum after the allocation of the dividend shall be allocated to the additional reserves of the Company.

AGM discharged from liability the members of the Board of Directors for their activities in 2015; AGM elected a registered auditor to audit and certify the annual financial statements of the Company for 2016 according to the proposal of the Audit Committee, included in the agenda materials.

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

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

Pursuant to art. 24, par. 3, letter B of the Articles of Association an additional fee of 1% /one percent/ of the net profit for 2015 according to the approved annual financial statements, shall be paid to the Executive Director of the Company;

AGM approved the decision for the distribution of 2% /two percent/ of the net profit for 2015 among the members of the senior management of the Company in compliance with the requirements of art. 26a, item 12 of the Articles of Association of the Company.

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

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

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

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

AGM authorized the Board of Directors of the Company to conclude a contract for provisioning of collateral in the form of a corporate guarantee according to the terms and conditions, listed in Chapter 2 of the Substantiated report.

AGM authorized the Board of Directors of the Company to conclude a contract for provisioning of collateral in the form of a corporate guarantee according to the terms and conditions, listed in Chapter 3 of the Substantiated report.

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

On 27.07.2016 on the basis art. 100k., Paragraph 1 of POSA, Sopharma informed about commencement of dividend payment for 2015 starting on 3 August 2016 in accordance with a list prepared by the Central Depository list of persons entitled to 1 July 2016. In line with the Rules of the "Central Depository" AD, the dividend will be paid as follows: shareholders with

client accounts at investment intermediaries - by the investment intermediary; shareholders without accounts at investment intermediaries - at the branches of "Eurobank EFG - Bulgaria" AD / Postbank / in the country.

The subsidiary of Sopharma Trading AD online retailer Pharma Ltd. changed its name on July 11, 2016 the new name Sopharmacy 6 OOD and the decision was registered at the Commercial Register.

On 08.02.2016 the Commercial register published a decision taken on 05.03.2016 from Medica AD in its capacity as sole shareholder of Medica Health Ltd. for opening a liquidation proceedings in respect of Medka health LTD. As liquidator of Medica Health Ltd. was elected Nikolay Nikolov Milenov.

The Board of Directors of Sopharma Buildings REIT took a decision on 01.08.2016 to dismiss the Director of Investor Relations Ivanka Panova and appointed Mrs. Petya Petkova on her place from 01.08.2016.

On 26 August 2016 the Gorup has restructured its ownership in NPK Biotest, Belarus through a negotiated sale of the controlling stake through which it reduces its share to a non-controlling one, but remains a company with substantial influence in NPK Biotest. The status of the company has been changed from "subsidiary" to "associated company".

On 12 September 2016 the Company received a notification for the acquisition of 81 401 shares, representing 0.06 % of its capital, by ZUPF Allianz Bulgaria. After the transaction the share of ZUPF Allianz Bulgaria in the capital of Sopharma AD reached 5.05%.

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

On October 7 2015 Sopharma AD announced that as a result of its intention to express interest in acquiring a commercial company operating on the territory of the Republic of Moldova, as a first step Sopharma AD filed a request for approval of concentration with the competent authorities in the Republic of Moldova.

On October 7 2016 in the conference center of Sopharma Business Towers the Group organized the Annual Meeting with Investors.

On 25 October 2016 Medica AD took a decision for convening an extraordinary General Meeting of Shareholders on 9 December 2016 at 11 am at its premises in Sopharma Business Towers, Sofia. The items from the agenda include: 1. Decision to authorize the Board for a

transaction under art. 114 from the LPOS with Sopharma Trading AD; 2. Decision to authorize the Board for a transaction under art. 114 from the LPOS with Sopharma Trading, Serbia.

On 11 November 2016 Sopharma AD notified that following a decision of the Board of directors as of the moment Sopharma AD has acquired a total of 68% of the capital of Veta Pharma AD.

On 11 November 2016 according to a framework agreement for the sale of the controlling stake of 70% of the capital of OOO NPK Biotest on several stages, the first stage has been finalized as of 31 December 2016 and 24% of the capital have been sold. The company's main activity is production of plant origin medicines. The company became associated for the Group in 26.08.2016.

On 16 November 2016 Sopharma AD received a notification for the sale of 342 680 shares, representing 0.25% of its capital, by ZUPF Allianz Bulgaria. After the transaction the share of ZUPF Allianz Bulgaria in the capital of Sopharma AD reached 4.80%.

On 18 November 2016 Sopharma AD received a notification for the acquisition of 505 364 shares, representing 0.37% of its capital, by ZUPF Allianz Bulgaria. After the transaction the share of ZUPF Allianz Bulgaria in the capital of Sopharma AD reached 5.17%.

On 18 November 2016 a restructuring of ODL Alenfarm-plus, Belarus by combining its net assets with those of UP Alyfamed, Belarus and consolidating the balance sheets of both companies was registered. The activity of the acceding company UP Alyfamed, Belarus is terminated and all rights and obligations upon accession shall be borne by the main družestvo – Alenfarm-plus, Belarus..

