

# MANAGEMENT REPORT FOR THE FIRST QUARTER OF 2020



**SOPHARMA GROUP**

**29.05.2020**

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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 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 mainly done by “Sopharma” AD (the Company);
- production of medicinal products and medicinal 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” in Bulgaria and Serbia.
- 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 Law, with its registered office in Sofia, 16 Iliensko shose str.

“Sopharma” was established in 1933. The court registration of the Group is from 15 November 1991, decision №1/1991 of Sofia City Court. “Sopharma” AD is a public company under the Law on Public Offering of Securities.

The Group conducts the production and marketing of medicinal substances and dosage forms; research, engineering and implementation activities in the field of phytochemistry, chemistry and 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 its 49 subsidiaries, directly or indirectly controlled by the Company. Additionally, the Group has investments in one associated company.

Company	Interest as at 31.03.2020 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" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 2" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 3" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 4" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 5" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 6" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 7" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 8" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 9" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 10" EOOD, Sofia, Bulgaria**	74.23
"Veta Pharma" AD, Veliko Tarnovo, Bulgaria	99.98
"Aromania" AD, Sofia, Bulgaria	76.00
"Sopharmacy 11" (PharmaStore 1) EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 12" (PharmaStore 2) EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 13" (PharmaStore 3) EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 14" (PharmaStore 4) EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 15" (PharmaStore 5) EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 16" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 17" EOOD, Sofia, Bulgaria**	74.23
"Sopharmacy 18" EOOD, Sofia, Bulgaria**	74.23
PAO "Vitamini", Uman, Ukraine	100.00
"Sopharma" Poland Sp. z. o. o, Warsaw, Poland in Liquidation	60.00
"Sopharma" Warsaw Sp. z. o. o, Warsaw, Poland	100.00
"Sopharma Trading Pharmaceuticals", Serbia**	74.23
"BRIZ SIA", Riga, Latvia	68.14
Brititrade SOOO, Minsk, Belarus**	54.51
"Tabina" SOOO, Minsk, Belarus **	54.66
OOO "Sopharma" Ukraine, Kiev, Ukraine	100.00
OOO "Pharmacist Plus", Minsk, Belarus**	40.26
OOO "Bellerofon", Minsk, Belarus***	58.46
TOO "Sopharma" Kazakhstan, Almaty, Kazakhstan	100.00
ZAO "Interpharm", Vitebsk, Belarus***	61.33
OOO "Galenapharm", Pinsk, Belarus**	61.73

## Sopharma Group

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**	45.55
BOOO "SpetzApharmacia", Bobruisk, Belarus**	47.70
UAB "Recessus", Kaunas, Lithuania**	34.74
<b>OOO "Zdorovei Pharm", Minsk, Belarus**</b>	<b>29.61</b>

\*effective interest in percent

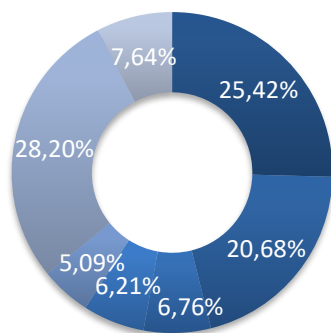
\*\*indirect interest

\*\*\*joint venture

### 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.

### 5. Shareholder structure as at 31 March 2020



- "Donev Investments Holding" AD
- "Telecomplex invest" AD
- "Sopharma" AD (treasury shares)
- "Rompharm Company" OOD
- CUPF "Alianz Bulgaria"
- Other legal persons
- Other physical persons

## 6. Employees

As at 31 March 2020, the average number of employees of Sopharma Group is 5 210 (compared to 5 163 in 2019). The average number of employees of “Sopharma” AD as at 31 March 2020 is 2 222 (at 2 275 in 2019) and of “Sopharma Trading” AD is 823 (compared to 833 in 2019).

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.

The employees are entitled to the higher additional remuneration required by applicable law on overtime, night shifts and work on Saturdays, Sundays and holidays. Employees who work under specific, harmful or dangerous conditions receive personal protective equipment and allowances.

## II. Recent developments

### 1. Industrial activity

The company and its production subsidiaries have 12 pharmaceutical plants in Bulgaria, complied 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:

- production of pharmaceutical products;
- substances and preparations based on plant 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.

### *“Sopharma” AD*

The Company has more than 200 products in its portfolio: incl. nearly 190 medicinal products and 11 groups of medical devices. Medicinal products mainly include generics and 15 traditional products, 12 of which are plant-based. The traditional products of the Group (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, nephrology, surgery, orthopedics and traumatology.

The most significant 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 the stress;
- Medical devices - gauzes, compresses and dressings.

### *“Biopharm Engineering” AD*

“Biopharm Engineering” AD 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 medical products;

### Main Markets:

The produced infusion solutions are marketed through “Sopharma” AD on both the Bulgarian and 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.

### **2. 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” 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 Group 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.

### 3. Revision of the activities of the Group and the main risks it faces

#### COVID-19

On March 11, 2020, the World Health Organization declared a pandemic of the coronavirus, subsequently the Government of the Republic of Bulgaria, announced various measures to limit the infection. Measures introduced include: work from home, temporary closure of schools, universities, restaurants, cinemas, theaters, museums and sports facilities, retailers, excluding food retailers, grocery stores and pharmacies.

The management of “Sopharma” AD carefully analyzes the potential effects of the pandemic and the restrictions imposed by the government, and is expected to reduce overall economic activity and liquidity in the country's economy, which is expected to affect the Company's operations.

