

MANAGEMENT REPORT

FOR Q2 2020



“SOPHARMA” AD

30 July 2020

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I. General information about “Sopharma” AD

1. Registration and main activities

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

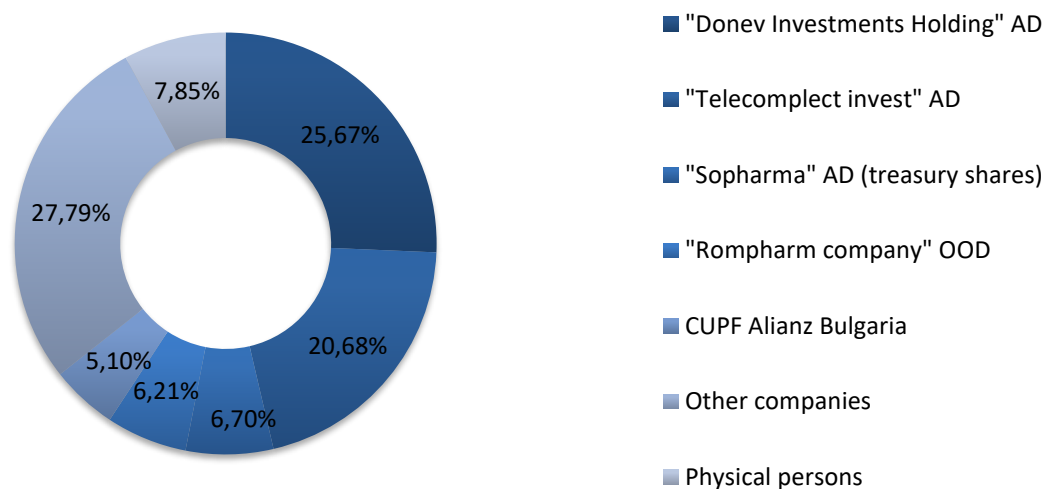
“Sopharma” AD was established in 1933. The court registration of the Company is from 15.11.1991, decision №1 / 1991 of Sofia City Court. “Sopharma” AD is a public company under the Law on Public Offering of Securities.

The Company conducts the production and marketing of medicinal substances and dosage forms; research, engineering and implementation activities in the field of photochemistry, chemistry and pharmaceuticals, production of medical devices and cosmetics, incl. plasters, bandages, sanitary-hygiene products, herbal cosmetics, concentrates for hemodialysis.

“Sopharma” AD provides services related to production, as well as to ancillary and supporting activities.

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

2. Shareholder structure as at 30 June 2020



3. 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, Ognian Palaveev, Alexander Tchaushev and Ivan Badinski.

As of 16.06.2020 Mr. Simeon Donev, Business Development Director at “Sopharma” AD, was appointed as procurator of the company. The Company is represented and managed by the Executive Director OgnianDonev, PhD.

4. Personnel

The average number of workers and employees for Q2 2020 in “Sopharma” AD is 2,195 (2,275 in 2019). The table below provides more detailed information about the company's personnel.

| | 30.06.2020 | Rel. Share % |
|---|------------|--------------|
| Number of workers and employees as at 30 June 2020 | 2 193 | 100% |
| Higher education | 963 | 44% |
| College education | 46 | 2% |
| Secondary education | 1150 | 52% |
| Primary education | 34 | 2% |
| Employees under 30 years | 205 | 9% |
| Employees 31 - 40 years | 403 | 18% |
| Employees 41 - 50 years | 638 | 29% |
| Employees 51 - 60 years | 736 | 34% |
| Employees over 60 years | 211 | 10% |
| Women | 1373 | 63% |
| Men | 820 | 37% |

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 healthy and safety working conditions.

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.

5. Production activity

“Sopharma” AD has ten manufacturing plants, conforming with EU Good Manufacturing Practices (GMP), which are located in Bulgaria. The company is the largest Bulgarian manufacturer of ampoules and suppositories.

The production activities of the company 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, lyophilisate powder for injections;
- Medical and cosmetics products, incl.:
 - ✓ Plasters;
 - ✓ Bandages;
 - ✓ Sanitary-hygiene products;
 - ✓ Herbal cosmetics;
 - ✓ Concentrates for hemodialysis.

6. Products

The Company has more than 200 products in its portfolio: incl. nearly 190 medicinal products and 11 groups of medical devices. Medicinal products include mainly generics and 15 traditional products, 12 of which are plant-based. The Company's traditional products (in particular Tabex, Carsil and Tempalgine) 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 pharmaceutical products in terms of their contribution to the revenues are:

- Carsil – a traditional plant-based product used to treat gastroenterological diseases (liver diseases);
- Tempalgin - a traditional analgesic (painkiller);
- Tabex - a traditional plant-based smoking cessation drug;

- Tribestan - a traditional plant-based product that stimulates the functions of the sexual system;
- Broncholitin - a traditional plant-based product used to suppress cough;
- Analgin - generic analgesic (pain reliever);
- Nivalin - a 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 - a widely used nutritional supplement.
- Valerianae - a generic non-prescriptional herbal medicine used to reduce stress.
- Medical devices - gauzes, compresses and dressings.