As a result of restructuring the Group acquired a controlling stake in the capital of SalyusLayn ODL, Belarus, the latter being transformed from an associate to a subsidiary.

On December 5 2016 Sopharma AD purchased 532 114 shares of the capital of Unipharm AD and as a result of this transaction Sopharma AD had a total of 77.43% of the capital of Unipharm AD.

On 14 December 2016 Sopharma AD filed with the Financial Supervision Commission a tender offering for the shares of all other shareholders in Unipharm AD. Sopharma AD as a offeree states that it does not own 1 342 234 shares, representing 22.37% from the total number of shares with ISIN BG1100154076 and from the votes in the general meeting of Unipharm AD and files the tender offering to the remaining shareholders owning ordinary shares of Unipharm AD for the purchase of those shares.

On 02 January 2017, pursuant to Art. 151, para. 3 of POSA, "Sopharma" AD submitted a corrected tender offer under Art. 149, para. 6 of POSA to purchase shares of the remaining shareholders' of "Unipharm" AD at a price of 4.35 BGN per share. "Sopharma" AD as a tender offeror declares that it does not hold 1,342,234 shares, representing 22.37% of the total ordinary shares with ISIN BG1100154076 "Unipharm" AD and extends this offer to the

remaining owners of shares of "Unipharm" AD for their acquisition. The Financial Supervision Commission (FSC) has not taken a position on the tender offer documents.

On 31 January, 2017 in accordance with art. 262e and the following from the Commercial Code Medica AD and Sopharma AD signed a contract for transformation through merger of Medica AD in Sopharma AD and the respective consequences following that decision. The fair price of the participants in the transformation is based on widely accepted evaluation methods. Based on the fair price the participants in the transformation reached a ratio of exchange of 0.9486, meaning that one share of Medica AD will be exchanged for 0.9486 shares of Sopharma AD. The companies have hired the services of certified appraisers whose report is a necessary prerequisite for the filing of the documents for transformation with the FSC. As of this moment the deputy Chairman "Investment Supervision" has not issued an approval in accordance with art. 124 from the LPOS of the transformation contract, of the reports of the BoD according to art. 262k from the Commercial code and the report of the appraiser under art. 262o from the Commercial Code.


On 13 February 2017 the Contract for merger, as well as reports of the management bodies of the companies involved in the transformation of the company under art. 262i of the CA and the report of the examiner under art. 262m of the CA for transformation through merger between Sopharma AD, 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 AD and the latter shall become its legal successor. Medica AD shall be terminated without liquidation.

As a result of the merger, all shareholders of the transferring company Medica AD, with the exception of the receiving company Sopharma AD, which is also a shareholder of the transferring company, will receive shares of Sopharma AD and become shareholders of it. Against one share of Medica AD each shareholder pursuant to art. 261b, app. 1 of the CA shall receive 0.9486 treasury shares of the capital of Sopharma AD. All other conditions concerning the merger procedure are included in the Contract.

On 22 February 2017 the Commercial Register registered the liquidation of Medica – Zdrave FOOD.

On 27 February 2017 the Competition Council of The Republic of Moldova allows the acquisition of over 51% of RAP Pharma International SRL by Sopharma AD.


New developments and products

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

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

 Expected in 2017

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

 Developments

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

Key financial indicators

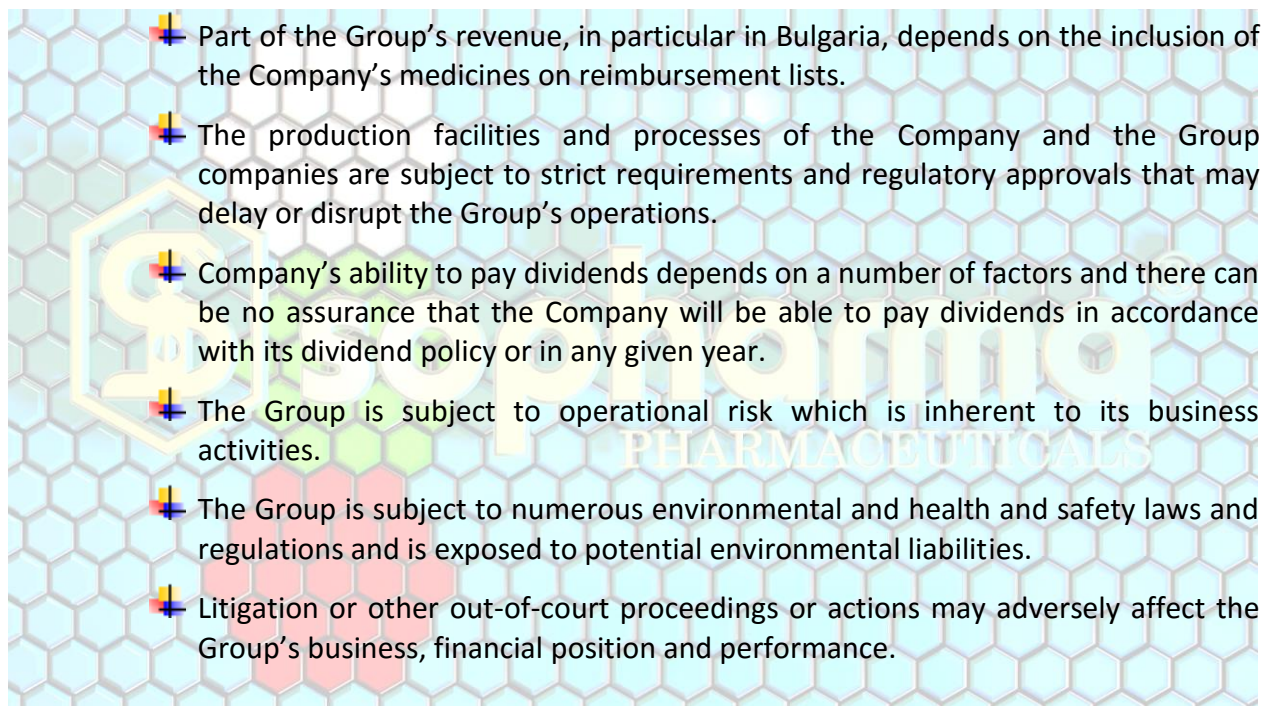
Indicators	1-12/2016 BGN '000	1-12/2015 BGN '000	change %
Sales revenue	881 684	874 984	0,8%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	70 025	62 766	11,6%
Operating profit	42 466	36 440	16,5%
Net profit	50 692	22 600	124,3%
Capital expenditures	26 908	33 284	-19,2%
	31.12.2016 BGN '000	31.12.2015 BGN '000	
Non-current assets	412 323	401 484	2,7%
Current assets	440 856	434 143	1,5%
Equity	482 949	457 640	5,5%
Non-current liabilities	53 041	62 492	-15,1%
Current liabilities	317 189	315 495	0,5%