The effects on the activity of the Company as a result of the occurred events may include: reduction of the revenues, extraordinary expenses, delay with the implementation of projects, planned investments, etc.

Based on publicly available information at the date of the financial statements, Management has taken action to limit the adverse effects of pandemic events, which include:

- Ensuring continuous operation in compliance with measures to limit the spread of COVID-19, including - strict throughput and temperature measurement of employees and visitors, prohibition of crowding and distribution of jobs in the production in an appropriate manner that ensures the absence of close contact between employees, separation of traffic flows in buildings and in the spaces between them, etc .;
- Negotiations with suppliers to maintain the rhythm of receipt of raw materials and materials, as well as to meet the needs of the company for specific raw materials dictated by the demand for specific drugs and medical supplies needed to deal with the pandemic;
- Providing information to customers on how to work in order to maintain delivery schedules of goods;

- Negotiations with the financial institutions, partners of the Company and the provision of adequate information to them in order to allow timely additional financing in case of need or at some enterprises in the Group, postponement of loan payments, if necessary, to guarantee cash flows and others.

Management considers the going concern principle to be appropriate for these consolidated financial statements, as the Company as a whole has sufficient liquid resources to continue in the foreseeable future. As at the date of these consolidated financial statements, the management of the Company does not intend to discontinue certain activities.

### *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 Group's ability to pay dividends depends on a number of factors and there can be no assurance that the Group will be able to pay dividends in accordance with its dividend policy or at all in any given year;
- The Group is subject to operational risk, which is inherent to its business activities;
- The Group is subject to numerous environmental and health and safety laws and regulations and is exposed to potential environmental liabilities;
- Litigation or other out-of-court proceedings or actions may adversely affect the Group's business, financial condition and results of operations.

### *Risks related 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 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 for control of forthcoming payments is introduced. The exposures of the 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 when denominated in foreign currency are mainly denominated in euro.

## 4. Analysis of the activities

### Key financial indicators

Indicator	1-3/2020 BGN '000	1-3/2019 BGN '000	Change %
Revenues from sales	366 045	313 376	16.8%
EBITDA	27 178	28 114	-3.3%
Operating profit	16 378	17 519	-6.5%
Net profit	8 418	17 226	-51.1%
CAPEX*	11 968	7 353	62.8%

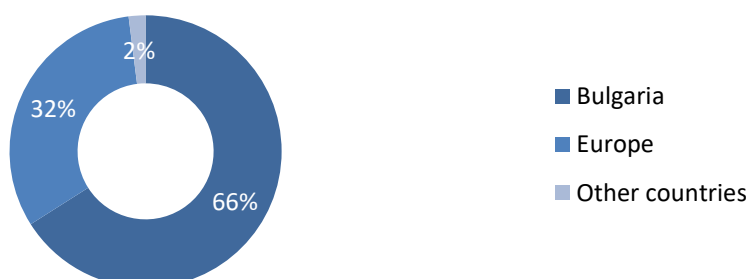
	31.03.2020 BGN '000	31.12.2019 BGN '000	
Non-current assets	627 979	626 172	0.3%
Current assets	586 296	549 100	6.8%
Owners' equity	585 233	575 772	1.6%
Non-current liabilities	115 841	115 448	0.3%
Current liabilities	513 201	484 052	6.0%

\*acquired tangible and intangible fixed asset

### Revenue from sales

Revenue from sales of the Group increase with BGN 52,7 million or 17%, reaching BGN 336,1 million in the first quarter of 2020 compared to BGN 313,4 million in the first quarter of 2019. Sales of goods increased with BGN 46,4 million or 19%, reaching BGN 294,8,8 million in the first quarter of 2020 compared to BGN 248,4,3 million in the first quarter of 2019. Sales of finished products increase by BGN 6,3 million, or 10%, to BGN 71,2 million in the first quarter of 2020 compared to BGN 64,9 million in the first quarter of 2019.

