

MANAGEMENT REPORT

2020



“SOPHARMA” AD

26 March 2021

*This document is a translation of the original text in Bulgarian,
in case of divergence the Bulgarian original is prevailing.*

CONTENT

| | | |
|-------------|---|-----------|
| I. | General information about “Sopharma” AD..... | 4 |
| 1. | Registration and activity of the Company | 4 |
| 2. | Shareholder structure as at 31 December 2020..... | 4 |
| 3. | Board of directors | 4 |
| II. | Recent developments..... | 5 |
| 1. | Industrial activity | 5 |
| 2. | Products | 5 |
| III. | Information under Article 39 of the Accountancy Act | 6 |
| 1. | An overview of the Company's performance and the main risks it faces (Article 39 (1) of the Accountancy Act / | 6 |
| 2. | Analysis of financial and non-financial key performance indicators of Sopharma (Article 39, item 2 of the Accountancy Act), as well as a description of the company's position and explanation of the annual financial statements (Article 247 (1) of the Commerce Act/ | 9 |
| 3. | Significant events occurring after the date of preparation of the annual financial statements / Article 39, paragraph 3 of the Accountancy Act /..... | 20 |
| 4. | Future development of “Sopharma” AD (article 39, item 4 of the Accountancy Act) and planned economic policy in the following year (Article 247 (3) of the Commerce Act)..... | 20 |
| 5. | Research and development (article 39, item 5 of the Accountancy Act) | 20 |
| 6. | Information on the acquisition of own shares required by Article 187d of the Commerce Act / Article 39, Item 6 of the Accountancy Act / | 23 |
| 7. | Existence of branches of the Company / Article 39, item 7 of the Accountancy Act / | 23 |
| 8. | Use of financial instruments / Article 39, item 8 of the Accountancy Act / | 23 |
| IV. | Information under Article 247 and Art. 240b of the Commerce Act..... | 25 |
| 1. | Information under Art. 247 of the Commerce Act | 25 |
| 2. | Information under art. 240b of the Commercial Code 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 outside its usual activity or substantially deviate from market conditions..... | 28 |
| V. | Information on Annex 10 to art. 32, para 1, item 2 of Regulation 2 of POSA | 29 |
| 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 “Sopharma” AD in general and changes in the reporting year | 29 |
| 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 an 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 | 29 |

| | |
|---|----|
| 3. Information on significant transactions concluded | 30 |
| 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 | 30 |
| 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.... | 31 |
| 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 | 31 |
| 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 Accountancy Act and the sources / methods of financing..... | 31 |
| 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 | 31 |
| 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 | 32 |
| 10. Information on the use of funds from the issuance of new securities during the reporting period | 33 |
| 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 | 33 |
| 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 | 33 |
| 13. Assessment of the feasibility of investment intentions, indicating the amount of available funds and possible changes in the financing structure of this activity..... | 34 |
| 14. Information about changes in the reporting period in the basic principles of management of the issuer and its group of companies under accounting the Law..... | 34 |
| 15. Information about the main characteristics applied by the issuer in the process of preparing the financial statements, internal control system and risk management | 34 |
| 16. Information about changes in management and supervisory boards during the accounting year | 34 |
| 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: | 34 |
| 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. | 36 |
| 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 | 36 |
| 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 | 36 |
| 21. Information about the Investor Relations Director, including telephone number and mailing address | 37 |
| VI. Information Appendix 11 to Article 32, paragraph 1, item 4 of Ordinance 2 of POSA..... | 37 |
| 1. Structure of the capital of the Company, including securities not admitted to trading on a regulated market in Bulgaria or another Member State, indication of the different classes of shares, the rights and obligations of each class of shares and the portion of the total capital represented by each class..... | 37 |
| 2. Restrictions on transfer of securities, such as restrictions for possession of securities or the need to obtain approval of the Company or another shareholder | 39 |
| 3. Information regarding the direct and indirect ownership of 5 percent or more of the voting rights at the General Meeting of the Company, including details of the Shareholders, the size of their shareholding and the type of shareholding | 39 |
| 4. Information about shareholders with special control rights..... | 40 |
| 5. System for control of exercising votes when employees of the Company are also its shareholders and when the control is not exercised directly by them | 40 |
| 6. Restrictions on the voting rights, such as limitations on the voting rights of Shareholders by a certain percentage or number of votes, deadlines for exercising the voting rights or systems in which with the cooperation of the Company the financial rights attached to shares are separated from the ownership of shares. | 40 |
| 7. Agreements between Shareholders which are known to the Company and which may lead to restrictions on the transfer of shares or voting right. | 40 |
| 8. The provisions concerning the appointment and dismissal of members of the governing bodies of the Company and on the making of amendments to the Articles of Association..... | 40 |
| 9. Powers of the management bodies of the company, including the right to decide on the issue and redemption of shares | 41 |
| 10. Significant contracts of the Company that take effect, are amended or terminated due to a change in control of the company in a mandatory tender offer and the effects thereof, except where disclosure of this information may cause serious damage to the company; exemption under the preceding sentence shall not apply in cases where the company is obliged to disclose information under the Law..... | 42 |
| 11. Agreements between the Company and its management bodies or employees for payment of compensation upon retirement or dismissal without legal grounds or upon termination of employment for reasons related to a tender offering..... | 42 |

I. General information about “Sopharma” AD

1. Registration and activity of the Company

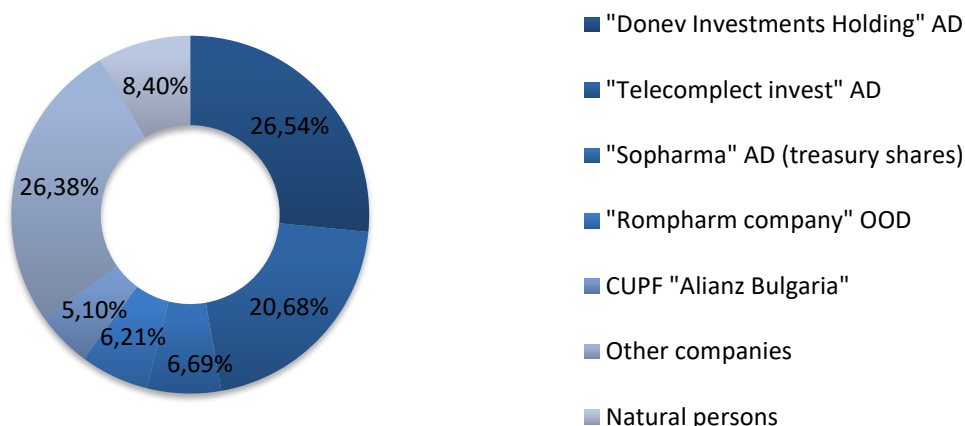
“Sopharma” AD is a company registered in Bulgaria under the Provisions of the Commercial Act, with its registered office in Sofia, 16 “Iliensko shose” str.

“Sopharma” AD was established in 1933. The court registration of the 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 phytochemistry, chemistry and pharmaceuticals. Sopharma Company provides services related to production, as well as to ancillary and supporting activities.

The Company has marketing authorizations under the Law on Pharmaceutical products in Human Medicine for all products of its manufacturing portfolio.

2. Shareholder structure as at 31 December 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. The Company is represented and managed by the Executive Director Ognian Donev, PhD. The company has two procurators - Simeon Donev and Ivan Badinski.

II. Recent developments

1. Industrial activity

“Sopharma” AD has nine 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 realized 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 injection.
- Medical and cosmetic products, incl.:
 - ✓ Plasters;
 - ✓ Bandages;
 - ✓ Sanitary-hygiene products;
 - ✓ Herbal cosmetics;
 - ✓ Concentrates for hemodialysis.

2. Products

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 the products are plant-based. The Company's traditional products (in particular Tabex, Carsil and Tempalgin) make a major share 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 amount of revenues are:

- Carsil - traditional plant-based product used to treat gastro-enterology 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 - generic medicine for cases of severe allergies and certain life-threatening conditions;
- Vitamin C - widely used nutritional supplement;
- Valeriana - generic non-prescription herbal medicine used to reduce stress;
- Medical devices - gauzes, compresses and dressings.