II. Development of the activity

1. Review of the main risks faced by the Company

COVID-19

On 11 March 2020 the World Health Organization declared a Coronavirus Pandemic, as a result, the Government of the Republic of Bulgaria, announced various measures to prevent the spread of the disease. Measures implemented include working from home, a temporary lockdown of schools, universities, restaurants, cinemas, theaters, museums and sports facilities, retailers, with the exception of food retailers, grocery stores and pharmacies.

The management of “Sopharma” AD has carefully analyzed the potential effects of the pandemic and the constraints imposed by government, expecting overall reductions in economic activity and liquidity in the economy of the country, which are also expected to affect the Company's activities.

The effects on the Company's activities as a result of the events may include a decrease in revenues, emergency expenses, delay in the implementation of projects, planned investments, etc.

Based on the publicly available information, up to the date of the financial statements, the management has taken actions aimed at limiting the negative effects of the pandemic events, which include:

- Ensuring continuous operation in compliance with measures to limit the spread of COVID-19, including - strict access control and measurement of the temperature of employees and visitors, the prohibition of clustering of people and the distribution of workplaces in the production in an appropriate way, which ensures the absence of close contact between employees, the separation of traffic flows in buildings and spaces between them and etc.;

- Negotiations with suppliers to keep the rhythm of raw materials and supplies flowing, as well as meeting the enterprise's needs for specific raw materials dictated by the demand for specific medicine products and medical supplies needed to deal with the pandemic;
- Providing information to customers on the way of working in order to maintain delivery schedules;
- Negotiations with the financial institutions of the Company's partners and the provision of adequate information to them, so that additional financing, if it's necessary, may be provided on time or with some of the Group's entities, to postpone loan payments, if it's necessary to secure cash flows and others.

The management believes that the working company principle is appropriate for these individual financial statements, as the Company as a whole has sufficient liquid resources to continue in the foreseeable future. At the date of this individual financial statement, the management of the Company does not intend to discontinue certain activities.

Risks related to the Company's business and the industry the Company operates in

- The Company is exposed to strong competition;
- The Company is dependent on regulatory approvals;
- Government regulations affecting the Company's business may change, thus possibly increasing compliance costs or otherwise affecting its operations;
- Part of the Company's revenues, in particular in Bulgaria, depends on the inclusion of the Company's medicines in reimbursement lists;
- The Company's production facilities and processes are subject to strict requirements and regulatory approvals that may delay or disrupt the Company's operations;
- The Company's ability to pay dividends depends on a number of factors and there can be no assurance that in a given year it will be able to pay dividends in accordance with its dividend policy;
- The Company is subject to operational risk, which is inherent to its business activities;
- The Company is subject to numerous laws and regulations in the field of environmental protection and health and safety at work and is exposed to potential environmental liabilities;
- Litigation or other out-of-court proceedings or actions may adversely affect the Company's business, financial condition and results of operations.

Risks related to Bulgaria and other markets in which the Company operates

- The macroeconomic environment, particularly in Bulgaria, Russia and Ukraine, has a significant effect on the Company’s operations ;
- The political environment in Bulgaria and in the export markets, especially Russia and the Ukraine, has a significant effect on the Company’s operations and financial condition;
- Risks related with the Bulgarian legal system;
- Developing legal frameworks in some countries in which the Company sells its products, in particular Russia and Ukraine, may negatively impact the Group’s operations in these countries;
- Risks relating to exchange rates and the Currency Board in Bulgaria;
- The interpretations of tax regulations may be unclear and tax laws and regulations applicable to the Group may change.

Currency risk

The Company perform its activities in active exchange with foreign suppliers and customers. Therefore, it is exposed to currency risk, mainly in respect of USD. The Company supplies part of its main raw materials in USD. The currency risk is related to the negative movement of the USD exchange rate against the BGN in the future business operations, the recognized foreign currency assets and liabilities and the net investments in foreign companies. The rest of the Company's operations are usually denominated in BGN and / or in EUR. The Company sells some of its finished products in Russia in EUR and thus eliminates the currency risk associated with the depreciation of the Russian ruble. In EUR are also dominated the estimates with the subsidiaries in Ukraine. However, in order to minimize currency risk, the Company conducts through its subsidiaries a monetary policy including the application of advance payments and the reduction of deferred payment terms and the immediate conversion of local currency earnings as well as betting on higher trading currencies mark-ups to offset possible future impairment of the hryvnia.

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.