### Geographical distribution of sales revenues



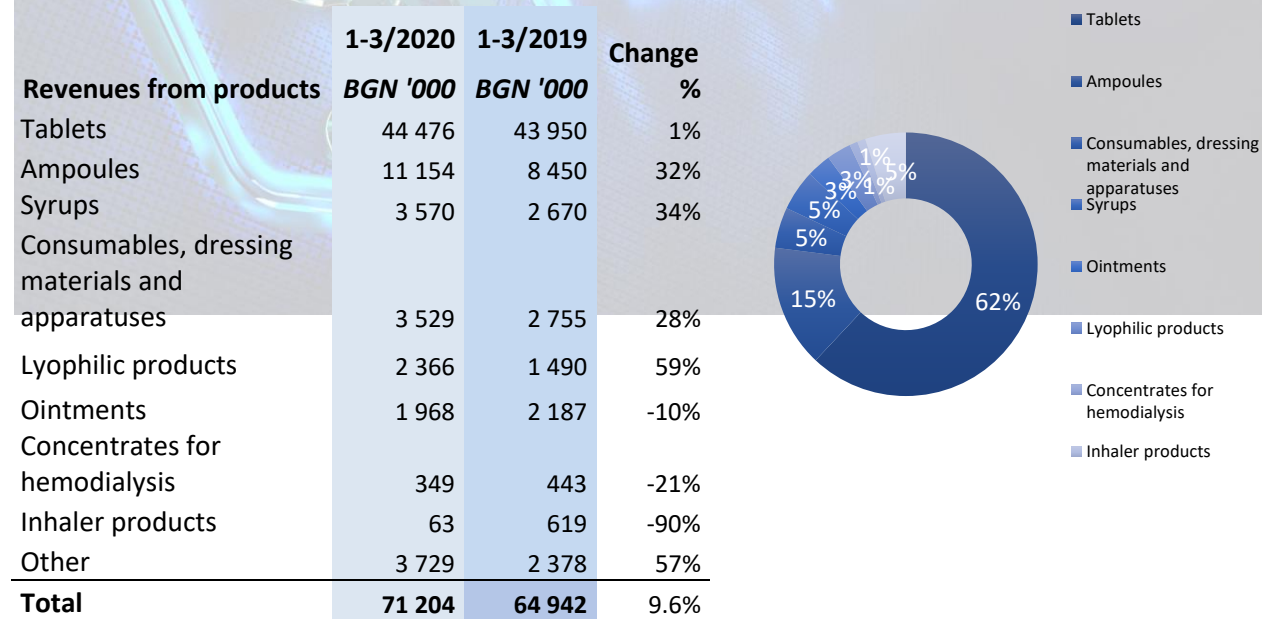
The contribution of sales in Bulgaria to the consolidated sales revenue in the first quarter of 2020 amounted to 66%, increasing by 19% compared to the first quarter of 2019. Sopharma has a 3% share on the Bulgarian pharmaceutical market in terms of value and a 11 % share in terms of sold quantity (units). The positions of the main competitors of the Company in the country are as follows: “Novartis” – 6.4% (3.5% in units), “Roche” – 6.3% (0.3% in units), “Actavis” – 4.3% (10% in units), “Glaxosmithkline“ – 3.9% (2.8% in units), “Merck Sharp Doh“– 3.9%(0.7% in units ), “Pfizer” – 3.8% (1% in units), “Abbvie” – 3.7% (0% in units), “Sanofi-Aventis” – 2.7% (2% in units), “Astra Zeneca” – 2.7% (0.4% in units).

Revenues from sales of the Group in Europe amount to 32% of total consolidated sales revenues for the first quarter of 2020 and increase with 12% compared to the first quarter of 2019.

### Sales by type of formulation

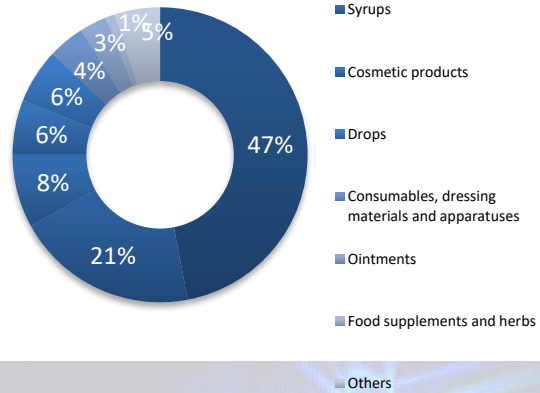
The reported revenue of the Group includes the following items: revenues from the sale of finished products and revenues from the sale of goods.

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



Revenues from sales of goods include revenues from sales of goods to third parties distributed mainly by “Sopharma Trading” AD, SIA “Briz” and SOOO “Brititrade”.

Revenue earned from sale of goods	1-3/2020	1-3/2019	Change	
	BGN '000	BGN '000		%
Tablets	139 262	121 686		4%
Ampoules	54 119	47 581		-2%
Syrups	24 799	23 319		30%
Consumables, dressing materials and apparatuses	18 602	7 949		3%
Cosmetic products	16 002	7 493		126%
Drops	12 524	16 622		49%
Ointments	8 638	6 473		-1%
Food supplements and herbs	5 577	5 436		-19%
Others	15 318	11 875		-3%
<b>Total</b>	<b>294 841</b>	<b>248 434</b>		<b>19%</b>



Other operating revenues				
Other revenues	1-3/2020	1-3/2019	Change	Rel. share 2020
	BGN '000	BGN '000	%	%
Services rendered	1 237	2 184	-43%	93%
Profit / (loss) on trade receivables and payables and current accounts	(997)	(38)	2524%	-75%
Government grants	239	198	21%	18%
Rents	228	209	9%	17%
Services related to social activities and events	123	150	-18%	9%
Profit from sale of long-term assets	82	73	12%	6%
Interests on current accounts	59			4%
Other	365	179	104%	27%
<b>Total other operating income</b>	<b>1 336</b>	<b>2 955</b>	<b>-55%</b>	<b>100%</b>

*Other operating income* decrease by BGN 1,6 million, reaching BGN 1,3 million in the first quarter of 2020, compared to BGN 2,9 million in the first quarter of 2019 due to a increase in the net losses of exchange rate differences from trade receivables and current liabilities accounts with BGN 1 million. Services decreased by BGN 0,9 million.

## Operating expenses

Operating expenses	1-3/2020	1-3/2019	Change	Rel. share of expenses 2020
	BGN '000	BGN '000	%	%
Changes in inventories of finished goods and work in progress	(985)	(3 605)	73%	0%
Materials	22 790	22 951	-1%	6%
External services	19 648	17 782	10%	6%
Personnel	32 771	30 738	7%	9%
Depreciation and amortization	10 800	10 595	2%	3%
Carrying amount of goods sold	264 335	218 400	21%	75%
Other operating expenses	1 644	1 951	-16%	0%
<b>Total</b>	<b>351 003</b>	<b>298 812</b>	<b>17%</b>	<b>100%</b>

*Operating expenses* increase by BGN 52,2 million or by 17% from BGN 298,8 million in the first quarter of 2019 to BGN 351 million in the first quarter of 2020. The change is due to an increase in sales and, respectively, to the carrying amount of goods sold of the Group, increase in expenses for personnel, amortization, expenses for external services and change in production stocks and work in progress.