III. Information under Article 39 of the Accountancy Act

1. An overview of the Company's performance and the main risks it faces (Article 39 (1) of the Accountancy Act /

Key financial indicators

| Indicators | 1-12/2020 BGN '000 | 1-12/2019 BGN '000 | Change % |
|------------------|-----------------------|-----------------------|-------------|
| Revenues | 206 737 | 230 691 | -10,38% |
| EBITDA | 51 053 | 64 385 | -20,71% |
| Operating profit | 32 823 | 46 038 | -28,70% |
| Net profit | 28 664 | 40 382 | -29,02% |
| CAPEX** | 9 670 | 10 212 | -5,30% |

| Indicators | 31.12.2020 BGN '000 | 31.12.2019 BGN '000 | Change % |
|-------------------------|------------------------|------------------------|-------------|
| Non-current assets | 435 891 | 477 027 | -8,62% |
| Current assets | 214 447 | 201 738 | 6,30% |
| Owners' equity | 536 988 | 522 644 | 2,74% |
| Non-current liabilities | 16 091 | 20 667 | -22,14% |
| Current liabilities | 97 259 | 135 454 | -28,20% |

* tangible and intangible fixed assets acquired

| Indicators | 1-12/2020 | 1-12/2019 |
|-----------------------------------|------------|------------|
| EBITDA/ Revenues | 24,7% | 27,9% |
| Operating profit/Sales Revenue | 15,9% | 20,0% |
| Net profit/ Sales Revenue | 13,9% | 17,5% |
| | 31.12.2020 | 31.12.2019 |
| Debt/ Equity | 0,21 | 0,28 |
| Net debt*/ EBITDA on annual basis | 1,5x | 1,7x |

* 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

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 the 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, 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 partner financial institutions of the Company and the provision of adequate information to them, so that additional financing may be provided timely on a need basis or for 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 going concern principle is appropriate for these separate financial statements, as the Company has sufficient liquid resources to continue in the foreseeable future. At the date of these separate financial statements, the management of the Company does not intend to discontinue operations.

Risks, related to the Company’s business and the industry the Company operates in

- The Company faces significant 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 guarantee that the Company 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 multiple laws and regulations on environmental protection and health and safety work conditions and is exposed to potential environmental liabilities.
- Litigations or other out-of-court proceedings or actions may adversely affect the Company’s business, financial position 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 position;
- Risks related to 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 Company’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 Company may change.

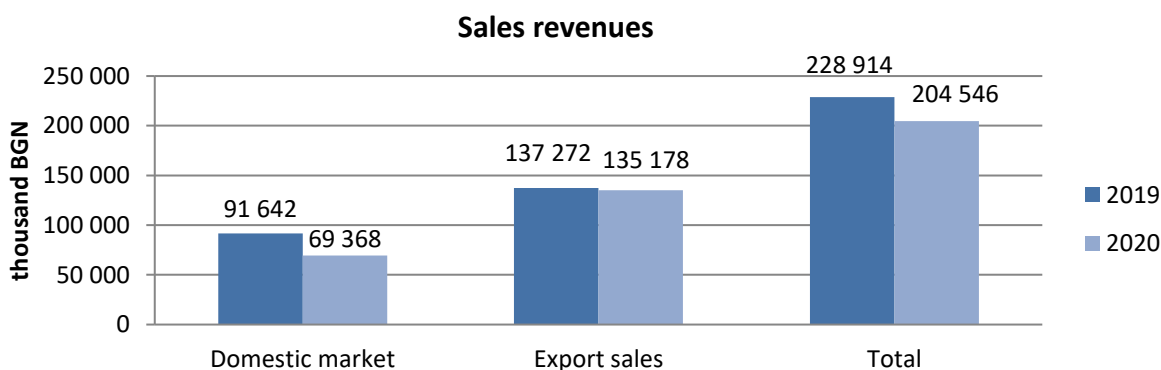
Currency risk

The Company performs 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 balances with the subsidiaries in Ukraine. However, in order to minimize currency risk, the Company conducts through its subsidiaries a monetary policy that includes advance payments and the reduction of deferred payment terms and immediate currency conversion of foreign currency earnings to EUR, as well as applying higher trade mark-ups to offset possible future impairment of the hryvnia.

In order to control the foreign currency risk in the Company, a system of planning import deliveries, foreign currency sales, as well as procedures for daily monitoring of movements in the dollar exchange rate and control of forthcoming payments, is introduced.

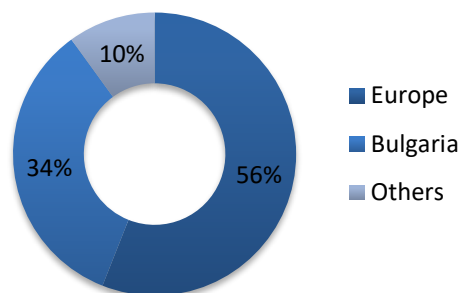
2. Analysis of financial and non-financial key performance indicators of Sopharma (Article 39, item 2 of the Accountancy Act), as well as a description of the company's position and explanation of the annual financial statements (Article 247 (1) of the Commerce Act/

Sales revenues from products in 2020 decreased by BGN 24,4 million or by 11% to BGN 204,5 million compared to BGN 228,9 million in 2019.



“Sopharma” AD

| Revenues by markets | 2020 | 2019 | change |
|---------------------|-----------------|-----------------|-------------|
| | <i>BGN '000</i> | <i>BGN '000</i> | % |
| Europe | 114 554 | 118 380 | -3% |
| Bulgaria | 69 368 | 91 642 | -24% |
| Other | 20 624 | 18 892 | 9% |
| Total | 204 546 | 228 914 | -11% |



- European market

Sales revenues for European countries decreased by 3% compared to 2019, mainly due to the decrease of sales in Russia with 21%. There is also a decrease in revenues from the Balkan countries, Moldova, Poland. Revenues from Ukraine increased by 40%. There is also an increase in revenues from Belarus and the Baltics.

- Bulgarian market

Sales of “Sopharma” AD in the domestic market decreased by BGN 22,2 million or by 24% to BGN 69,4 million in 2020 compared to BGN 91,6 million in 2019. The decrease is due to the accumulated higher levels of finished products in the main distributor at the beginning of the reporting period. The company retains its market share and at the end of the year has a 3% share of the total Bulgarian pharmaceutical market in value and 11% of sales in volume.

The positions of the main competitors of the Company in the country are as follows: Novartis— 6.8% (3.7% in kind), Roche – 6.7% (0.2% in kind), Actavis – 4.3% (10% in kind), Merck Sharp Doh – 4.3% (0.8% in kind), Abbvie - 3.7% (0% in kind), Pfizer – 3.5% (0.5% in kind), Glaxosmithkline - 2.8% (2.3% in kind), Astrazeneca – 2.8% (0.4% in kind), Sanofi-Aventis –2.8% (2% in kind). The products with the largest share of sales in the country are Analgin, Methylprednisolone, Vicetin, Vitamin C, Famotidin and medical supplies - gauzes, compresses and bandages.

- Other markets

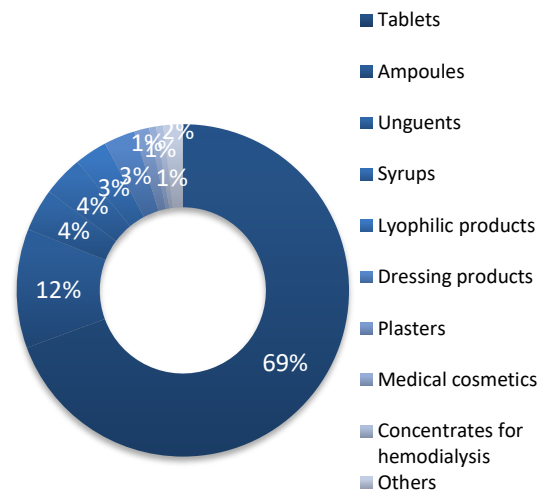
Revenues from other markets increased with 9% compared to 2019, mainly as a result of an increase of the export for Vietnam.