2. Revision of the activities of the company

Key financial indicators

| Indicators | 1-6/2020 <i>BGN '000</i> | 1-6/2019 <i>BGN '000</i> | Change % |
|-------------------------|--------------------------------------|--------------------------------------|-------------|
| Revenues | 101 801 | 100 951 | 0.8% |
| EBITDA | 24 749 | 26 105 | -5.2% |
| Operating profit | 15 645 | 16 971 | -7.8% |
| Net profit | 20 508 | 24 981 | -17.9% |
| CAPEX** | 5 958 | 6 639 | -10.3% |
| | 30.06.2020 <i>BGN '000</i> | 31.12.2019 <i>BGN '000</i> | |
| Non-current assets | 444 326 | 477 027 | -6.9% |
| Current assets | 240 044 | 201 738 | 19.0% |
| Owners' equity | 534 021 | 522 644 | 2.2% |
| Non-current liabilities | 17 901 | 20 667 | -13.4% |
| Current liabilities | 132 448 | 135 454 | -2.2% |

* tangible and intangible fixed assets acquired

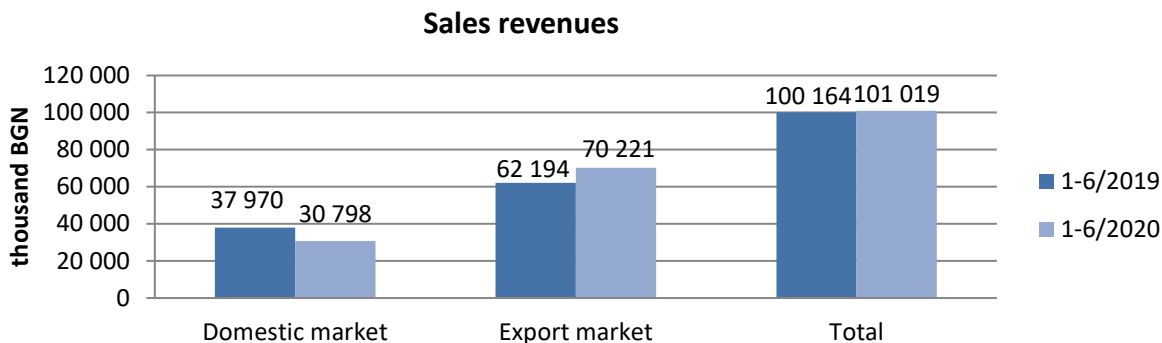
| Ratios | 1-6/2020 | 1-6/2019 |
|----------------------------------|-------------------|-------------------|
| EBITDA / Revenues | 24.3% | 25.9% |
| Operating profit/ Sales revenues | 15.4% | 16.8% |
| Net profit/ Sales revenues | 20.1% | 24.7% |
| | 30.06.2020 | 31.03.2020 |
| Borrowed capital/Owners' equity | 0,28 | 0,31 |
| Net debt**/ EBITDA | 1,6x | 1,9x |

* the net debt comprises the sum of borrowings from banks and lease liabilities less cash and cash equivalents, taking into account the effects of the adoption of IFRS 16 Leases, effective from 01.01.2019

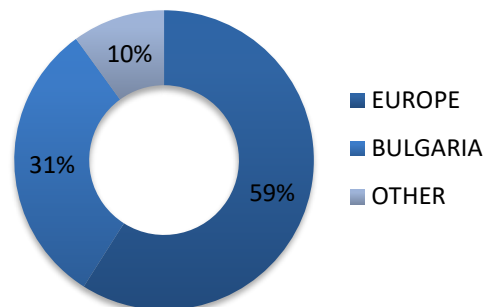
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Sales revenues from products

Sales revenues from products for Q2 2020 increase by BGN 0,9 million or by 1%, to BGN 101 million compared to BGN 100,2 million in Q2 2019.



| Revenues by market | 1-6/2020 BGN '000 | 1-6/2019 BGN '000 | Change % |
|--------------------|----------------------|----------------------|-----------|
| Europe | 59 845 | 52 974 | 13% |
| Bulgaria | 30 798 | 37 970 | -19% |
| Other | 10 376 | 9 220 | 13% |
| Total | 101 019 | 100 164 | 1% |



- European market

Sales revenues for European countries increased by 13% compared to Q2 2019 due to the increase of sales in Russia with 13%, Ukraine with 14%, Poland with 26%, Balkan countries with 13%, Baltic States, Moldova and others.

- Bulgarian market

Sales of “Sopharma” AD in the domestic market decreased by BGN 7,2 million or by 19% to BGN 30,8 million in Q2 2020 compared to BGN 38 million in Q2 2019. The products with the largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C, Nivalin and medical supplies - gauzes, compresses and bandages. “Sopharma” AD has a 3% share of the total Bulgarian pharmaceutical market in value and 10% of sales in volume. The positions of the main competitors of the Company in the country are as follows: Roche – 6.8% (0.3% in kind), Novartis –6.6% (3.6% in kind), , Actavis – 4.3% (9% in kind), Merck Sharp Doh – 4.2% (0.8% in

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kind), Pfizer - 4% (1% in kind), Abbvie - 3.8% (0% in kind), Glaxosmithkline - 2.9% (2.4% in kind), Astra Zeneca - 2.8% (0.4% in kind), Sanofi-Aventis –2.6% (2% in kind).

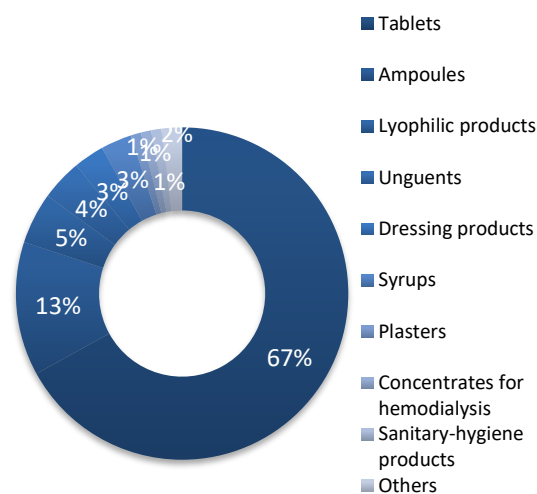
- Other markets

Revenues from other markets increased with 13% compared to Q2 2019, mainly as a result of an increase of the export for Vietnam.