*Material expenses* (with 7% share) decrease by BGN 0,2 million or 1% to BGN 22,8 million in the first quarter of 2020 compared to BGN 22 million in the same period of 2019. The expenses of basic materials decreased by BGN 0,4 million or by 3%, as the most significant impact is reported for the costs of substances, packaging materials and herbs. An increase is reported for the costs of electricity, heat and others.

*External services expenses* account for 6% relative share of operating expenses and increase by BGN 1,9 million or by 10% to BGN 19,7 million in the first quarter of 2020 compared to BGN 17,8 million in the first quarter of 2019. The largest increase is in expenses for advertising and marketing services increased by BGN 2 million, manufacture of medicines by BGN 0,6 million and commissions by BGN 0,3 million. Costs for rent and related overheads decreased by BGN 0,6 million and others.

*Personnel expenses* (with a share of 9%) increase by BGN 0,2 million or by 2% to BGN 10,6 million in the first quarter of 2019 compared to BGN 10,8 million in the first quarter of 2020.

*Other operating expenses* (with a 1% share) decrease by BGN 0,3 million or 16% from BGN 1,9 million in the first quarter of 2019 to BGN 1,6 million in the first quarter of 2020.

*Depreciation expenses* (with a 3% share) increase by BGN 0,2 million or 2% from BGN 10,6 million in the first quarter of 2019 to BGN 10,8 million in the first quarter of 2020.

## *Financial income and costs*

<b>Finance income</b>	<b>1-3/2020</b>	<b>1-3/2019</b>	<b>Change</b>	<b>Rel. share of expenses in 2020</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	<b>%</b>
income on loans extended	835	415	101%	62%
Interest income on overdue trade receivables	320	1 029	-69%	24%
Net profit from operations with investments in securities	92	119	-23%	7%
Net profit from exchange differences on the sale of a subsidiary	80	65	23%	6%
Interest income on bank deposits	8	19	-58%	1%
Interest on receivables under special contracts	3	9	-67%	0%
Net foreign exchange gains on foreign currency loans and leases	-	160	-100%	0%
Net change in the impairment adjustment for credit losses on trade receivables	-	243	-100%	0%
<b>Total</b>	<b>1 338</b>	<b>2 059</b>	<b>-35%</b>	<b>100%</b>
<b>Finance costs</b>			<b>Change</b>	<b>Rel. share of costs in 2020</b>
Net foreign exchange loss on foreign currency loans and leases	4 392	-		60%
Interest expense on loans received	2 285	2 127	7%	31%
Lease interest expenses	367	434	-15%	5%
Bank fees on loans and guarantees	187	217	-14%	3%
Interest expense under factoring agreement	129	107	21%	2%
<b>Total</b>	<b>7 360</b>	<b>2 885</b>	<b>155%</b>	<b>100%</b>

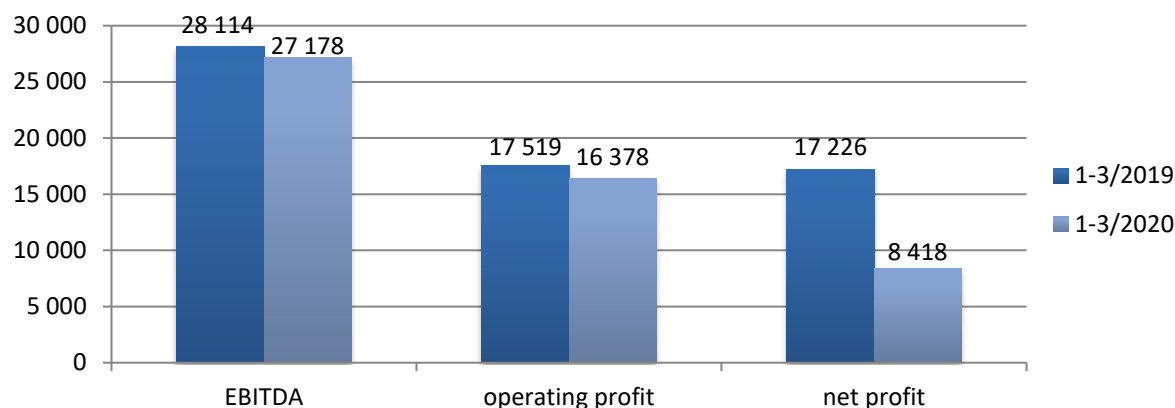
*Financial revenue* decrease by BGN 0,7 million to BGN 1,3 million in the first quarter of 2020 compared to BGN 2 million in the first quarter of 2019, mainly due to a decrease in interest income on overdue trade receivables by BGN 0,7 million.

*Financial expenses* increase by BGN 4,5 million from BGN 2,9 million in the first quarter of 2019 to BGN 7,4 million in the first quarter of 2020, mainly due to an increase in net loss from exchange rate differences on foreign currency loans and lease agreements by BGN 4,4 million.

*Net financial revenues (expenses)* changed by BGN (5,2) million to BGN (6) million as at 31 March 2020 compared to BGN (0,8) million at 31 December 2019.



## Financial result



*Earnings before interest, taxes and depreciation (EBITDA)* decrease by BGN 0,9 million or by 3%, while in the first quarter of 2020 it amounted to BGN 28,1 million compared to BGN 27,2 million in the first quarter of 2019.