“Sopharma” AD

Sales by type of formulation

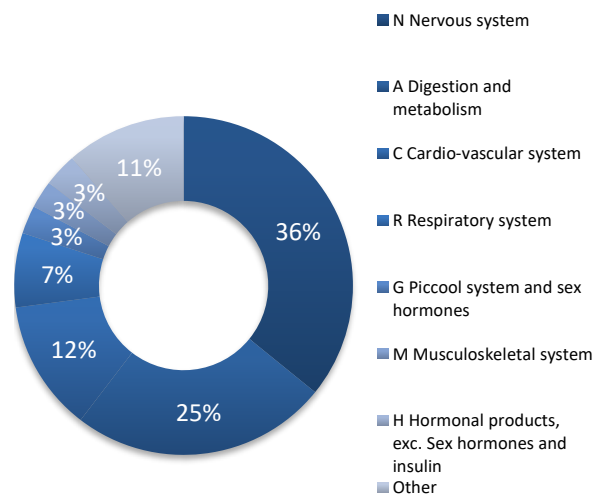
With the highest relative share in the volume of sales are tablets, followed by ampoules, ointments, syrups, lyophilic products, bandage products, plasters and more.

| Revenues by type of formulation | 2020 BGN '000 | 2019 BGN '000 | Change % |
|---------------------------------|------------------|------------------|-------------|
| Tablets | 142 086 | 159 485 | -11% |
| Ampoules | 23 666 | 28 670 | -17% |
| Unguents | 8 438 | 9 770 | -14% |
| Syrups | 8 051 | 9 617 | -16% |
| Lyophilic products | 6 505 | 4 673 | 39% |
| Bandage products | 6 173 | 6 608 | -7% |
| Plasters | 2 981 | 3 180 | -6% |
| Medical cosmetics | 1 381 | 920 | 50% |
| Concentrates for hemodialysis | 1 367 | 1 571 | -13% |
| Others | 3 898 | 4 420 | -12% |
| Total | 204 546 | 228 914 | -11% |



Sales by therapeutic groups

| Revenues by therapeutic group | 2020 BGN '000 | 2019 BGN '000 | Change % |
|--|------------------|------------------|-------------|
| N Nervous system | 73 101 | 82 599 | -11% |
| A Digestion and metabolism | 50 093 | 59 562 | -16% |
| C Cardio-vascular system | 25 539 | 29 289 | -13% |
| R Respiratory system | 14 472 | 16 909 | -14% |
| G Urinary system and sex hormones | 5 501 | 5 766 | -5% |
| M Musculoskeletal system | 5 405 | 4 652 | 16% |
| H Hormonal products, exc. Sex hormones and insulin | 6 508 | 4 487 | 45% |
| Other | 23 927 | 25 650 | -7% |
| Total | 204 546 | 228 914 | -11% |



“Sopharma” AD

Other operating revenues

| | 2020 | 2019 | Change | Rel. share 2020 |
|--|--------------|--------------|-----------|--------------------|
| | BGN '000 | BGN '000 | % | % |
| Other operating income | | | | |
| Services rendered | 2 262 | 2 792 | -19% | 54% |
| Revenue from government grants under European projects | 540 | 540 | 0% | 13% |
| Gain on sale of long-term assets | 380 | 115 | 230% | 9% |
| Revenue from fines and penalties | 293 | 10 | 2830% | 7% |
| Profit on sale of goods | 263 | 185 | 42% | 6% |
| Revenue from government grants for agricultural production | 242 | - | 100% | 6% |
| Revenue from court cases | 166 | 53 | 213% | 4% |
| Profit on sale of materials | 137 | 61 | 125% | 3% |
| Written off liabilities | 130 | 746 | -83% | 3% |
| Gains / (Losses) from revaluation of agricultural production to fair value | 68 | (139) | 149% | 2% |
| Net exchange losses on trade receivables and payables and current accounts | (390) | (311) | 25% | -9% |
| Other revenue (see Notes to the FS) | 97 | 82 | 18% | 2% |
| Total other operating income | 4 188 | 4 134 | 1% | 100% |

Other operating income increased by BGN 0,05 million or by 1%, from BGN 4,13 million in 2019 to BGN 4,19 million in 2020 mainly due to profit on sale of long-term assets, revenue from fines and penalties, revenue from government grants for agricultural production, etc. Revenue from rendering of services and written-off liabilities has decreased.

Operating expenses

| | 2020 | 2019 | Change | Rel. share 2020 |
|--|----------------|----------------|------------|--------------------|
| | BGN '000 | BGN '000 | % | % |
| Operating expenses | | | | |
| Changes in finished goods and work in progress | (5 376) | 6 183 | -187% | -3% |
| Materials | 70 114 | 75 486 | -7% | 39% |
| Hired services | 36 438 | 34 974 | 4% | 20% |
| Personnel | 49 804 | 49 203 | 1% | 28% |
| Depreciation and amortization | 18 230 | 18 347 | -0.6% | 10% |
| Other operating expenses | 8 892 | 4 594 | 94% | 5% |
| Total operating expenses | 178 102 | 188 787 | -6% | 100% |

Operating expenses decreased by BGN 10,7 million or by 6% from BGN 188,8 million in 2019 to BGN 178,1 million in 2020.

The costs of materials (39% share) decreased by BGN 5,4 million or 7% from BGN 75,5 million in 2019 to BGN 70,1 million in 2020, with the biggest impact being the decrease in the costs for raw materials by BGN 2,7 million, mainly due to decrease in expenses for substances, the cost of heat energy, laboratory materials, technical materials, auxiliary materials, etc.

Hired services expenses account for 20% relative share of operating expenses and increased by BGN 1,4 million or 4% to BGN 36,4 million in 2020 compared to BGN 35 million in 2019. The most significant impact was the increase in the costs for the production of medicines by BGN 2,7 million, the costs for consulting services by BGN 0,9 million, etc. The expenses for advertising and marketing services decreased by BGN 2,1 million, etc.

Personnel expenses (with a relative share of 28% of operating costs) increased by BGN 0,6 million or by 1% from BGN 49,2 million in 2019 to BGN 49,8 million in 2020.

Other operating expenses (with a relative share of 5% of operating costs) increased by BGN 4,3 million in 2020 compared to the same period in 2019 mainly in the part of scrapped fixed assets.

Depreciation and amortization costs (with a relative share of 10% of operating expenses) registered a decrease of BGN 0,1 million or by 0.6%, retaining their value of BGN 18 million.

Changes in finished goods and work in progress have an impact on the decrease in operating expenses by BGN 5,4 million.

Financial income and costs

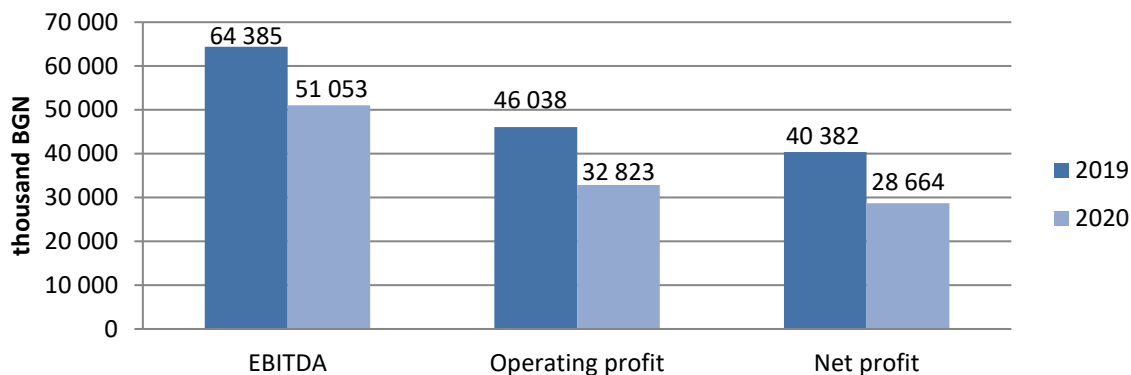
| Financial income | 2020 | 2019 | Change | Rel. share |
|---|---------------|---------------|-------------|-------------|
| | BGN '000 | BGN '000 | % | 2020 |
| Income from equity share | 9 661 | 10 653 | -9% | 72% |
| Interest income on granted loans | 3 189 | 3 342 | -5% | 24% |
| Income from issued and granted guarantees | 368 | - | - | 3% |
| Net gain from investment operations in securities and shares | 132 | 2 924 | -95% | 1% |
| <i>Incl. profits from the sale of investments in subsidiaries</i> | 131 | 242 | -46% | 1% |
| Net gain from exchange rate differences from lease contracts | 38 | - | - | 0% |
| Reversal of expected credit loss on cash and cash equivalents | 12 | - | - | 0% |
| Net gain from exchange differences on the sale of a subsidiary | - | 47 | -100% | 0% |
| Total | 13 400 | 16 966 | -21% | 100% |
| Financial costs | 2020 | 2019 | Change | Rel. share |
| | BGN '000 | BGN '000 | % | 2020 |
| Net change in impairment on loans granted | 3 551 | 526 | 575% | 50% |
| Interest expenses on loans received | 1 467 | 1 698 | -14% | 21% |
| Expected credit losses on dividend receivables | 1 293 | - | - | 18% |
| Bank fees and charges on loans and guarantees | 317 | 267 | 19% | 4% |
| Net foreign exchange loss on receivables from the sale of a subsidiary | 294 | - | - | 4% |
| Interest expense on lease contracts | 91 | 58 | 57% | 1% |
| Net provision for financial guarantees | 46 | 54 | -15% | 1% |
| Deregistered capital of a company from the scope of long-term capital investments | 26 | - | - | 0% |
| Net foreign exchange loss on lease contracts | - | 8 | -100% | 0% |
| Total | 7 085 | 2 611 | 171% | 100% |

Financial income decreased by BGN 3,6 million to BGN 13,4 million in 2020 compared to BGN 17 million in 2019, mainly due to a decrease in income from equity share by BGN 1 million and net profit from operations with investments in securities by BGN 2,8 million.