Sales by type of formulation

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

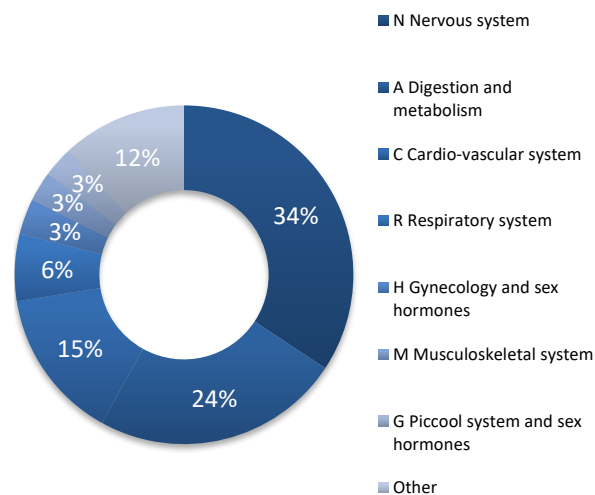
| Revenues by type of formulation | 1-6/2020 BGN '000 | 1-6/2019 BGN '000 | Change % |
|---------------------------------|----------------------|----------------------|-------------|
| Tablets | 67 632 | 68 082 | -1% |
| Ampoules | 13 258 | 13 436 | -1% |
| Unguents | 5 341 | 3 964 | 35% |
| Lyophilic products | 3 579 | 2 970 | 21% |
| Syrups | 3 532 | 3 053 | 16% |
| Dressing products | 3 028 | 3 520 | -14% |
| Plasters | 1 440 | 1 789 | -20% |
| Concentrates for hemodialysis | 667 | 850 | -22% |
| Medical cosmetics | 590 | 339 | 74% |
| Others | 1 952 | 2 161 | -10% |
| Total | 101 019 | 100 164 | 1% |



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Sales by therapeutic group

| Revenues by therapeutic group | 1-6/2020 BGN '000 | 1-6/2019 BGN '000 | Change % |
|-----------------------------------|----------------------|----------------------|-------------|
| N Nervous system | 34 760 | 32 398 | 7% |
| A Digestion and metabolism | 24 067 | 30 007 | -20% |
| C Cardio-vascular system | 14 651 | 11 980 | 22% |
| R Respiratory system | 6 496 | 6 413 | 1% |
| H Gynecology and sex hormones | 3 442 | 2 908 | 18% |
| M Musculoskeletal system | 2 897 | 1 947 | 49% |
| G Urinary system and sex hormones | 2 923 | 2 554 | 14% |
| Other | 11 783 | 11 958 | -1% |
| Total | 101 019 | 100 164 | 1% |



Other operating revenues

| Other revenues | 1-6/2020 BGN '000 | 1-6/2019 BGN '000 | Change % | Rel. share 2020 % |
|---|----------------------|----------------------|-------------|-------------------------|
| Services rendered | 1 119 | 1 580 | -29% | 57% |
| Income from government grants under European projects | 270 | 270 | 0% | 14% |
| Gain on sale of long-term assets | 180 | 8 | 2150% | 9% |
| Amounts awarded | 166 | 52 | 219% | 8% |
| Profit on sale of goods | 109 | 114 | -4% | 6% |
| Profit on sale of materials | 83 | 41 | 102% | 4% |
| Net exchange losses on trade receivables and payables and current accounts | (104) | (104) | 0% | -5% |
| Other revenues (see Notes to the FS) | 137 | 79 | 73% | 7% |
| Total other operating revenues | 1 960 | 2 040 | -4% | 100% |

Other operating income decreased by BGN 0,08 million in Q2 2020 compared to Q2 2019 mainly in the part of revenues from services rendered and increased in the part of the amounts awarded, profit from sale of long-term assets and profit from sale of materials and other revenues.

Operating expenses

| Operating expenses | 1-6/2020 | 1-6/2019 | Change | Rel. share |
|---|---------------|---------------|-------------|-------------|
| | BGN '000 | BGN '000 | % | 2020 |
| Changes in inventories of finished goods and work in progress | (6 665) | (1 355) | -392% | -8% |
| Materials | 38 574 | 35 553 | 8% | 44% |
| External services | 17 470 | 16 107 | 8% | 20% |
| Personnel | 27 287 | 25 532 | 7% | 31% |
| Depreciation and amortization | 9 104 | 9 134 | 0% | 10% |
| Other operating expenses | 2 346 | 1 049 | 124% | 3% |
| Total | 88 116 | 86 020 | 2.4% | 100% |

Operating expenses increased by BGN 2,1 million from BGN 86 million in Q2 2019 to BGN 88,1 million in Q2 2020, mainly due to the cost of materials, cost of external services, other operating costs and personnel costs.

