

# MANAGEMENT REPORT

2019



**SOPHARMA GROUP**

30 April 2019

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## **I. General information about Sopharma Group**

### **1. Main activities**

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

The Group operates in the following areas:

- production of pharmaceutical products including medicines, primarily generics, herbal-based substances and food supplements, which is mainly done by “Sopharma” AD;
- production of medical supplies and medical cosmetics, as plasters, bandages and sanitary-hygiene products focused at the production site in Sandanski city;
- distribution of pharmaceuticals, medical supplies, sanitary materials, vitamins, food supplements and cosmetics, which is mainly performed by “Sopharma Trading” AD in Bulgaria, SIA “Briz” 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.

### **2. Registration and activity of the Company**

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

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

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

### 3. Controlled companies

Sopharma Group consists of “Sopharma” AD and 49 subsidiaries, directly or indirectly controlled by the Company. Additionally, the Group has investments in one associated company.

Company	Interest as at 31.12.2019 in %
“Sopharma Trading” AD, Sofia, Bulgaria*	74.23
“Biopharm Engineering” AD, Sliven, Bulgaria	97.15
“Pharmalogistica” AD, Sofia, Bulgaria	89.39
“Elektroncommerce” EOOD, Sofia, Bulgaria	100.00
“Sopharma Buildings” REIT, Sofia, Bulgaria	40.38
“Momina Krepost” AD, Veliko Tarnovo, Bulgaria	63.12
“Phyto Palauzovo” AD, Kazanluk, Bulgaria	95.00
“Sopharmacy” AD EOOD, Sofia, Bulgaria**	74.23
“Sopharmacy” AD 2 EOOD, Sofia, Bulgaria**	74.23
“Sopharmacy” AD 3 EOOD, Sofia, Bulgaria**	74.23
“Sopharmacy” AD 4 EOOD, Sofia, Bulgaria**	74.23
“Sopharmacy” AD 5 EOOD, Sofia, Bulgaria**	74.23
“Sopharmacy” AD 6, EOOD, Sofia, Bulgaria**	74.23
“Sopharmacy” AD 7, EOOD, Sofia, Bulgaria**	74.23
“Sopharmacy” AD 8, EOOD, Sofia, Bulgaria**	74.23
“Sopharmacy” AD 9, EOOD, Sofia, Bulgaria**	74.23
“Sopharmacy” AD 10, EOOD, Sofia, Bulgaria**	74.23
“Veta Pharma” AD, Veliko Tarnovo, Bulgaria	99.98
“Aromania” OOD, Sofia, Bulgaria	76.00
“Sopharmacy” AD 11 (Pharmastore 1 OOD), Sofia, Bulgaria**	74.23
“Sopharmacy” AD 12 (Pharmastore 2 OOD), Sofia, Bulgaria**	74.23
“Sopharmacy” AD 13 (Pharmastore 3 OOD), Sofia, Bulgaria**	74.23
“Sopharmacy” AD 14 (Pharmastore 4 OOD), Sofia, Bulgaria**	74.23
“Sopharmacy” AD 15 (Pharmastore 5 OOD), Sofia, Bulgaria**	74.23
“Sopharmacy” AD 16, EOOD, Sofia, Bulgaria**	74.23
“Sopharmacy” AD 17, EOOD, Sofia, Bulgaria**	74.23
PAO “Vitamini”, Uman, Ukraine	100.00
Sopharma Poland LLC, Warsaw, Poland in Liquidation	60.00
Sopharma Warsaw Sp. z. o. o, Warsaw, Poland	100.00
Sopharma Trading Pharmaceuticals, Serbia**	74.23
SIA “BRIZ”, Riga, Latvia	68.14
“Brititrade” SOOO, Minsk, Belarus**	54.51
“Tabina” SOOO, Minsk, Belarus **	54.66

Company	Interest as at 31.12.2019 in %
“Brizpharm” SOOO, Minsk, Belarus**	56.42
OOO Sopharma Ukraine, Kiev, Ukraine	100.00
OOO “Pharmacist Plus”, Minsk, Belarus**	41.28
OOO “Bellerofon”, Minsk, Belarus***	61.33
TOO Sopharma Kazakhstan, Almaty, Kazakhstan	100.00
ZAO “Interpharm”, Vitebsk, Belarus**	61.33
OOO “Galenapharm”, Pinsk, Belarus**	61.73
ODO “Medjel”, Minsk, Belarus**	55.87
ODO “Alenpharm-Plus”, Belarus**	62.68
ODO “Salius” Line, Grodno, Belarus**	52.47
“Rap Pharma International” OOD, Kishinev, Moldova	80.00
“Sopharma Trading” D.o.o., Sabac, Serbia**	74.23
OOO “Zdorovei”, Minsk, Belarus**	46.38
UAB “Recessus”, Kaunas, Lithuania	34.74
BOOO “SpetzApharmacia”, Bobruisk, Belarus**	47.70

\*effective interest in percent

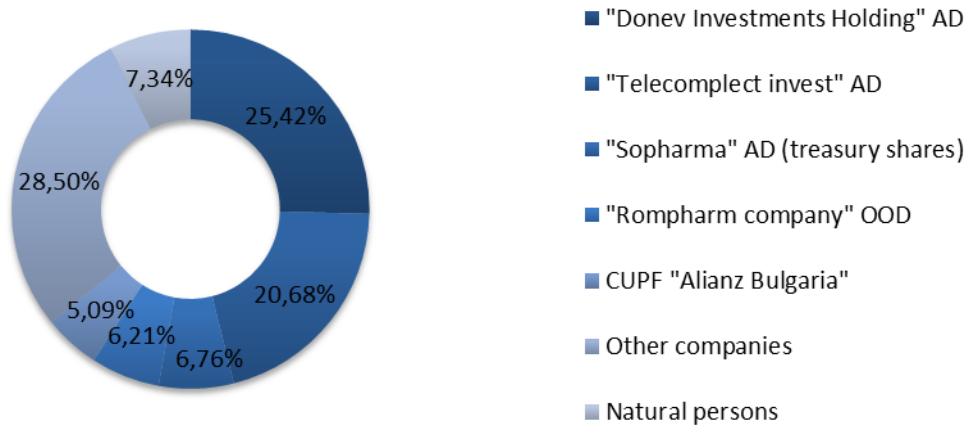
\*\*indirect interest

#### 4. Board of directors

“Sopharma” AD has a one tier management system with a Board of Directors of five members as follows: Ognian Donev, PhD - Chairman and members Vessela Stoeva, Alexander Tchaushev, Ognian Palaveev and Ivan Badinski. 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.

## 5. Shareholder structure as at 31 December 2019



## II. Recent developments

### 1. Industrial activity

The company and its production subsidiaries have 12 pharmaceutical plants in Bulgaria, conforming with EU Good Manufacturing Practices (GMP) , a factory in the Ukraine certified by local authorities and recognized in all CIS countries.

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

- Substances and preparations based on plant raw materials (phytochemical production);
- Ready-to-use formulations, incl.:
  - ✓ Hard tablets, coated tablets, film-coated tablets, capsules;
  - ✓ Galenic - suppositories, drops, syrups, ointments;
  - ✓ Parenteral - injection solutions, lyophilic powder for injections;
- Medical and cosmetic products, incl.:
  - ✓ Plasters;
  - ✓ Bandages;



- ✓ Sanitary-hygiene products;
- ✓ Herbal cosmetics;
- ✓ Concentrates for hemodialysis.
- Infusion solutions
- Blast and syringe production for industry, agriculture and households

## 2. Products

### “Sopharma” AD

The Company has a portfolio of more than 210 products: mainly generics and 15 traditional products, of which 12 products are phyto-based. The traditional products of the Company (and in particular Tabex, Carsil and Tempalgin) make a major contribution to its export market income, while the company's generic products are of major importance for domestic sales, Analgin being the leader among these products.

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

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

- Carsil - traditional plant-based product used to treat gastroenterological diseases (liver diseases);
- Tempalgin - traditional analgesic (painkiller);
- Tabex - traditional plant-based smoking cessation drug;
- Tribestan - traditional plant-based product that stimulates the functions of the sexual system;
- Broncholitin - traditional plant-based product used to suppress cough;
- Analgin - generic analgesic (pain reliever);
- Nivalin - traditional plant-based product used for diseases of the peripheral nervous system;
- Methylprednisolone - a generic medicine for cases of severe allergies and certain life-threatening conditions;

- Vitamin C - food supplement with wide application;
- Valerianae - a generic non-prescription herbal medicine used to reduce stress;
- Medical devices - gauzes, compresses and dressings.

### **“Biopharm Engineering” AD**

The Company has modern production facilities and is continuously expanding and modernizing its production capacities. The strategy of “Biopharm Engineering” AD is built upon the market and technological advantages of the company. The company’s production facilities are GMP (Good Manufacturing Practices) certified. It is successfully developing in the following areas:

- Manufacturing of infusion solutions;
- Manufacturing of injection solutions;
- Manufacturing of veterinary medicinal products;

The produced infusion solutions are marketed through “Sopharma” AD on the Bulgarian and on the international markets. Veterinary medical products are offered in Bulgaria and other European countries.

### **PAO “Vitamini”, Ukraine**

PAO “Vitamini” manufactures and sells medicines, tablets, powders, oil solutions, syrups and tinctures. Production of medicines by PAO “Vitamini” is highly effective, with excellent quality, affordable prices and is sold successfully not only in the Ukraine, but also in other CIS countries.