Financial costs increased by BGN 4,5 million to BGN 7,1 million in the current period of 2020, due to an increase in net change in impairment on loans granted and dividend receivables from subsidiaries (SIA Briz Latvia).

Net financial income/ (costs) decreased by BGN 8,4 million compared to 2019.

Financial results



Profit before interest, taxes, depreciation and amortization (EBITDA) in 2020 decreased by BGN 13,3 million or by 20.7% to BGN 51 million compared to BGN 64,4 million in 2019. The main reason is the decrease in sales revenues from the domestic market and Russia.

Operating profit for 2020 decreased by BGN 13,2 million or 29% to BGN 32,8 million in 2020 compared to BGN 46 million in 2019.

Net profit for 2020 decreased by BGN 11,7 million or by 29%, to BGN 28,7 million in 2020 compared to BGN 40,4 million in 2019 in addition to the stated factors at the operational level, the net decrease in finance income and expenses, as well as the reported impairments of non-current assets (reputation, investments in subsidiaries and property, plant and equipment) have a negative impact.

Assets

| | 31.12.2020 | 31.12.2019 | Change | Rel. share |
|--|----------------|----------------|--------|------------|
| | BGN '000 | BGN '000 | % | 2020 |
| | | | | % |
| Non-current assets | | | | |
| Property, plant and equipment | 211 681 | 224 654 | -6% | 32% |
| Intangible assets | 4 143 | 8 524 | -51% | 1% |
| Investment property | 44 759 | 39 329 | 14% | 7% |
| Investments in subsidiaries | 86 809 | 87 146 | 0% | 13% |
| Investments in associated companies | 6 062 | 6 062 | 0% | 1% |
| Other long-term equity investments | 11 607 | 9 621 | 21% | 2% |
| Long-term receivables from related parties | 59 725 | 91 794 | -35% | 9% |
| Other long-term receivables | 11 105 | 9 897 | 12% | 2% |
| | 435 891 | 477 027 | -9% | 67% |
| Current assets | | | | |
| Inventories | 68 160 | 61 365 | 11% | 10% |
| Receivables from related parties | 114 169 | 97 014 | 18% | 17% |
| Trade receivables | 18 382 | 27 212 | -32% | 3% |
| Loans granted to third parties | 3 903 | 6 044 | -35% | 1% |
| Other receivables and prepaid expenses | 6 057 | 6 144 | -1% | 1% |
| Cash and cash equivalents | 3 776 | 3 959 | -5% | 1% |
| | 214 447 | 201 738 | 6% | 33% |
| TOTAL ASSETS | 650 338 | 678 765 | -4% | 100% |

Total assets decreased by BGN 28,4 million or by 4% to BGN 650,3 million as of 31 December 2020, compared to BGN 678,8 million as at 31 December 2019.

Non-current assets decreased by BGN 41,1 million or by 9%, mainly due to a decrease in long-term receivables from related parties by BGN 32,1 million as a result of partial repayment of loans by companies from the group of “Doverie - Obedinen Holding” AD.

Current assets increased by BGN 12,7 million or by 6% to BGN 214,4 million as at 31 December 2020 compared to BGN 201,7 million as at 31 December 2019. Inventories increased by BGN 6,8 million or 11% compared to 31 December 2019, mainly in the part of finished products and materials. Receivables from related parties increased by BGN 17,1 million in the part of receivables from contracts with customers, net. Trade receivables decreased by BGN 8,8 million. Cash and cash equivalents decreased by BGN 0,2 million.

“Sopharma” AD

Liabilities and owners' equity

| | 31.12.2020 | 31.12.2019 | Change | Rel. share compared to OE 2020 |
|---|----------------|----------------|-------------|---|
| | BGN '000 | BGN '000 | % | % |
| OWNERS' EQUITY | | | | |
| Share capital | 134 798 | 134 798 | 0% | 25% |
| Treasury shares | (33 656) | (34 142) | -1% | -6% |
| Reserves | 408 807 | 382 549 | 7% | 76% |
| Retained earnings | 27 039 | 39 439 | -31% | 5% |
| TOTAL OWNERS' EQUITY | 536 988 | 522 644 | 3% | 100% |
| | | | | |
| | 31.12.2020 | 31.12.2019 | Change | Rel. share compared to total liabilities 2020 |
| | BGN '000 | BGN '000 | % | % |
| LIABILITIES | | | | |
| Non-current liabilities | | | | |
| Long-term bank loans | 15 | 2 398 | -99% | 0% |
| Deferred tax liabilities | 5 358 | 6 209 | -14% | 5% |
| Government grants | 4 427 | 4 858 | -9% | 4% |
| Lease liabilities to related parties | - | 1 610 | -100% | 0% |
| Lease liabilities to third parties | 1 533 | 954 | 61% | 1% |
| Long-term liabilities to personnel | 4 758 | 4 638 | 3% | 4% |
| | 16 091 | 20 667 | -22% | 14% |
| Current liabilities | | | | |
| Short-term bank loans | 73 335 | 100 359 | -27% | 65% |
| Short-term part of long-term bank loans | 2 404 | 7 181 | -67% | 2% |
| Trade liabilities | 7 218 | 6 074 | 19% | 6% |
| Liabilities to related parties | 1 273 | 6 664 | -81% | 1% |
| Liabilities for taxes | 2 092 | 2 329 | -10% | 2% |
| Liabilities to the personnel and for social insurance | 7 507 | 7 266 | 3% | 7% |
| Other current liabilities | 3 430 | 5 581 | -39% | 3% |
| | 97 259 | 135 454 | -28% | 86% |
| TOTAL LIABILITIES | 113 350 | 156 121 | -27% | 100% |
| TOTAL OWNERS' EQUITY AND LIABILITIES | 650 338 | 678 765 | -4% | |

The equity of “Sopharma” AD increased by BGN 14,3 million or by 3% to BGN 536,9 million as at 31 December 2020 compared to BGN 522,6 million as at 31 December 2019, mainly as a result of the increase in reserves by BGN 26,2 million. Retained earnings decreased by BGN 12,4 million.

Non-current liabilities decreased by BGN 4,6 million or 22% to BGN 16,1 million as of 31 December 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.

“Sopharma” AD

Current liabilities decreased by BGN 38,2 million to BGN 97,3 million as of 31 December 2020 compared to BGN 135,5 million as at 31 December 2019. There is a decrease in short-term bank loans by BGN 27 million, short-term part of long-term bank loans by BGN 4,8 million, liabilities to related parties by BGN 5,4 million and other current liabilities by BGN 2 million. Total exposure to bank loans of the company as of 31 December 2020 decreases by BGN 34,2 million compared to 31 December 2019.

Cash flows

| | 1-12/2020 BGN '000 | 1-12/2019 BGN '000 |
|--|-----------------------|-----------------------|
| Net cash flow from operating activities | 27 268 | 47 591 |
| Purchases of property, plant and equipment, intangible assets, net | (6 491) | (8 700) |
| Payments under lease contracts | (1 928) | (1 710) |
| Free cash flow (normalized) | 18 849 | 37 181 |

Free cash flow (normalized with the payments under lease contracts), generated for 2020, amounts to BGN 18,8 million compared to BGN 37,2 million in 2019.

Ratios

| | 31.12.2020 | 31.12.2019 | Change |
|---------------------------------|------------|------------|--------|
| ROE ¹ | 5,4% | 7,9% | -2,5% |
| ROA ² | 4,2% | 6,0% | -1,8% |
| Asset turnover ³ | 0,30 | 0,35 | -0,05 |
| Current liquidity ⁴ | 2,20 | 1,49 | 0,71 |
| Quick liquidity ⁵ | 1,50 | 1,01 | 0,49 |
| Monetary liquidity ⁶ | 0,04 | 0,03 | 0,01 |
| Financial autonomy ⁷ | 4,73 | 3,35 | 1,38 |

1 Net profit on an annual basis / average equity for the last five quarters

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

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

4 Current assets / current liabilities

5 Receivables + Cash and cash equivalents / Current liabilities

6 Cash and cash equivalents / Current liabilities

7 Equity / Liabilities

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 Packaging and Waste Ordinance and pays its product tax in accordance with Regulation for Packaging and Wastage from Packaging;

“Sopharma” AD

- measure annual emissions of waste gases into the ambient air from the Solid Form Factory;
- once every two years, own periodic measurements (STI) of waste gases in the atmospheric air are carried out at the Steam Power Plant Installation at sites “A” and “B”. Emissions are measured and reported in 2020, Sofiyska Voda measures on a monthly basis emissions in wastewater at production sites A and B.
- every quarter the drinking water from the production plants is given for testing (short chemical and microbiological analysis) in an accredited laboratory;
- twice a year the groundwater and wastewater are given for testing in an accredited laboratory according to the permits for water abstraction and for use of surface water body.