The costs of materials (44% share) increased by BGN 3 million or 8% from BGN 35,6 million in Q2 2019 to BGN 38,6 million in Q2 2020, with the biggest impact being the increase in main materials with BGN 4 million in the part of substances with BGN 2,3 million. The costs for heat energy, laboratory materials, technical materials, auxiliary materials, etc. are reduced.

External services expenses account for 20% relative share of operating expenses and increased by BGN 1,4 million or 8% to BGN 17,5 million in Q2 2020 compared to BGN 16,1 million in Q2 2019. The most significant impact coming from increase in the cost of manufacturing of medicines, consulting services, logistics services, transport and forwarding services and others.

Personnel expenses (with a relative share of 31% of operating costs) increased by BGN 1,8 million or by 7% from BGN 25,5 million in Q2 2019 to BGN 27,3 million in Q2 2020.

Other operating expenses (with a relative share of 3% of operating costs) increased by BGN 1,3 million in Q2 2020 compared to the same period in 2019 mainly in the part of accrued impairment for credit losses on receivables, including from related companies, net and representative events.

Depreciation costs (with a relative share of 10% of operating expenses) registered a decrease of BGN 0,03 million or by 0.3%, retaining their value from BGN 9,1 million.

Changes in inventories of finished goods and work in progress have an impact on the decrease in operating expenses by BGN 5,3 million.

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Financial income and costs

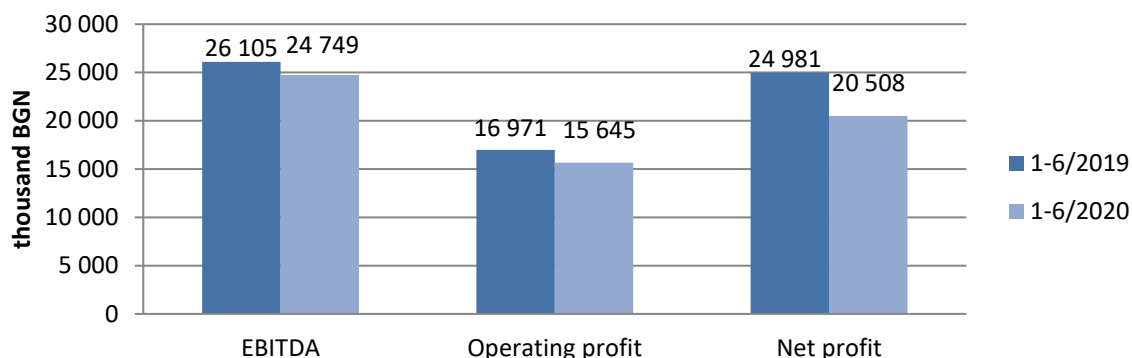
| Financial income | 1-6/2020 BGN '000 | 1-6/2019 BGN '000 | Change % | Rel. share 2020 % |
|---|----------------------|----------------------|-------------|-------------------------|
| Shareholding income | 9 195 | 8 862 | 4% | 84% |
| Interest income on loans extended | 1 766 | 1 424 | 24% | 16% |
| Net profit from exchange differences on the sale of a subsidiary | - | 20 | -100% | 0% |
| Impairment reimbursement for credit losses on trade loans | - | 327 | -100% | 0% |
| Net gain on transactions with investments in securities | - | 254 | -100% | 0% |
| <i>Incl. profits from the sale of investments in subsidiaries</i> | - | 182 | -100% | 0% |
| Total | 10 961 | 10 887 | 1% | 100% |
| Financial costs | | | Change % | Rel. share 2020 % |
| <i>Impairment for credit losses on receivables from trade loans</i> | 3 548 | - | - | 81% |
| <i>Recovered impairment for credit losses on trade loans</i> | (9) | - | - | 0% |
| <i>Net change in impairment on loans granted</i> | 3 539 | - | - | 81% |
| Interest expense on loans received | 687 | 707 | -3% | 16% |
| Bank fees and charges on loans and guarantees | 115 | 133 | -14% | 3% |
| Interest expense on leasing contracts | 43 | 30 | 43% | 1% |
| Net loss from exchange differences on leases | 8 | - | - | 0% |
| Total | 4 392 | 870 | 405% | 100% |

Financial revenues increased by BGN 0,1 million to BGN 11 million in Q2 2020 compared to BGN 10,9 million in Q2 2019, mainly in the part of shareholding income and interest income on loans granted by BGN 0,3 million and decrease in the part of Impairment reimbursement for credit losses on trade loans and net gain on transactions with investments in securities by BGN 0,3 million.

Financial expenses increased by BGN 3,5 million to BGN 4,4 million in the current period of 2020, due to an increase in net change in impairment on loans granted to subsidiaries (SIA Briz Latvia).

Net financial revenues (costs) decreased by BGN 3,4 million compared to Q2 2019.

Financial result of the activity



Profit before interest, taxes and depreciation (EBITDA) in Q2 2020 decreased by BGN 1,4 million or by 5.2% to BGN 24,7 million compared to BGN 26,1 million in Q2 2019.