The production takes place in the following production facilities:

- for liquid dosage forms;
- two production areas for solid dosage forms;
- production site for extraction;
- tincture production;
- production of solutions;
- production of powdered products.

### **3. Distribution**

#### **“Sopharma Trading” AD**

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

The Company has more than 15 000 products (particularly pharmaceutical products, medical equipment and devices, accessories, cosmetics, vitamins and food supplements) in its portfolio, including the brands of “Sopharma” AD, 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” AD cooperates with more than 400 partners and over 3 000 clients.

#### **SIA “BRIZ”, Latvia**

SIA “Briz” develops its activity in the following main directions:

- Distribution of medicines and food supplements in the wholesale and retail segment;
- Distribution of cosmetics and perfumery products in the wholesale and retail segment;
- Registration of medicines in Latvia, Lithuania, Estonia, Belarus, Bulgaria etc.;
- Introduction of medicines manufactured in third countries to the European Union;
- Marketing support for the products on the mentioned markets.

The company is constantly developing and has the certificates and licenses necessary for conducting its activities, as GDP certificates, import licenses for medicines manufactured in third countries to the EU, and a license for working with psychotropic substances. The mission of the company is to meet the needs of customers for natural, effective and modern medicines and cosmetics, nutritional supplements that improve health and quality of life. The main objective of the company is to increase the sales of the product portfolio of “Sopharma” AD on the markets of Latvia, Lithuania, Estonia and Belarus. In addition to representative, commercial and marketing services, the company successfully provides drug safety services to its customers.

### III. Information under Article 39 of the Accountancy Law

#### 1. An overview of the company's performance and the main main risks it faces (Art. 39, para 1 of the Accounting Law /

##### Key financial indicators

Indicator	1-12/2019 BGN '000	1-12/2018 BGN '000	Change %
Revenues from sales	1 281 587	1 179 143	8.7%
EBITDA	103 696	72 278	43.5%
Operating profit	59 692	39 143	52.5%
Net profit	84 359	30 637	175.4%
CAPEX*	62 280	40 775	52.7%
	<b>31.12.2019</b> <b>BGN '000</b>	<b>31.12.2018</b> <b>BGN '000</b>	
Non-current assets	626 172	480 688	30.3%
Current assets	549 100	529 915	3.6%
Owners' equity	575 772	508 529	13.2%
Non-current liabilities	115 448	69 175	66.9%
Current liabilities	484 052	432 899	11.8%

\* acquired tangible and intangible long-term assets

Indicator	1-12/2019	1-12/2018
EBITDA/Sales revenues	8.1%	6.1
Operating profit / Sales revenues	4.7	3.3
Net profit/Sales revenues	6.6	2.6
Attracted capital / Equity	1.04	0,99
Net debt/EBITDA on annual basis	3.68x	4,15x

\* net debt includes bank loans and leasing and factoring liabilities less cash, taking into account the effects of the adoption of IFRS 16 Leasing, effective from 1 January 2019.

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

- The Group faces significant competition;
- Part of Sopharma Trading's revenues in Bulgaria is generated from sales to state hospitals, which predetermines a high degree of business risk;
- 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 in 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 Company's ability to pay dividends depends on a number of factors and there can be no assurance that the Company will be able to pay dividends in accordance with its dividend policy or at all in any given year;
- The 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, Belarus and the 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, Belarus and the Ukraine, may negatively impact the Group's operations in these countries;
- Risks relating to exchange rates and the Currency Board in Bulgaria;
- 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 activities in active exchange with foreign suppliers and customers and are therefore exposed to currency risk.

Through the companies in Belarus and Ukraine, the group carries out business operations in these countries and, accordingly, has substantial exposures in Belarusian rubles and Ukrainian hryvnia. The currency risk is related to the negative movement of the exchange rates of these currencies against the Bulgarian lev in the future business operations, the recognized assets and liabilities in foreign currency and the net investments in foreign companies. The rest of the companies abroad sell mainly on local markets, leading to currency risk and against their currencies - the Serbian Dinar and the Polish zloty.

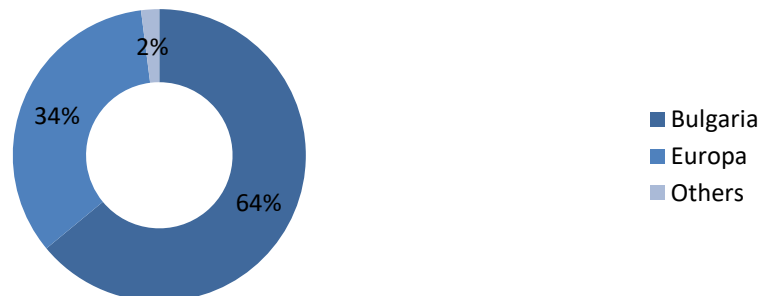
In order to control the currency risk, a system of planning of import deliveries, for foreign currency sales as well as procedures for daily monitoring of movements in the dollar exchange rate and control of forthcoming payments is introduced. The exposure of subsidiaries in Bulgaria in foreign currency is insignificant, as almost all sales are made on the local market in Bulgarian leva.

Imports of goods are fully realized in euro. Borrowings denominated in foreign currency are mainly denominated in euro.

## 2. Analysis of financial and non-financial key performance indicators of the Group / Article 39, item 2 of the Accounting Act /

Sales revenues of the Group increased by BGN 102,4 million or 9%, reaching BGN 1 281,5 million in 2019 compared to BGN 1 179,1 million in 2018. Sales of goods increased by BGN 64,8 million or 7%, reaching BGN 993,1 million in 2019 compared to BGN 928,3 million in 2018. Sales of finished products increase by 37,7 million BGN, or 15%, to BGN 288,5 million in 2019 compared to BGN 250,8 million in 2018.

### Sales by region



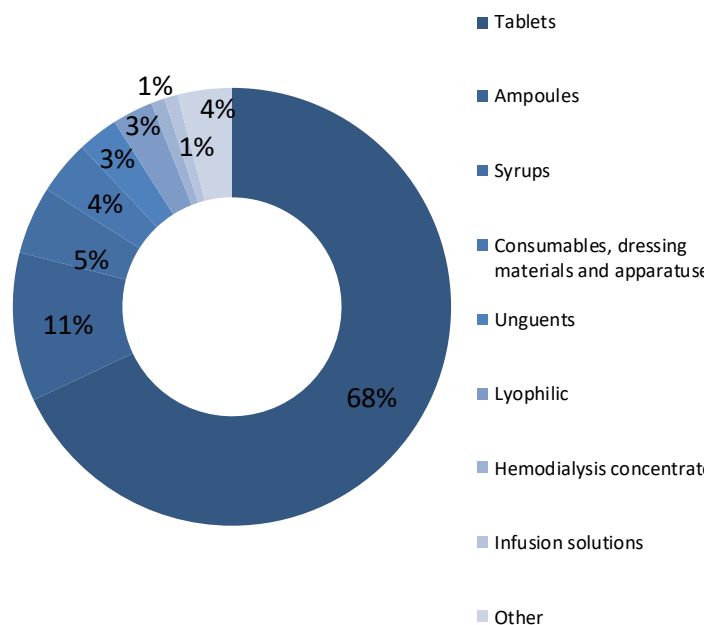
The contribution of sales in Bulgaria to the consolidated sales revenue in 2019 amounted to 64%, increasing by 8% compared to 2018. “Sopharma” AD has a 3% share on the Bulgarian pharmaceutical market in terms of value and a 10% share in terms of units. The positions of the main competitors of the Company in the country are as follows: Novartis – 7% (4% in units), Roche – 6% (0.2% in units), Actavis – 4.5% (9% in units), Pfizer – 3.8% (1% in units), Merck Sharp Doh – 3.8% (1% in units), Abbvie – 3.8% (0% in units) Glaxosmithkline – 3.4% (2.5% in units.), Sanofi-Aventis – 3% (2% in units), Astra Zeneca – 2.6% (1% in units). Revenues from sales of the Group on European markets other than the home market Bulgaria, amount to 34% of total consolidated sales revenues for 2019 and increase with 10% compared to 2018.

### Sales by type of formulation

The reported revenue of the Group includes the following items: revenues from the sale of finished products and revenues from the sale of goods.

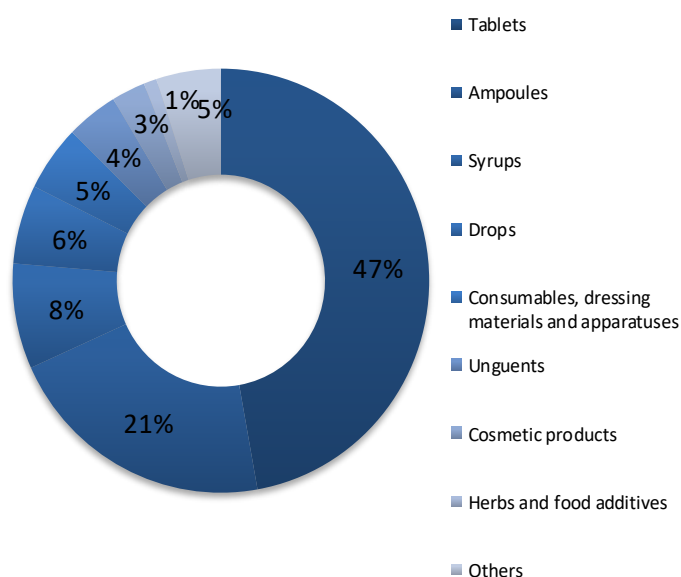
Income from the sale of finished products includes revenues from the sale of products produced by the companies in the Group.