In 2020 the separately collected waste increased by 40% 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 fulfilled. 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

In 2020, the average number of employees of “Sopharma” AD is 1 991 (compared to 2 275 in 2019). More detailed information on personnel of the Company is presented in the table below:

| | 31.12.2020 | Relative share % |
|---|-------------------|-----------------------------|
| Number of employees as at 31.12.2020 | 1 984 | 100% |
| Higher education | 891 | 45% |
| College education | 41 | 2% |
| Secondary education | 1 024 | 52% |
| Primary education | 28 | 1% |
| Employees up to 30 years | 184 | 9% |
| Employees 31 - 40 years | 360 | 18% |
| Employees 41 - 50 years | 574 | 29% |
| Employees 51 - 60 years | 679 | 34% |
| Employees over 60 years | 187 | 9% |
| Women | 1 240 | 63% |
| Men | 744 | 37% |

3. Significant events occurring after the date of preparation of the annual financial statements / Article 39, paragraph 3 of the Accountancy Act /

- ✚ On 24 February 2021 “Sopharma” AD presented an invitation to convene an Extraordinary General Meeting of Shareholders and materials for the General Meeting of Shareholders, which will be held on 02.04.2021 from 11:00 am in Sofia 1756, 5 Lachezar Stanchev Str., Ground floor, Commercial Sopharma Business Towers Center, Sopharma Event Center, with the following agenda: Adoption of a decision for amendments to the Articles of Association of the company.
- ✚ On 10 March 2021 the Company sold 396,600 of its shares in the capital of Momina Krepost AD, as a result of which the share of ownership of Sopharma AD became 37.46%. On 15.03.2021 an agreement was concluded between Sopharma AD and Medical Consumables OOD for a common policy in the management of Momina Krepost AD through joint exercise of voting rights.

4. Future development of “Sopharma” AD (article 39, item 4 of the Accountancy Act) and planned economic policy in the following year (Article 247 (3) of the Commerce Act)

- On the local market, the Company 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 Company in the main markets (Russia, Ukraine and Poland), as well as establishing and expanding market positions in other countries (Middle and Eastern Europe and Caucasus region).
- The Company 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 product portfolio.

5. Research and development (article 39, item 5 of the Accountancy Act)

“Sopharma” AD 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 “Sopharma” AD is to achieve in the future a stable result of developing eight to ten new products per year.

The 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.

“Sopharma” AD

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

In all the years of its existence, “Sopharma” AD has generated and defended its industrial property. As a result, the Company 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 Company's special policy towards product and technological innovation, and in particular innovation.

New developments and products

- New Products for the period January - December 2020
 - Marketing Authorization was obtained for 5 new medicinal products - Solifenax 5 mg film-coated tablet (Bulgaria), Ambrolitin 30 mg/5 ml syrup (Bulgaria, Latvia, Estonia), Ketoprofen 100 mg/ 2 ml solution for injection (Bulgaria), Sofazolon 40mg powder and solvent for solution for injection (Bulgaria), Dexketoprofen 50mg/2ml solution for injection (Latvia, Lithuania, Estonia).
- New medical products implemented in production
 - 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 Aloevital oral solution 2.5 mg/ 5ml.
 - Until the end of 2021 it is expected that 3 to 5 new products will be implemented.
- New registrations and re-registrations / changes

New registrations

- Permissions to use for new destinations of 28 medicinal products have been received, namely:
 - Pyraminol 800 mg film-coated tablets (Armenia);
 - Sophalor 5 mg film-coated tablets (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 tablets (Azerbaijan);
 - Sophtensif 1.5 mg prolonged-release tablets (Azerbaijan);
 - Methadone Sopharma 10 mg/ml oral solution (Bosnia and Herzegovina);
 - Analgin Kids 500 mg/ml oral drops, solution (Georgia);

- Verapamil Sopharma 2.5 mg/ml solution for injection (Iran);
 - Valeriana 30 mg film-coated tablets (Kazakhstan);
 - Broncholytin Ivy 7 mg/ml syrup (Kyrgyzstan);
 - Ambrolytin 15 mg/ 5 ml syrup (Kyrgyzstan);
 - Felogel 1 g/100 g gel (Kyrgyzstan);
 - Sophalor 0.5 mg/ml oral solution (Kyrgyzstan);
 - Adrenaline Sopharma 1 mg/ml solution for injection (Malta);
 - Carsil Max 110 mg capsules, hard (Mongolia);
 - Deflamol unguent (Kyrgyzstan);
 - Duspaverin 135 mg film-coated tablets (Kyrgyzstan);
 - Troxerutin Sopharma 2 g/100 g gel (Mongolia);
 - Troxerutin Sopharma 300 mg capsules, hard (Mongolia);
 - Dexamethasone Medszo 4 mg/ml solution for injection (Portugal);
 - Feloran 1 mg/100 g gel (Mongolia);
 - Tuspan 7 mg/ml syrup (Russia);
 - Felogel 1% gel (Serbia);
 - Amlodipine Sopharma 5 mg tablets (Serbia);
 - Sophamet 850 mg film-coated tablets (Tunisia).
- Documentation has been submitted for the registration of 62 medicinal products to agencies of new destinations.
 - ✓ *Food additives*
 - 17 nutritional supplements have been notified for Bulgaria, Armenia, Azerbaijan, the Ukraine, Kazakhstan and Kyrgyzstan.
 - ✓ Medical supplies
 - 48 medical devices are registered in Ukraine (two), Moldova (thirty) and Macedonia (sixteen).
- Re-registrations / changes
- Renewed Marketing Authorizations for 85 medicinal products.
 - Documentation submitted for the renewal of the Marketing Authorizations for 119 medicinal products to agencies.
 - Agreements approved 854 changes to medicinal products.
 - 949 drug changes submitted to agencies.

Developments

- Pharmaceutical development of 11 new medicinal products / projects is underway.
- 18 medicinal products/ active substances were transferred in the process of transfer and 30 production processes / technologies were validated / optimized.

6. Information on the acquisition of own shares required by Article 187d of the Commerce Act / Article 39, Item 6 of the Accountancy Act /

In the current year 151 748 treasury shares were purchased and 253 748 shares were sold. The treasury shares purchased during the year amount to 0.11% of the Company's share capital and the average acquisition price is BGN 3,04 per share.

| | Shares | Equity, net of treasury shares |
|------------------------------------|--------------------|--------------------------------|
| | Number | BGN '000 |
| Balance at 1 January 2020 | 125,684,432 | 100,656 |
| Sold back Treasury shares | 253,748 | 949 |
| Treasury shares repurchased | (151,748) | (461) |
| Expense on treasury shares | - | (2) |
| Balance at 31 December 2020 | 125,786,432 | 101,142 |

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 9 011 467 treasury shares, representing 6.69% of the Company's capital.

7. Existence of branches of the Company / Article 39, item 7 of the Accountancy Act /

“Sopharma” AD has no branches.

8. Use of financial instruments / Article 39, item 8 of the Accountancy Act /

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

The credit risk is the risk that the clients of the company will not be able to pay fully and within the usual time limits the amounts due. Trade receivables 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.

In its commercial practice, the company has applied different distribution schemes until it achieves the current effective approach tailored to the market situation of business, the various forms of payment, and the inclusion of commercial rebates. The company works with contractors with a history of relationships in its core markets, partnering with more than 70 Bulgarian and foreign licensed drug dealers.

Work with NHIF and state hospitals also requires a policy of deferred payments. In this sense, although there is a concentration of credit risk, it is controlled through selection, ongoing monitoring of liquidity and financial stability of the trading partners as well as direct communication with them and the search for rapid measures at first indicators of problems.

Liquidity risk

The liquidity risk is expressed in the negative situation that the company will not be able to meet unconditionally all its obligations according to their maturity. The Company generates and maintains a sufficient volume of liquidity. An internal source of liquidity for the company is its core business generating sufficient operational flows. External sources of funding are banks and other permanent partners. In order to isolate potential liquidity risk, the company operates a system of alternative mechanisms of action and forecasts, the ultimate effect of which is the maintenance of good liquidity, respectively the ability to finance its business activity. This is complemented by ongoing monitoring of the maturity of assets and liabilities and control of outgoing cash flows.

Risk of interest-bearing cash flows

In the structure of the Company'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 company 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 at 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;

(b) combined structure of interest rates on loans, which contains two components - fixed and variable, the ratio between which and their absolute value can be achieved and maintained at a favorable rate for the company. The fixed 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 Company is 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 Commerce Act

1. Information under Art. 247 of the Commerce Act

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 operations and the position of the Company and explains the annual financial statements.