Ratios	1-12/2016	1-12/2015
EBITDA / Sales revenue	7,2%	7,9%
Operating profit/ Sales revenue	4,8%	4,2%
Net profit/ Sales revenue	5,7%	2,6%
Borrowed capital/ Equity	0,77	0,83
Net debt/ EBITDA, annualized	2,96x	3,57x

Review of risk factors

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

- ✚ The Group faces significant competition.
- ✚ Part of Sopharma Trading's revenue in Bulgaria is generated by sales to hospitals, which involve a higher degree of business risk.
- ✚ Reputation of the Group may be adversely affected by untrue or misleading information, including such available on website www.sopharma.com, which has not been authorized by the Company.
- ✚ 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.



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

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

- ✚ The development in the legislation of some of the countries in which the Company sells its products, in particular Russia, Belarus and Ukraine, could adversely affect the Group's operations in these 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 companies perform their operations with active exchange with foreign suppliers and clients and therefore, they are exposed to currency risk.

Through its subsidiaries in Belarus and Ukraine the Group operates on these markets and has substantial expositions in Belarusian Ruble and Ukrainian Hryvnia. The currency risk is related to the adverse floating of the exchange rate of these currencies 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 companies abroad conduct sales mainly to the local markets, which leads to currency risk to their currencies as well – Serbian Dinar, Polish Zloty, and Latvian Lat.

There is a currency risk control system implemented throughout the whole Group for the planning of imports, the sale in foreign currencies, as well as procedures for daily monitoring of USD exchange rate movements and control over pending payments. The exposure of the subsidiaries in Bulgaria to currency risk is insignificant, because almost all sales are conducted on the local market in BGN. The import of goods is entirely performed in EUR. The loans in foreign currencies are denominated mainly in EUR.

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 trade receivables. The latter are presented in the statement of financial position at net value after deduction of impairments related to doubtful and bad debts. Such impairments are made where and when events have existed identifying loss due to uncollectability as per the previous experience.

The Group has developed policy and procedures to assess the creditworthiness of its counterparts and to assign credit rating and credit limits to clients by group.

The financial resources of the Group as well as the settlement operations are concentrated in different first-class banks. When distributing the cash flows among them, the management of the parent company and the subsidiaries take into consideration a variety of factors, as the amount of capital, reliability, liquidity, the credit potential and rating of the bank etc.