*Profit from operating activities* decreases by BGN 1,1 million or by 7%, to BGN 16,4 million in the first quarter of 2020 compared to BGN 17,5 million in the first quarter of 2019.

*Net profit* decreased by BGN 8,8 million or 51% to BGN 8,4 million in the first quarter of 2020 compared to BGN 17,2 million in the first quarter of 2019, as the main reasons for this are the increased financial expenses as a result of losses from exchange rate differences, as well as the one-time effect of the profits reported in the previous period by associates.

## Assets

	31.03.2020	31.12.2019	Change	Rel. share
	BGN '000	BGN '000	%	2020
				%
<b>Non-current assets</b>				
Property, plant and equipment	377 184	378 625	0%	60%
Intangible assets	41 468	42 829	-3%	7%
Goodwill	15 681	15 909	-1%	2%
Investment property	11 277	10 856	4%	2%
Investments in associated companies and joint ventures	63 532	62 985	1%	10%
Other long - term equity investments	12 978	10 079	29%	2%
Long-term receivables from related parties	92 686	91 794	1%	15%
Other long-term receivables	11 224	10 674	5%	2%
Deferred tax assets	1 949	2 421	-19%	0%
	<b>627 979</b>	<b>626 172</b>	<b>0.3%</b>	<b>52%</b>
<b>Current assets</b>				
Inventories	231 248	229 873	1%	39%
Trade receivables	284 862	255 660	11%	49%

## Sopharma Group

Receivables from related parties	7 859	7 112	11%	1%
Assets held for sale	1 462	1 462		
Other short-term receivables and assets	34 241	27 480	25%	6%
Cash and cash equivalents	26 624	27 513	-3%	5%
	<b>586 296</b>	<b>549 100</b>	6.8%	48%
<b>TOTAL ASSETS</b>	<b>1 214 275</b>	<b>1 175 272</b>	3.3%	100%

*Total assets* increase by BGN 39 million or by 3%, from BGN 1 175,3 million as at 31.12.2019 to BGN 1 214,3 million as at 31.03.2020, mainly due to an increase in non-current and current assets.

*Non-current assets* increase by BGN 1,8 million or by 0.3%, mainly due to an increase in other long-term capital investments by BGN 2,9 million, long-term receivables from related companies by BGN 0,9 million and other long-term receivables by BGN 0,6 million.

*Current assets* increase by BGN 37,2 million or 7%, to BGN 586,3 million as at 31.03.2020 compared to BGN 549,1 million as at 31.12.2019 in the part of trade receivables with BGN 29,2 million inventories by BGN 1,4 million, receivables from related companies by BGN 0,7 million and other short-term receivables and assets by BGN 6,8 million

*Cash and cash equivalents* decrease by BGN 0,9 million as compared to 31.12.2019 and deposits provided at the end of the period to the amount of BGN 5,4 million and blocked cash to the amount of BGN 0,2 million.

### Liabilities and owners' equity

EQUITY	31.03.2020	31.12.2019	Change	From owners' equity 2020
	BGN '000	BGN '000	%	%
<b>Equity attributable to owners of the parent company</b>				
Share capital	134 798	134 798	0%	23%
Reserves	59 577	60 977	-2%	10%
Retained earnings	371 639	360 656	3%	64%
	<b>566 014</b>	<b>556 431</b>	2%	97%
<b>NON-CONTROLLING INTEREST</b>	19 219	19 341	-1%	3%
<b>TOTAL EQUITY</b>	<b>585 233</b>	<b>575 772</b>	2%	100%
	<b>31.03.2020</b>	<b>31.12.2019</b>	<b>Change</b>	<b>% total liabilities 2020</b>
	<b>BGN '000</b>	<b>BGN '000</b>	<b>%</b>	
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term bank loans	59 339	56 832	4%	9%
Deferred tax liabilities	8 093	8 196	-1%	1%

Long-term liabilities to related parties	2 504	2 972	-16%	0%
Long-term liabilities to personnel	6 396	6 626	-3%	1%
Finance lease liabilities	25 167	25 840	-3%	4%
Government grants	10 409	10 940	-5%	2%
Other non-current liabilities	3 933	4 042	-3%	1%
	<b>115 841</b>	<b>115 448</b>	0%	18%
<b>Current liabilities</b>				
Short-term bank loans	281 198	274 829	2%	45%
Short-term of long-term bank loans	17 832	16 730	7%	3%
Trade payables	144 531	116 407	24%	23%
Payables to related parties	8 822	7 668	15%	1%
Payables on contract for factoring	13 534	24 772	-45%	2%
Current portion of finance lease liabilities	10 213	10 012	2%	2%
Payables to the personnel and for social security	16 117	15 418	5%	3%
Tax payables	10 693	7 217	48%	2%
Other current liabilities	10 261	10 999	-7%	2%
	<b>513 201</b>	<b>484 052</b>	6%	82%
<b>TOTAL LIABILITIES</b>	<b>629 042</b>	<b>599 500</b>	5%	100%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 214 275</b>	<b>1 175 272</b>	3.3%	

The equity of Sopharma Group increases by BGN 9,5 million compared to 31.12.2019, mainly due to an increase in retained earnings and reserves. 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 letter increases by BGN 9,6 million mainly due to the undistributed profit and reserves.

*Non-current liabilities* increase by BGN 0,4 million or 0.3%, from BGN 115,4 million at the end of 2019 to BGN 115,8 million at 31.03.2020, mainly from increase in long-term bank loans by BGN 2,5 million.