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

The remuneration and other short-term income of the Board of Directors for 2020 amounted to BGN 1 321 thousand (2019: BGN 1 242 thousand) are as follows:

- ✚ Current - BGN 917 thousand (2019: BGN 909 thousand);
- ✚ Tantieme - BGN 404 thousand (2019: BGN 333 thousand).

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

The shares of the Company acquired, held and transferred by the members of the Board of directors in 2020 are as follows:

| Members of the Board of directors | 31.12.2020 | | 31.12.2019 | | Acquired in 2020 | Change |
|-----------------------------------|------------|---------------------------------|------------|---------------------------------|------------------|--------|
| | Shares | Relative share of the capital % | Shares | Relative share of the capital % | | |

“Sopharma” AD

| | | | | | | |
|------------------------------|-----------|---------|-----------|---------|-----------|-----------|
| Ognian Ivanov Donev | 3 038 940 | 2.25% | 1 653 000 | 1.23% | 1 385 940 | 1 385 940 |
| Vessela Lyubenova Stoeva | 150 | 0.0001% | 150 | 0.0001% | 0 | 0 |
| Ognian Kirilov Palaveev | 187 520 | 0.14% | 187 520 | 0.14% | 0 | 0 |
| Alexander Viktorov Tchaushev | 111 142 | 0.08% | 111 142 | 0.08% | 0 | 0 |
| Ivan Venetskov Badinski | 350 | 0.0003% | 350 | 0.0003% | 0 | 0 |
| Simeon Ognianov Donev | 200 450 | 0.15% | 182 450 | 0.1400% | 18 000 | 18 000 |

The Company has no issued bonds.

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” 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.;
- “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str;
- “Energoinvestment” AD, UIC 200929754, with a registered office in Sofia, Slaveykov Square 9
- “ZEBRA.BGN” AD, UIC 202936530, with seat and headquarters in Sofia, 5 Lachezar Stanchev Str., Building B (as of the date of preparation of this report the company is in liquidation).
- “Simba Private Kindergarten” EOOD, UIC 204683684, with seat and headquarters in Sofia, 16 Iliensko Shose Str.

“Sopharma” AD

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 201712700, with headquarters: Sofia, 9 P. R. Slaveykov Square;
- “Eco Solar Invest” OOD, UIC 201634905, with headquarters: Sofia, 48 Alabin Str;
- “Aquatex” OOD, UIC 203934379, with headquarters: Sofia, 9 P. R. Slaveykov Square.
- “VLS” AD, UIC 175082980, with headquarters in Sofia, 9 P. R. Slaveikov 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.

Ivan Venetkov Badinski does not hold a direct / indirect significant share (over 25%) of the capital of companies.

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 201148801, with headquarters in Sofia, 3 Trayko Stanoev Str.
- “Sirius” OOD, UIC 110543305, with headquarters in Sofia, 3 Trayko Stanoev Str.
- “OKP Investments” OOD, UIC 204361991, with headquarters in Sofia, 15 Rikcardo Vakkarini 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:

1. “Sopharma Trading” AD, UIC 103267194, with headquarters in Sofia, 5 Lachezar Stanchev Str. – Chairman of the Board of Directors.
2. “Donev Investments Holding” AD, UIC 831915121, with headquarters in Sofia, 12 Pozitano Str. – Member of the Board of directors.
3. “Telecomplect” AD, UIC 831643753, with address management in Sofia, 5 Lachezar Stanchev Str., Building A – Chairman of the Supervisory Board.
4. “Doverie Capital” AD, UIC 130362127, with headquarters in Sofia, 82 Knyaz Dondukov Blvd – Member of the Supervisory Board.
5. “Sopharma” AD, UIC 831902088, with seat and headquarters: Sofia, 16 Iliensko Shousse Str. – member of the Board of Directors and Executive Director.

“Sopharma” AD

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

1. “VLS” AD, UIC 175082980, with headquarters in Sofia, Slaveikov Square 9 - member of the Board of Directors;
2. “VES Elektroinvest systems” EOOD, UIC 201712700, with headquarters: Sofia, 9 P. R. Slaveykov Square - Manager.
3. “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:

1. “DK-Domostroene” AD, UIC 102148397, with registered office in Burgas, PO Box 8000, Pobeda area – member of the Board of Directors;
2. “Alpha IN” EOOD, UIC 131156322; with seat and headquarters: Sofia, Dimcho Debelyanov 16;
3. “Sopharma” AD, UIC 831902088, with seat and headquarters: Sofia, 16 Iliensko Shousse Str. – member of the Board of Directors.

Ivan Venetskov Badinski participates in the management/supervisory body of the following companies:

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

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

1. “Sirius” OOD, UIC 110543305, with headquarters in Sofia, 3 Trayko Stanoev Str – Manager;
2. “Sopharma” AD, UIC 831902088, with seat and headquarters: 16 Iliensko Shousse Str. – member of the Board of Directors;
3. “Melnitsa Stefanovo Village” EOOD, UIC 2201148801, with headquarters in Sofia, 3 Trayko Stanoev Str;
4. “OKP Investments” OOD, UIC 204361991, with headquarters in Sofia, 10 Rikkardo Vakkarini Str.- Manager.

Planned economic policy in the next year (Article 247, paragraph 3 of the Commerce Act)

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

2. Information under art. 240b of the Commercial Code 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 outside its usual activity or substantially deviate from market conditions

In 2020, there are no contracts outside 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 “Sopharma” AD in general and changes in the reporting year

The information is included in Section III, item 2 of this document. The Company 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.

Major clients of the Company with a share over 10% in sales revenues for 2020 are “Sopharma Trading” AD with 34% share, “Delta Sales” Ltd. with 30% share and OOO Sopharma Ukraine with a relative share of 16%.

- “Sopharma Trading” AD is headquartered in Sofia district Nadezhda, bul. Rozhen № 16, its main activity is wholesale and retail of medicines and sanitary products. “Sopharma Trading” AD is a subsidiary of “Sopharma” AD, acting as a "pre-wholesaler" in the process of realization of its production.
- “Delta Sales” Ltd. with headquarters 45 PALL Mall London UK, with main activity trade with medicines abroad. Relations between the company and “Sopharma” AD are governed by a sales agreement.
- OOO “Sopharma Ukraine” has its headquarters and address of management - Ukraine, Kiev, Obolonski area, Prospect Moskovskii № 9, hull 4, fl. 2, office 4-203. Sopharma Ukraine is a subsidiary of “Sopharma” AD.

Materials used exceed 3 500 items which have a dynamic structure and diverse origin (synthetic, vegetable), physical state (liquid, solid, gaseous).

The largest share of the cost of the basic materials are active substances - 40%, followed by packaging materials - 22%, liquid and solid chemicals - 17%, herbs – 4%, sanitary-hygienic and dressing materials – 5%, ampoules - 4% and others.

The main share of raw materials is secured by imports. Sources of supply are validated manufacturers, which is in line with regulatory requirements and aims to maintain consistency and traceability in terms of quality.

The respective counterparty companies operate according to the requirements of GMP, GDP and other industry standards. “Sopharma” AD is working with a number of Bulgarian and foreign suppliers as their selection is done according to procedure developed in-house and aims to provide an alternative security in the supply and competitive flexibility in trade relations. Non-negotiable conditions that “Sopharma” AD implies in the negotiation process are: consistent quality, competitive prices and attractive payment terms, rhythmic and timely deliveries which prevent the accumulation of inventories on the one hand, while guaranteeing the regularity of the production process. In 2020 none of the suppliers’ share exceeds 10% of the total cost of services rendered and materials.

3. Information on significant transactions concluded

The Company has adopted that significant transactions are those that result or may be reasonably assumed to 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 2020.

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 regarding the transactions between “Sopharma” AD and related parties during the period is specified in Notes to the Financial Statements "Related Party Transactions". At the Regular General Meeting of Shareholders, held on 05.06.2020, the following transactions were voted between the Company and related parties:

- ✓ Conclusion of a contract for marketing services for medicinal products and other products health related products between „Sopharma“ AD as the Assignor and „related
- ✓ “ AD as the Contractor, pursuant to which „Sopharma“ AD will incur payables to „Sopharma Trading“ AD of up to BGN 5 million total without VAT for a period of 3 years, as of 01.07.2020.
- ✓ Transaction for purchase and sale of medicinal products and other health related products / medical devices, sanitary and hygienic materials, food additives / between „Sopharma“ AD as a producer and seller of goods and “Sopharma Trading” AD as a buyer, pursuant to which „Sopharma“ AD will incur receivables from “Sopharma Trading” AD in the amount of up to BGN 360 million without VAT for a period of 3 years, as of 01.07.2020.
- ✓ Conclusion of a contract for provision of services for pre-distribution and deposit of medicinal products between „Sopharma“ AD as a depositor and „Sopharma Trading“ AD as a service provider, pursuant to which „Sopharma“ AD will incur payables to “Sopharma Trading” AD in the amount of up to BGN 8 million without VAT for a period of 3 years, as of 01.07.2020.
- ✓ Conclusion of a contract for marketing services for medicinal products, medical devices, sanitary and hygienic materials and food additives between „Sopharma“ AD as the Assignor and “Sopharmacy” EOOD as the Contractor, under which „Sopharma“ AD will incur payables to “Sopharmacy” EOOD of up to BGN 1,8 million without VAT for a period of 3 years.