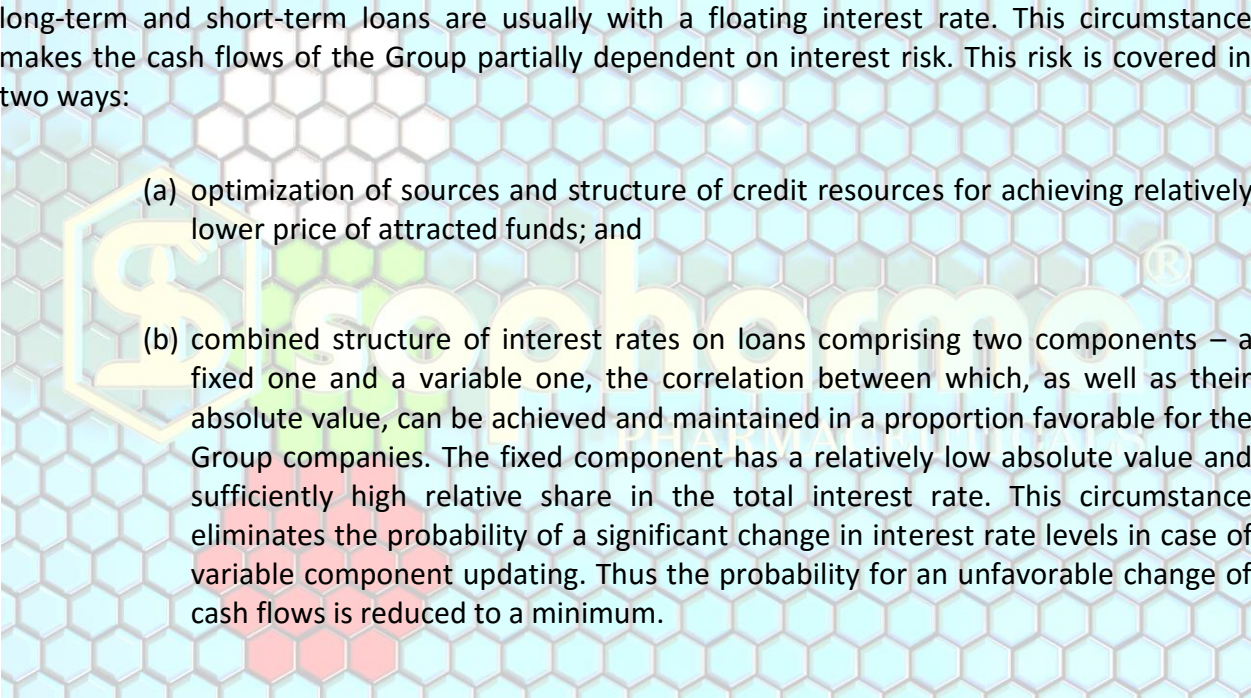
Liquidity risk

Liquidity risk is an adverse situation where the Group encounters difficulty in unconditionally meeting its obligations within their maturity, including in the case of hyperinflation and recalculation of trade estimates for companies operating in such environment.

The Group generates and maintains a significant volume of liquid funds. An internal source of liquid funds for the Group is the main economic activity of its companies generating sufficient operational flows. Banks and other permanent counterparts represent external sources of funding.

Risk of interest-bearing cash flows

Interest-bearing assets are presented in the structure of Group's assets as cash, bank deposits and fixed interest rate loans granted. On the other hand, the 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 sources and structure of credit resources for achieving relatively lower price of attracted funds; and
 - (b) combined structure of interest rates on loans comprising two components – a fixed one and a variable one, the correlation between which, as well as their absolute value, can be achieved and maintained in a proportion favorable for the Group companies. The fixed 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.

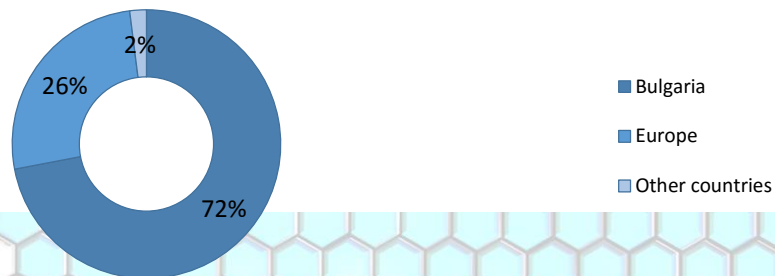
The management of the Group companies together with that of the parent company currently monitor and analyze the exposure of the respective company to the changes in interest levels. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, and alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points or %age, 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.

Financial results in 2016

Sales revenues

Revenue from sales of the Group increase by BGN 6.7 million or 1%, reaching BGN 881.7 million in 2016 compared to BGN 875 million in the first half of 2015. Sales of goods increased by BGN 19.8 million or 3%, reaching BGN 647.9 million in 2016 compared to BGN 628.1 million in the first half of 2015. Sales of finished products decreased by 13.1 million BGN, or 8%, to BGN 233.8 million in 2016 compared to BGN 246.9 million in 2015.

Sales by regions



The contribution of sales in Bulgaria to the consolidated sales revenue in 2016 amounted to 72%, 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 5% compared to the first half of 2015.

Revenue by group of products

Reported revenue of the Group includes the following items: revenue from the sale of finished products and revenue from the sale of goods.

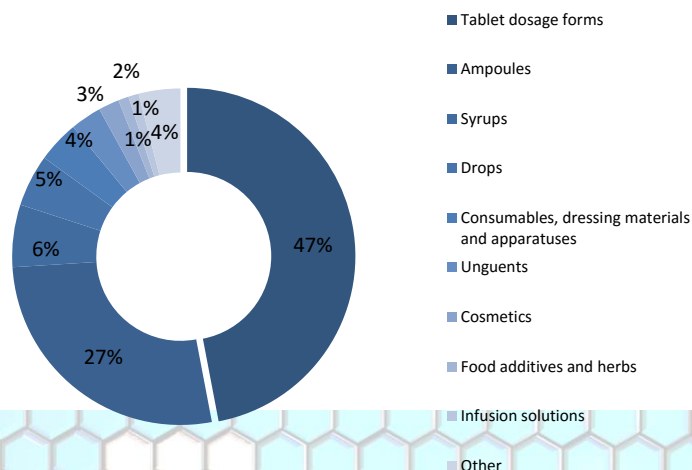
Revenues from the sale of finished products include revenue from the sale of products manufactured by the Company and the Group companies.