*Current liabilities* increase by BGN 29,1 million or by 6% compared to the end of 2019, mainly due to an increase of trade liabilities by BGN 28,1 million, as well as of short-term bank loans by BGN 6,4 million, liabilities to related companies with BGN 1,2 million, payables to personnel and social security by BGN 0,7 million, tax liabilities by BGN 3,5 million. There is a decrease of liabilities under factoring contracts by BGN 11,2 million. Total liabilities on bank loans, leasing and factoring of the Group decrease by BGN 1,7 million compared to the end of 2019, with the net debt after deduction of cash and cash equivalents decrease by BGN 0,8 million.

## Ratios

	31.03.2020	31.12.2019
ROE <sup>1</sup>	15.7%	17.1%
ROA <sup>2</sup>	7.1%	7.8%
Asset turnover <sup>3</sup>	1.16	1.15
Current liquidity <sup>4</sup>	1.14	1.13
Quick ratio <sup>5</sup>	0.69	0.66
Cash/current liabilities <sup>6</sup>	0.05	0.06
Owners' equity/liabilities <sup>7</sup>	0.93	0.96

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

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

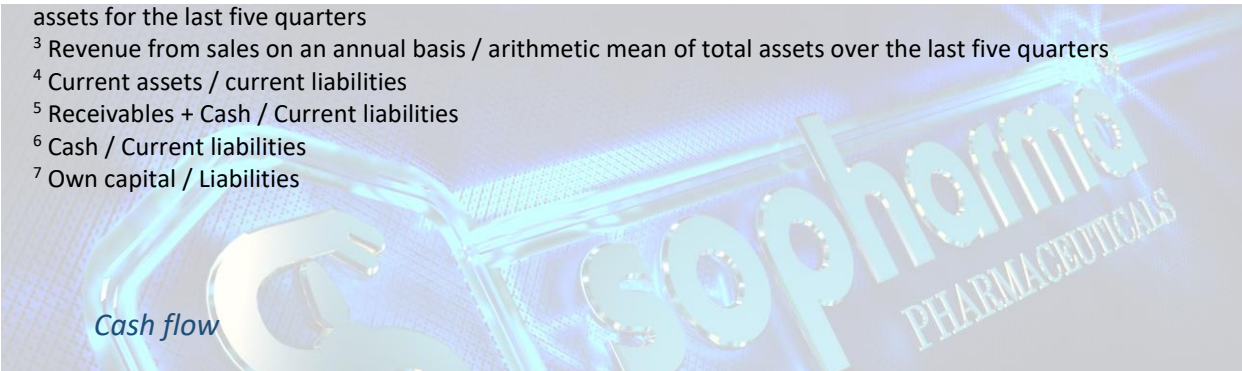
<sup>3</sup> Revenue from sales on an annual basis / arithmetic mean of total assets over the last five quarters

<sup>4</sup> Current assets / current liabilities

<sup>5</sup> Receivables + Cash / Current liabilities

<sup>6</sup> Cash / Current liabilities

<sup>7</sup> Own capital / Liabilities



	31.03.2020 BGN '000	31.03.2019 BGN '000
Net cash flow from/ (used in) operations	(44 584)	(28 504)
Net cash flow used in investment activities	(15 248)	(65 909)
Net cash flow (used in)/from financial operations	58 941	90 136
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>(891)</b>	<b>(4 277)</b>
Cash and cash equivalents on 1 January	27 362	24 129
Cash and cash equivalents on 31 March	<b>26 471</b>	<b>19 852</b>

Net cash flows in the first quarter of 2020 generated from operating activities amounted to BGN 44,6 million outflow, investment activities amounted to BGN 15,2 million outflow and from financial activities amounted to BGN 58,9 million inflow. As a result of these activities, cash and cash equivalents decreased net by BGN 0,9 million and as of 31.03.2020 amount to BGN 26,5 million, compared to BGN 27,4 million as of 01.01.2020.

Factoring proceeds of BGN 48.5 million are reported as cash flows from financial activities. As a consequence, a significant decrease in net cash flows from operating activities is registered at the expense of an increase in net cash flow from financial activities.

## New developments and products

- New Products for the period January - March 2020:
  - No marketing authorization for new medicinal products was received during the reporting period
- New medicinal products introduced into production:
  - During the reporting period no new medicinal products were introduced into the production.
  - By the end of 2020, it is expected that 1 to 3 new medicinal products to be introduced

- New registrations and re-registrations / changes:

### New registrations

Received 9 Authorizations for the use of medicinal products for new destinations, namely:

- Pyraminol 800 mg film-coated tablet (Armenia);
- Sophalor 5 mg film-coated tablet (Azerbaijan);
- Indometacin Sopharma 100 mg suppositories (Azerbaijan);
- Deavit Neo 0.5 mg/ml oral drops, solution (Azerbaijan);
- Methadone Sopharma 10 mg/ml oral solution (Bosnia and Herzegovina);
- Valeriana 30 mg film-coated tablet (Kazakhstan);
- Carsil Max 110 mg capsules, hard (Mongolia);
- Tuspan 7 mg/ml syrup (Russia);
- Felogel 1% gel (Serbia).

- Documentation for the registration of 14 medicinal products to agencies of new destinations was submitted.

### Food additives:

- During the reporting period, 7 food supplements for Bulgaria, Armenia, Kazakhstan and Kyrgyzstan was notified.

### Medical supplies:

- 18 medical supplies were registered in Ukraine (two) and Macedonia (sixteen).