“Sopharma” AD

- ✓ Framework contract for rent of conference areas between “Sopharma” AD as a Tenant and “Sopharma Imoti” REIT as a Landlord for a period of 3 years with a rental price determined depending on the capacity and duration of use of individual sites on prices in accordance with the market valuation for use of these assets.

“Sopharma” AD has not concluded transactions outside of its usual activities or that substantially 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 2020 there were no events and indicators of unusual nature.

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 2020 are stated in the annual financial statements in note "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 Accountancy Act and the sources / methods of financing

The information on shareholdings and major investments, domestic and foreign, of “Sopharma” AD are listed in the Notes to the annual financial statements - "Investments in subsidiaries", "Other long term capital investments" 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 loan agreements are listed in the annual report in the Notes to the annual financial statements "Long-term bank loans" and "Short-term bank loans." The Information about the loans of subsidiaries will be available in the consolidated financial statements.

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

Long-term loans by “Sopharma” AD to associated companies:

- Contractual amount 31 194 thousand EUR; interest rate - 3.5%; maturity – 31.12.2021; balance at 31.12.2020 – BGN 0;

Long-term loans to other related parties:

- Contractual amount 81 900 thousand BGN; interest rate - 3.0%; maturity – 31.12.2025; balance at 31.12.2020 – BGN 58 321 thousand;
- Contractual amount 3 400 thousand BGN; interest rate - 3.0%; maturity – 31.12.2021; balance at 31.12.2020 – BGN 0 thousand;
- Contractual amount of EUR 708 thousand; interest rate - 3.33%; maturity – 31.12.2022; balance as of 31.12.2020 - BGN 1 404 thousand.

Long-term loans to related parties were granted to assist in financing the activities of these companies for common strategic objectives. They are secured by pledges of securities (shares) promissory notes.

Long-term loans provided by “Sopharma” AD to third parties:

- Contractual amount of EUR 695 thousand; interest rate - 3.05%; maturity – 12.10.2022; balance at 31.12.2020 - BGN 1 473 thousand;
- Contractual amount of EUR 3 000 thousand; interest rate – 3.05%; maturity – 29.06.2023; balance at 31.12.2020 - BGN 6 135 thousand;
- Contractual amount of BGN 24 thousand; interest rate – 5.00%; maturity – 14.03.2023; balance at 31.12.2020 – BGN 0 thousand.

Provided current loans by “Sopharma” AD to related companies:

Subsidiaries:

- Contractual amount EUR 2 770 thousand; interest rate - 4.70%; maturity - 31.12.2019; Balance at 31.12.2020 – BGN 0 thousand;
- Contractual amount BGN 14 109; interest rate - 4.10%; maturity - 31.12.2021; Balance at 31.12.2020 – BGN 5 355 thousand;
- Contractual amount BGN 3 050 thousand; interest rate - 3.50%; maturity – 31.12.2021; balance at 31.12.2020 – BGN 889 thousand;
- Contractual amount EUR 390 thousand; interest rate - 3.95%; maturity – 31.12.2021; balance at 31.12.2020 – BGN 839 thousand;
- Contractual amount EUR 132 thousand; interest rate - 5.00%; maturity – 31.12.2021; balance at 31.12.2020 – BGN 266 thousand.

Other related parties:

- Contractual amount BGN 190 thousand; interest rate - 3.50%; maturity - 31.12.2021; balance at 31.12.2020 – BGN 48 thousand;
- Contractual amount BGN 8 937 thousand; interest rate - 3.10%; maturity - 31.12.2021; balance at 31.12.2020 – BGN 6 010 thousand.

Provided short-term loans to related parties are to help finance the activities of these companies for achieving their strategic purposes. They are secured by pledges of shares and securities.

Information on the loans of subsidiaries will be available in the consolidated financial statements.

The commercial loans provided by “Sopharma” AD to third parties are as follows:

- Contractual amount BGN 4 184 thousand; interest rate – 4.30%; maturity – 31.12.2021; balance as at 31.12.2020 – BGN 199 thousand;
- Contractual amount BGN 832 thousand; interest rate – 4.50%; maturity – 31.12.2021; balance as at 31.12.2020 – BGN 443 thousand;
- Contractual amount BGN 949 thousand; interest rate – 4.70%; maturity – 31.12.2021; balance as at 31.12.2020 – BGN 103 thousand;
- Contractual amount BGN 4 511 thousand; interest rate - 2.55%; maturity – 31.12.2021; balance as at 31.12.2020 - BGN 3 158 thousand.

10. Information on the use of funds from the issuance of new securities during the reporting period

During the reporting period the Company 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 Company's management currently controls 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 separate 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 2021 includes investments of BGN 14 million 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 accounting the 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. 100m 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. As of 16.06.2020, Mr. Simeon Donev, Business Development Director at Sopharma AD, has been appointed procurator of the company.

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 Procurators:

| | Remuneration BGN | Tantiems BGN | By employment contract | Total |
|------------------------------|---------------------|-----------------|---------------------------|---------|
| Ognian Ivanov Donev | 329 786 | 393 373 | - | 723 159 |
| Vesela Lyubenova Stoeva | 120 000 | - | 53 745 | 173 745 |
| Ognian Kirilov Palaveev | 120 000 | - | - | 120 000 |
| Alexander Victorov Tchaushev | 120 000 | - | - | 120 000 |

“Sopharma” AD

| | | | | |
|---------------------------|---------|---|---------|---------|
| Ivan Venetzkov Badinski | 120 000 | - | 72 587 | 192 587 |
| Procurator – Iv. Badinski | 60 000 | - | - | 60 000 |
| Procurator – S.Donev | 33 409 | - | 111 610 | 145 019 |

The social security contribution for the account of the members of the Board of Directors – calculated for the period January - December 2020 is in the amount of BGN 13 982,40.

- Amount of paid by the Company remuneration of the Board of Directors and the Procurators:

| | Remuneration BGN | Tantiems BGN | By employment contract | Total |
|------------------------------|---------------------|-----------------|---------------------------|---------|
| Ognian Ivanov Donev | 329 786 | 403 822 | - | 733 608 |
| Vesela Lyubenova Stoeva | 120 000 | - | 53 745 | 173 745 |
| Ognian Kirilov Palaveev | 120 000 | - | - | 120 000 |
| Alexander Victorov Tchaushev | 120 000 | - | - | 120 000 |
| Ivan Venetzkov Badinski | 120 000 | - | 72 587 | 192 587 |
| Procurator – Iv. Badinski | 60 000 | - | - | 60 000 |
| Procurator – S. Donev | 33 409 | - | 111 610 | 145 019 |

Information about the amount of remuneration of the Board of Directors of “Sopharma” AD as referred to in Section IV of this report - information under Art. 247 of the Commerce Act, 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 166 079,36 due in 2021;
- BGN 126 400,37 due in 2022;
- BGN 153 290,87 due in 2023.

- 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 2020 is in the amount of BGN 2 282,40.

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 held by members of the Board of Directors shares of “Sopharma” AD is listed in section IV of this report - information Art.247a paragraph 2 of the Commerce Act.

| Members of the Audit Committee | 31.12.2020 | | 31.12.2019 | | Change |
|--------------------------------|------------------|------------------|------------------|---------------------------------|--------|
| | Number of shares | % of the capital | Number of shares | Relative share of the capital % | |
| Tzvetanka Zlateva | - | - | - | - | - |
| Vasil Naidenov | 186 | 0.00007% | 186 | 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 is Pelagia Viatcheva, tel. +359 2 8134 523, correspondence address - Sofia, 5 Lachezar Stanchev str., Building A, fl. 11.

VI. Information Appendix 11 to Article 32, paragraph 1, item 4 of Ordinance 2 of POSA

1. Structure of the capital of the Company, including securities not admitted to trading on a regulated market in Bulgaria or another Member State, indication of the different classes of shares, the rights and obligations of each class of shares and the portion of the total capital represented by each class.