	2019	2018	Change
Revenues from products	BGN '000	BGN '000	%
Tablets	195 603	166 405	18%
Ampoules	32 986	33 880	-3%
Syrups	13 235	8 689	52%
Consumables, dressing materials and apparatuses	13 151	11 546	14%
Unguents	9 961	8 294	20%
Lyophilic Hemodialysis concentrates	8 261	6 736	23%
Infusion solutions	1 571	1 945	-19%
Other	1 226	1 128	9%
<b>Total</b>	<b>288 526</b>	<b>250 809</b>	<b>15.0%</b>



Revenues from sales of goods include revenues from sales of goods to third parties distributed mainly by "Sopharma Trading" AD and SIA "BRIZ".

Revenues from sale of goods	2019	2018	Change
	BGN '000	BGN '000	%
Tablets	467 800	448 473	4%
Ampoules	202 030	196 366	3%
Syrups	82 132	77 354	6%
Drops	58 127	62 419	-7%
Consumables, dressing materials and apparatuses	51 126	31 240	64%
Unguents	36 699	24 305	51%
Cosmetic products	30 781	29 063	6%
Herbs and food additives	12 807	16 851	-24%
Others	51 559	42 263	22%
<b>Total</b>	<b>993 061</b>	<b>928 334</b>	<b>7%</b>



### Other operating revenues

Other revenues	2019	2018	change	Relative share 2019
	BGN '000	BGN '000	%	
Services rendered	5 648	7 675	-26%	45%
Rents	1 059	822	29%	9%
Net loss from exchange rate differences under trade receivables and payables and current accounts	1 052	(1 688)	-162%	8%
Services related to social activities and events	918	910	1%	7%
Derecognition of liabilities	847	1 400	-40%	7%
Government grants	842	889	-5%	7%
Profit from change in the fair value of investment	407	613	-34%	3%
Profit from sale of long-term assets	272	446	-39%	2%
Interests on current accounts	87	-	100%	1%
Profit from sale of materials	39	133	-71%	0%
Others	1 250	637	96%	10%
<b>Total other operating income</b>	<b>12 421</b>	<b>11 837</b>	<b>5%</b>	<b>100%</b>

*Other operating income* increases by BGN 0,6 million, reaching BGN 12,4 million in 2019, compared to BGN 11,8 million in 2018 due to increase of exchange rate differences gains from trade receivables and payables and current accounts with BGN 2,7 million, other income by BGN 0,6 million and rents by BGN 0,2 million. A decrease in the services provided by BGN 2 million is recorded in the part of advertising and marketing revenues.

### Operating expenses

Operating expenses	2019	2018	change	relative share of expenses in 2019
	BGN '000	BGN '000	%	%
Changes in inventories of finished goods and work in progress	3 479	(8 773)	140%	0%
Materials	93 234	91 303	2%	8%
Hired services	75 239	75 897	-1%	6%
Personnel	127 087	119 441	6%	10%
Depreciation and amortization	44 004	33 135	33%	4%
Carrying amount of goods sold	878 504	825 571	6%	71%
Other operating expenses	12 769	15 263	-16%	1%
<b>Total</b>	<b>1 234 316</b>	<b>1 151 837</b>	<b>7%</b>	<b>100%</b>



*Operating expenses* in 2019 increased by BGN 82,5 million or by 7% from BGN 1 151,8 million in 2018 to BGN 1 234,3 million in 2019. The change is a consequence of growth of sales and, respectively, of the carrying amount of goods sold of the Group, an increase in the cost of materials, personnel costs and amortization.

*The cost of materials* (with 8% share) increased by BGN 1,9 million or 2% to BGN 93,2 million in 2019 compared to BGN 91,3 million in 2018 including electricity costs, spare parts, laboratory and technical materials, advertising and more. The cost of basic materials decreased by 6%, the most significant impact being reported for the costs of substances by BGN 1,6.

*External services expenses* account for 6% relative share of operating expenses and decreased by BGN 0,7 million or by 1% to BGN 75,2 million for 2019 compared to BGN 75,9 million for 2018 resulting from decrease in rental expenses and related overhead with BGN 10,5. million, maintenance of buildings and equipment with BGN 1,3 million. The increase is attributed to the cost of advertisement and marketing with BGN 8 million, commissions with BGN 1,2 million and other.

*Personnel costs* (with a share of 10%) increased by BGN 7,7 million or by 6% to BGN 127,1 million in 2019 compared to BGN 119,4 million in 2018. The overall growth of these expenses is due to the increase in the remuneration of the hired personnel.

*Other operating expenses* (with a 1% share) decrease by BGN 2,5 million or 16% from BGN 15,3 million in 2018 to BGN 12,8 million in 2019 in due to decrease of expenses for representative events with BGN 1,3 million, impairment of goods, production and work in progress by BGN 1,3 million, net change in the impairment allowance for credit losses on trade, court and other receivables by BGN 2,9 million.

*Depreciation costs* (with a 4% share) increased by BGN 10,9 million or 32% from BGN 33,1 million in 2018 to BGN 44 million in 2019.

<b>Finance income</b>	<b>2019</b>	<b>2018</b>	<b>change</b>	<b>relative share</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>of revenue of</b>
				<b>%</b>
Net income from operations with investments in securities	3 955	-	100%	36%
Interest income on overdue trade receivables	2 876	2 616	10%	26%
Interest income on loans extended	2 803	1 167	140%	26%
Foreign exchange gains and losses on foreign currency loans and leases	506	-	100%	5%
Net change in the allowance for impairment of credit for trade receivables	481	-	100%	4%
Income from dividends	188	96	96%	2%
Interest on receivables under special contracts	69	-	100%	1%
Net gain from exchange differences on the sale of a subsidiary	47	152	-69%	0%
Interest on bank deposits	1	3	-67%	0%
Others	27	-	100%	0%
<b>Total</b>	<b>10 953</b>	<b>4 034</b>	<b>172%</b>	<b>100%</b>

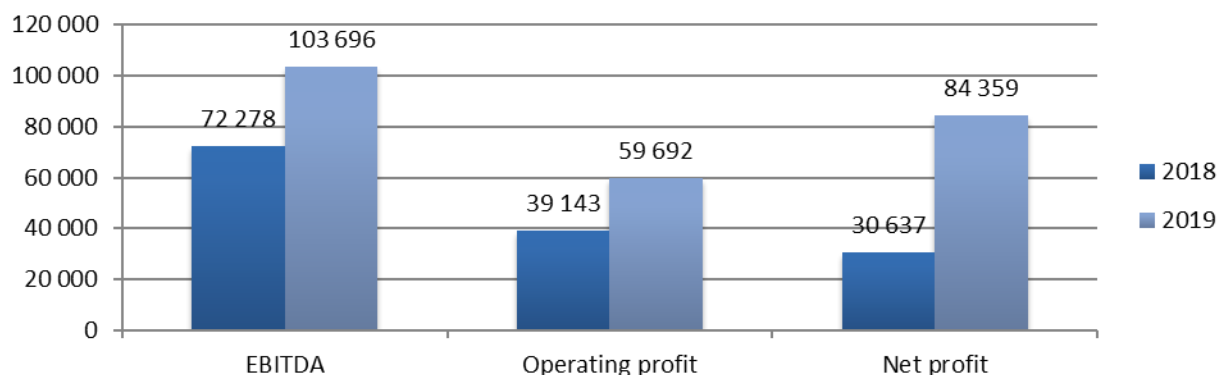
<b>Finance costs</b>			<b>change</b>	<b>relative share</b>
				<b>of expenses in</b>
				<b>2019</b>
Interest expenses on loans	9 264	7 233	28%	75%
Expenses on interest on leasing	1 736	84	1967%	14%
Bank fees on loans and guarantees	935	753	24%	8%
Factoring interest costs	449	374	20%	4%
Expenses for other interest	7	-	100%	0%
Net change in the allowance for impairment of credit for trade receivables	-	133	-100%	0%
Net loss from investments in securities	-	11	-100%	0%
Impairment of cash in banks under special supervision	-	528	-100%	0%
Foreign exchange losses on foreign currency loans and leasing contracts	-	565	-100%	0%
Derivatives effects	-	47	-100%	0%
<b>Total</b>	<b>12 391</b>	<b>9 728</b>	<b>27%</b>	<b>100%</b>

*Financial revenues* increase by BGN 6,9 million to BGN 10,9 million in 2019 compared to BGN 4 million in 2018, mainly due to an increase in net profit from transactions with securities by BGN 4 million and income interest on overdue trade receivables by BGN 1,6 million.

*Financial expenses* increased by BGN 2,7 million from BGN 9,6 million in 2018 to BGN 12,4 million in 2019. The most significant increase is reported in interest expenses on borrowings with BGN 2 million and interest expenses on leasing with BGN 1,6 million.

*Net financial revenues (expenses)* decreased by BGN 4,3 million to BGN (1,4) million as at 31 December 2019 compared to BGN (5,7) million at 31 December 2018.