### Re-registrations / changes:

- Updated Authorizations for use of 29 medicinal products.
- Submission of documentation for the renewal of the Marketing Authorizations for 52 medicinal products to agencies.
- 239 changes for medicinal products approved by agencies.
- 320 changes made for medicinal products to the agencies.

- *Developments:*

- There is a pharmaceutical development of 10 new medicinal products.
- 11 medicinal products have been transferred / undergoing transfer and 13 manufacturing processes / technologies have been validated / optimized.

### **5. Significant events in the first quarter of 2020 and until the date of the interim consolidated management report**

- On 22 January 2020, “Sopharma” AD began to pay the gross dividend of 5 cents per share voted at the General Meeting of Shareholders on December 13, 2019. The persons registered in the register of Central Depository AD as shareholders of the 14th day after the day of the General Assembly, namely December 27, 2019.
- On 31 January 2020 a merger of SOOO “Brizpharm”, Belarus into OOO “Bellerofon”, Belarus was registered, by merging the assets and liabilities of the two companies. The activity of the merged company SOOO “Brizpharm”, Belarus is terminated and all its rights and obligations at the time of the merger are assumed by OOO “Bellerofon”, Belarus.
- As of 2 March 2020, OOO “Zdorovey Pharm”, Belarus is a subsidiary through OOO “Zdorovey”, Belarus, as OOO “Zdorovey” owns 65% of the capital of OOO “Zdorovey Pharm”.
- On 19 March 2020, “Sopharma Trading” AD announced the conclusion of a contract for the acquisition of the SCS Franchise pharmacy group. The merger of “Soparmacy” and SCS Franchise will provide a stronger market position and an opportunity to even more meet the growing needs of Bulgarian patients for quality health services. The merger will also bring national expansion of the operations of “Sopharma Trading” AD in the retail segment of the pharmacy market. The Commission for Protection of Competition is about to rule on the deal.
- On 22 April 2020, “Sopharma” AD received BGN 30 million, which were paid interest and loans from an associated company and a company controlled by it (“Doverie - Obedinen Holding” AD and “Doverie Invest” AD).

- “Sopharma” AD presented an invitation to convene a Regular General Meeting of Shareholders and materials for a General Meeting of Shareholders, which will be held on 05.06.2020 from 11.00 am in Sofia, 5 Lachezar Stanchev Str., Ground floor, Sopharma Business Towers Shopping Center, Sopharma Event Center, with the following agenda: Approval of the Annual Report of the Board of Directors on the company's activities in 2019; Approval of the Annual Report of the Investor Relations Director for 2019; Approval of the Annual Financial Statements / individual and consolidated / of the Company for 2019; Approval of the reports of the registered auditor for 2019; Approval of a decision for distribution of the Company's profit realized in 2019 and retained earnings from previous periods. The AGM approves the proposal of the Board of Directors for the distribution of the Company's 2019 profit of BGN 40 382 210.24 (forty million three hundred eighty-two thousand two hundred and ten leva and twenty-four stotinki) as follows: allocating 10% or BGN 4 038 221.02 (four million thirty-eight thousand two hundred and twenty-two and two stotinki) to the mandatory reserve, BGN 6 284 221.60 (six million two hundred eighty four thousand two hundred and twenty-two leva and sixty stotinki) for the 2019 six-month preliminary dividend. After dividing the legal reserve by 10% and dividend paid in advance for the half year of 2019, to distribute a gross dividend of BGN 0.07 per share (seven stotinki). The amount remaining after the distribution above and the retained earnings from previous years in the amount of BGN 1 995 956.93 (one million nine hundred and ninety-five thousand nine hundred fifty-six and ninety-three stotinki) shall be transferred to additional reserves of the company; Approval of the Audit Committee's report in 2019; Election of the Audit Committee; Approval of a decision to discharge the members of the Board of Directors for their activity in 2019; Election of a registered auditor of the Company for 2020; Approval of the Report of the Board of Directors on the implementation of the Remuneration Policy for the members of the Board of Directors of the Company for 2019; Determination of the remuneration of the members of the Board of Directors for 2020; Approval of a decision under art. 24, para 3, letter B of the Articles of Association of the company; Approval of a decision to determine a percentage of the profit realized in 2019 to be distributed among the members of the senior management team of the Company, subject to the requirements of art. 26a, item 12 of the Articles of Association of the company; Approval of a decision to amend the Articles of Association of the company; Approval of the Substantiated Report of the Board of Directors for transactions within the scope of art. 114, para 1 of the LPOS; Authorization under Art. 114, para 1 of LPOS - according to sections I, II, III, IV, V and VI of the Substantiated report; In the absence of a quorum on that date - on 19 June 2020 at the same place, with the same starting hour and the same agenda. The right to vote in the AGM have the persons entered in the registers of the Central Depository as shareholders 14 days before the date of the AGM, or as of 22.05.2020. The last date for concluding

transactions with shares of the company on the Exchange, as a result of which the acquirer to exercise his right to vote in the GMS is 20.05.2020.