Operating profit decreased by BGN 1,4 million or 7.8% to BGN 15,6 million in Q2 2020 compared to BGN 17 million in Q2 2019.

Net profit decreased by BGN 4,5 million or by 17.9%, to BGN 20,5 million in Q2 2020 compared to BGN 25 million in Q2 2019.

Assets

| Non-current assets | 30.06.2020 | 31.12.2019 | Change | Rel. share 2020 |
|--|----------------|----------------|--------|--------------------|
| | BGN '000 | BGN '000 | | |
| Property, plant and equipment | 222 434 | 224 654 | -1% | 50% |
| Intangible assets | 8 028 | 8 524 | -6% | 2% |
| Investment property | 41 219 | 39 329 | 5% | 9% |
| Investments in subsidiaries | 87 616 | 87 146 | 1% | 20% |
| Investments in associated companies | 6 062 | 6 062 | 0% | 1% |
| Other long-term equity investments | 10 873 | 9 621 | 13% | 2% |
| Long-term receivables from related parties | 57 651 | 91 794 | -37% | 13% |
| Other long-term receivables | 10 443 | 9 897 | 6% | 2% |
| | 444 326 | 477 027 | -6.9% | 65% |
| Current assets | | | | |
| Inventories | 70 033 | 61 365 | 14% | 29% |
| Receivables from related parties | 121 204 | 97 014 | 25% | 50% |
| Trade receivables | 32 343 | 27 212 | 19% | 13% |
| Loans granted to third parties | 5 782 | 6 044 | -4% | 2% |
| Other receivables and prepaid expenses | 7 565 | 6 144 | 23% | 3% |
| Cash and cash equivalents | 3 117 | 3 959 | -21% | 1% |
| | 240 044 | 201 738 | 19% | 35% |
| TOTAL ASSETS | 684 370 | 678 765 | 1% | 100% |

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Total assets increased by BGN 5,6 million or by 1% to BGN 684,4 million in the end of the current period, compare to BGN 678,8 million as at 31 December 2019.

Non-current assets decreased by BGN 32,7 million, or by 7%, mainly due to a decrease in long-term receivables from related parties by BGN 34,1 million and increase in the part of other long-term receivables by BGN 0,5 million, other long-term capital investments by BGN 1,2 million and investment properties by BGN 1,9 million. Property, plant and equipment decreased by BGN 2,2 million, in the part of machinery, plant and equipment by BGN 1,3 million and in the part of land and buildings with BGN 2,4 million and increased in the process of acquisition by BGN 1,3 million. Intangible assets decreased by BGN 0,5 million mainly in the software sector and intellectual property rights.

Current assets increased by BGN 38,3 million or by 19% to BGN 240 million as at 30 June 2020 compared to BGN 201,7 million as at 31 December 2019. Inventories increased by BGN 8,7 million or 14% compared to 31 December 2019. Receivables from related enterprises increased by BGN 24,2 million in the part of receivables from contracts with customers, net. Trade receivables increased by BGN 5,1 million. Commercial loans granted to third parties decreased by BGN 0,3 million. Other receivables and prepaid expenses increased by BGN 1,4 million. Cash and cash equivalents decreased by BGN 0,8 million.

Liabilities and owners' equity

| | 30.06.2020 | 31.12.2019 | Change | Rel. share |
|--|-------------------|-------------------|---------------|-------------------|
| | BGN '000 | BGN '000 | % | 2020 |
| OWNERS' EQUITY | | | | |
| Share capital | 134 798 | 134 798 | 0% | 25% |
| Treasury shares | (33 762) | (34 142) | -1% | -6% |
| Reserves | 409 113 | 382 549 | 7% | 77% |
| Retained earnings | 23 872 | 39 439 | -39% | 4% |
| TOTAL OWNERS' EQUITY | 534 021 | 522 644 | 2% | 100% |
| | 30.06.2020 | 31.12.2019 | Change | Rel. share |
| | BGN '000 | BGN '000 | % | 2020 |
| LIABILITIES | | | | |
| Non-current liabilities | | | | |
| Long-term bank loans | 22 | 2 398 | -99% | 0% |
| Liabilities on deferred taxes | 5 664 | 6 209 | -9% | 4% |
| Government grants | 4 638 | 4 858 | -5% | 3% |
| Operating leasing liabilities to related parties | 1 142 | 1 610 | -29% | 1% |
| Operating leasing liabilities to third parties | 1 650 | 954 | 73% | 1% |
| Long-term liabilities to personnel | 4 785 | 4 638 | 3% | 3% |
| | 17 901 | 20 667 | -13% | 12% |

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| | | | | |
|---|----------------|----------------|------|------|
| Current liabilities | | | | |
| Short-term bank loans | 94 171 | 100 359 | -6% | 63% |
| Short-term part of long-term bank loans | 5 975 | 7 181 | -17% | 4% |
| Commercial liabilities | 6 709 | 6 074 | 10% | 4% |
| Liabilities to related parties | 9 203 | 6 664 | 38% | 6% |
| Liabilities for taxes | 926 | 2 329 | -60% | 1% |
| Liabilities to the personnel and for social insurance | 8 769 | 7 266 | 21% | 6% |
| Other current liabilities | 6 695 | 5 581 | 20% | 4% |
| | 132 448 | 135 454 | -2% | 88% |
| TOTAL LIABILITIES | 150 349 | 156 121 | -4% | 100% |
| TOTAL OWNERS' EQUITY AND LIABILITIES | 684 370 | 678 765 | 1% | |

The equity of “Sopharma” AD increased by BGN 11,4 million or by 2% to BGN 534 million as at 30 June 2020 compared to BGN 522,6 million as at 31 December 2019, mainly as a result of the increase in reserves by BGN 26,6 million.