### Financial result



*Profit before interest, taxes and depreciation (EBITDA)* increased by BGN 31,4 million or 43%, reaching BGN 103,7 million in 2019, compared to BGN 72,3 million in 2018. Its increase over the period is partly due to the introduction of IFRS 16 Leasing, with the effect of reducing the rental expenses by BGN 10,6 million.

*The operating profit* increased by BGN 20,5 million or 52% to BGN 59,7 million in 2019 compared to BGN 39,1 million in 2018.

*Net profit* increased by BGN 53,7 million or by 175% to BGN 84,4 million in 2019 compared to BGN 39,1 million in 2018. The main contribution to this growth is the increase in the profit from associates (“Doverie - Obedinen Holding” AD) in the amount of BGN 44,5 million, as well as the profit from the sale of subsidiaries in the amount of BGN 4,4 million. The accrued impairment of non-current assets outside the scope of IFRS 9 has a negative effect of BGN 18,9 million. It is mainly the result of an accrued impairment of goodwill amounting to BGN 4,2 million, and impairment of intangible assets amounting to BGN 14.4 million mainly related to subsidiaries of SIA Briz. Impairment is based on the estimated cash flows of actual financial plans / forecasts reflecting the restructuring of the Group's business model in the Baltic States and Belarus, resulting in diversification of distribution channels in these regions.

<i>Assets</i>	31.12.2019	31.12.2018	change	Relative share
	BGN '000	BGN '000	%	2019 %
<b>Non-current assets</b>				
Property, plant and equipment	378 625	324 525	17%	60%
Intangible assets	42 829	62 195	-31%	7%
Goodwill	15 909	23 516	-32%	3%
Investment property	10 856	10 427	4%	2%
Investments in associated companies and joint ventures	62 985	20 383	209%	10%
Other long-term capital investments	10 079	8 598	17%	2%
Long-term receivables from related parties	91 794	23 055	298%	15%
Other long-term receivables	10 674	6 399	67%	2%
Deferred taxes	2 421	1 590	52%	0%
	<b>626 172</b>	<b>480 688</b>	30.3%	53%
<b>Current assets</b>				
Inventories	229 873	235 763	-2%	42%
Trade receivables	255 660	235 911	8%	47%
Receivables from related parties	7 112	9 942	-28%	1%
Other receivables and prepayments	1 462	-	100%	0%
Cash and cash equivalents	27 480	22 717	21%	5%
	27 513	25 582	8%	5%
<b>TOTAL ASSETS</b>	<b>549 100</b>	<b>529 915</b>	3.6%	47%
	<b>1 175 272</b>	<b>1 010 603</b>	16.3%	100%

*Total assets* increased by BGN 164,7 million or by 16%, from BGN 1 175,3 million as at 31 December 2019 to BGN 1 010,6 million as at 31 December 2018, due to an increase in non-current and current assets.

*Non-current assets* increased by BGN 145,5 million or 30%, mainly due to an increase in property, plant and equipment, long-term receivables from related companies, Investments in associates and joint ventures and other long-term receivables.

*Assets in property, plant and equipment* increase by BGN 54,1 million in the part of land and buildings by BGN 34,6 million, others by BGN 3 million, assets under acquisition by BGN 13,4 million and machinery, plant and equipment by BGN 3 million.

*Intangible assets* decrease by BGN 19,4 million, in the area of intellectual property rights and other by BGN 22,5 million and increase in the area of software products by BGN 1,5 million and other BGN 0,2 million and intangible assets in the process of acquisition by BGN 1,7 million.

*Investments in associates and joint ventures* increase by BGN 42,6 million compared to 31 December 2018. Other long-term capital investments increase by BGN 1,5 million.

*Long-term receivables from related companies* increase by BGN 68,7 million to BGN 91,8 million.

Other long-term receivables increased by BGN 4,3 million.

*Current assets* increased by BGN 19,2 million or 4% to BGN 549,1 million as at 31 December 2019 compared to BGN 529,9 million as of 31 December 2018.

*Inventories* accounted for 42% of the current assets and decreased by BGN 5,9 million compared to 31 December 2018, mainly in the goods segment by BGN 8,9 million and semi-finished products by BGN 1,8 million, and increase in the share of goods by BGN 4,2 million inventories with BGN 0,3 million and unfinished products by BGN 0,3 million.

*Trade receivables* have a 47% share of current assets and increase by BGN 19,7 million in the part of receivables from clients, net by BGN 21,2 million and decrease in the part of advances granted, net with BGN 1,5 million.

*Receivables from related companies* account for a 1% share of current assets and decrease by BGN 2,8 million, mainly with trade loans, net of BGN 2,5 million.

*Other short-term receivables and assets* accounted for 5% of current assets and increased by BGN 4,8 million as a result of tax reimbursement by BGN 2,7 million, receivables from investment transactions by BGN 2,8 million loans to third parties, net of BGN 2,8 million and decrease in part of court and receivables, net with BGN 3,6 million. Cash and cash equivalents increase by BGN 1,9 million as compared to 31 December 2018, with deposits amounting to 5,6 million at the end of the period.

*Liabilities and owners' equity*

EQUITY	31.12.2019	31.12.2018	change	From owners
	BGN '000	BGN '000	%	equity 2019
<b>Equity attributable to owners of the parent</b>				
Share capital	134 798	134 798	0%	23%
Reserves	60 977	55 661	10%	11%
Retained earnings	360 656	285 101	27%	63%
	<b>556 431</b>	<b>475 560</b>	17%	97%
<b>NON-CONTROLLING INTEREST</b>	19 341	32 969	-41%	3%
<b>TOTAL EQUITY</b>	<b>575 772</b>	<b>508 529</b>	13%	100%

	31.12.2019	31.12.2018	change	% total liabilities 2019
	BGN '000	BGN '000	%	
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	56 832	41 124	38%	9%
Deferred tax liabilities	8 196	11 781	-30%	1%
Long-term liabilities to related parties	2 972	-	100%	0%
Long-term liabilities to personnel	6 626	6 015	10%	1%
Finance lease liabilities	25 840	2 486	939%	4%
Government grants	10 940	7 470	46%	2%
Other non-current liabilities	4 042	299	1252%	1%
	<b>115 448</b>	<b>69 175</b>	67%	19%
<b>Current liabilities</b>				
Short-term bank loans	274 829	242 859	13%	46%
Current portion of long-term bank loans	16 730	14 874	12%	3%
Trade payables	116 407	124 476	-6%	19%
Payables to related parties	7 668	467	1542%	1%
Payables on contract for factoring	24 772	21 791	14%	4%
Payables to the personnel and for social security	10 012	1 196	737%	2%
Payables to personnel and social security	15 418	14 176	9%	3%
Tax payables	7 217	6 675	8%	1%
Other current liabilities	10 999	6 385	72%	2%
	<b>484 052</b>	<b>432 899</b>	12%	81%
<b>TOTAL LIABILITIES</b>	<b>599 500</b>	<b>502 074</b>	19%	100%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 175 272</b>	<b>1 010 603</b>	16.3%	

The equity of Sopharma Group increased by BGN 67,2 million compared to 31 December 2018, mainly due to an increase in retained earnings and reserves. The non-controlling interest is decreased by BGN 13,6 million. The equity related to the equity holders of the Company is 47% of the total equity and liabilities, and there is improvement in the financial autonomy of the Group. The latter increases by BGN 80,9 million mainly due to the undistributed profit and reserves.

Non-current liabilities increase by BGN 46,3 million, or 67%, from BGN 69,2 million at the end of 2018 to BGN 115,5 million at the end of 2019, mainly from an increase in long-term bank loans with BGN 15,7 million, leasing obligations with BGN 23,3 million, other non-current liabilities with BGN 3,7 million, long-term liabilities to related parties with BGN 3 million and government grants by BGN 3,5 million.

*Current liabilities* increased by BGN 51,2 million or by 12% compared to the end of 2018, mainly due to an increase of short-term loans by banks by BGN 32 million, short-term part of long-term bank loans by BGN 1,8 million, personnel and social security liabilities increased by BGN 1,2 million, short-term leasing liabilities with BGN 8,8 million, liabilities to related enterprises with BGN 7.2 million, other current liabilities with BGN 4,6 million and factoring liabilities by BGN 3 million. Commercial liabilities decrease with BGN 8,1 million.

*Total liabilities* on bank loans, leasing and factoring of the Group increased by BGN 84,7 million compared to the end of 2018, with the net debt after deduction net of cash and cash equivalents increased by BGN 82,8 million.

<i>Ratios</i>	<b>31.12.2019</b>	<b>31.12.2018</b>
ROE <sup>1</sup>	17.1%	6.0%
ROA <sup>2</sup>	7.8%	2.9%
Asset turnover <sup>3</sup>	1,15	1,19
Current liquidity <sup>4</sup>	1,13	1,22
Quick ratio <sup>5</sup>	0,58	0,68
Cash/current liabilities <sup>6</sup>	0,05	0,06
Owners' equity/liabilities <sup>7</sup>	0,96	1,01

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

	31.12.2019 BGN '000	31.12.2018 BGN '000
Net cash flow from/ (used in) operations	(128 444)	(123 784)
Net cash flow used in investment activities	(104 202)	(41 178)
Net cash flow (used in)/from financial operations	235 879	166 477
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>3 233</b>	<b>1 515</b>
Cash and cash equivalents on 1 January	24 129	22 614
Cash and cash equivalents on 31 December	<b>27 362</b>	<b>24 129</b>

*Net cash flows* in 2019 generated by operating activities amounted to BGN 128,4 million outflow, from investment activity amounted to BGN 104,2 million outflow and from financial activity amounted of BGN 235,9 million inward flow. As a result of these activities, the cash and cash equivalents net increased by BGN 3,2 million and as at 31 December 2019 amounted to BGN 27,4 million compared to BGN 24,1 million at 1 January 2019.