- “Sopharma Trading” AD presented an invitation to convene a Regular General Meeting of Shareholders and materials for a General Meeting of Shareholders, which will be held on 05.06.2020. from 14:00 in Sofia-1756, 5 Lachezar Stanchev Str., Sopharma Business Towers, Ground floor, Sopharma Event Center, with the following agenda: Approval of the Annual Report of the Board of Directors on the company's activities in 2019; Approval of the Annual Report of the Investor Relations Director for 2019; Approval of the Annual Financial Statements / individual and consolidated / of the Company for 2019; Approval of the reports of the registered auditor for 2019; Approval of the report of the Board of Directors under Art. 12, para. 1 of Ordinance № 48 of March 20, 2013 on the requirements for remuneration; Approval of the Audit Committee's report in 2019; Approval of a decision for distribution of the Company's profit realized in 2019. The AGM approves the net financial result in the amount of BGN 20 095 473.97. / twenty million ninety-five thousand four hundred seventy-three levs and ninety-seven stotinki / to be divided as follows: BGN 2 009 547.40 / two million nine thousand five hundred forty-seven levs and forty stotinki / refers to the Reserve Fund as a 10% required reserve, BGN 10 282 815 / ten million two hundred eighty-two thousand eight hundred and fifteen levs / for distribution of a cash dividend to the shareholders, BGN 7 803 111.57 / seven million eight hundred and three thousand one hundred and eleven levs and fifty-seven stotinki / to be referred as an additional reserve of the company. The offered gross dividend per share is BGN 0.30 / thirty stotinki /; Approval of a decision to discharge the members of the Board of Directors for their activity in 2019; Determination of the remuneration of the members of the Board of Directors for 2020; Approval of a decision for payment of variable remuneration to the Executive director; Election of a registered auditor for 2020; Election of the Audit Committee; Approval of the Substantiated Report of the Board of Directors for transactions within the scope of art. 114, para 1 of the LPOS; Authorization under Art. 114, para 1 item 3 of LPOS - according to sections I to LXIII of the Substantiated report; In the absence of a quorum, the meeting will be held on 26.06.2020 from 14.00 at the same place and with the same agenda. The right to vote in the AGM have the persons entered in the registers of the Central Depository as shareholders 14 days before the date of the AGM, or as of 22.05.2020.
- “Sopharma Buildings” REIT presented an invitation to convene a Regular General Meeting of Shareholders and materials for a General Meeting of Shareholders, which will be held on 16.06.2020. from 15:00 in Sofia-1756, 5 Lachezar Stanchev Str., SBT, Building A, floor 20, with the following agenda: Approval of the Annual Report of the Board of Directors on the company's activities in 2019; Approval of the Annual Report of the Investor Relations



Director for 2019; Approval of the Audit Report for the performed audit of the Annual Financial Statements of the Company for 2019; Approval of the audited Annual Financial Statements of the Company for 2019; Approval of the report of the Audit Committee on its activities in 2019; Approval of the Report of the Board of Directors on the implementation of the Remuneration Policy for the members of the Board of Directors of the Company for 2019; Approval of a decision for distribution of the Company's profit realized in 2019. The General Meeting of Shareholders accepts the proposal of the Board of Directors that the Company not distribute dividends for 2019 due to the fact that the Company ended the reporting year 2019 with a negative financial result of 80 026.05 (eighty thousand twenty-six levs and five stotinki) BGN, and after transformation by the order of art. 10 of the Special Investment Purpose Companies Act - loss in the amount of BGN 74 825.43 (seventy-four thousand eight hundred and twenty-five leva and forty-three stotinki). The formed loss for 2019 in the amount of BGN 80 026.05 (eighty thousand twenty-six levs and five stotinki) to be covered by the accumulated reserves from the Company's Emission Premium Fund; Adoption of a decision for re-election of the members of the Audit Committee of the Company for a new term; Determining the remuneration of the members of the Audit Committee of the Company; Releasing the members of the Board of Directors from responsibility for their activities in 2019; Adoption of a decision for dismissal of a member of the Board of Directors of the Company; Election of members of the Board of Directors; Determining the amount of the permanent monthly remuneration of the members of the Board of Directors of the Company for 2020; Determining the amount of the guarantee for the management of the members of the Board of Directors; Approval of a decision under Art. 244, para 7, assoc. 2 of the CA for authorization of a person to conclude on behalf and for the account of the Company the contracts for assignment of the management of the Company with the members of the Board of Directors, outside the executive member, as well as any subsequent annexes to them; Selection of a registered auditor for 2020.

### **6. Transactions with related parties**

The information concerning transactions with related parties is presented in details in the Notes to the financial report.

### **III. Information about the shares of “Sopharma” AD**

The total number of shares emitted by “Sopharma” AD, issued on 31.03.2020, 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 Shares Market 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. 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

	31.03.2020	31.12.2019
Total number of issued shares	134 797 899	134 797 899
Average-weighted number of outstanding shares for the last four quarters	125 838 931	125 896 515
Number of shares outstanding at the end of the period	125 684 432	125 684 432
Earnings per share in BGN <sup>1</sup>	0,654	0,691
Price per share at the end of the period in BGN	2,858	3,406
Price/Earnings ratio (P/E)	4,37	4,93
Book value per share in BGN <sup>2</sup>	4,503	4,427
Price/Book value ratio (P/B)	0,63	0,77
Sales per share in BGN <sup>3</sup>	10,62	10,197
Price per share / Sales per share(P/S)	0,27	0,33
Market capitalization in BGN	385 772 551	459 741 536

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

<sup>2</sup> Equity other than minority interest / number of outstanding shares at the end of the period

<sup>3</sup> Sales revenue for the last four quarters / number of outstanding shares at the end of the period

# Sopharma Group

Trade with shares of “Sopharma” AD on “Bulgarian Stock Exchange – Sofia” AD for the period 1 January 2020 – 31 March 2020:



Handwritten signature and circular stamp of Sopharma AD, featuring the text 'БЪЛГАРИЯ СОФАРМА АД' and a stylized 'S' symbol.

Ognian Donev, PhD

/Executive Director/