Revenue earned from sale of finished products	1-12/2016 BGN '000	1-12/2015 BGN '000	change %
Tablet dosage forms	304 985	296 705	3%
Ampoules	179 219	179 330	0%
Syrups	37 051	35 902	3%
Drops	30 111	36 063	-17%
Consumables, dressing materials and apparatuses	26 423	21 133	25%
Unguents	18 504	18 549	0%
Cosmetics goods	10 167	9 307	9%
Food additives and herbs	9 574	3 191	200%
Infusion solutions	5 713	1 982	188%
Other	26 162	25 961	1%
Total	647 909	628 123	3%

Revenue from the sale of goods include revenue from the sale of goods to third parties, which are distributed primarily by Sopharma Trading AD and Briz SIA.

Revenue earned from sale of finished products	1-12/2016 BGN '000	1-12/2015 BGN '000	change %
Tablet dosage forms	304 985	296 705	3%
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Herbs and food additives	9 574	3 191	200%
Infusion solutions	5 713	1 982	188%

Other	26 162	25 961	1%
Total	647 909	628 123	3%



Other operating income

Other revenues	1-12/2016	1-12/2015	change	Relative share 2016
	BGN '000	BGN '000	%	%
Services rendered	5 065	7 160	-29%	58%
Financing from public institutions	1 170	1 037	13%	13%
Services for social activities and events	836	795	5%	9%
Rentals	723	942	-23%	8%
Income from sales of LTA	303	36	742%	3%
Net profits(losses) from exchange rate differences under trade receivables and payables and current accounts	(204)	(14 257)	-99%	-2%
Other (see Notes to the financial statements)	912	1 609	-43%	10%
Total other operating income	8 805	(2 678)	429%	100%

Other operating income increase by BGN 11.5 million, reaching BGN 8.8 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 million and an increase in revenues from sales of LTA by BGN 0.3 million.

Operating expenses

Operating expenses	1-12/2016	1-12/2015	change	relative share of expenses in 2016
	BGN '000	BGN '000	%	%
Changes in inventories of finished goods and work in progress	3 414	(4 207)	181%	0%
Materials	82 595	86 396	-4%	10%
Hired services	58 004	65 661	-12%	7%
Personnel	87 004	81 501	7%	10%
Depreciation and amortization	27 559	26 326	5%	3%
Carrying amount of goods sold	575 432	568 590	1%	68%
Other operating expenses	14 015	11 599	21%	2%
Total	848 023	835 866	1%	100%

The operating expenses in 2016 increase by BGN 12.1 million or 1% from BGN 835.9 million in the first half of 2015 to BGN 848 million in 2016. The change is due to an increase in sales and therefore the carrying amount of goods sold, the increase in personnel expenses, amortization and other expenses.

Expenses on materials	1-12/2016	1-12/2015	change	relative share of expenses in 2016
	BGN '000	BGN '000	%	%
Basic materials	59 178	63 379	-7%	72%
Electricity	5 970	5 273	13%	7%
Spare parts, laboratory and technical materials	5 242	5 051	4%	6%
Heating	2 739	3 775	-27%	3%
Fuels and lubricating materials	2 341	2 595	-10%	3%
Auxiliary materials	2 334	1 486	57%	3%
Other	4 791	4 837	-1%	6%
Total	82 595	86 396	-4%	100%

Cost of materials (10% share) decrease by BGN 3.8 million or 4% to BGN 82.6 million in 2016 compared to BGN 86.4 million in 2015. The cost of basic materials decrease by BGN 4.2 million, or 7%, with the most significant impact coming from the cost of substances, packaging materials, liquid and solid chemicals, which decrease respectively by BGN 0.8 million, BGN 2,5 million and BGN 1,3 million and BGN 0,5 million. There is an increase in the cost of heating, spare parts, laboratory and technical materials and fuels and lubricating materials and other expenses.

	1-12/2016	1-12/2015	change	relative share of expenses in 2016
	BGN '000	BGN '000	%	%
Hired services expense				
Advertising	13 019	19 248	-32%	22%
Rents	7 245	7 102	2%	12%
Consulting services	6 372	6 541	-3%	11%
Forwarding and transportation services	3 850	4 771	-19%	7%
Production of medicines	3 704	4 456	-17%	6%
Subscription fees	2 353	1 961	20%	4%
Local taxes and fees	2 329	2 177	7%	4%
Bank and regulatory charges	1 936	2 523	-23%	3%
Security	1 932	1 498	29%	3%
Insurance	1 527	1 510	1%	3%
Service fees	1 223	1 249	-2%	2%
Civil contract services	1 164	223	422%	2%
Communications	1 083	1 431	-24%	2%
Logistics services	932	998	-7%	2%
Car repairs	889	1 036	-14%	2%
Medical services	861	865	0%	1%
Registration of medicines	822	820	0%	1%
Tax on expenses	706	1 001	-29%	1%
Marketing expenses	576	653	-12%	1%
IT	555	1 102	-50%	1%
Other (see Notes to the financial statements)	476	360	32%	1%
Total	4 450	4 136	8%	8%
	58 004	65 661	-12%	100%