*Factoring inflow* amounting to BGN 200,8 million are reported as cash flows from financing activities. As a consequence, a significant decrease in net cash flows from operating activities is recorded at the expense of an increase in net cash flows from financing activities.

## Ecology and environmental protection

“Sopharma” AD maintains and observes its commitments in compliance with the national legislation in the field of environmental protection. The company applies measures to:

- separate collection of waste, minimization, recovery and recycling of production and household waste;
- provide appropriate personnel training on environmental and pollution prevention issues;
- responsibly fulfill the imperative requirements of the Council of Ministers Decree 137 and the Packaging and Waste Ordinance;
- measure annual emissions of waste gases into the ambient air from the Phytochemical Plant and the Solid Form Factory;
- “Sofiyska Voda” measures on a monthly basis the emissions in waste water on production sites A and B in Sofia.

In 2019 the separately collected waste increased by 4% compared to the previous year. Production waste is disposed with licensed recyclers. The annual emissions of waste gases into the ambient air as well as the emissions in the wastewater are within the required standards. The requirements of the Discharge Permit are met. Once a month, a report is made on the packaging imported and / or marketed by type of material for which a monthly installment is paid to “EcoBulpak” AD, with which “Sopharma” AD has concluded a contract for the recovery of packaging waste.



## Personnel

As at 31.12.2019, the average number of employees of “Sopharma” AD is 5 163 (compared to 5 075 in 2018). The average number of employees in “Sopharma” AD as at 31.12.2019 is 2 275 (compared to 2 137 in 2018), and in “Sopharma Trading” AD is 833 (compared to 820 in 2018).

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 for 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. Significant events occurring after the date of preparation of the annual financial statements / Article 39, paragraph 3 of the Accounting Law /**

- ✚ On 10 January 2020, an increase of the capital of the subsidiary “Sopharmacy” EOOD with BGN 18,072 thousand was register.
- ✚ On 21 January 2020, the merger of SOOO “Brizfarm”, Belarus into OOO “Bellerophon”, Belarus was registered by merging the assets and liabilities of the two companies. The activity of the merged company SOOO “Brizfarm” is terminated and all its rights and obligations at the time of the merger are assumed by OOO “Bellerophon”, Belarus.
- ✚ On 11 of March 2020, the World Health Organization declared a Corona Virus pandemic, subsequently, each of the governments in the countries where the companies of the Group operate, announced various restrictive measures. The implemented measures include: work from home, temporary closure of schools, universities, restaurants, cinemas, theatres, museums and sports facilities, retailers, with the exception of food retailers, grocery stores and pharmacies.

The Group's management has carefully analyzed the potential effects of the pandemic and the constraints imposed by governments, expecting overall reductions in economic activity and liquidity in the economies of the countries in which the companies of the Group operate, which is also expected to affect the Group's activities.

The effects on the Group's operations as a result of the events may include: revenue reductions, delays of projects, planned investments, fair value valuation of assets and other.

Based on the publicly available information at the date of the financial statements, the management has taken action to mitigate the adverse effects of pandemic events, including:

- Ensuring continuous operation while respecting the measures to limit the spread of COVID-19, including - strict access control and temperature taking of employees and visitors, prohibition of gathering of people and allocation of workplaces in production in an appropriate manner so as to ensure the absence of close contact between employees, separation of traffic flows in buildings and sufficient space between employees, etc .;
- Negotiations with suppliers to keep the pace of deliveries of raw materials and consumables, as well as meeting the entities' needs for specific raw materials due to the demand for specific medical products and medical supplies needed to cope with the pandemic;
- Providing customers with information on the work approach adopted to maintain delivery schedules;
- Negotiations with the financial institutions, partners of the Group and provision the flowing of adequate information to them, so that timely additional financing may be provided if needed or for some of the Group's companies loan payments may be postponed, if necessary to secure cash flows and others.

The management considers that the going concern principle is appropriate for these consolidated financial statements, as the Group as a whole has sufficient liquid resources to continue its activity in the foreseeable future. At the date of these consolidated financial statements, the management of the Group does not intend to discontinue certain activities performed by Group companies.

- ✚ On 19 March 2020, “Sopharma Trading” AD announced the conclusion of a contract for the acquisition of the pharmacy Group “SCS Franchise”. The merger of “Sopharmacy” and “SCS Franchise” will provide a stronger market position and an opportunity to further meet the growing needs of Bulgarian patients for quality healthcare services. The merger will also bring a nationwide expansion of “Sopharma Trading” AD's operations in the retail segment of the pharmacy market. The Commission for Protection of Competition is yet to pronounce on the deal.
- ✚ At the date of preparation of consolidated financial statements, loans granted to an associate and an entity controlled by it have been repaid at the amount of BGN 30,000 thousand.
- ✚ There are no other significant events occurred after 31 December 2019 which require additional adjustments or disclosures in the consolidated financial statements as at 31 December 2019.

#### **4. Future development of Sopharma Group (article 39, item 4 of the Accountancy Law) and planned economic policy in the following year (Article 247 (3) of the Commercial Law)**

- ✚ On the local market, the Group aims to provide patients with more affordable treatment by registering new generic products in shorter terms.
- ✚ On the foreign markets, efforts are focused on preserving and increasing the share of the Group in the main markets (Russia, Ukraine and Poland), as well as establishing and expanding market positions in other countries (USA, Middle and Eastern Europe and Caucasus region).
- ✚ The Group continues the policy of active partnership with established international pharmaceutical companies, with new companies, as well as expanding the product range of already established collaborations.
- ✚ Optimization of the product portfolio.

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

The Group focuses its research and development mainly on generic products. Research and development projects are focused on finding and developing new formulas and composition or physical properties (such as medicine form or tablet form) of a product in order to adapt it to current market needs. The strategic goal of the Group is to achieve in the future a stable result of developing eight to ten new products per year.

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

### *Intellectual Property*

Although oriented towards generic pharmaceutical products, “Sopharma” AD has been known for years with the traditional production of several unique products based on plant extracts obtained from own-produced technologies. These products are protected not only by trademark, but also by patent or company know-how.

Regarding the generic products it produces, for their market distinctiveness, Sopharma Group relies on brand names, all of which are registered trademarks of the Company.

In all the years of existence, Sopharma Group has generated and defended its industrial property. As a result, the Group owns a large number of industrial property sites, the majority of which - registered rights (trademarks, patents, designs) and fewer unregistered objects - mainly technology.

These assets are the result of the Group's special policy towards product and technological innovation, and in particular innovation.

### *New developments and products*

- New Products for the period January - December 2019
  - Marketing Authorization for the medicinal product has been obtained - Norepinephrine 1 mg / ml concentrate for solution / infusion (Bulgaria, Latvia, Lithuania and Estonia).
- New medicinal products introduced into production
  - Norepinephrine 1 mg / ml concentrate for solution / infusion
  - By the end of 2020, 3 to 5 new medicines are expected to be introduced.
- New registrations and re-registrations / changes

### *New registrations*

- Permissions to use for new destinations of 47 medicinal products have been received, namely:
  - *Sophtensif 1.5 mg prolonged-release tablets (Albania);*
  - *Tuspan 7 mg/ml syrup (Armenia);*
  - *Vicetin 5 mg/ml solution for infusion (Armenia);*

- *Pyraminol 200 mg/ml solution for injection (Armenia);*
- *Bellergamin 0.1 mg/0.3 mg/20 mg coated tablets (Armenia);*
- *Analgin Kids 500 mg/ml oral drops, solution (Armenia);*
- *Sopral 20 mg gastro-resistant capsules, hard (Armenia);*
- *Felogel 1 g/100 g gel (Azerbaijan);*
- *Tuspan 7 mg/ml syrup (Azerbaijan);*
- *Allergosan 10 mg/ml solution for injection (Azerbaijan);*
- *Captopril Sopharma 25 mg tablets (Georgia);*
- *Allergosan 10 mg/ml solution for injection (Georgia);*
- *Amikacin 125 mg/ml solution for injection (Georgia);*
- *Amikacin 250 mg/ml solution for injection (Georgia);*
- *Digoxin Sopharma 0.25 mg tablets (Georgia);*
- *Analgin 500 mg/ml solution for injection (Georgia);*
- *Antiallersin 25 mg/ml solution for injection (Georgia);*
- *Carsil Max 110 mg capsules, hard (Kazakhstan);*
- *Sophalor 0.5 mg/ml oral solution (Kazakhstan);*
- *Deavit Neo 0.5 mg/ml oral drops, solution (Kazakhstan);*
- *Deflamol 350 IU/400 IU/g ointment (Kazakhstan);*
- *Ketotifen Sopharma 0.2 mg/ml syrup (Mongolia);*
- *Metamizol sodic PML 500 mg/ml solution for injection (Romania);*
- *Paracetamol PML 500 mg tablets (Romania);*
- *Carsil Max 110 mg capsules, hard (Russia);*
- *Desloratadine Sopharma 0.5 mg/ml oral solution (Serbia);*
- *Promerol 1 mg/ml solution for injection, 10 x 5 ml (Serbia);*
- *Promerol 1 mg/ml solution for injection, 50 x 5 ml (Serbia);*
- *Vitamin C Sopharma 100 mg/ml solution for injection, 10 x 5 ml (Serbia);*
- *Vitamin C Sopharma 100 mg/ml solution for injection, 10 x 2 ml (Serbia);*
- *Ivadron 3 mg/3 ml solution for injection (Serbia);*
- *Ivadron 150 mg tablets (Serbia);*
- *Felogel 1 g/100 g gel (Tajikistan);*
- *Carsil Max 110 mg capsules, hard (Tajikistan);*
- *Silden 100 mg film-coated tablets (Tajikistan);*
- *Sophalor 0.5 mg/ml oral solution (Tajikistan);*
- *Sophalor 5 mg film-coated tablets (Tajikistan);*
- *Ketotifen Sopharma 1 mg tablets (Tajikistan);*
- *Sopral 20 mg capsules, hard (Tajikistan);*
- *Duspaverin 135 mg film-coated tablets (Tajikistan);*
- *Otigo 40 mg/10 mg/g ear drops, solution (UK);*