The total number of issuers by Sopharma AD as at 31.12.2020 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 gives the right to one vote in the General Meeting of Shareholders, the right to a dividend and a liquidation share, proportional to the nominal value of the share.

Structure of the capital of “Sopharma” AD as at 31 December 2020:

- Physical persons: 6 649 – 11 333 055 shares – 8.40%
- Legal persons: 152 – 123 464 844 shares – 91.60%

The capital of the Company may be increased by a decision of the General Meeting of Shareholders adopted by majority as required by law. In case of capital increase, each Shareholder has the right to acquire shares of the new emission, which correspond to their share in the capital before the increase. A shareholder cannot participate in person or by proxy in voting related to:

- ✓ claims against them;
- ✓ taking action or refusal to act, related to the fulfillment of obligations to the Company;
- ✓ taking of decision under art. 114, par. 1 of POSA, in case they are an interested party within the meaning of POSA;

The shares of the Company are traded on the Bulgarian Stock Exchange – Sofia AD, Main Market (BSE), Segment PREMIUM and on the official market of Warsaw Stock Exchange. Shares participate in the formation of the indices SOFIX, BGBX40 and BGTR30 of BSE - Sofia. The Company's shares are included in the indices Dow Jones STOXX EU Enlarged, Total Market Index 0.11% weight, with a weight of 5% in the Erste Bank Bulgaria Basket, the certificate of Raiffeisenbank - Raiffeisen Osteuropa Fonds

“Sopharma” AD

and the certificate ABN AMRO SOFIX - Open-end-certificate and the new blue-chip index Dow Jones STOXX Balkan 50 Equal Weighted Index.

“Sopharma” AD is one of the three Bulgarian companies included in an index for Central and Eastern Europe (CEE), which the Warsaw Stock Exchange started to calculate on 30 May 2012. The name of the index is WIG-CEE and it is the third one after WIG-Poland and WIG-Ukraine, which is based on the origin of companies by country. WIG-CEE is calculated based on total return and includes income from dividends and subscription rights.

Key indicators of the shares of “Sopharma” AD

| | 31.12.2020 | 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 | 125 754 274 | 125 896 515 |
| Number of shares outstanding at the end of the period | 125 786 432 | 125 684 432 |
| Net earnings per share in BGN ¹ | 0,228 | 0,321 |
| Price per share at the end of the period in BGN | 3,194 | 3,406 |
| Price/Earnings ratio (P/E) | 14,01 | 10,61 |
| Book value per share in BGN ² | 4,269 | 4,158 |
| Price/Book value ratio (P/B) | 0,75 | 0,82 |
| Market capitalization at the end of the period in BGN | 430 544 489 | 459 121 644 |

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

Trade with shares of “Sopharma” AD on “Bulgarian Stock Exchange – Sofia” AD for the period 01 January 2020 – 31 December 2020.



2. Restrictions on transfer of securities, such as restrictions for possession of securities or the need to obtain approval of the Company or another shareholder

There is no restriction on the ownership of shares or need to obtain approval from “Sopharma” AD or another shareholder. No information has been received by the Company, which gives reason to believe that there are any restrictions on the transfer of shares.

The replacement of dematerialized registered shares with bearer shares and placement of restrictions on their transfer is allowed after removal of the Company from the register of the Financial Supervision Commission.

Transactions with dematerialized shares of the Company may be made only on the regulated markets of securities by investment intermediaries, as well as in other way, regulated by law.

The transfer of registered dematerialized shares, issued by the Company, is effective at the time of entering of the transaction in the register of the Central Depository, proving the rights to these shares. The transfer of registered shares is in accordance with the requirements of current legislation.

3. Information regarding the direct and indirect ownership of 5 percent or more of the voting rights at the General Meeting of the Company, including details of the Shareholders, the size of their shareholding and the type of shareholding

Shareholders holding more than 5 percent of the Company’s capital as at 31 December 2020 are as follows:

| SHAREHOLDERS | 31.12.2020 | | 31.12.2019 | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | <i>Number of shares</i> | <i>% of the capital</i> | <i>Number of shares</i> | <i>% of the capital</i> |
| “Donev Investment Holding” AD, UIC 0831915121, Sofia, 12 Positano Str. | 35 779 516 | 26,54% | 34 267 577 | 25,42% |
| “Telecomplect invest” AD, UIC 201753294, Sofia, 9 Slaveikov Square | 27 881 287 | 20,68% | 27 881 287 | 20,68% |
| “Sopharma” AD, UIC 831902088, Sofia, 16 Iliensko Shose Str | 9 011 467 | 6,69% | 9 113 467 | 6,76% |
| “Rompharm Company” OOD, UIC 200732874, Sofia, Mladost,7 Boian Damianov Str. | 8 366 347 | 6,21% | 8 366 347 | 6,21% |
| LPG "Allianz Bulgaria", UIC: 130477720, Sofia, ul. Damian Gruev 42 | 6 869 871 | 5,10% | 6 860 574 | 5,09% |

4. Information about shareholders with special control rights

The Articles of Association of “Sopharma” AD do not provide special control rights.

5. System for control of exercising votes when employees of the Company are also its shareholders and when the control is not exercised directly by them

There is no special system for control of voting in the event that employees of the Company are also its shareholders and when the control is not exercised directly by them. The shareholders may attend the General Meeting either personally or through an authorized representative. Several Shareholders may authorize a joint representative.

To participate in the General Meeting of Shareholders the Shareholders shall identify themselves with the statutory document certifying their rights on the shares they own. Representatives of the General Meeting of Shareholders shall identify themselves with an explicit written authorization having a minimum content set by Decree. The voting right shall be exercised by persons who acquired shares not later than 14 days prior to the General Meeting.

6. Restrictions on the voting rights, such as limitations on the voting rights of Shareholders by a certain percentage or number of votes, deadlines for exercising the voting rights or systems in which with the cooperation of the Company the financial rights attached to shares are separated from the ownership of shares.

There are no such restrictions.

7. Agreements between Shareholders which are known to the Company and which may lead to restrictions on the transfer of shares or voting right.

There are no such agreements.

8. The provisions concerning the appointment and dismissal of members of the governing bodies of the Company and on the making of amendments to the Articles of Association.

Members of the Board of Directors may be physical or legal persons meeting the requirements of Article 234 of the Commerce Act and Article 116a, paragraph 2 of the Law on Public Offering of Securities.

When a member of the Board of Directors is a legal entity, it shall designate a representative/s/ for the performance of duties in the Board. The legal entity is jointly and unlimitedly liable with the other members of the Board for the obligations arising from the actions of his representative.

Physical persons who represent legal persons - members of the Board of Directors must meet the requirements of Art. 234, para 2 of the Commerce Act.

Members of the Board of Directors cannot be persons who were members of management or supervisory body of a company terminated due to bankruptcy in the last two years preceding the date of the declaration of insolvency, if unsatisfied creditors remained.

A person who has been a representative, member of the management or supervisory body of a company, which with has an effective penalty due to defaulting in respect to the creation and preservation of the levels of oil and oil products under the Law on stocks of oil and oil products cannot be a member of the Board.

At least one third of the members of the Board of Directors must be independent. The independent member of the Board cannot be:

- ✓ an employee of the public company;
- ✓ a shareholder, who owns directly or through related parties, at least 25 percent of the votes in the General Meeting or is a related company;
- ✓ person who has a long-term business relation to the public company;
- ✓ a member of the management or supervisory body, procurator or employee of the company or other related entity;
- ✓ a person related with another member of the management or supervisory body of the public company.

Members of the Board of Directors can be reelected without limitation.

With changes in legislation, the next General Meeting of Shareholders shall decide on amending the Articles of incorporation in order to align its provisions with those of existing regulations. By making this decision, the affected versions of the Articles of incorporation shall be interpreted in accordance with the Constitution and laws of the country.

The Articles of Association shall be amended by the General Meeting of Shareholders with a majority of 2/3 / two thirds / of the capital represented at the General Meeting. The current Articles of Association is entered in the Commercial Register under the number 20200616121030.

9. Powers of the management bodies of the company, including the right to decide on the issue and redemption of shares

The powers of the Board of Directors are regulated by the Articles of Association. The decisions that may be taken by a qualified majority of two thirds of the members of the Board of Directors are defined.

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

10. Significant contracts of the Company that take effect, are amended or terminated due to a change in control of the company in a mandatory tender offer and the effects thereof, except where disclosure of this information may cause serious damage to the company; exemption under the preceding sentence shall not apply in cases where the company is obliged to disclose information under the Law

There are no such contracts.

11. Agreements between the Company and its management bodies or employees for payment of compensation upon retirement or dismissal without legal grounds or upon termination of employment for reasons related to a tender offering.

There are no such agreements.

Date: 26.03.2021



Ognian Donev, PhD
/Executive Director/