Hired services have a 7% share of operating expenses and decreased by BGN 7.6 million or 12%, reaching BGN 58 million in 2016 compared to BGN 65.6 million in 2015. A main cause for the decrease is due the lower spending on advertising with BGN 6.2 million. There is a decrease also in the expenses for maintenance of buildings and equipment, forwarding and transportation, local taxes and fees, marketing services and other. Production of medicines, rent and others increase.

Personnel costs (with a 10% share) grew by BGN 5.5 million, or 7%, reaching BGN 87 million in 2016 compared to BGN 81.5 million in 2015. The general growth of these costs is due to both the increase of salaries of the personnel, as well as to the growth of the number of employees in the Group as a result of the consolidation of new companies.

Other operating expenses (with a share of 1%) increased by BGN 2.4 million or 21% from BGN 11.6 million in 2015 to BGN 14 million in 2016. There is an increase in current assets impairment by BGN 1.6 million net, rejects and misplaced goods with BGN 1 million. There is a

decrease in entertainment event allowances, payments for taxes and interest on taxes, training, written-off receivables, donations, other expenses and other.

Depreciation and amortization expense (with a share of 3%) increased by BGN 1.2 million or 5% from BGN 26.3 million in 2015 to BGN 27.5 million in 2016.

Finance income and costs

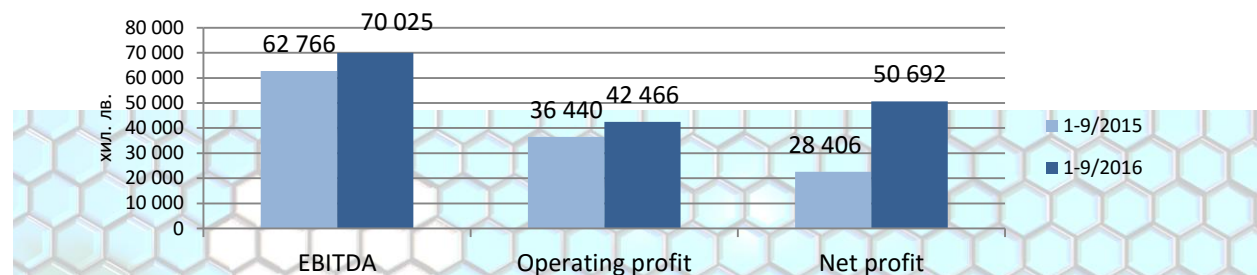
	1-12/2016	1-12/2015	change	relative share of expenses in 2016
	BGN '000	BGN '000	%	%
Finance income				
Interest income on overdue commercial receivables	4 460	3 801	17%	54%
Interest income on granted loans	1 798	2 766	-35%	22%
Net gain from operations with investments in securities	1 600	161	894%	20%
Interest on receivables under special contracts	197	-	-	2%
Interest income on bank deposits	73	-	-	1%
Dividends	53	6	783%	1%
Revaluation of previously held shares to fair value	20	94	-79%	0%
Total	8 201	6 828	20%	100%
Finance costs				
Interest expenses on loans	8 800	8 868	-1%	41%
Net loss on exchange rate differences on loans in foreign currencies	1 521	834	82%	4%
Bank fees on loans and guarantees	1 345	4 637	-71%	21%
Interest expense on finance lease	672	-	-	0%
Factoring interest costs	341	409	-17%	2%
Impairment on commercial loans granted	291	-	-	0%
Net loss from operations with investments in securities	8	6 438	-100%	30%
Total	5	454	-99%	2%
	12 983	21 640	-40%	100%

Finance income increase by BGN 1.4 million to BGN 8.2 million in 2016 compared to BGN 6.8 million in 2015 mainly due to a increase in net gain from operations with securities by BGN 1.4 million as well as an increase in the income from interest on loans granted with BGN 0.7 million. There is a decrease in income from interest on loans granted with BGN 1 million.

Finance costs decreased by BGN 8.6 million from BGN 21.6 million in 2015 to BGN 13 million in 2016. The highest decrease is in cash in banks under special surveillance with BGN 6.4 million and decrease in the net loss from exchange rate differences in loans in foreign currency with BGN 3.3 million.

Net financial gain (cost) decreased by BGN 10 million reaching BGN (4.8) million as at 31 December 2016 compared to BGN (14.8) million as at 31 December 2015.

Financial performance



Earnings before interest, taxes, depreciation and amortization (EBITDA) increases by BGN 7.3 million or 12%, amounting to BGN 70 million as at 31 December 2016, compared to BGN 62.8 million as at 31 December 2015.