- *Allergosan (Desloratadine) Sopharma 0.5 mg/ml oral solution (Ukraine);*
  - *Allergosan (Desloratadine) Sopharma 5 mg film-coated tablets (Ukraine);*
  - *Syafen 100 mg/5 ml oral suspension (Vietnam);*
  - *Carsil 90 mg capsules, hard (Vietnam);*
  - *Vicetin 10 mg tablets (Vietnam);*
  - *Nivalin 5 mg tablets (Vietnam).*
- Documentation has been submitted for the registration of 67 medicinal products to agencies of new destinations.
    - ✓ Cosmetic products
    - 14 cosmetic products have been notified in Georgia (two), Moldova (two), Poland (two), Kazakhstan (two), Ukraine (two), Armenia (two) and Kyrgyzstan (two).
    - ✓ Food supplements
    - 4 nutritional supplements have been notified for Bulgaria, Azerbaijan and Lithuania.
    - ✓ Medical devices
    - 16 medical devices have been registered in Bulgaria.
- Re-registrations / changes*
- Renewed Marketing Authorizations for 81 medicinal products.
  - Documentation submitted for the renewal of the Marketing Authorizations for 107 medicinal products to agencies.
  - Agencies approved 1 219 changes to medicinal products.
  - 1 370 drug changes submitted to agencies.

*Developments*

- Pharmaceutical development of 17 new medicinal products / projects is underway.
  - 27 medicinal products were transferred in the process of transfer and 64 production processes / technologies were validated / optimized.

**6. Information on the acquisition of own shares required by Article 187d of the Commercial Law / Article 39, Item 6 of the Accountancy Law/**

In the current year 232 131 treasury shares were purchased. The treasury shares purchased during the year amount to 0.17% of the Company's share capital and the average acquisition price is BGN 3,45 per share.

	Shares	Equity, net of treasury shares
	Number	BGN '000
<b>Balance at 1 January 2019</b>	125,916,563	101,461
<b>Treasury shares bought back</b>	(232,131)	(805)
<b>Balance at 31 December 2019</b>	125,684,432	100,656

The Board of Directors is authorized to buy treasury shares under certain conditions, according to the decisions of the GMS, held on 23.06.2010, of the EGMS from 30.11.2011, of the EGMS from 01.11.2012, of the EGMS from 28.02.2013 and of the EGMS from 23.02.2018.

*Number and nominal value of the own shares held and the proportion of the capital they represent*

“Sopharma” AD holds 9 113 467 treasury shares, representing 6.76% of the company's capital.

#### **7. Existence of branches of the Company / Article 39, item 7 of the Accounting Law/**

Sopharma Group has no branches.

#### **8. Used financial instruments / Article 39, item 8 of the Accountancy Law /**

Overall risk management focuses on the difficulties in predicting financial markets and minimizing potential negative effects that may affect the financial performance and the company's performance. Financial risks are currently identified, measured and monitored by various control mechanisms introduced to determine adequate prices for the Group products and services and borrowed capital and to adequately assess the market circumstances of the Group investments and forms of maintenance of the free liquid assets, without allowing undue concentration of a risk.

Risk management is currently conducted by the management of the company in accordance with the policy defined by the Board of Directors. The latter has adopted basic principles for general financial risk management, on the basis of which specific procedures have been developed for the management of individual specific risks, such as currency, price, interest, credit and liquidity, and the risk of using non-derivative instruments.

### *Credit risk*

Credit is the risk that the clients of the Group will not be able to pay fully and within the usual time limits the amounts due from them under the trade receivables. The latter are presented in the statement of financial position in net amount after deducting the accrued impairment for doubtful and bad debts. Such impairments are made where and when there are events identifying loss of collectability under 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.

Cash in the Group and the payment 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*

The liquidity risk is expressed in the negative situation that the Group will not be able to meet unconditionally all its obligations according to their maturity, including due to the presence of over-inflation, and the indexation of sales figures for companies operating in such an environment.

The Group generates and maintains a sufficient volume of liquidity. An internal source of liquidity for the Group is the main business of its companies generating sufficient operating flows. External sources of funding are banks and other permanent partners.

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

In the structure of the Group's assets, interest-bearing assets are represented by the cash at floating rate and the loans granted at a fixed interest rate. On the other hand, the borrowed funds of the Group in the form of long-term and short-term loans are usually variable interest rates. This circumstance partly puts the cash flows of the company in line with interest rate risk. The coverage of this risk is achieved in two ways:

- (a) optimizing sources of credit resources to achieve a relatively lower cost of borrowed funds; and



(b) combined structure of interest rates on loans, which contains two components - permanent and variable, the ratio between which and their absolute value can be achieved and maintained at a favorable rate for the companies in the Group. The permanent component has a relatively low absolute value and a large enough relative share in the total interest rate. This circumstance eliminates the probability of a significant change in interest rates with a possible update of the variable component. This also minimizes the probability of a change in the unfavorable direction of cash flows.

The management of the Group companies together with the management of the Company are currently monitoring and analyzing its exposure to changes in interest rates. Different scenarios of refinancing, renewal of existing positions and alternative financing are simulated. Based on these scenarios, the effect on financial result and equity is measured when changing with certain points or percentages. For each simulation, the same assumption of interest rate change applies to all major currencies. Calculations are made for significant interest-bearing items.

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

##### **1. Information under Art. 247 of the Commercial Law**

*Information concerning the course of activity and the condition of the Company and explanations regarding the annual financial statements*

Section II, item 2 describes the activity and the state of the Group and explains the annual financial statement.

*Remuneration received during the year by members of the Board of directors*

The remuneration and other income of the key management and executive directors, the members of the Board of Directors and the managers of the Group's subsidiaries amount to BGN 6,869 thousand. (2018: BGN 5,889 thousand), including:

- current remuneration - BGN 6,356 thousand (2018: BGN 5,312 thousand);
- bonuses - BGN 513 thousand (2018: BGN 575 thousand);
- share based payments - none (2018: BGN 2 thousand);

The remuneration and other short-term income of the Board of Directors of the parent company for 2019 amounting to 1,242 thousand. BGN (2018: BGN 1 401 thousand) are as follows:

- current – BGN 909 thousand (2018: BGN 970 thousand);
- bonus – BGN 333 thousand (2018: BGN 429 thousand);
- share based payments - none (2018 - BGN 2 thousand).

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

The Company's shares acquired, owned and transferred by the members of the Board of Directors in 2019 are as follows:

Members of the Board of Directors	31.12.2019		31.12.2018		Shares acquired in 2019	Change
	Shares	rel. share of capital %	Shares	rel. share of capital %		
Ognian Ivanov Donev	1 653 000	1.23%	1 391 129	1.03%	261 871	261 871
Vesela Lyubenova Stoeva	150	0.0001%	150	0.0001%	-	0
Ognian Kirilov Palaveev	187 520	0.14%	187 520	0.14%	-	0
Alexander Viktorov Tchaushev	111 142	0.08%	111 142	0.08%	-	0
Ivan Venetskov Badinski	350	0.0003%	350	0.0003%	-	0

The company has no bonds issued.

*Rights of members of Board to acquire shares and bonds of the company*

The Articles of Association of “Sopharma” AD do not contain any restrictions on the right of the members of the Board of directors to acquire shares and bonds of the company.

*Participation of members of the Board of directors 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:

- *Ognian Ivanov Donev has a direct / indirect significant share (over 25%) of the capital of the following companies:*
- “Donev Investments Holding” AD, UIC 831915121, with headquarters in Sofia, 12 Pozitano Str.;
- “Telecomplect invest” AD, UIC 201753294, with headquarters in Sofia, 9 Slaveikov Str.
- “Telecomplect” AD, UIC 831643753, with headquarters in Sofia, 5 Lachezar Stanchev Str.