Non-current liabilities decreased by BGN 2,8 million or 13% to BGN 17,9 million at the end of current period in 2020 compared to BGN 20,7 million as at 31 December 2019 mainly in the part of long-term bank loans by BGN 2,4 million.

Current liabilities decreased by BGN 3 million to BGN 132,4 million at the end of Q2 2020 compared to BGN 135,4 million as at 31 December 2019. Decrease in short-term bank loans by BGN 6,2 million and liabilities for taxes by BGN 1,4 million and increase in commercial liabilities with BGN 0,6 million, liabilities to related companies by BGN 2,5 million, liabilities to the personnel with BGN 1,5 million and other liabilities by BGN 1,1 million. The total exposure of the Company's as of 30 June 2020 decreased by BGN 9,8 million compared to 31 December 2019.

Cash flow

| | 1-6/2020 | 1-6/2019 |
|---|-----------------|-----------------|
| | BGN '000 | BGN '000 |
| Net cash flow from/ (used in) operations | (13 496) | 20 582 |
| Net cash flow used in investment activities | 29 273 | (74 397) |
| Net cash flow (used in)/from financial operations | (16 619) | 46 501 |
| Net increase/(decrease) of cash and cash equivalents | (842) | (7 314) |
| Cash and cash equivalents on 1 January | 3 959 | 8 971 |
| Cash and cash equivalents on 30 June | 3 117 | 1 657 |

Net cash flows in Q2 2020 generated by operating activities amounted to BGN 13,5 million outflow, from investment activity amounted to BGN 29,3 million inflow and from financial activities were to the amount BGN 16,6 million outflow. As a result of these activities, cash and cash equivalents decreased net by BGN 0,9 million and by 30 June 2020 amounted to BGN 3,1 million compared to BGN 4 million as at 1 January 2020.

Ratios

| | 30.06.2020 | 31.03.2020 | Change |
|---------------------------------|------------|------------|--------|
| ROE ¹ | 6.8% | 7.0% | -0,2 |
| ROA ² | 5.2% | 5.3% | -0,1 |
| Asset turnover ³ | 0,34 | 0,33 | -0.02 |
| Current liquidity ⁴ | 1,81 | 1,46 | -0,35 |
| Quick liquidity ⁵ | 1,28 | 1,01 | 0,27 |
| Monetary liquidity ⁶ | 0,02 | 0,03 | -0,01 |
| Financial autonomy ⁷ | 3,55 | 3,19 | 0,34 |

1 Net profit per annum / average equity for the last five quarters

2 Net profit on an annual basis / average value of total assets for the last five quarters

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

4 Current assets / current liabilities

5 Receivables + Cash / Current liabilities

6 Cash / Current liabilities

7 Equity / Liabilities

3. New developments and products

- New Products for the period January - June 2020
 - During the reporting period, a Marketing Authorization was obtained for a new medicinal product - Solifenax 5 mg film-coated tablet (Bulgaria).
- New medical products implemented in production
 - During the reporting period the following new medicinal products were introduced into the production: - Paracedol Kids 120 mg / 5 ml oral suspension; Antiemetin 5 mg / ml solution for injection; Promerol 1 mg / ml solution for injection and food supplement Alovital oral solution 2.5 mg 5ml.
- New registrations and re-registrations / changes

New registrations

- Received 16 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);
 - Otofix 40 mg/g+10 mg/g ear drops, solution (Azerbaijan);
 - Sophalor 0.5 mg/ml oral solution (Azerbaijan);

- Sydnopharm 2 mg tablet (Azerbaijan);
 - Methadone Sopharma 10 mg/ml oral solution (Bosnia and Herzegovina);
 - Valeriana 30 mg film-coated tablet (Kazakhstan);
 - Broncholytin Ivy 7 mg/ml syrup (Kyrgyzstan);
 - Adrenaline Sopharma 1 mg/ml solution for injection (Malta);
 - Carsil Max 110 mg capsules, hard (Mongolia);
 - Tuspan 7 mg/ml syrup (Russia);
 - Felogel 1 % gel (Serbia);
 - Amlodipine Sopharma 5 mg tablet (Serbia);
 - Sophamet 850 mg film-coated tablet (Tunisia).
- Documentation has been submitted for the registration of 21 medicinal products to agencies of new destinations.

Food additives

- 10 nutritional supplements have been notified for Bulgaria, Armenia, Azerbaijan, Kazakhstan and Kyrgyzstan.

Medical supplies

- 18 medical devices are registered in Ukraine (two) and Macedonia (sixteen).