Operating profit decreased by BGN 6.1 million or 17%, to BGN 42.5 million as at 31 December 2016, compared to BGN 36.4 million as at 31 December 2015.

Net profit increased by BGN 28.1 million, or 124%, reaching BGN 50.7 million as at 31 December 2016, compared to BGN 22.6 million as at 31 December 2015.

Assets	31.12.2016	31.12.2015	change	
	BGN '000	BGN '000	%	2016
Non-current assets				
Property, plant and equipment	314 716	315 005	0%	76%
Intangible assets	34 789	24 127	44%	8%
Goodwill	10 477	11 375	-8%	3%
Investment property	10 976	10 562	4%	3%
Investments in associated companies and joint ventures	18 420	5 224	253%	4%
Available-for-sale investments	5 722	7 424	-23%	1%
Long-term receivables from related parties	10 028	20 505	-51%	2%
Other long-term receivables	4 174	3 546	18%	1%
Deferred taxes	3 021	3 716	-19%	1%
	412 323	401 484	3%	48%
Current assets				

Inventories	168 399	163 129	3%	38%
Trade receivables	219 314	205 589	7%	50%
Receivables from related parties	15 371	27 434	-44%	3%
Other receivables and prepayments	15 248	14 505	5%	3%
Cash and cash equivalents	22 524	23 486	-4%	5%
	440 856	434 143	1.5%	52%
TOTAL ASSETS	853 179	835 627	2%	100%

Total assets increase by BGN 17.5 million, or 2%, reaching BGN 853.1 million as at 31 December 2016, compared to BGN 835,6 million as at 31 December 2015 as a result of the increase in current assets.

Non-current assets decreased by BGN 0.3 million, or 4%, mainly due to the decrease in assets in process of acquisition by BGN 10 million and other assets by BGN 1.6 million. Land and buildings increase by BGN 5.8 million mainly and machines and equipment by BGN 5.4 million.

Intangible assets increased by BGN 10.8, in the portion of intellectual property rights by BGN 9.2 million and software with BGN 4 million and decrease mainly in the intangible assets in process of acquisition with BGN 2 million.

Investments in associated companies and joint ventures increased by BGN 13.2 million compared to 31 December 2015. The available-for-sale investments decreased by BGN 1.7 million.

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

Other long-term receivables decreased by BGN 0.6 million.

Current assets increased by BGN 6.7 million or 2%, reaching BGN 440.8 million as at 31 December 2016 compared to BGN 434,1 million as at 31 December 2015.

Inventories comprise 38% of current assets and increase by BGN 5.3 million compared to 31 December 2015 in the portion of goods by BGN 15.5 million and semi-finished products by BGN 2.9 million. The goods and products increase with BGN 1.5 million and BGN 8.9 million respectively and materials BGN 2.7 million.

Commercial receivables, which have a relative share of 50% of current assets, increased by BGN 13.7 million, in the portion of advance payments, net by BGN 1.9 million. Receivables from clients, net increased by BGN 11.8 million.

Receivables from related parties have a relative share of 3% in current assets and decreased by BGN 12.1 million mainly in the sale of products and materials by BGN 2.4 million and commercial loans BGN 9.7 million.

Other short-term receivables and prepayments decreased are 3% of current assets and increase by BGN 0.7 million, as a result of refundable taxes with BGN 1.3 million and other short term receivables with BGN 0.4 million. Cash and cash equivalents decrease by BGN 1 million compared to 31 December 2015. As at the end of the current period there are deposits amounting to BGN 4 million.

Equity and liabilities

EQUITY	31.12.2016	31.12.2015	change	From owners equity 2016
	BGN '000	BGN '000		
Equity attributable to owners of the parent			%	%
Share capital	134 798	134 798	0%	28%
Reserves	57 671	48 855	18%	12%
Retained earnings	256 103	222 238	15%	53%
	448 572	405 891	11%	93%
NON-CONTROLLING INTEREST	34 377	51 749	-34%	7%
TOTAL EQUITY	482 949	457 640	6%	100%
LIABILITIES	31.12.2016	31.12.2015	change	% total liabilities 2016
	BGN '000	BGN '000	%	
Non-current liabilities				
Long-term bank loans	25 924	38 876	-33%	7%
Deferred tax liabilities	11 065	7 952	39%	3%
Long-term liabilities to personnel	4 365	4 199	4%	1%
Finance lease liabilities	2 642	1 957	35%	1%
Government grants	9 011	9 343	-4%	2%
Other non-current liabilities	34	165	-79%	0%
	53 041	62 492	-15%	14%
Current liabilities				
Short-term bank loans	167 966	190 785	-12%	45%
Current portion of long-term bank loans	9 408	14 784	-36%	3%
Trade payables	92 479	87 440	6%	25%
Payables to related parties	541	2 366	-77%	0%
Payables on contract for factoring	22 861	-		6%
Payables to the personnel and for social security	10 169	8 894	14%	3%
Tax payables	9 297	6 368	46%	3%
Other current liabilities	4 468	4 858	-8%	1%
	317 189	315 495	1%	86%

TOTAL LIABILITIES	370 230	377 987	-2%	100%
TOTAL EQUITY AND LIABILITIES	853 179	835 627	2.1%	

The equity of Sopharma Group increased by BGN 25.3 million compared to 31 December 2015 mainly due to an increase of undistributed profit. The non-controlling participation decreases with BGN 17.4 million. Equity attributable to owners of the parent comprise 52% of total equity and liabilities, with certain improvement of the financial autonomy of the Group. It increased by BGN 42.7 million mainly due to undistributed profit.