- “Sopharma Buildings” REIT, UIC 175346309, with headquarters in Sofia, 5 Lachezar Stanchev Str.;
- “Sopharma Properties” REIT, UIC 175059266, with headquarters in Sofia, 5 Lachezar Stanchev Str., Building A;
- “Sofprint Group” AD, UIC 175413277 with seat and headquarters: Sofia, 12 Pozitano Str.;
- “Sofconsult Group” AD, UIC 175413245, with seat and headquarters: Sofia, 12 Pozitano Str.;
- “Sofia Inform” AD, UIC 121303553, with headquarters in Sofia, 12 Pozitano Str.;
- “Elpharma” AD, in liquidation, UIC 130299513, with seat and headquarters: Sofia, 16 Iliensko shose Str.;
- “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str;

*Vessela Lyubenova Stoeva* controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

- “VES elektroinvest systems” EOOD, UIC 201812700, with seat and headquarters: Sofia, 9 P. R. Slaveykov Square;
- “Eco Solar Invest” OOD, UIC 201734905, with seat and headquarters: Sofia, 48 Alabin Str;
- “Aquatex” OOD, UIC 203934379, with seat and headquarters: Sofia, 9 P. R. Slaveykov Square.

*Alexandar Victorov Tchaushev* controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

- “Alpha In” EOOD, UIC 131156322, with headquarters in Sofia, 1B Dimcho Debelianov Str.

*Ognian Kirilov Palaveev* controls or owns directly/indirectly a significant share (more than 25%) of the capital of the following companies:

- “Melnitsa Stefanovo Village” EOOD, UIC 201045146, with headquarters in Stefanovo Village, Lovech District.
- “Sirius” OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 Apriltsi Str.
- “OKP Investments” OOD, UIC 204361991, with headquarters in Sofia, 15 Krushova gradina Str.

Participation of Board members in the management of other companies or cooperatives as procurators, managers or board members:

*Ognian Ivanov Donev* participates in the managing/controlling body in the following companies:

- “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 headquarters in Sofia, 12 Pozitano Str. – Member of the Board of directors.
- “Telecomplect” AD, UIC 831643753, with address management in Sofia, 5 Lachezar Stanchev Str., Building A – Chairman of the Supervisory Board.
- “Doverie Capital” AD, UIC 130362127, with headquarters in Sofia, 82 Knyaz Dondukov Blvd – Member of the Supervisory Board.
- “Sopharma” AD, UIC 831902088, with seat and headquarters: Sofia, 16 Iliensko Shousse Str. – member of the Board of Directors and Executive Director.

*Vessela Lyubenova Stoeva* participates in the management/supervisory body for the following companies:

- “VLS” AD, UIC 175082980, with headquarters in Sofia, Slaveikov Square 9 - member of the Board of Directors;
- “VES elektroinvest systems” EOOD, UIC 201812700, with seat and headquarters: Sofia, 9 P. R. Slaveykov Square - Manager.
- “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – Deputy Chairperson of the Board of Directors.

*Alexandar Victorov Tchaushev* participates in the management/supervisory body of the following companies:

- “Monbat” AD, UIC 111028849, with registered office in Sofia, Lozenets area, 4 Golo Bardo Str. – member of the Board of Directors;
- “DK-Domostroene” AD, UIC 102148397, with registered office in Burgas, PO Box 8000, Pobeda area – member of the Board of Directors;
- “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.

*Ivan Venetzkov Badinski* participates in the management/supervisory body for the following companies:

- “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.

*Ognyan Kirilov Palaveev* participates in the management/supervisory body of the following companies:

- “Sirius” OOD, UIC 110543305, with headquarters in Stefanovo Village, Lovech District, 7 Apriltsi Str. – member of the Management Board;
- “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors.
- “Melnitsa Stefanovo Village” EOOD, UIC 201045146, with headquarters: Stafanovo village, Lovech district.
- “OKP Investments” OOD, UIC 204361991, with headquarters in Sofia, 15 Krushova gradina Str.

*Planned economic policy in the next year (Article 247, paragraph 3 of the Commercial Law)*

The information is reflected in Section III, paragraph 4 of this Report - Future development of the Company (Article 39, paragraph 4, of the Accounting Law).

**2. Information under art. 240b of the Commercial Law on the obligation of Board members to notify in writing the Board of Directors or the Management Board when they or their related parties conclude contracts with the company that go beyond its usual activity or substantially deviate from market conditions**

In 2019, there are no contracts that go beyond the ordinary business of the company or significantly deviate from market conditions.

**V. Information on Annex 10 to art. 32, para 1, item 2 of Regulation 2 of POSA**

**1. Information given in value or quantitative terms about the main categories of goods, products and / or services provided, including their share in sales revenue of the Group in general and changes in the reporting year**

The information is included in Section III, item 2 of this document. The Group does not publish quantitative information due to the specifics of the production.

**2. Information about the revenues allocated by separate categories of activities, domestic and foreign markets and information on sources for supply of materials needed for production of goods or the provision of services with the degree of dependence on any individual seller or buyer / user, in case their share exceeds 10 per cent of the expenses or sales revenue, provide information for each person for his share in sales or purchases and links with the issuer**

Information about the revenues allocated by separate categories of activities, domestic and foreign markets are provided in Section III item 2 of this report. For 2019, there are no customers whose relative share exceeds 10% of total sales revenue.

The raw materials used exceed 3,500 nomenclature numbers that have a dynamic structure and diverse origin (synthetic, vegetable), aggregate (liquid, solid, gaseous).

The major share of raw materials is imported. The sources of supply are validated manufacturers, which is in compliance with regulatory requirements and aims at maintaining consistency and traceability in quality.

The respective counterparty companies operate in accordance with the requirements of GMP, GDP and other industry standards. "Sopharma" AD works with a number of Bulgarian and foreign suppliers, the selection of which is carried out in accordance with a developed intercompany procedure and aims to provide both alternative security in the process of supply and competitive flexibility in trade relations. The starting conditions set by "Sopharma" AD in the negotiation process are: consistency of quality, competitive prices, attractive payment terms, rhythmic and timely deliveries that do not allow the accumulation of inventory on the one hand and at the same time ensure the regularity of the production process.

For 2019, there are no suppliers whose relative share exceeds 10% of the total cost of services and materials.

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

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.

There are no such transactions in 2019.

### **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 on transactions concluded between "Sopharma" AD and related parties during the reporting period is set out in an annex to the consolidated financial statements "Related party transactions".

At the Annual General Meeting of Shareholders, held on 07.06.2019, the following transactions were authorized for conclusion between the Company and related parties:

- ✓ A transaction with the purpose of providing production services and quality control of packaging materials for the medicines manufactured by “Sopharma” AD. “Sopharma” AD is the contracting authority and the recipient of the services, and „Softprint Group“ AD is the contractor and the supplier, which is why for the public company “Sopharma” AD a liability to the related person “Softprint Group” AD of up to BGN 15 million per year will occur. The transaction is envisaged to be concluded with for a 5 year period, whereby the total value of the transaction for the estimated duration of its validity will amount to up to BGN 75 million.
- ✓ Framework contract for the lease of conference space and parking spaces between “Sopharma” AD as a Tenant and “Sopharma Properties” REIT as a Lessor for a term of 1 year with a rent price, determined depending on the capacity and duration of the use of the individual sites, the prices envisaged in accordance with the market value for the use of the assets.
- ✓ Annex to the Lease Agreement dated 01.08.2012 between “Sopharma Properties” ADSID as a lessor and “Sopharma” AD as a tenant. The lessor will lease to the tenant temporary and for gratuitous use (rent) and in addition to the spaces rented pursuant to the Lease Agreement, office areas described in the annex owned by the lessor and located in the the “Sopharma Business Towers” complex, as the lease term will be determined by the remaining lease term under the Lease Agreement, namely until 01.08.2022, but not less than 3 years and not more than 5 years.

At the Extraordinary General Meeting of Shareholders, held on 13.12.2019, the following transactions were concluded between the Company and related parties:

- ✓ Conclusion of a contract for marketing services for medicinal products and medical devices between “Sopharma” AD as a Contracting Authority and “Sopharma Trading” AD as a Contractor under which a liabilities for “Sopharma” AD will arise towards “Sopharma Trading” AD in total amount of the transaction up to BGN 14.6 million excluding VAT for a period of 2 years as of December 13, 2019.

“Sopharma” AD has not entered into transactions that are outside its normal business or materially deviate from the 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 2019 there were no events and indicators of unusual nature for the Group.

**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 contingent obligations took by the Company as at 31 December 2019 are stated in the annual financial statements in the annex "Contingent Liabilities and Commitments".

**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**

The 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 company 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**

The information on concluded by "Sopharma" AD and its subsidiaries loan agreements are listed in the annual report in the Notes to the annual consolidated financial report "Long-term bank loans" and "Short-term bank loans."

**9. Information about the concluded by the issuer, its subsidiary or parent company 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**

The long-term loans granted are to associates and to a company controlled by an associate:  
Contractual amount of EUR 31 091 thousand; interest rate - 3.5%; maturity – 12.31.2021;  
Balance as of 31.12.2019 - BGN 6 890 thousand;

Contract amount of BGN 81 900 thousand; interest rate - 3.0%; maturity - December 31, 2025; Balance as of 31.12.2019 - BGN 81 999 thousand;

Contractual amount of BGN 3 400 thousand; interest rate - 3.0%; maturity – 12.31.2021;  
Balance as of 31.12.2019 - BGN 2 716 thousand;

Contractual amount of BGN 29 900 thousand; interest rate - 3.0%; maturity – 12.31.2021;  
balance as of 31.12.2019 - BGN 0 thousand;



Contractual amount of EUR 700 thousand; interest rate - 3.0%; maturity – 12.31.2021; balance as of 31.12.2019 - BGN 0 thousand.