Re-registrations / changes

- Renewed Marketing Authorizations for 50 medicinal products.
- Documentation submitted for the renewal of the Marketing Authorizations for 77 medicinal products to agencies.
- Agreements approved 382 changes to medicinal products.
- 410 drug changes submitted to agencies.

Developments

- Pharmaceutical development of 10 new medicinal products / projects is underway.
- 15 medicinal products/ active substances were transferred in the process of transfer and 20 production processes / technologies were validated / optimized.

4. Significant events in the first half-year of 2020 and until the publication of the interim management report

- On 22 January 2020, “Sopharma” AD began to pay the gross dividend of 5 stotinki per share voted at the General Meeting of Shareholders on 13 December 2019. The persons registered in the “Central Depository” AD as shareholders on the 14th day after the day of the General Meeting, namely 27 December 2019 have a right to dividend.
- On 22 April 2020, the company received BGN 30 million, which are paid interest and loans from an associate and a controlled company by it (“Doverie - Obedinen Holding” AD and “Doverie Invest” AD).
- On 5 June 2020 the Annual General Meeting of “Sopharma” AD was held, at which the following decisions were taken: The AGM approves the Annual Report of the Board of Directors on the company's activities in 2019.; The AGM approves the Annual Report of the Investor Relations Director for 2019; The AGM approves the Audited Annual Financial Statements /Individual and Consolidated/ of the Company for 2019.; The AGM approves the Auditor's Reports on the Audit of the Annual Individual Financial Statements and of the Annual Consolidated Financial Statements of the Company for the year 2019; 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 as follows: allocating 10% or BGN 4 038 221.02 to the mandatory reserve, BGN 6 284 221.60 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 shall be transferred to additional reserves of the company.; The AGM approves the Audit Committee's report on its activities in 2019.; The AGM re-elects the current members of the Audit Committee of the company for a new term of three years.; The AGM releases the members of the Board of Directors from responsibility for their activities in 2019.; The AGM selects "Baker Tilly Klitou and Partners" OOD as a registered auditor for 2020; The General Meeting approves the Report of the Board of Directors on the implementation of the Remuneration Policy of the Members of the Board of Directors of the Company for 2019.; The AGM decided the constant remuneration of the members of the Board of Directors and the constant remuneration of the Executive Director in 2020 remain unchanged.; Pursuant to art. 24, para 3, letter B of the Articles of Association, the Executive Director of the Company shall be paid an additional remuneration of 1% (one percent) of the amount of profit realized in 2019 according to the approved Annual Financial report.; The General Meeting adopts a decision that of 2% (two percent) of the profit realized in 2019 will be distributed among the members of the company's senior management team, subject to the requirements of

“Sopharma” AD

art. 26a, item 12 of the Articles of Association of the company.; AGM adopts an amendment of the Articles of Association of the Company.; AGM adopts the Substantiated Report of the Board of Directors for transactions within the scope of art. 114, para 1 of the LPOS.; The AGM authorizes the Board of Directors to conclude a transaction within the scope of art. 114, para 1 of the LPOS - under the terms of Section I,II,III, IV, V и VI of the Substantiated Report.

5. Related party information

Related party information is disclosed in the notes to the interim financial statements.

III. Information about the shares of “Sopharma” AD

The total number of shares issued by “Sopharma” as at 30 June 2020 is 134 797 899 with a nominal value of BGN 1 per share. All issued shares are registered, dematerialized, ordinary and indivisible, in accordance with the Articles of Association of the Company. All issued shares are of one class. Each share entitles one vote to the General Meeting of Shareholders, a right to dividend and a liquidation share proportional 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 Raiffeisen Bank's Raiffeisen Osteuropa Fonds certificate and in the 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 European (CEE) index. The index is called WIG-CEE and is the third after WIG-Poland and WIG-Ukraine, which is based on the company's country of origin. WIG-CEE is calculated on the basis of total profitability and includes dividend yield and share subscription rights.

Key indicators of the shares of “Sopharma” AD

| | 30.06.2020 | 31.03.2020 |
|--|-------------|-------------|
| Total number of issued shares | 134 797 899 | 134 797 899 |
| Average-weighted number of outstanding shares for the last four quarters | 125 817 480 | 125 838 931 |
| Number of shares outstanding at the end of the period | 125 769 432 | 125 684 432 |
| Net earnings per share in BGN ¹ | 0,285 | 0,288 |
| Price per share at the end of the period in BGN | 3,167 | 2,858 |
| Price/Earnings ratio (P/E) | 11,11 | 9,92 |
| Book value per share in BGN ² | 4,246 | 4,220 |

“Sopharma” AD

| | | |
|--|-------------|-------------|
| Price/Book value ratio (P/B) | 0,75 | 0,68 |
| Sales per share in BGN ³ | 1,841 | 1,820 |
| Price per share / Sales per share(P/S) | 1,72 | 1,57 |
| Market capitalization in BGN | 426 904 946 | 385 772 551 |

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

2 Equity / number of shares outstanding at the end of the period

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

Trade with shares of “Sopharma” AD on “Bulgarian Stock Exchange – Sofia” AD for the period 1 January 2020 – 30 June 2020.




Ognian Donev, PhD
/Executive Director/