Non-current liabilities decreased by BGN 9.5 million or 15%, from BGN 62,5 million at the end of 2015 to BGN 53 million at the end of 2016 mainly due to a decrease in long-term bank loans by BGN 13 million. There is an increase in deferred taxes liabilities by BGN 3.1 million.

Current liabilities increase by BGN 1.7 million or 1% compared to 2015, mainly due to an increase in liabilities on a contract for factoring by BGN 22.9 million and commercial liabilities with BGN 5 million and tax liabilities with BGN 2.9 million. The short-term bank loans decrease with BGN 5.4 million, the liabilities to related parties with BGN 1.8 million.

The Group's total liabilities under bank loans and leases and factoring decreased by BGN 16.9 million compared to the end of 2015. The net debt, after subtracting of cash and cash equivalents, decreased by BGN 17.6 million.

Cash flows

	31.12.2016	31.12.2015
	BGN '000	BGN '000
Net cash flows from operating activities	(80 834)	67 310
Net cash flows used in investing activities	(5 609)	(32 899)
Net cash flows (used in)/from financing activities	85 727	(36 596)
Net increase/(decrease) in cash and cash equivalents	(716)	(2 185)
Cash and cash equivalents at 1 January	23 114	25 299
Cash and cash equivalents at 31 December	22 398	23 114

Net cash flows generated from operating activities as at 31 December 2016 amount to BGN (80.8) million, those from investing activities – BGN 5.6 million and from financing activities – BGN 85.7 million. As a result of these activities the cash and cash equivalents decreased by BGN 0.7 million and as at 31 December 2016 amount to BGN 22.4 million compared to BGN 23,1 million as at 1 January 2016.

In 2016, the Group companies have entered into a factoring agreement, the proceeds from factoring (BGN 144 million) are accounted for as cash flows from financing activities. As a consequence registered a significant decrease compared to the previous year's net cash flow from operating activities for the account of the increase in net cash flows from financing activities.

Financial ratios

	31.12.2016	31.12.2015
ROE ¹	10,9%	5,3%
ROA ²	5,5%	2,5%
Asset turnover ³	1,05	1,04
Current ratio ⁴	1,39	1,38
Quick ratio ⁵	0,86	0,86
Cash ratio ⁶	0,07	0,07
Solvency ratio ⁷	1,30	1,21

¹ Net profit belonging to the equity holders of the Company, annualized / arithmetic mean of the equity less minority interests for the last five quarters

² Net profit belonging to the equity holders of the Company, annualized / arithmetic mean of total assets for the last five quarters

³ Revenue from sales, annualized / arithmetic mean of total assets for the last five quarters

⁴ Current assets / current liabilities

⁵ Receivables + cash/current liabilities

⁶ Cash/current liabilities

Information about the shares of Sopharma AD

The total number of shares issued by Sopharma AD as at 31 December 2016 is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, common and indivisible, under the Articles of Association. All issued shares are of one class. Each share gives equal rights to its holder, in proportion to its nominal value. The shares of Sopharma AD are traded on the official market of Bulgarian Stock Exchange - Sofia AD and the official market of the Warsaw Stock Exchange. The shares are part of the indices SOFIX, BGBX40 and BGTR30 on the BSE – Sofia AD.

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

Sopharma AD is one of the three Bulgarian companies included in an index for Central and Eastern Europe (CEE) that WSE started to calculate as of 30 May 2012. The index is called WIG-CEE and is the third after the WIG-Poland and WIG-Ukraine, which is based on the origin of the companies by country. WIG-CEE is calculated based on total return and includes also dividend income and subscription rights to shares.

Key indicators of the shares of Sopharma AD

	31.12.2015	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	128 984 317	129 316 754
Earnings per share in BGN ¹	0,36	0,17
Price per share at the end of the period in BGN	2,992	2,72
Price/Earnings ratio (P/E)	8,31	16,00
Book value per share in BGN ²	3,48	3,14
Price/Book value ratio (P/B)	0,86	0,87
Income from sale of one share in BGN ³	6,84	6,77
Price of one share / Income from sale of one share (P/S)	0,44	0,40
Market capitalization in BGN based on the number of issues shares	403315 314	366 650 285

¹ Net profit of the company for the last four quarters/average weighted number of outstanding shares for the same period

² Common equity of the company/number of shares outstanding at the end of the period

³ Income from sales in the last four quarters/number of outstanding shares as at the end of the period.

Trade in shares of Sopharma AD on the Bulgarian Stock Exchange – Sofia AD for the period 1 January – 31 December 2016



Signature:

Ognian Donev, PhD
Executive Director, Sopharma AD