The long-term loans granted to affiliates are intended to help finance activities for the achievement of common strategic objectives. They are secured by pledges of securities (stocks), pledges of receivables and promissory notes.

Long-term loans to third parties:

Contractual amount of EUR 695 thousand; interest rate - 3.05%; maturity – 12.10.2022; balance as of 31.12.2019 - BGN 1 393 thousand;

Contractual amount of EUR 2 500 thousand; interest rate - 3.05%; maturity – 06.29.2023; Balance as of 31.12.2019 - BGN 4 890 thousand;

The contractual amount is BGN 24 thousand; interest rate - 5.00%; maturity – 03.14.2023; balance as of 31.12.2019 - BGN 15 thousand.

Contractual amount of EUR 40 thousand; interest rate - 6%; maturity – 09.30.2021; balance as of 31.12.2019 - BGN 96 thousand.

Contractual amount of EUR 30 thousand; interest rate - 6%; maturity – 09.30.2021; balance as of December 31, 2019 – BGN 72 thousand.

Contractual amount of EUR 30 thousand; interest rate - 6%; maturity – 09.30.2021; Balance as of 31.12.2019 - BGN 72 thousand.

Commercial loans granted to related parties:

Loans granted to related parties are unsecured and are these parties are related to the Company through key management personnel and also include companies controlled by an associate:

Companies related through key management personnel:

Contractual amount of EUR 4 014 thousand; interest rate - 2.81%; maturity - December 31, 2019; balance as of 31.12.2019 - BGN 0 thousand.

Companies controlled by an associate:

Contractual amount of BGN 190 thousand; interest rate - 3.50%; maturity - 12/31/2020; balance as of 31.12.2019 - BGN 49 thousand;

Contractual amount of BGN 5 990 thousand; interest rate - 3.10%; maturity - 12/31/2020; Balance as of 31.12.2019 - BGN 5 999 thousand.

## **10. Information on the use of funds from the issuance of new issue of 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 management of the parent Company and, respectively, the management of the subsidiaries currently control 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 Company.

**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 2020 includes investments of 14 million BGN for the acquisition of lands, buildings, machinery, equipment and software.

Sources of funding are its own funds from regular business. The Company is not experiencing difficulties in carrying out its investment intentions and payments for operating activity thanks to the generated positive 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 the Accounting Law**

During the reporting period there were no changes in the main 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. 100n para 8 of POSA, which is a separate report, published together with the management report.

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

During the reporting period there were no changes in the management and supervisory bodies of "Sopharma" AD.

**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:**

✚ Amount of accrued by the Company remuneration of the Board of Directors and the Procurator:

	<b>Remuneration BGN</b>	<b>Tantiems BGN</b>	<b>Bonus shares</b>	<b>By employment contract</b>	<b>Total</b>
Ognian Ivanov Donev	354 104	301 205	-	-	655 309
Vesela Lyubenova Stoeva	120 000	-	-	72 202	192 202
Ognian Kirilov Palaveev	120 400	-	-	-	120 400
Alexander Victorov Tchaushev	120 400	-	-	-	120 400
Ivan Venetzkov Badinski	120 000	-	-	54 288	174 288
Procurator – Ivan Badinski	60 000	-	-	-	60 000

The insurance contribution for the account of the company of the members of the Board of Directors - calculated for the period January - December 2019 is in the amount of BGN 13 838,40.

✚ Amount of paid by the Company remuneration of the Board of Directors and the Procurator:

	<b>Remuneration BGN</b>	<b>Tantiems BGN</b>	<b>Bonus shares</b>	<b>By employment contract</b>	<b>Total</b>
Ognian Ivanov Donev	354 104	332 983	-	-	687 087
Vesela Lyubenova Stoeva	120 000	-	-	72 202	192 202
Ognian Kirilov Palaveev	120 400	-	-	-	120 400
Alexander Victorov Tchaushev	120 400	-	-	-	120 400
Ivan Venetzkov Badinski	120 000	-	-	54 288	174 288
Procurator – Ivan Badinski	60 000	-	-	-	60 000

Information about the amount of remuneration of the Board of Directors of “Sopharma” AD is referred to in Section IV of this report - information under Art. 247 of the Commercial Law, para 2.

- ✚ Deferred or contingent remuneration during the year, even if the remuneration is due at a later time:

On the grounds of Art. 24 para. 3, part B of the Articles of Association of the Company to the Executive director of the company is entitled to an additional remuneration to 1% of the profit according to the approved on the General meeting of shareholders relevant Annual Financial Report.

According to Article 7.2, para. 3 of the Remuneration policy, 40% of the additional remuneration to the CEO is deferred for three years and the amounts due are as follows:

- BGN 151 046,79 due in 2020;
- BGN 166 079,36 due in 2021;
- BGN 126 400,37 due in 2022.

- ✚ 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
Kristina Atanasova - Eliot	12 000

The insurance contribution for the account of the company of the members of the Audit Committee calculated for the period January - December 2019 is in the amount of BGN 2 306.40.

**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.**

Information about the shares held by the members of the Board of Directors of Sopharma AD is indicated in Section IV of this report - information under Art 247 par. 2 from Commercial law

Members of the Audit Committee	31.12.2019		31.12.2018		relative share of capital %
	relative share of capital %	Number of shares	relative share of capital %	Number of shares	
Tzvetanka Zlateva	-	-	-	-	-
Vasil Naidenov	0,00007%	186	0,00007%	86	0,00007%
Kristina Atanasova - Eliot	-	-	-	-	-

**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**

There are 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 of the parent company is Pelagia Viatcheva, tel. +359 2 8134 523, correspondence address - Sofia, 5 Lachezar Stanchev str., Building A, fl. 11.

*Information about the shares of "Sopharma" AD*

The total number of shares issued by Sopharma as at 31 December 2019 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 the Company are traded on the “Bulgarian Stock Exchange – Sofia” AD, the Main Market (BSE), the PREMIUM segment 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 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” AD

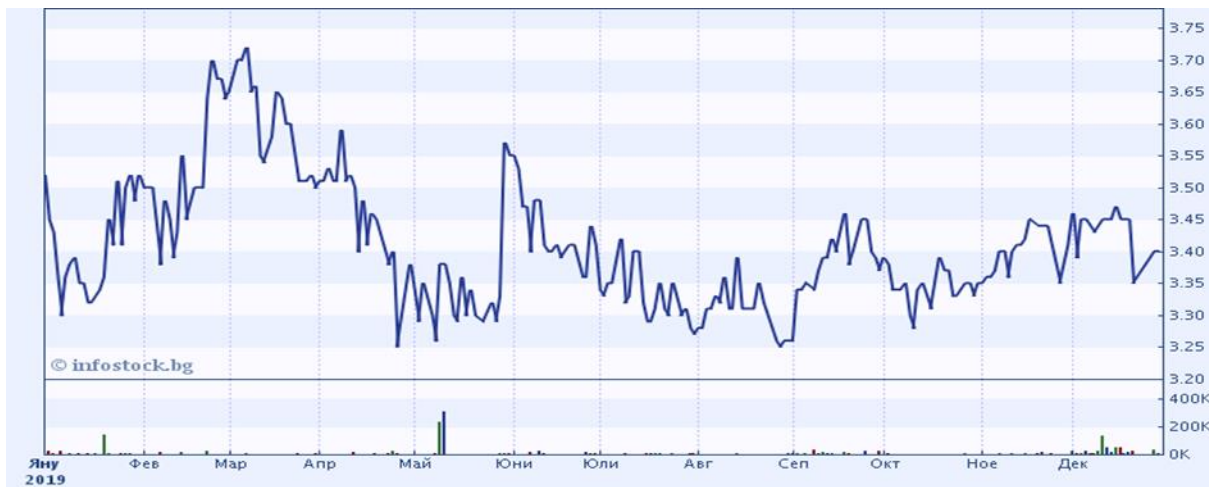
	<b>31.12.2019</b>	<b>31.12.2018</b>
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	125 896 515	125 798 842
Number of shares outstanding at the end of the period	125 684 432	125 916 563
Net earnings per share in BGN <sup>1</sup>	0,691	0,225
Price per share at the end of the period in BGN	3,406	3,57
Price/Earnings ratio (P/E)	4,93	15,63
Book value per share in BGN <sup>2</sup>	4,427	3,78
Price/Book value ratio (P/B)	0,77	0,93
Sales per share in BGN <sup>3</sup>	10,197	9,36
Price per share / Sales per share(P/S)	0,33	0,37
Market capitalization in BGN	459 741 536	474 724 305

<sup>1</sup>Net profit for the last four quarters belonging to the equity holders of the Company / weighted average number of outstanding shares in the same period

<sup>2</sup> Equity, not including minority interest / number of outstanding shares at the end of the period

<sup>3</sup> Revenue from sales for the last four quarters / number of outstanding shares at the end of the period

Trade with shares of “Sopharma” AD on „Bulgarian Stock Exchange – Sofia“ AD for the period 1 January 2019 – 31 December 2019.



30 April 2020  
Sofia

Ognian Donev, PhD  
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